SUEK

Annual Report 2013

Delivering value through our distinctive business model

SUEK

SUEK is one of the largest coal companies in the world and Russia's leading coal producer and exporter. Our vertically integrated business model is designed to create and preserve long-term value – from mining and processing through to logistics and sales – and this sets us apart.

Combined with our geographic spread and access to key transport infrastructure, this model allows us to service both domestic and export markets (Europe and Asia-Pacific) cost effectively. We operate our own seaports, with 82% of transhipment through these ports.

Continued investment and increasing efficiency and control throughout our process enables us to optimise margins, leverage our competitiveness and ensure the sustainability of our business. With strong cash flows and a stable balance sheet, we are well positioned for robust growth.

In this report

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Photo caption

Key facts

No.1
supplier to the Russian power generation market

5th[1] largest
coal company in the world **in terms of reserves**, with 5.6[2] billion tonnes in accordance with the JORC Code

7th largest
coal exporter in the world. International sales increased by 9% in 2013 to 42.4 million tonnes

Integrated business
A vertically integrated business with full control of mining and processing, logistics and sales and delivery to end customers

No.1
Russian coal producer and exporter

30 countries
Almost **200 customers** in 30 countries, including major European and Asia-Pacific economies

$19m
More than $19 million spent **on social and community projects** during the year

33,500+
people employed

$797m
investment programme in 2013 – one of the largest in the Russian coal industry

1 SUEK estimates.
2 SUEK's proven and probable reserves according to the April 2011 report by SRK Consulting, amounted to 5.9 billion tonnes. Including extraction between April and December 2013, these reserves stood at 5.6 billion tonnes as at 31 December 2013.

See page 37 for more information about our reserves.

Overview

Contents

SUEK at a glance

SUEK develops and operates large-scale open-pit and underground mines in Siberia and the Russian Far East.

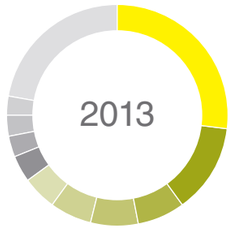
We have assets that are located much closer to Pacific markets than the assets of most other Russian coal companies. Around 34% of our exported coal is delivered over distances shorter by 2,500-6,000 km than our main peers, delivering savings of around $5-6 per tonne on transport expenses.

We sell coal to almost 200 customers in European and Asia-Pacific destinations. We are the largest supplier of thermal coal to the Russian domestic market and we supplied 36% of total domestic coal in 2013. We provided 41% of the Russian coal used in the domestic electric power industry. We have long-term agreements with power generating companies, enabling us to secure our stable position in the market.

One of the central features of our integrated business is our logistics and transportation system. This includes our own rail infrastructure and ports, enabling us to deliver to the domestic market and to ship coal to multiple export markets. Maintaining low-cost operations, optimising transportation costs and ensuring a broad geographic spread of customers allow us to anticipate and respond to strategic challenges such as pricing pressures and export market volatility.

See pages 20-27 for more information on our Strategy.

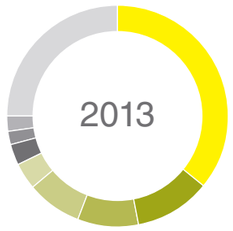
Coal production in Russia



SUEK	27%
UGMK	13%
Mechel	7%
SDS-Ugol	7%
Evraz Group	6%
En+ Group	5%
Russian Coal	4%
Severstal	3%
Sibuglemet	3%
KTK	3%
Other	22%

Source: Central Dispatching Department of Fuel Energy Complex (CDU TEK).

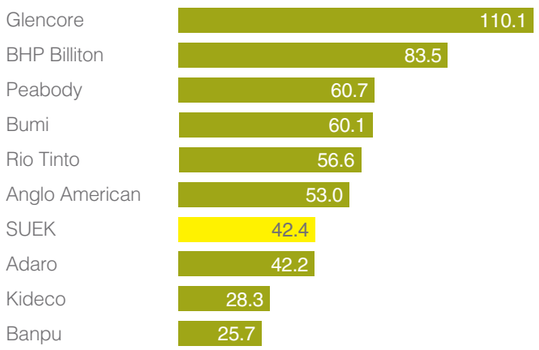
Thermal coal domestic supplies in Russia



SUEK	36%
EN+ Group	11%
UGMK	9%
Russian Coal	8%
Mechel	4%
LuTEK	3%
SDS-Ugol	2%
KTK	2%
Other	25%

Sources: Central Dispatching Department of Fuel Energy Complex (CDU TEK), SUEK estimates.

2013 coal export sales by the world's leading producers
million tonnes



Sources: SUEK estimates, public filings.

We are the largest supplier of thermal coal to the Russian domestic market and we export to almost 200 customers in Europe and the Asia-Pacific region.

Mission

Our mission is to help fuel the world by producing coal safely and sustainably whilst delivering value to all our stakeholders.

Vision

Our vision is to be one of the world's leading thermal coal producers and to remain Russia's largest coal producer and exporter. We will achieve this through:

- optimising our assets
- investing in growth
- innovating across our business

Values

- Leadership in business
- Continuous improvement
- Financial stability
- Openness with customers and partners
- Safety across our operations
- Professionalism and integrity in everything we do
- Social and environmental responsibility

Our assets

Underground mines

We operate 12 underground mines in four regions of Russia. Underground mining represents one-third of the Company's total annual coal production, with a total capacity of 30.3 million tonnes per year.

See pages 50-53 for more information.

Open pits

Comprising nine hard coal and eight brown coal operations, our open-pit mines have a total production capacity of 66.2 million tonnes per year. Approximately 69% of our coal production derives from open pits.

See pages 50-53 for more information.

Washing plants

Our six dedicated washing plants and two processing facilities improve the quality of our coal, enabling us to deliver a higher value product to our customers. Our washed coal is sold mainly to export markets.

See page 54 for more information.

Rail

The majority of our coal is transported by rail. We operate one of the largest rail fleets in Russia, distributing coal to over 1,000 domestic customers as well as to eastbound and westbound ports.

See page 55 for more information.

Ports

One of our competitive advantages is that we use our own ports as well as third-party ports for transhipment of coal to Europe and the Asia-Pacific region. Our dedicated operations facilitate the onward delivery of coal to nearly 200 customers in 30 countries.

See page 54 for more information.

Sales offices

We provide supplies to our Russian customers through OJSC SUEK as well as directly from production units. Export sales are conducted through our Swiss trading company SUEK AG which is, in turn, represented in seven key overseas territories: Poland, China, Japan, Taiwan, South Korea, Indonesia and the USA.

Our key strengths

Stable demand for coal and our distinctive business model mean we are well positioned for further growth. We will continue to seek opportunities to leverage our competitive strengths, increase market share and deliver shareholder value.

Established coal company

We have a strong track record and a robust presence in both the Russian domestic coal market and two key export markets.

Vast mineral reserves

Our extensive Russian reserve base supports the sustainable supply of consistent quality coal for our customers.

Favourable geographic position

The advantageous location of our assets and their access to developed transport infrastructure allow flexibility of sales to key export destinations in Europe and Asia, in response to market dynamics.

Integrated business model

Our vertically integrated business model enables us to control our entire production, logistics (our own ports allow us to tranship up to 82% of total exported coal) and sales network, from mining through to end-users.

Prudent corporate governance

Good corporate governance is a key principle of our Company. Although privately owned, we believe our commitment to effective oversight and control is an important factor in our long-term performance.

Focus on strong operating efficiency

Investment in modern, efficient mining operations has delivered improved productivity, and is underpinned by a disciplined approach to cost control.

Investing in human capital

We position ourselves as an employer of choice in the mining industry, investing in the professional development of our employees.

Focus on health and safety

Achieving the highest standards of occupational health and safety is among our core operational priorities.

Environmental commitment

One of our key strategic priorities is the rational use of natural resources and the reduction of adverse impacts on the environment.

Our performance this year

We operate in a cyclical industry. The profitability and viability of our operations – and the cash flows they generate are therefore vulnerable to fluctuations in the market price and demand for thermal coal.

Our financial results for 2013 reflect the ongoing challenging global market environment and the decline in coal prices. However, we believe our business model is robust and SUEK will continue to generate cash and profits in future.

See pages 56-61 for more details.

Non-financial indicators

Production million tonnes **-1%**

2013	96.5
2012	97.5

Sales volume million tonnes **+1%**

2013	92.6
2012	91.7

Average calorific value of exported coal, kcal/kg **0%**

2013	5,760
2012	5,770

Average headcount +8%[1]

2013	33,576
2012	31,044

Lost-Time Injury Frequency Rate[2] **-22%**

2013	1.50
2012	1.92

Financial indicators

Revenue $ million **-5%**

2013	5,381
2012	5,635

EBITDA[3] $ million **-31%**

2013	1,037
2012	1,496

Net profit $ million **-86%**

2013	133
2012	967

Average export FOB price, $ per tonne **-18%**

2013	80
2012	97

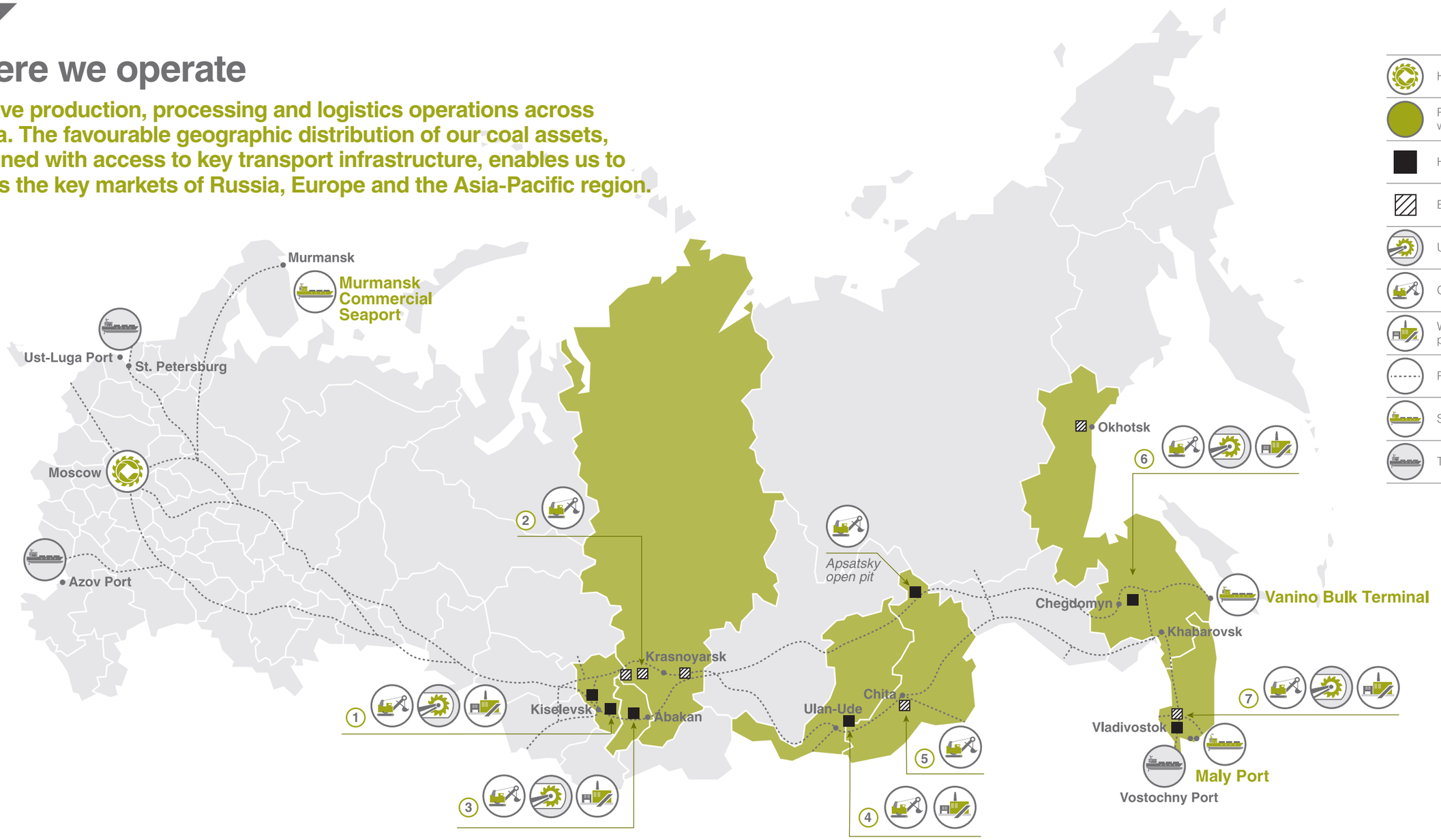
Capital expenditure $ million **-15%**

2013	797
2012	938

[1] Our headcount increased by 8% in 2013. The increase resulted from the consolidation of Murmansk Commercial Seaport and Maly Port in 2013.
[2] Lost-Time Injury Frequency Rate (LTIFR) is a measure of overall safety performance. It is calculated as the number of lost-time injuries within a reporting period relative to the total number of hours worked by SUEK employees at coal mining enterprises, and normalised for one million man-hours.
[3] EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) was calculated based on the Group consolidated financial statements as earnings before tax, financial expenses, obtained dividends, the share of the profits of associates, exchange differences, amortisation and depreciation.

Where we operate

We have production, processing and logistics operations across Russia. The favourable geographic distribution of our coal assets, combined with access to key transport infrastructure, enables us to access the key markets of Russia, Europe and the Asia-Pacific region.



Head office

Regions where we operate

Hard coal assets

Brown coal assets

Underground mining

Open-pit mining

Washing plants and processing facilities

Railways

SUEK's own ports

Third-party ports

① Kemerovo

- 9 underground mines
- 3 open pits
- 4 washing plants

See page 50 for more information.

② Krasnoyarsk

- 3 open pits

See page 51 for more information.

③ Khakasia

- 1 underground mine
- 3 open pits
- 1 washing plant

See page 51 for more information.

④ Buryatia

- 1 open pit
- 1 washing plant

See page 52 for more information.

⑤ Zabaikalye

- 3 open pits

See page 52 for more information.

⑥ Khabarovsk

- 1 underground mine
- 2 open pits
- 1 processing facility
- 1 washing plant (under construction)

See page 53 for more information.

⑦ Primorye

- 1 underground mine
- 2 open pits
- 1 processing facility

See page 53 for more information.

Rail assets and ports

Rail
- Around 20,400 rail cars under operation

Ports
- 3 ports

See pages 54-55 for more information.

Highlights of the year

Throughout 2013 we achieved several records, passed key milestones and received several prestigious awards.

February

High-technology longwall operations in Kuzbass

New and upgraded longwall mining equipment systems commenced production at Taldinskaya-Zapadnaya 1 mine. This state-of-the-art mining equipment is unequalled in the Russian mining industry for capacity, reliability and efficiency and represents a $16 million investment in improving the mine's performance.

March

Longwall record established

Taldinskaya-Zapadnaya 1 mine set a Russian record for a single longwall, delivering 1,007,000 tonnes of coal in one month.

May

World record drilling

A new world record in drilling was set at Tugnuisky open pit as the crew of the Atlas Copco Pit Viper 271 drilled 50,499 linear metres of blast holes; beating the previous record by some 8,000 metres.

May

World record excavator performance

The crew of a Bucyrus 495HD rope shovel at Tugnuisky open pit operating in Buryatia and Zabaikalye set a new world record for overburden stripping, removing 2,011,000 m^3 during the month. This outstanding result was achieved thanks to the skills and teamwork of the crew of this high-performance excavator.

May

Accolade for SUEK employee

Vladimir Melnik, foreman of the record-breaking Kotinskaya mine, was presented with the title of 'Hero of Labour of the Russian Federation' by President Vladimir Putin. The award is given to recognise outstanding achievement in public, social or economic activity.

June

First drills in Russia

Two new Sandvik DE-880 heavy-duty drill rigs began operation in Kuzbass. Versatile and highly productive, these rigs are designed for degassing and geotechnical drilling and are the first of their kind to be used in Russia. Degassing of coal seams by drilling from the surface considerably increases the safety and productivity of coalface operations.

June

Apsatsky open pit is recognised at government level

The government of Zabaikalye region recognised the Apsatsky open pit as an investment project of regional significance. This acknowledges that development of the open pit, construction of the coal washing plant and infrastructure facilities will create multiple employment opportunities.

June

High performance of shovel at Tugnuisky

The second Bucyrus 495HD rope shovel at Tugnuisky open pit produced 2,001,000 m^3 of overburden, continuing the improvements at this operation.

August

Murmansk Commercial Seaport sets loading and transhipment records

Murmansk Commercial Seaport completed handling of the nine-hold ship 'Golden Beijing'. At 175,819 DWT, it is the largest ship ever to have been loaded at the port. The vessel was loaded with 153,142 tonnes of SUEK coal – another record for the port. Loading took a week and was completed a day ahead of schedule.

Murmansk Commercial Seaport also recorded its largest ever monthly coal transhipment volume, amounting to 1,360,000 tonnes.

August

President Vladimir Putin meets miners

During a visit to Kuzbass Mr Putin met miners including SUEK employees. He also hosted a meeting of the Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security, where the CEO of OJSC SUEK Vladimir Rashevskiy reported on the challenges facing the coal industry.

September

Contract signed for the delivery of 6,000 innovative rail cars

SUEK was the first company in Russia to rent the innovative rail cars developed by Tikhvin Freight Car Building Plant – offering an increased load capacity and reduced tariffs.

October

Modern waste treatment facilities commissioned

Waste treatment facilities were opened at our Rubana mine in Kuzbass. The facilities were constructed using innovative German technologies, which purify 350 m^3 of water per hour.

October

SUEK hosts international mining conference

An international research and training conference entitled 'Underground mining for the 21st century' was held in Kuzbass. Initiated by SUEK, the conference hosted 450 leading mining engineers, domestic and foreign researchers, as well as leading manufacturers of mining equipment.

November

SUEK ranked fifth in Russia for charitable activities

SUEK now ranks fifth among Russian companies for philanthropic activity – according to the 'Leaders in Corporate Philanthropy' study conducted by the grant-making organisation 'Donors' Forum' and 'Vedomosti' newspaper in co-operation with PwC.

November

Washing plant sets daily record

Our Chernogorsky washing plant located in Khakasia set a record of 28,500 tonnes of coal washed in a day.

December

New sorting and crushing facility installed in Kuzbass

A new sorting and crushing facility was installed at Zarechny open pit, with a capacity of up to 400 tonnes per hour. This will enable us to improve product quality and increase the volume of export shipments from this mine.

December

Decision to create distribution operation in the Altay region

In December a decision was taken to create a distribution company in the Altay region, with the aim of developing distribution networks in Altay and Khakasia for the sale of sized coal.

Chairman’s statement

“2013 marked an important step in the implementation of SUEK’s strategy and the development of the Company’s production and market potential. SUEK retained its position as the leader of the Russian coal industry and a principal player in the international coal market.”

Andrey Melnichenko
Chairman of the Board of Directors
OJSC SUEK

Leadership in the coal industry

SUEK continues to maintain its position as Russia’s largest coal company in terms of production and coal supplies, both to export and domestic markets. In 2013 we made significant progress in addressing our strategic objective to further strengthen the Company’s position in the global coal market: the volume of our international sales increased by 9% to 42.4 million tonnes, amounting to some 5% of total global sales of thermal coal.

SUEK’s current objectives are to further improve our major operational performance. This will ensure our stable long-term competitiveness and significantly strengthen our presence in the most promising and dynamic markets.

The main increase in global coal demand derives from the Asia-Pacific region. We are therefore focusing on building relationships with customers in these markets. At the same time, we strive to maintain our position as the preferred partner for customers in Russia and the European export market.

Strategy

To meet these objectives, SUEK’s strategy involves the implementation of projects to increase coal production in those mines located closest to the Asian markets. These include large-scale projects such as increasing output at the Urgal deposit in Khabarovsk region and coal production at Apsatsky open pit in North Zabaikalye. We are also upgrading and expanding our production capacities in Kuzbass, Khakasia, and Tugnuisky open pit operating in Buryatia and Zabaikalye, and implementing a range of operational efficiency improvements.

Of particular note is our programme to develop our processing capacity. This has enabled us to increase annual processing volumes from 23.0 million tonnes to 28.1 million tonnes and to increase the proportion of washed hard coal from 38% to 45%. A further increase in washing capacity will be achieved by the commissioning of the new washing plant at Urgal and by developing new facilities in Kuzbass.

An important part of our strategy involves building optimal logistics chains and developing our own transport infrastructure. SUEK has been steadily increasing transhipment volumes at Vanino Bulk Terminal and Murmansk Commercial Seaport. In 2013, both ports achieved the highest operational performance in their history, and we anticipate further increases in transhipment volumes in 2014 and beyond. We are also expanding the throughput of railway stations at SUEK’s mines. These connect to main lines as well as other facilities within our own railway infrastructure.

A key strategic objective is the achievement of the highest international standards of industrial and occupational safety. Despite considerable progress in reducing injury and accident rates at our operations in recent years, to our profound regret we experienced 17 fatalities in our mining operations during 2013. The most serious incident occurred at Mine No.7 in Kuzbass in January 2013, in which eight of our colleagues lost their lives. The shareholders and the Board of Directors of SUEK deeply sympathise with the families of the deceased. The factors leading to this disaster – and other accidents – were thoroughly investigated and reviewed at all management levels within SUEK. A large-scale, detailed action plan to ensure a qualitative step forward in terms of work safety was subsequently adopted.

Governance

During the year we continued to develop SUEK’s system of corporate governance. The model under which the Board of Directors operates – and the way we manage interaction between shareholders, Directors and management – has long been one of the best in Russia and aims to align with leading international standards. In 2013, we took steps to focus the Board’s work on the key strategic challenges faced by SUEK. The work plan of the Board is therefore closely associated with implementation of the main elements of our strategy and with management’s KPIs.

Sustainable approach

Adhering to the principles of sustainable development and corporate social responsibility (CSR) is a priority for SUEK. As part of this activity, we make an important contribution to improving living conditions in the regions where we operate.

Our ‘SUEK to the regions’ fund is an active and reliable partner to regional governments, municipalities and local communities, implementing dozens of social programmes and projects. These are focused on the fully-fledged development of human capital and the creation of high-quality social environments in the towns and villages where we operate, many of which are single-industry communities.

Outlook

SUEK faces many challenges in maintaining its leadership and strengthening its position, both in domestic and global markets, and the unfavourable market situation is expected to continue in the medium term. Economic stagnation in various regions of the world and the oversupply of coal in certain exporting countries are having an adverse effect on the coal market, resulting in increased competition between suppliers. Russian coal mining companies are also subject to increasing constraints in transport infrastructure and continuing inflation of capital and operational costs.

In this environment, it is essential that SUEK implements the key elements of its strategy. We must achieve better operational efficiency, concentrating on those investment projects in production, processing and logistics that provide maximum benefit and payback. We will also develop long-term relationships with target customers and establish clear alignment between our internal management processes.

Overall, coal remains an important and attractive energy resource, fundamental to much of the energy sector around the world. Global consumption of coal continues to increase faster than that of any other energy source – and several countries are running or starting new projects to ensure the more efficient and environmentally safe use of coal. This is the fundamental basis for growth in the coal market. Our current efforts to develop our potential will help us position SUEK as one of the global leaders of this growth.

Strategic report

Contents

Chief Executive Officer's statement

"In 2013 SUEK operated in a deteriorating international coal market and experienced a substantial decrease in demand for coal in the domestic market. However, we made considerable progress towards meeting our strategic objectives of strengthening our position in our priority export markets and increasing the capacity and efficiency of our key mining, processing and transportation assets."

Vladimir Rashevskiy
Chief Executive Officer
OJSC SUEK

Operational performance

During the year, SUEK's operations produced 96.5 million tonnes of coal. Compared to 2012, output reduced by 1.0 million tonnes (-1%). However, production of mostly export-quality hard coal increased compared to 2012 by 2.0 million tonnes (+3%). Our mines in Kuzbass, Khakasia, Buryatia and Zabaikalye increased their output compared to 2012.

Many of our operations achieved remarkable results in 2013. Our Taldinskaya-Zapadnaya 1 underground mine in Kuzbass set a new Russian record for monthly output – one million tonnes off a single longwall. At Tugnuisky open pit we broke the world record for overburden handling and drilling equipment performance. The Vostochnoe mine in Primorye, the Borodinsky and Nazarovsky open pits in Krasnoyarsk region, and several underground mines and open pits in Kuzbass achieved the highest performance indicators in their history.

In 2013 sales grew by 1% compared to 2012, reaching 92.6 million tonnes. At the same time, international sales increased by 9% to 42.4 million tonnes. Export of SUEK's own coal was the highest ever at 38.7 million tonnes (an increase of 8% on 2012). This was achieved despite a significant deterioration in the global coal market environment. The main consumers of SUEK's coal in export markets are companies in China, South Korea, Japan, the UK and Germany.

On the domestic market, sales declined by 5% to 50.2 million tonnes, of which 37.3 million tonnes were supplied to power stations. The principal factor behind this decrease in sales was the reduced use of coal by power stations, due to extremely high water levels in Siberian rivers and a subsequent increase in power generated by hydro-electric plants. An overall moderation of power consumption in Russia also contributed to the reduced demand for coal by the power generating sector. There was a decrease in production from aluminium plants in Siberia, which are major power consumers, and commissioning of planned new aluminium smelters was also deferred.

Financial results

The significant deterioration in the global and Russian coal markets caused a minor decrease in revenue compared to 2012 – down 5% (from $5,635 million to $5,381 million). The net profit in 2013 was $133 million.

Projects

SUEK's investment programme in 2013 amounted to $797 million. In the adverse market environment, we focused on the most efficient and strategically high-priority projects. These included projects to expand the production capacity of operations targeting our Asia-Pacific export markets. We implemented most of the project actions to increase output at Urgal in Khabarovsk region to 8.1 million tonnes. We are also developing the Apsatsky deposit of coking coal in Zabaikalye and in 2013 – its second year of operation – it produced 650,900 tonnes. An important group of projects focuses on investment in the dramatic improvement of productivity and occupational safety at mines in Kuzbass and Khakasia, at Tugnuisky open pit and in other regions where we operate.

Our development of SUEK's processing capacities delivered good results in 2013. We completed construction of the second module at our Chernogorsky washing plant and construction of Module No.2 of our Kirova washing plant. We also significantly increased the performance of our Tugnuisky washing plant and upgraded other washing plants in Kuzbass and the Far East. As a result, our washing volumes increased by 5.1 million tonnes (+22%) in 2013.

We continued to implement our strategy to develop our transportation assets. In 2013 we continued our expansion of Vanino Bulk Terminal's transhipment capacity to 21 million tonnes. By the year end we had transhipped 13.7 million tonnes through the terminal. We are also renovating the equipment at our Murmansk Commercial Seaport. In 2013 the port recorded its highest ever performance: cargo turnover reached more than 17.1 million tonnes (15.7 million tonnes in 2012) including coal transhipment of 13.1 million tonnes (11.6 million tonnes in 2012). SUEK continues to develop its own railway infrastructure and is systematically expanding throughput of its loading and transportation facilities and railway departments – as well as connecting stations.

People

The key to successful operation – and to strengthening SUEK's position – is the professional and responsible approach of more than 33,500 employees. The fact that Vladimir Melnik, team leader at the Kotinskaya underground mine, received one of the first five 'Hero of Labour of the Russian Federation' awards in 2013 merits a special mention.

Last year we adopted a new strategy for managing and developing our people. A wide range of measures will, amongst other things, improve our motivation and remuneration system, enhance social support and make SUEK a more attractive employer. These measures will help us realise our strategic goals and ensure consistently high levels of productivity.

Safety

Increasing our employees' skill levels and developing our workplace culture are essential to enable SUEK to meet one of its principal objectives: attaining the highest standards of industrial safety and preventing accidents. Over the last five years, our key industrial safety indicator – the Lost-Time Incident Frequency Rate (LTIFR) has reduced from 2.66 to 1.50, the general injury rate has halved and SUEK's expenditure on occupational safety-related actions has increased by 1.5 times.

To our profound regret, however, in 2013 there was an increase in the number of fatalities at our operations to 17, from four in 2012. Last year we experienced the most serious incident in SUEK's history. On 20 January 2013 there was an ignition of methane and air in a development heading at Mine No.7 in Kuzbass, which killed eight miners. Immediately after the disaster, SUEK provided assistance and payments to relatives of the deceased workers and we will continue to provide all necessary support to the families. Based on the findings of our investigation into the incident, we developed a large-scale programme of additional measures to ensure the required level of industrial safety. These include technical, organisational and control measures, as well as a range of initiatives related to improving the skills of employees and management, their motivation and the promotion of safe working practices. The total amount allocated by SUEK in 2013 for occupational safety was more than $88 million.

Corporate responsibility

We continued to develop our social projects and investments in 2013. We are actively working on improving the living standards of our employees and their families, as well as all-round development of the regions in which we operate, implementing several dozen associated initiatives. Total funding allocated for social projects and payments (including those under agreements with regional authorities) reached $19 million.

Overall, SUEK's 2013 results confirm the effectiveness of our chosen strategy and business model, including their resilience in the face of significant challenges in the market environment. They enable us to concentrate fully on our short-term tasks for 2014 as well as the implementation of our strategic long-term priorities.

Our vertically integrated business model

We aim to create, add and deliver value at every stage of our value chain, from mining to sales. Our integrated business model enables us to benefit from economies of scale, our advantageous geographical position, logistical strengths and a dedicated distribution network. Our integrated model also enables us to develop excellence in areas such as safety, operational, environmental and social practices.

Focused on growth and efficiency

Mining

How we add value

Our mining activities deliver a sustainable supply of high-quality thermal coal – and our efficient, low-cost operations enable us to maintain a leading position and pursue ambitious growth targets. To achieve these we invest heavily in modern, highly efficient equipment, and in re-engineering of our production units.

We aim to expand our resource base and production of high-quality hard coals. We also seek to progress and develop deposits accessible to the Asia-Pacific region, supplied through our own ports. We aim to operate our high-quality portfolio of assets safely, reliably and efficiently.

What we're doing today

A substantial proportion of Russia's exported coal is produced in Kuzbass. Our Russian coal assets are in advantageous geographic positions, with deposits located not only in the Kuzbass basin, but also close to the eastern ports. We continue to expand our operations and develop a number of hard coal deposits, principally for export to the Asia-Pacific region. We are actively developing the coking coal deposit at our Apsatsky open pit and purchased the Kabaktinskoe hard coal deposit in 2013. Both are located close to existing railways and only 2,000-2,500 km from our Vanino Bulk Terminal.

Having successfully managed the business through the downturn with tight cost control, we produced 96.5 million tonnes of coal in 2013. With ongoing enhancements to production facilities, output at most of our production units is on the increase. We believe we have one of the most efficient coal mining operations in Russia.

See page 37 for more information.

Investing for the future

We are implementing a significant investment programme, with operational initiatives aimed at developing and improving the productivity and safety of our mining operations. Upgrades to equipment in our Kuzbass and Urgal mines will deliver further increases in production volumes.

Safety initiatives include the installation of ventilation and degassing systems and automation of underground safety systems to minimise the potential for human error. We are also continually working to reduce our environmental impact through the implementation of cutting-edge technologies.

Processing

How we add value

We improve our coal margins through enrichment and product portfolio optimisation. Our processing and coal washing facilities enable us to enhance the quality of mined coal: reducing ash and moisture improves coal's calorific value, allowing us to increase margins through premium pricing and lower transportation costs.

Our export sales volumes are to a certain extent also driven by our coal processing capacity, enabling us to meet the higher quality requirements for export coal.

What we're doing today

We continued to expand our processing capacities in 2013. We are particularly focused on developing and modernising facilities that will maximise opportunities for us in the Asia-Pacific region.

The commissioning of Module No.2 of our Kirova washing plant resulted in an increase in total washing capacity of up to 8.2 million tonnes, thus enabling us to wash all coal from Kirova and adjacent mines. At our Chernogorsky washing plant located in Khakasia we completed construction of a second module, leading to an increase in annual capacity of up to 8.6 million tonnes. By the end of 2013 we had completed a substantial part of the construction works at the Chegdomyn washing plant located at Urgal (Khabarovsk). We expect this facility will significantly increase our capacities, enabling us to cover all our washing requirements for eastbound exports.

See page 38 for more information.

Investing for the future

Investment in our processing operations is being driven by the increasing global demand for higher quality coal. Addressing this need, we are undertaking modernisation projects and upgrades at our existing washing plants.

We plan to continue development of our coking coal deposit at Apsatsky. We are also considering plans to construct a new processing facility to boost our production of premium low-ash, mid-volatile coal. This will enable us to supply key Asian markets with coking coal through ports in the Far East or China via border crossings; as well as the domestic market for coking and/or metallurgical plants.

Logistics

How we add value

The location of our assets gives us access to key transport networks, with unique opportunities to redirect coal volumes between the Atlantic and Asia-Pacific markets. Our established, developed infrastructure, combined with managed rolling stock and port terminals, means we can ensure reliable, cost-effective deliveries to customers.

Our aim is to find the most cost-effective routes to deliver supplies to the most attractive growing markets.

What we're doing today

We currently manage the rail distribution of our coal to over 1,000 customers in Russia and to eastbound and westbound seaports for onward delivery to nearly 200 customers in 30 countries.

We employ different tools to manage transportation operations, including our own rail infrastructure and the use of rented freight wagons under various contract terms and conditions. These provide us with the flexibility to manage our rail fleet in the long term and minimise the risks that can arise from renting rolling stock in a volatile market.

We continued to increase the transhipment capacities of our own ports through the implementation of a number of investment projects at our bulk coal terminal at Vanino and the upgrade of Murmansk Commercial Seaport.

See page 38 for more information.

Investing for the future

We continue to invest heavily in our infrastructure and expand the capacities of our dedicated bulk terminal at Vanino, Murmansk Commercial Seaport and Maly Port. We aim to eliminate rail infrastructure bottlenecks through reconstruction of our rail stations and the addition of innovative rail cars to our managed fleet.

Sales

How we add value

We sell coal to a long-standing and diversified customer base from our established distribution and trading platform. We export to more than 30 countries with the help of our representative offices, with a strong focus on the key markets of Asia-Pacific and Europe. More than 85% of export sales are direct to end-users.

Domestic coal sales are primarily to Russian power generating plants under long-term contracts. This creates an important synergy for us, providing stable demand from locations close to our mines, together with integrated logistics.

What we're doing today

Listening to our customers and responding swiftly to their needs drives our sales growth. Proximity to our key markets coupled with our proactive, flexible approach to sales means we are tailoring the size of shipments, timing and blends to meet our customers' precise needs.

In 2013 we concluded a number of long-term agreements with domestic power plants and public utilities. We also expanded our presence in export markets, primarily in China. Increased focus on our customers allows us to position ourselves as a dependable supplier capable of delivering on long-term supply contracts.

Investing for the future

As well as investing in growing sales volumes to the domestic market, we are developing our presence in the Asia-Pacific region through improving our existing sales channels, creating a portfolio of key customers and expanding into new markets.

We intend to increase our presence in the Chinese market and maintain our strong presence in Japan, Korea and Taiwan. Through improvements to our rail infrastructure we intend to increase supplies via overland border crossings to the Chinese market, further diversifying our client base and improving sales margins.

We also plan to expand our sales of sized coal to Poland.

Our strategy for growth

At SUEK, our focus is on delivering long-term profitable growth through our integrated business model. We seek opportunities to leverage our competitive strengths, grow market share and build a sustainable and responsible business. We have identified five areas of focus to enable us to achieve this growth.

1 Focusing on growth
We will maintain our position as Russia's leading thermal coal producer and continue to develop our export markets both in the Atlantic and Asia-Pacific regions. We will target international metallurgical customers by offering semi-soft coal and growing our export sales of premium-sized coal. Development of greenfield sites will further enhance our growth prospects. We will maintain established coal/power synergies, entering into long-term contracts with power generating companies.

2 Improving economic efficiency and productivity
We will maintain our low-cost production base, whilst continuing to upgrade and expand our mines. Ongoing investment in construction and reconstruction of washing plants, introduction of new mining equipment and continued operational improvements will also enhance the efficiency of our mining and infrastructure operations.

3 Securing infrastructure to grow exports
We will extend our share of dedicated transport infrastructure through expansion of capacity at our ports. We will also maintain our position as a leading rail operator through effective management of our dedicated fleet of rail cars.

4 Achieving high safety standards
We will continue to strive towards international best practice in health and safety across all our mining and infrastructure operations to decrease injuries and eliminate fatal incidents. Ongoing investment in the training and development of our people will enable us to establish SUEK as an employer of choice in the Russian mining sector.

5 Adhering to strong standards of corporate governance and social and environmental responsibility
We aim to follow strong corporate governance practices. We will continue to invest in a range of social, educational and welfare projects for the benefit of the communities in which we operate. Throughout the business, we strive to minimise any adverse impact upon the environment as a result of our operations.

Our strategy for growth continued

Company strategy	Strategic priorities	Our progress in 2013	KPIs aligned to our strategy (2013 performance compared to 2012)	Risks associated with our strategy	Actions for 2014
Focusing on growth	**To grow our presence in the Asia-Pacific region and maintain our strength in key Atlantic export markets**	We increased shipments to export markets from our Kuzbass, Urgal and Apsatsky operations by 2.7 million tonnes. In December 2013, we started installing technical equipment at our new Chegdomyn washing plant at Urgal (Khabarovsk). This will enable us to increase shipments of high calorific value coal from the mine. With ongoing capacity expansion at Vanino Bulk Terminal and increased landborne sales, our total shipments to Asia rose to 25.9 million tonnes, up 16% on last year. This year we kept Atlantic export volumes stable despite strong competition from Russian, Colombian and US suppliers.	**Total exports:** 42.4 Mt/+9% **Exports to Asia:** 25.9 Mt/+16% **Atlantic steam coal exports:** 16.5 Mt/0%	Sustained oversupply in Asia-Pacific and Atlantic markets could hinder our efforts to increase sales. Economic slowdown in coal-importing countries could lower prices and thus reduce our export revenues. Slow development of Russian rail infrastructure could constrain our export volume growth.	Our focus is to build our presence in the Chinese market and maintain our strong presence in Japan, Korea, Taiwan and India. We will ramp up production at Kuzbass, Urgal and Apsatsky following improvements in mine planning and mining equipment upgrades. We aim to increase coal washing volumes by circa 6.0 million tonnes due to ramping-up to the rated capacity of our Chegdomyn washing plant and increasing the efficiency of existing washing plants and processing facilities. To support our export sales we focus on de-bottlenecking port and rail infrastructure. We also intend to increase landborne supplies to the Chinese market.
	To maintain our position as Russia's largest domestic thermal coal producer and supplier	We maintained our position as Russia's largest thermal coal supplier, with a 36% share of the market among Russian suppliers. In 2013 we entered into a number of long-term contracts with large power generating companies: SGK (Siberian Generating Company), our related party, and E.ON Russia.	**Domestic sales:** 50.2 Mt/-5% **Sales to SGK, our related party:** 19.3 Mt/-11%	Slowdown of export markets could lead to increased domestic competition. We could lose sales if overall domestic market volume remains stagnant. An improved export market could reduce the appeal of hard coal to SGK. Insufficient growth of demand in energy consumption and competition between coal, gas and hydro energy sources could erode SUEK's position.	We expect to maintain our leadership in the domestic market and selectively seek new sales opportunities. We will continue to supply to the largest coal power generating plants (SGK and E.ON Russia).
	To target metallurgical markets	We increased our sales presence in China, which resulted in increased shipments of semi-soft coals to Asia. We increased production of washed concentrate from our Kirova mine to supply metallurgical markets.	**Metallurgical coal exports:** 2.7 Mt/+99%	We are facing tough competition from other suppliers of semi-soft coals. If low metallurgical coal prices persist, our customers could opt to purchase more expensive hard and semi-hard grades of coking coal instead of semi-soft coal.	Following upgrades to our washing facilities in Kuzbass we expect to increase production of semi-soft coal concentrate, while Apsatsky open pit is expected to boost output of premium low-ash and mid-volatile semi-hard coking coal. We also aim to increase our sales of high-volatile semi-soft coals to new premium markets.
	To increase sales of sized coal	We designated the sized coal segment as a 'premium' segment and established KPIs and a strategy in 2013.	**Sized coal exports:** 1.6 Mt	Sized coal exports are vulnerable to competition from other Russian suppliers as well as Eastern European producers of alternative fuels such as wood pellets.	We intend to expand sales of sized coal to Poland through our dedicated distribution company SUEK Polska.
	To identify and develop greenfield sites/new projects	We continued to invest in the development of our Apsatsky open pit in 2013. We acquired the Kabaktinskoe deposit in Yakutia region, adding 128 million tonnes of low-volatile coking coal resources.	**Average reserve life of hard coal deposits:** more than 30 years	Costly exploration requires conversion of resources into reserves. Monetisation of the reserves depends on market demand and availability of transport infrastructure.	We plan to increase production at our Apsatsky open pit to 750,000 tonnes in 2014. We aim to complete a feasibility study into the development of the Kabaktinskoe deposit.

Our strategy for growth continued

Company strategy	Strategic priorities	Our progress in 2013	KPIs aligned to our strategy (2013 performance compared to 2012)	Risks associated with our strategy	Actions for 2014
Improving economic efficiency and productivity	**To upgrade and expand our mines and open pits**	We invested more than $467 million in capacity expansion, mainly in the Kuzbass and Urgal regions. Our underground mines have been upgraded with new equipment including continuous miner units and high-performance 1,600 mm conveyor systems to enhance efficiency. Our open pits were equipped with additional highly productive excavators and dump trucks.	**Underground productivity per longwall:** 2.0 Mt/0%	Insufficient equipment availability and a lack of qualified personnel for roadway development and longwall mining present major obstacles to improving mine productivity.	We plan to increase our total production by improving underground mine layouts and further upgrading equipment. We also plan to increase the share of development units with bolter miners and continuous miners in the total fleet to 20-25%.
	To increase washing capacity	We commissioned Module No.2 at our Kirova washing plant in Kuzbass and completed main construction works at our new 6.0 Mtpa washing plant at Urgal (Khabarovsk).	**Coal washed in washing plants and processing facilities:** 28.1 Mt/+22%	Capital costs of constructing washing plants in remote Russian regions tend to be high and projects have to be customised to match local conditions.	We plan to fully utilise existing processing capacities and increase the productivity of our washing plants.
	To continue our equipment modernisation programme	We invested in new equipment, most of which was sourced from leading international suppliers (Joy, Caterpillar, Komatsu, Liebherr, Terex, Bucyrus).	**Investment in new equipment amounted to:** $482m	Increased capital spending could have an adverse effect on cash flow.	We plan to continue investing in our modernisation programme and to purchase new equipment in 2014.
	To continue operational improvements	We implemented automated, real-time performance tracking of our major equipment at Tugnuisky open pit. This provided full and reliable downtime accounting, enabling us to immediately identify and address reasons for reduced productivity. At our Tugnuisky open pit we increased overburden removal per machine by over 10% through process improvements and implementation of the automated dispatch system.	**Mining productivity of:** 382 tonnes[1] per man-month/+1%	The impact of regulatory requirements could impact our cost-cutting initiatives.	We plan to implement automation of production monitoring systems at two more open pits. We will also commence comprehensive operational improvement projects for our underground mines. We will further develop our training facilities and programmes to upgrade the skills of underground miners and equipment maintenance personnel.
Securing infrastructure to grow exports	**To develop our own port capacities to support growing export volumes**	We expanded port capacity at our Vanino Bulk Terminal to 15.3 million tonnes in 2013 through adding equipment and de-bottlenecking the rail infrastructure. We also commenced upgrades at Murmansk Commercial Seaport and Maly Port.	**Total attributable port capacity:** 33.5 Mt	Bottlenecks in the rail infrastructure (Trans-Siberian and Baikal-Amur mainlines and access to Murmansk) render some of our port capacity redundant, despite our efforts at optimisation.	We expect to expand our port capacities including Vanino Bulk Terminal to 16.5 Mtpa and Murmansk Commercial Seaport to 13.9 Mtpa.
	To manage rail car fleet more efficiently	We retained our position as a leading Russian rail operator, managing a fleet of around 20,400 rail cars.	**Rail cars managed:** 20,400	Changes in rail car prices and rental rates could have an adverse effect on the profitability of rail cars managed by SUEK.	We plan to expand our managed rail car fleet, incorporating new innovative rail cars.

[1] Mine No.7 was excluded from the calculation of productivity for 2013 since production at the mine was stopped from January until the end of November 2013 as a consequence of an accident.

See page 74 for more details.

Our strategy for growth continued

Company strategy	Strategic priorities	Our progress in 2013	KPIs aligned to our strategy (2013 performance compared to 2012)	Risks associated with our strategy	Actions for 2014
Achieving high safety standards	**To strive to implement international best practices in health and safety**	We initiated a comprehensive overhaul of underground safety systems to minimise potential errors. We commissioned an independent audit of safety procedures from an international consultancy: RAG Mining Solutions.	**LTIFR:** 1.50/-22% **Fatalities:** 17	Gradual increases in mining depth could make gas and water management more challenging in underground mines. Difficult geological conditions could necessitate additional spending on support and maintenance of mine operations.	New investments are planned in mine signalling, ventilation and degassing. We will continue to implement modern signalling systems and automation, enabling us to minimise human error at our mines. We will further promote our corporate safety culture through training programmes.
Adhering to strong standards of corporate governance, and social and environmental responsibility	**To maintain strong standards of corporate governance and sustainable development**	New Directors have joined the Board, bringing additional experience and skills to SUEK. We continued to invest in our communities through our 'SUEK to the regions' fund and other initiatives.	**Social and community investments:** $19m	In the event of an economic downturn, public spending on social projects is likely to fall, potentially requiring SUEK to increase its social and community spending.	We plan additional investment in social and community projects.
	To reduce any negative impacts on the environment	We are implementing cutting-edge technologies to reduce overall negative impacts on the environment from our production operations. We are designing and constructing water treatment facilities, running a project to reduce emissions of methane from gas drainage activities (greenhouses gases) and reclaiming land. We have launched several energy-saving initiatives, enabling us to reduce our energy consumption and minimise energy losses. We upgraded our units at Kuzbass, Buryatia, Urgal, Khakasia and Apsat with modern energy-efficient equipment and implemented energy-controlling systems.	**Investments in environmental activities:** $12m	Restrictive environmental regulations could significantly influence our plans and expenditure aimed at minimising our environmental footprint. Implementation of new production technologies often requires significant capital expenditure, as projects have to be customised to achieve an acceptable return on investment. The positive effects of our energy efficiency improvement initiatives could be offset by increases in fuel and energy prices (which are beyond our control).	We aim to minimise any adverse environmental impact of our activities by further developing our ongoing programmes, as well as through modernising production processes. These include development of a project to reduce methane emissions as a result of gas drainage activities (greenhouses gases), design and construction of treatment facilities, implementation of environmentally-friendly closed-loop water-slurry systems at our Kirova, Komsomolets and Polysaevsky washing plants, and implementation of dry vacuum coal dust removal technology at our washing plants. We will continue to reclaim abandoned sites through the implementation of modern technologies. We will strive to execute our energy-saving programme through the implementation of modern automated energy control and accounting systems. These will enable us to monitor and manage overall fuel and electricity consumption by mining equipment.

The coal market
Coal fundamentals

The positive outlook for thermal coal fundamentals rests upon the fact that thermal coal is the most important energy source for power generation worldwide.

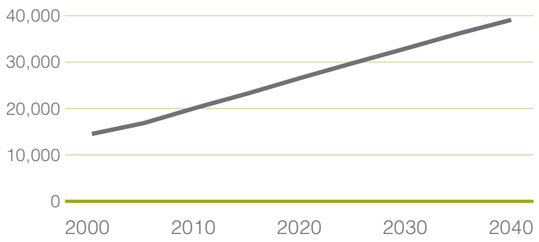
Coal plays a significant role in driving the economies of all industrialised nations and will retain this role for years to come.

As with all commodities, coal prices respond to global demand cycles. Overall supply is shaped by production capacities in coal-producing countries and other factors such as shipping costs, availability of land-based transportation infrastructure, production disruptions due to weather or labour issues and government regulations.

However, rapidly developing Asian economies and stable demand for power from the developed world offer significant opportunities to cost-efficient coal producers, according even more importance to the international coal trade.

Thermal coal demand growth

Historical and forecast worldwide electricity generation
TWh



Source: World Bank, International Energy Agency.

The power sector is the largest consumer of thermal coal. In 2013 around 70%[1] of thermal coal produced worldwide was used to generate electricity. Global electricity demand has been growing by an average 3.1%[1] annually since 1990, almost doubling in the last 20 years. China, India and emerging Asian economies accounted for most of the growth in electricity consumption.

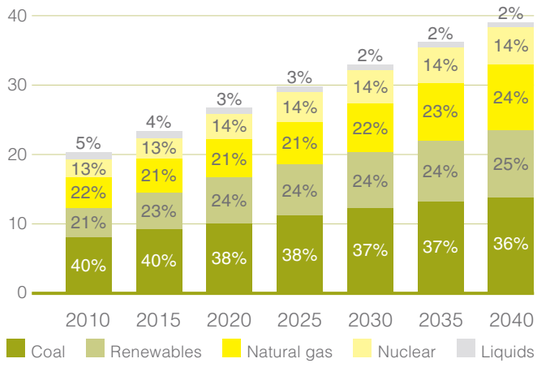
Looking ahead, electricity demand is projected to grow by 2.2%[1] annually, with the greatest additional demand coming from China, India, south-east Asia, Latin America and the Middle East. Although electricity demand in China is forecast to slow considerably – from 12%[1] annual growth in 2000-2011 to 3.3%[1] in 2011-2035 – global demand will be upheld by considerable annual growth in India of 5.2%[1] and the rest of Asia of 4%[1] (excluding China).

70%
of thermal coal was used to generate electricity

[1] International Energy Agency, World Energy Outlook 2013.

Coal's share of the global energy mix

World net electricity generation by fuel, 2010-2040
trillion kWh



Source: International Energy Agency.

In 2013 coal-fired power plants accounted for circa 41%[1] of global electricity generation, consuming over 3.4[1] billion tonnes of coal. This thermal coal consumption will grow by 0.7%[1] per annum to 2035, mainly due to the construction of 722 GW of new coal-fired generation capacities in Asia, Africa and Eastern Europe/Eurasia. As the International Energy Agency states, coal will continue to play a vital role in the global energy mix owing to its availability and cost-competitiveness, and the ease with which coal-fired power plants can be integrated into power systems.

It is important to highlight several recent developments shown to have significant influence on global thermal coal demand trends:

- Renewables' global share of energy generation has exceeded 20%[1] – and is likely to continue growing with the help of government policies and fossil fuel emissions controls. However, even after taking into account future advances in technology, renewable energy technologies will remain more costly than conventional fossil fuel technologies and will continue to serve as a secondary power source, especially in rapidly growing Asian countries. At the same time, cleaner coal-burning technologies are being developed to reduce polluting by-products and comply with stringent pollution laws.
- Recent development of the shale gas industry in the USA has significantly affected domestic US thermal coal markets, as cheaply-extracted natural gas has started to replace coal in domestic power generation. Seaborne markets have been also affected, with around 17 million tonnes of substituted US thermal coal exported to Europe in 2013. However, a global shale gas revolution is not expected in the foreseeable future; coal-to-gas switching can be accomplished only where considerable spare generating capacity exists, and where relative pricing in the underlying coal and gas markets favours the latter. Sustained coal-to-gas switching requires substantial expansion of gas supply, which is geographically and economically constrained, and is thus highly unlikely in the rapidly growing power systems of Asia and Africa.
- The closure of over 50 Japanese nuclear reactors following the Fukushima Daiichi accident and the adoption of policies aimed at closing nuclear reactors in European countries will provide a tangible boost to global coal power generation. South Korea alone has announced construction of 26 new coal-fired plants in 2014-2022 and Japan is also developing plans to expand its fleet of coal-fired power plants. Altogether, newly planned coal-fired power generation capacity will add considerably to global thermal coal demand.

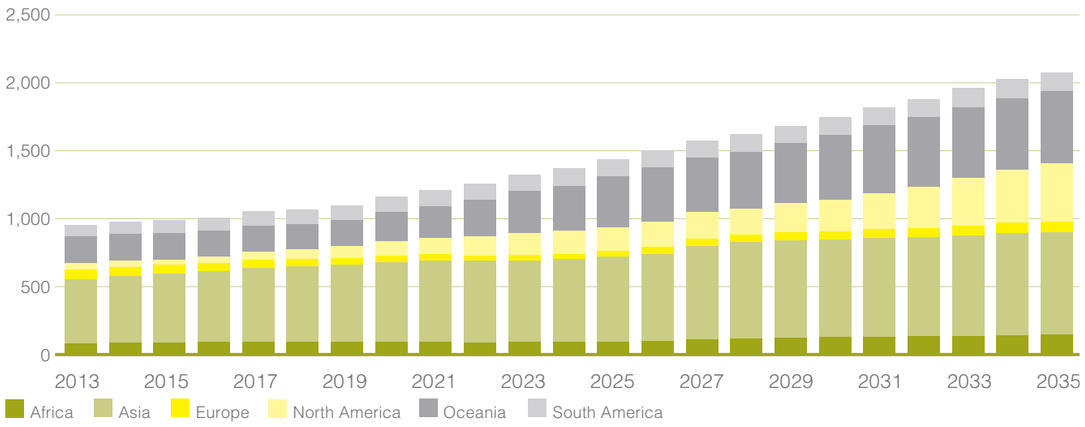
[1] International Energy Agency, World Energy Outlook 2013.

The coal market continued

Coal fundamentals

Thermal coal supply

Thermal seaborne export supply by region
million tonnes



Source: Wood Mackenzie Coal Market Service.

In 2013 global coal production reached over 5.5[1] billion tonnes, with almost 85% of steam coal produced worldwide being used domestically. At the same time, almost 900 million tonnes of coal was traded worldwide, over 70% of which went into Asian markets. Key importers in 2013 included India, China, South Korea and Japan; going forward, these countries will remain the driving force behind coal trade growth.

International coal trade volumes have doubled every decade since 1990, making it an attractive commodity for the mining industry and providing new investment opportunities. Large steam coal projects have been constructed in Australia, Indonesia, South Africa, Russia and Colombia, together with expensive washing, rail and port infrastructure. However not all coal projects brought online in recent years can sustain operations in the current market: 2013 proved to be a difficult year for some, with many major diversified mining companies taking large balance sheet write-offs and disposing of certain coal assets. Given that only the cost-efficient mines will remain in operation in the long run, global demand and supply will be effectively balanced.

Lessons from the cost curve

2013 was an educational year for many coal producers – and the industry as a whole. The seemingly endless coal price appreciation of 2011-2012 rendered consideration of cost curves a secondary issue when making acquisition and investment decisions, giving rise to the number of new coal project announcements. In some ways, the end of 2012 and the whole of 2013 were noteworthy, as it became clear that the appetite for coal-importing was approaching its limit and prices began to slip. The first and most important lesson of 2013 – and going forward – is to never lose control of costs.

[1] International Energy Agency, World Energy Outlook, 2013.

Key thermal coal exporters and importers in 2013, million tonnes

Note: Finalised data for 2013 was not available at time of printing and may differ from that shown.
Sources: Wood Mackenzie and SUEK estimates.

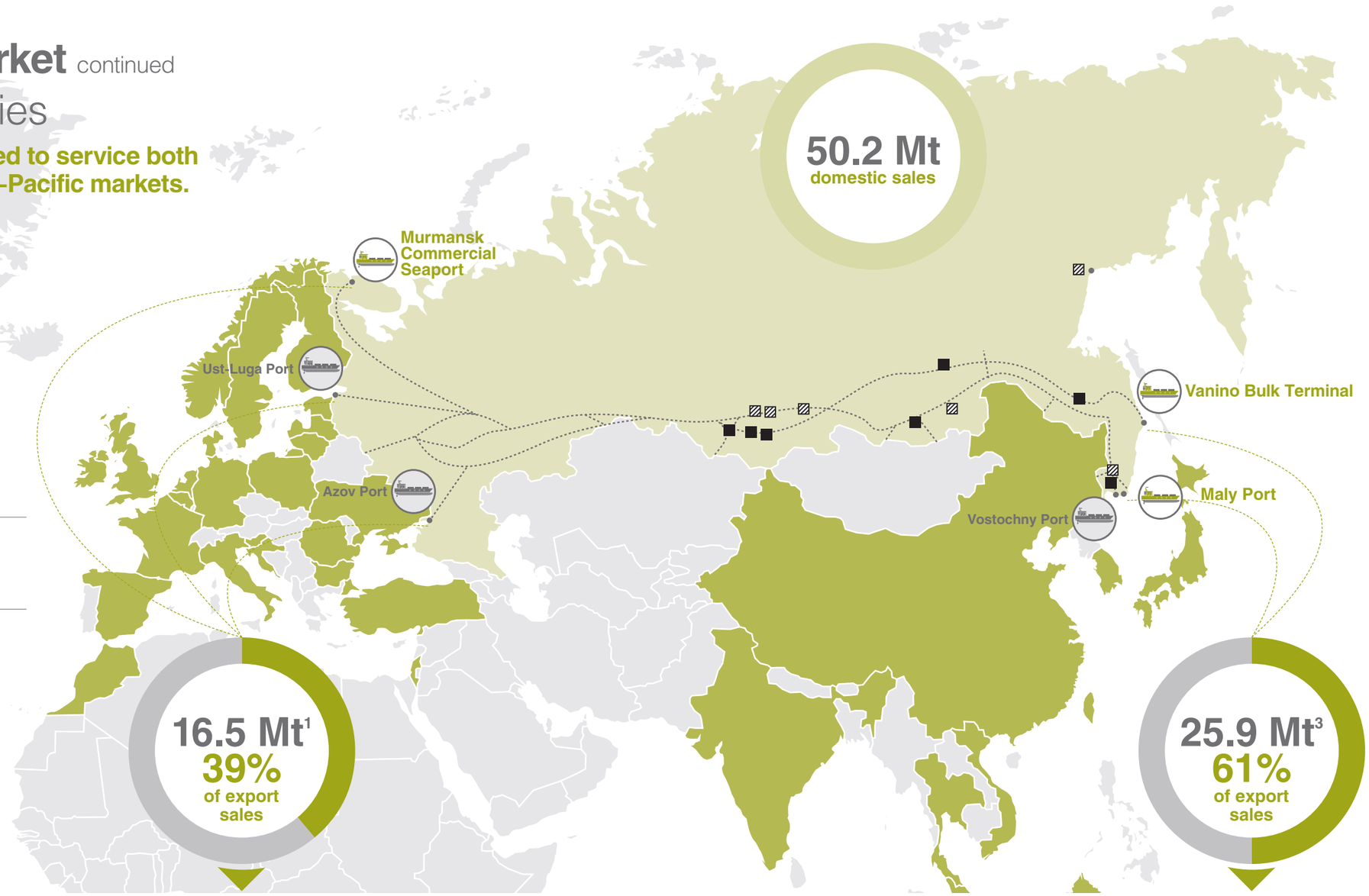
Russian and US mines have lower average mining costs than Australian and Indonesian operations, for example. However, high inland transportation costs and, in the case of the USA, higher seaborne freight costs allow more costly Australian and Indonesian coals to compete in Asian markets. Diligent coal-market players are closely focused on managing their cost structures and improving operational efficiency. In 2013, global coal producers' 'free on board' (FOB) cash costs ranged between $35 per tonne and $175 per tonne. Given the moderate projections for coal price appreciation, many mines operating on the right-hand side of the cost curve will be forced to shut down if they cannot cut costs, a process already occurring at some US and Australian mines. This is true for new coal mines brought online during the investment boom and coal price hikes, as well as for those in long-term operation, which face more difficult extraction and higher strip ratios over time.

Other key cost components include land transportation and seaborne freight, over which coal producers have little control. Many companies operate under 'take or pay' rail contracts or regulated tariffs, which add considerably to the FOB cost of export coal. However, those companies closer to export markets and with secured port capacity will benefit most. Seaborne freight costs have been depressed since 2010 due to an expanded fleet of bulk cargo ships, thereby encouraging trade flows between the Atlantic and the Pacific basins. Seaborne freight is expected to grow in the short term and level out over the medium term. Global bulk carrier fleet growth is now slowing down and projected demand will eventually outpace supply. However, the sustainable freight market may encourage new orders and increase supply.

The coal market continued

Map of supplies

We are well positioned to service both the Atlantic and Asia-Pacific markets.



92.6 Mt
SUEK's total sales

Atlantic region

United Kingdom	Germany	Israel	Finland	Poland	Spain	Other EU
41%[2]	10%[2]	8%[2]	8%[2]	6%[2]	4%[2]	23%[2]
6.7 Mt	1.7 Mt	1.4 Mt	1.4 Mt	1.0 Mt	0.7 Mt	3.6 Mt

[1] Sales volumes to the Atlantic region comprise sales of own coal mined by SUEK (15.8 million tonnes) and sales of coal purchased from third parties (0.7 million tonnes).
[2] Share of sales to the country from total sales to the Atlantic region.

Asia-Pacific region

China	South Korea	Japan	Taiwan	India	Other Asia
48%[4]	22%[4]	18%[4]	5%[4]	4%[4]	3%[4]
12.6 Mt	5.8 Mt	4.6 Mt	1.3 Mt	1.0 Mt	0.6 Mt

[3] Sales volumes to the Asia-Pacific region comprise sales of own coal mined by SUEK (22.9 million tonnes) and sales of coal purchased from third parties (3.0 million tonnes).
[4] Share of sales to the country from total sales to the Asia-Pacific region.

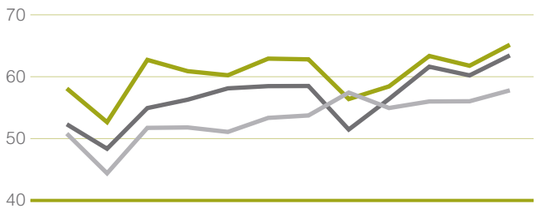
The coal market continued
International coal market

"2013 was a tough year for the whole coal mining industry. But I believe SUEK has passed the stress test successfully, demonstrating its high levels of professionalism and steering the safest course."

Igor Gribanovsky
Sales and Marketing Director

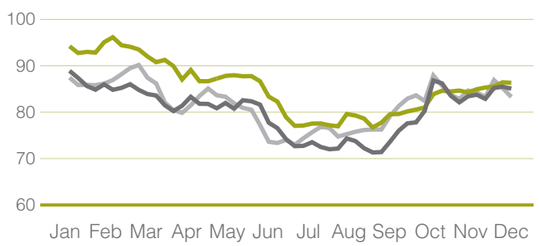
2013 was a difficult year for seaborne thermal coal.

Steam coal exports
million tonnes



Note: Seaborne steam coal exports refers to exports from major supplying countries: Indonesia, Australia, South Africa, Colombia, the USA and Canada.
Source: SUEK estimates.

Steam coal indices in 2013
$ per tonne



Sources: Argus/McCloskey Index (API2, API4) and globalCOAL (Newcastle index).

Whilst prices showed some volatility during the last quarter, including rallies due to psychological tightness, this was from very low levels touched in Q2 and Q3. Although growth moderated in the latter stages of the year, overall supply registered around 7.2%[1] growth in 2013 versus the previous year.

The year saw significant setbacks. These included uncertainty in Colombian supply that could put its reliability at risk should these kinds of events continue, whilst the Pacific market saw confirmation of the powerful influence of Chinese domestic coal prices on seaborne thermal coal markets.

Atlantic market

In 2013 the thermal coal market continued in oversupply, despite strikes and disruptions in Colombia and reduced US exports. Indeed, Colombian suppliers faced social unrest – as well as stricter legislation – during Q1 and Q3 2013 that caused a theoretical loss of about 8 million tonnes of coal exports. However producers were able to catch up and finish the year with less than 5 million tonnes of losses.
In the USA, suppliers were resilient, reducing their exports by about 5 million tonnes compared to the previous year. In fact, at current low prices, the reduction of US exports could have been greater, but this was alleviated by the existence of previous rolling contracts at fixed prices, financial hedges and flexibility on railway rates. Nevertheless, American companies were more reactive to the current market oversupply, closing or suspending mine operations in the domestic and, to some extent, the export market.

Russian exports to the Atlantic basin continued to increase, although slightly, fuelled by higher demand from the UK and Germany. Poland surprised with increased availability, whilst South African supply was distorted by a handful of traders trying to benefit from the impact of physical movements in the financial market.

On the demand side, the UK increased its thermal coal demand significantly, driven by continued beneficial clean dark spreads versus clean spark spreads and faster than anticipated mine closures. These reduced domestic supply and the need to quickly burn the remaining hours of plants that opted out of the Large Combustion Plants Directive (LCPD) legislation to avoid the increase in carbon tax due in Q2 2014.

Germany also increased its coal burn, since gas was relatively expensive due to low coal and carbon emission prices. Steam coal therefore remains the best alternative to renewable energy. Despite its unreliability, renewable energy had increased to 75.6 GW by the end of 2012, or 42% of total installed capacity, under Germany's Energy Transition project (Energiewende).[2]

In Southern Europe, hydro performance was very strong, particularly during the first half of the year, displacing some coal burn. However, the balance of the year saw an improvement in coal demand, as relatively dry weather combined with nuclear outages and reduced liquefied natural gas (LNG) supply due to re-exports to Asia increased reliance on coal-fired power plants.

Pacific market

Indonesian exports amounted to 350 million tonnes in 2013, showing significant growth during the first half of the year but slowing markedly thereafter. This was due to slowing demand from Indonesia's principal customers, China and India, in the second half of the year.

Thermal coal supply was augmented by the continued increase in exports by Australian suppliers in order to reduce their costs per unit. This increase was underpinned by cost curve flexibility, which lowered thanks to the Australian Dollar's depreciation of around 14% during the year, some tolerance on lower volume vis-à-vis 'take or pay' agreements, as well as reductions in port handling costs. Australian exports amounted to 188 million tonnes, up from 171 million tonnes in 2012.

On the demand side, despite growing domestic Chinese production (+4% year on year),[3] imports also grew, reaching 252 million tonnes (+7% year on year).[4] This was due to weak international pricing, which meant that imported coal competed strongly in China. Another factor influencing increased coal usage was low hydro generation coupled with continued strong power demand. The end of the year saw a firming trend in domestic prices, following inventory depletion throughout the summer and restocking during the last three months of the year. Despite the increase in demand during the latter part of the year, the domestic market remained oversupplied. Chinese imports in 2013 moved towards higher quality thermal coals, particularly from Australia.

India was the best performer in 2013, despite a poor macroeconomic picture. Total volumes are estimated to have been 121 million tonnes in 2013, up from 103 million tonnes in 2012. A sharp depreciation of the Indian rupee during the second half of the year and stronger seasonal hydro generation led to a slowdown in coal imports during the latter part of the year. Coal-fired capacity continued to surge, with an increase of approximately 16 GW in 2013.[5] On the other hand, domestic coal supply projects have been delayed by between two and four years, due to factors including land acquisition, lack of funds and environmental clearances, which are not yet close to being resolved.

Japanese thermal coal demand was also a highlight. Several Japanese coal-fired units sidelined by the Fukushima accident restarted operations and others were newly commissioned, totalling an additional 3.6 GW.[6] Japan's nuclear power stations continue to be offline, securing high levels of coal-burning. By the same token, South Korea saw some nuclear units down due to security issues. However, this did not help increase import demand as Korean companies were already burning coal at maximum levels. These two importers have increased their share of Australian material at the expense of Indonesian coal.

[1] Wood Mackenzie.

[2] Monitoring report 2013, Bundesnetzagentur.
[3] World Coal Association & Steel home, www.worldcoal.org.
[4] China Customs Statistics Information Service.
[5] Central Electricity Authority of India.
[6] Mining Weekly Research, www.miningweekly.com.

The coal market continued

Domestic market

The Russian thermal coal market includes segments of brown (lignite, low-quality) and bituminous (mid- to high-quality) coal.

Domestic production in 2013 totalled 72 million and 203 million tonnes of brown and bituminous coal respectively. Brown coal is supplied mainly to the domestic market for electricity generation and public utilities. Bituminous coal is also used in these industries, as well as in cement production and other industrial applications; however, its higher quality enables this coal to also be supplied for export.

Russian thermal coal supplies totalled 262 million tonnes in 2013, representing a 1% decline compared to 2012. Domestic thermal coal supplies decreased by 8% to 139 million tonnes, affected by a drop in coal-fired electricity generation; whilst thermal coal exports increased by 8% to 124 million tonnes. Thermal coal imports, which flow mainly from Kazakhstan to Russian power plants, declined by 5% to 27 million tonnes.

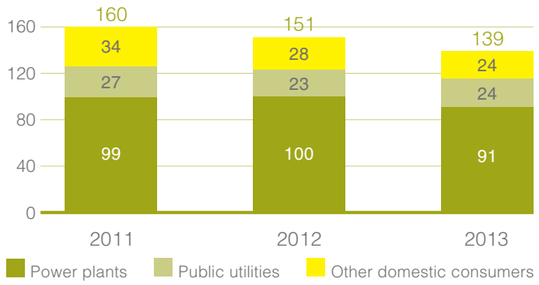
The power sector consumes most domestically produced thermal coal: 91 million tonnes or 35% in 2013. Thermal coal supplies to the domestic power industry declined by 9% in 2013, due to:

- start of operations at the Boguchanskaya hydro power plant (HPP) (installed capacity: 3 GW), and recovery of operations at Sayano-Shushenskaya HPP; and
- heavy rains and a large inflow of water into reservoirs in Siberia and the Far East of Russia.

As a result, the volume of hydro power generation increased by 9% in 2013, whilst overall electricity generation in Russia decreased by 1%, leading to a reduction in thermal power demand and a decline in coal-fired power generation.

Thermal coal demand from public utilities and other customers has decreased in recent years, mainly due to the regional gasification programme in the European part of Russia and the Urals. This will continue to influence growth in Russian domestic demand in the future.

Thermal coal domestic supplies in Russia by consumers
million tonnes



Sources: Central Dispatching Department of Fuel Energy Complex (CDU TEK), SUEK estimates.

Thermal coal exports grew by 8% to 124 million tonnes in 2013. The additional coal volume was exported from Russia to the Atlantic market and supplied to China by rail. Russian seaborne coal exports to Asia-Pacific markets also increased, but this growth mostly related to coking coal, whilst thermal coal exports to these markets were virtually flat.

Any future growth of Russian seaborne thermal coal exports from Kuzbass to Asia is limited by railway infrastructure constraints. Thermal coal also has to compete with coking coal for access to rail capacity. However, unlike many other Russian coal suppliers, SUEK is well placed to increase its thermal coal exports to the growing Asia-Pacific markets. This is due to the location of its coal operations, not only in Kuzbass but also in Eastern Siberia and the Far East of Russia, where any potential growth in supply is less affected by rail infrastructure limitations.

The Russian domestic thermal coal market remains relatively stable in terms of pricing, whilst export markets are highly volatile. This is due to the existence of long-term supply agreements between coal companies and generators and other large consumers, where prices are usually fixed for a year or longer, with annual adjustments generally in line with the prevailing rate of inflation in Russia.

Coal: the black diamond

An essential global resource

Coal is one of the world's most important energy sources. Over the past decade, coal has accounted for half the global increase in fuel use. One of the fossil fuels, it formed when prehistoric plants were buried and subjected to extreme heat and pressure over millions of years.

Global reserves of coal are plentiful – and mining and refining technologies are constantly improving. Used for hundreds of years in numerous industrial processes, coal remains fundamental to power generation, as well as iron, steel and cement production and the making of countless other industrial and consumer products.

Fossil fuels at a glance

Coal, oil and gas are fossil fuels, derived from the organic remains of prehistoric plants and animals. Formed over millions of years, they are an integral part of the global energy mix.

Coal

Large deposits around the world and an estimated 114[1] years of recoverable reserves.

Coal formation began during the Carboniferous Period – known as the first coal age – which spanned 360 million to 290 million years ago. Comprising a mix of elements including carbon, oxygen, hydrogen, nitrogen and sulphur, it formed as dead plant material and became compacted under layers of sediment. Subsequent increases in temperature and pressure produced further changes over millions of years.

Coal is mined in two ways: surface (opencast or open-pit) mining or underground (deep) mining. The choice of method depends largely on the geology of the deposit.

Coal is easy to both store and transport in large volumes. A versatile fuel, it has multiple uses including heat and power generation, iron and steel production, cement production and domestic heating. It is also used in the manufacture of paper and chemicals.

Global coal reserves are distributed across some 70[1] countries worldwide and proven reserves are estimated to last over 114 years at current production rates. Coal is the second source of primary energy in the world (after oil) and the principal source of electricity generation, providing some 41%[2] of the world's electricity needs.

114 years
of recoverable reserves

41%
of the world's electricity is generated using coal

Top producers:
China, USA, India, Australia, Indonesia, Russia and South Africa

[1] BGR, Energy Study 2012 'Reserves, Resources and Availability of Energy Resources'.
[2] International Energy Agency 'World Energy Outlook 2013'.

Oil

Used in multiple applications, with around 54[1] years of reserves at current rates of consumption.

Formed around 300 million years ago, crude oil varies in colour from clear to black, and in viscosity from watery to almost solid. It is made up of a range of hydrocarbons including paraffins, aromatics, naphthenes and alkenes. It was formed as dead animals and plants – buried by sand and mud – decayed over millions of years. The resulting liquid subsequently seeped through porous rock and collected in natural underground reservoirs.

Extraction is principally via wells drilled from the surface, with crude oil and other liquids obtained through a borehole. Crude oil is usually transported by tanker or pipeline to a refinery, where it is processed into a range of products. These include petrol, diesel fuel and heating oil amongst others. These products are subsequently distributed to customers by road or rail. Oil is a key component in the manufacture of numerous industrial and consumer products including plastics, textiles, paint, pharmaceuticals and fertilisers.

Most of the world's oil comes from a relatively small number of countries, the principal producers being Saudi Arabia, Russia, USA, Iran, China, Canada and Venezuela. It remains the world's primary source of energy, with some 5%[2] of the electricity generated worldwide produced from oil-fired power stations.

54 years
of reserves

5%
of the world's electricity is generated using oil

Top producers:
Saudi Arabia, Russia, USA, Iran, China, Canada and Venezuela

Natural gas

Often located close to oil deposits, natural gas has around 58[1] years of global reserves.

Natural gas formed from decaying plants and animals that were subjected to intense heat and pressure underground. The subsequent breakdown of biological materials resulted in the formation of thermogenic natural gas. It comprises a highly flammable mixture of hydrocarbons: principally methane, plus ethane, propane, butane and pentane, along with carbon dioxide, nitrogen and hydrogen sulphide.

Generally extracted in a similar way to oil, gas is also transported via pipelines. Increasingly, natural gas is liquefied to facilitate sea transport by tanker. Uses include electricity generation, domestic and commercial heating, cooling and cooking. It is also used as a feedstock for numerous industrial processes and there is increasing demand for natural gas as a transportation fuel.

The Middle East has the world's largest proven reserves, with about 40% of world supply. The largest producers are USA, Russia, Canada, Iran, Qatar and China. Technological advances are increasingly driving the pursuit of unconventional gas types such as shale gas and coal bed methane. Currently, some 21%[1] of global electricity production is generated using gas.

58 years
of global reserves

21%
of the world's electricity is generated using natural gas

Top producers:
USA, Russia, Canada, Iran, Qatar and China

The advantages of coal

Accessibility – combined with ease and safety of transport and storage – are the principal reasons that coal has long been the primary energy source for industrialised nations.

Available

Coal is easier and safer to store and transport than other fuels; it does not require high-pressure pipelines, expensive protection in transit or costly preparatory processing. It is therefore easy to access for use on demand, making it the world's most available energy source.

Usable

Coal's principal advantage over other energy sources is that it needs simply to be mined before it can be used. Other fossil fuels must be refined in lengthy, cost-intensive processes. Newer, more 'eco-friendly' sources are dependent on the vagaries of nature, which makes them – and the energy they deliver – generally less reliable solutions.

Versatile

Coal is the most versatile energy resource. As well as being used to generate some 41% of the world's electricity, it is one of the core components in iron and steel making and the production of construction materials. Coal is integral to a vast range of processes and products, including aluminium refining, paper manufacture and chemical production.

Inexpensive

The abundance of coal, its easy accessibility, straight-from-the-mine usability and lower transport costs make it an affordable form of energy. Electricity produced from coal is less expensive than that produced from non-conventional sources such as solar, wave, wind or even nuclear power.

Safe

Coal is easier and safer to transport, store and handle than alternative, highly flammable fossil fuels.

Changes for the better

Costs of extraction

- Issues related to land and water resource access and use
- Production of emissions and waste generation
- Waste disposal and recycling
- Health and safety

Cleaner coal

- During the last 30-40 years, considerable progress has been made in developing new technologies that increase efficiency and reduce emissions. Advanced cleaning and firing technologies minimise the output of sulphur, nitrogen oxides, complex hydrocarbons, dust and heavy metals.
- On the consumption side, new technologies are being developed to improve efficiency.
- On the production side, increased coal washing reduces ash content by more than 50%[1]. Clay, sand and sulphur can also be reduced, resulting in less waste and greater thermal efficiency.

Reducing pollution

- Advances in technologies have reduced emissions of CO_2 and methane (CH_4) greenhouse gases per generated kWh.
- Precipitators and fabric filters can now remove 99.95% of particulate emissions[1].
- Acid rain has reduced dramatically through flue gas desulphurisation and primary abatement and control methods.
- Recent developments herald the prospect of complete removal of SO_2 and NO_X gases.

Greater efficiency

- Coal-fired power generation today is based mainly on the pulverised coal combustion (PCC) method in which a boiler creates steam, which drives a turbine to produce electricity. Most existing plants operate under sub-critical steam conditions, with a maximum efficiency of about 39%. However, new plants are increasingly capable of operating under supercritical or ultra-supercritical conditions with greater efficiencies.
- Supercritical coal-fired power plants can achieve efficiencies above 40% whilst developments in ultra-supercritical plants could potentially boost efficiencies above 50%.[2]

[1] World Coal Association 'The Coal Resource: A Comprehensive Overview of Coal'.
[2] International Energy Agency 'World Energy Outlook 2011'.

How coal is used

Coal is extremely versatile, with a wide range of uses across almost every industrial sector.

Electricity generation

Power generation is the primary use for coal worldwide. Thermal coal is burnt to create steam that drives turbines and generators for the production of electricity.

Metal production

Metallurgical (coking) coal is a key ingredient in steelmaking. Coal converted to coke is used to produce around 70% of the world's steel[3]. Coal is also widely used in the production of other metals including aluminium and copper.

Cement production

Coal is used as a key energy source in cement production. By-products of coal combustion such as fly ash also play an important role in cement manufacture and the wider construction industry.

Gasification and liquefaction

Coal is heated and pressurised with steam to produce 'town' gas for domestic lighting, heating and cooking. It is liquefied to make synthetic fuels similar to petroleum or diesel. The majority of coal-to-gas projects are located in the USA and China, with a few in Indonesia, India, Australia, Canada and South Africa.

Chemical production

Syngas – from gasification – can be further processed to produce chemical building blocks such as methanol, ammonia and urea.

Other industries

Other major users of coal include the paper, textile and glass industries. Coal is also used in the manufacture of carbon fibre and specialist ingredients such as silicon metals, which are used to produce ingredients for the household and personal care sectors.

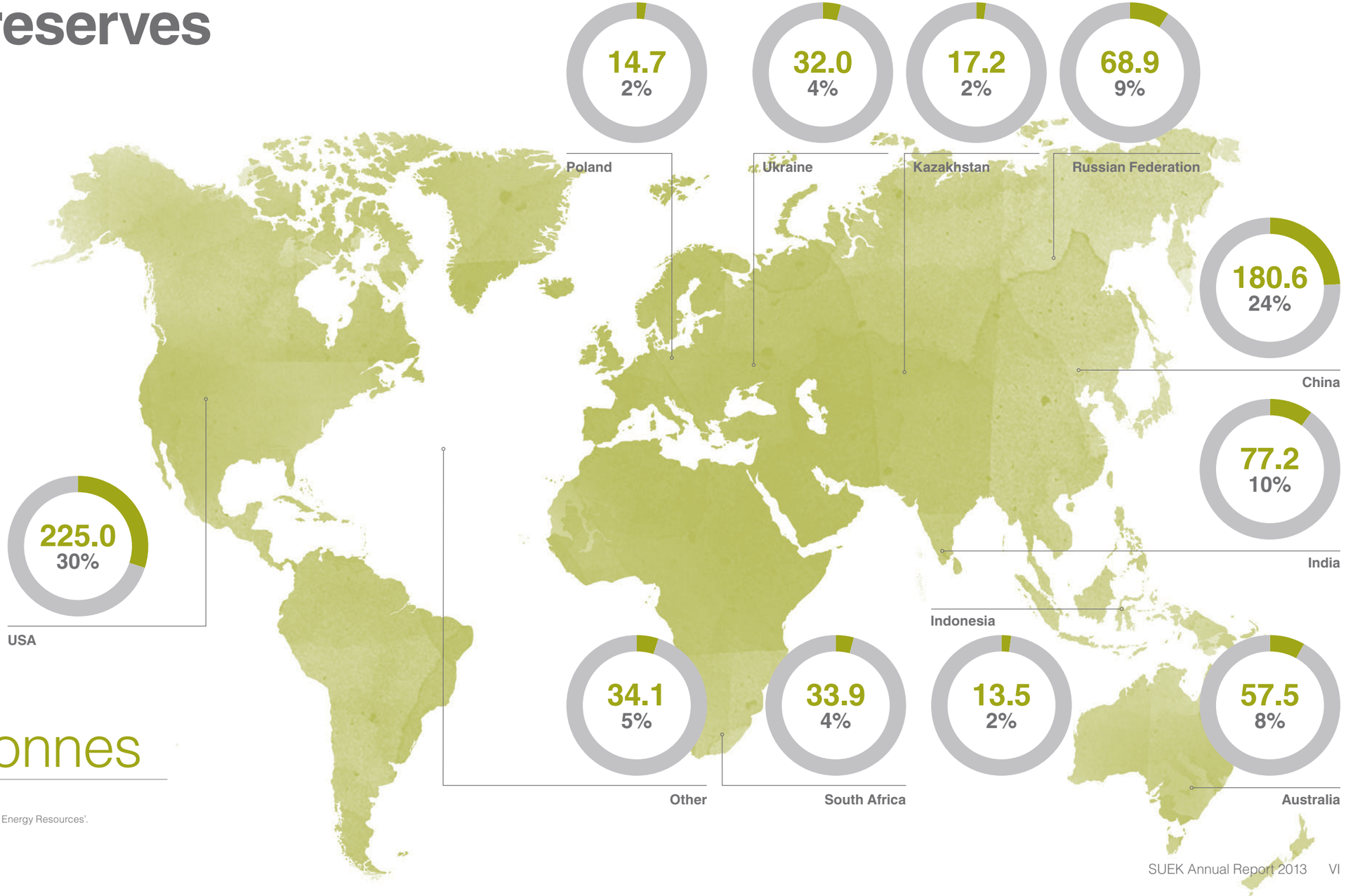
[3] World Coal Association 'Coal Matters, Coal and Modern infrastructure'.

Global coal reserves

Coal is distributed widely across the globe, with reserves in over 70 countries.

The largest reserves are in the USA, Russia, China, India and Australia.

It is the most abundant fossil fuel, with estimated total reserves in the order of 754.6 billion tonnes – sufficient for almost 114 years of consumption at current rates of production.



754.6 billion tonnes

estimated total global reserves

Source: BGR, Energy Study 2012 'Reserves, Resources and Availability of Energy Resources'.

The different grades of coal

Coal is classified according to the nature of the original vegetation, the duration of its formation and – importantly – the depths and temperatures to which it was subjected. There are several coal classifications; we use the ASTM classification by rank, which is based on fixed carbon and gross calorific value. The higher-rank coals are classified according to fixed carbon on a dry basis; the lower-rank coals are classified according to the gross calorific value on a moist basis.

Lignite

<19.3 MJ/kg

Lignite formed as dried and hardened peat, which was subjected to pressure and heat from overlying deposits. Often referred to as 'brown coal', it is generally characterised as having higher moisture and lower calorific value than older coals. It is, however, an important source of energy for generating electricity. Due to its low calorific value, lignite is used mainly in domestic markets.

Calorific value: less than 19.3 MJ/kg (gross, mineral matter-free)

Moisture content:	30-75%
Fixed carbon content:	No limit
Volatile matter:	No limit

Sub-bituminous

19.3-26.7 MJ/kg

Sub-bituminous coal formed when lignite was subjected to increased temperatures and pressures. It is a dull black coal with a higher thermal value than lignite. It is used primarily for generating electricity and for heating, and is also as a source of aromatic hydrocarbons for the chemical industry.

Calorific value: between 19.3 and 26.7 MJ/kg (gross, mineral matter-free)

Moisture content:	10-30%
Fixed carbon content:	No limit
Volatile matter:	No limit

Bituminous

>24.4 MJ/kg

Bituminous, or 'hard', coal formed in subterranean temperatures of up to 180°C, as sub-bituminous layers were subjected to greater pressures. Usually black or dark brown, it is darker and denser than lignite or sub-bituminous coal. This type of coal is usually divided into three sub-groups: low-volatile, mid-volatile and high-volatile. Depending on its characteristics, it can be used for electricity generation or for the production of iron, steel and other metals; in the latter case it is known as 'coking coal'.

Calorific value: greater than 24.4 MJ/kg (gross, mineral matter-free)

Moisture content:	1-10%
Fixed carbon content:	Less than 86% dry basis
Volatile matter:	Greater than 14% dry basis

Anthracite

No limit

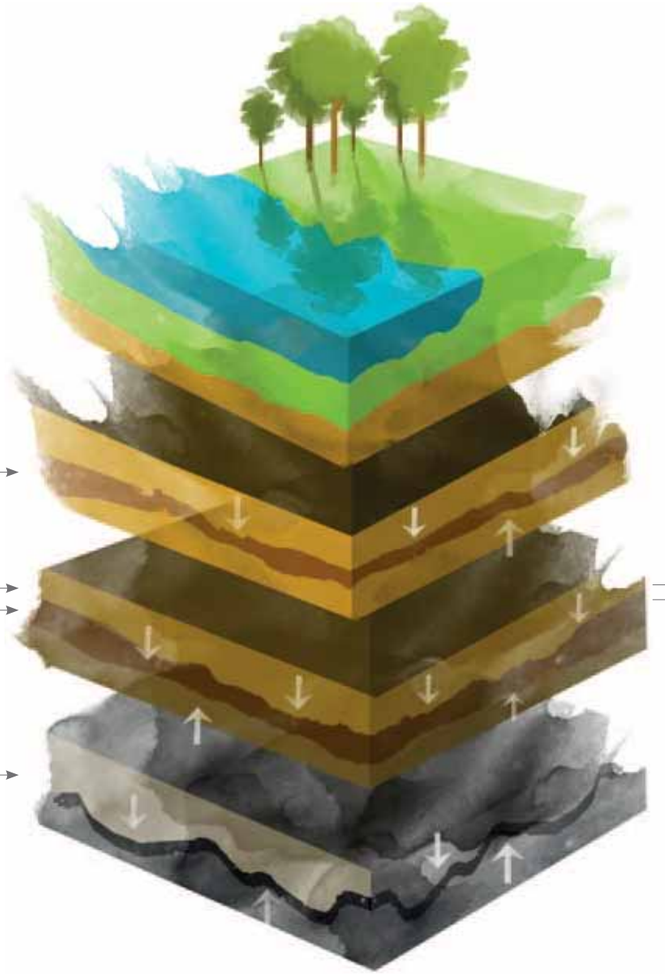
Glossy black in appearance, anthracite is the result of extreme pressure and heat within folded rock strata. Anthracite has high calorific value due to its high content of fixed carbon. It is used for electricity generation, and domestic and commercial heating.

Calorific value: no specific limit under the ASTM classification since the percentage of fixed carbon is high.

Moisture content:	<5%
Fixed carbon content:	Greater than 86% dry basis
Volatile matter:	Less than 14% dry basis

SUEK: what we produce

Bituminous coal is the most plentiful type of coal. It includes two sub-types: thermal coal and coking coal.



Thermal coal

Prized for its energy content, thermal coal is also referred to as 'steaming coal' because of its principal use in the generation of steam to drive electricity-generating turbines. Some 41% of global electricity is generated from the combustion of thermal coal.

According to the World Coal Association, the main thermal coal-producing countries are China, the USA, India, Indonesia, South Africa Australia and Russia. The major exporting countries are Indonesia, Australia, Russia, Colombia, South Africa and the USA. In recent years, demand for thermal coal has grown, primarily due to the increasing demand for electricity in Asia. Demand is also affected by the influence and availability of alternative generating technologies such as nuclear power and renewable energy.

Coking coal

Coking coal or 'metallurgical' coal is used mainly in the creation of coke for iron and steel production. Coke is a porous, hard, grey material of almost pure carbon, created by heating bituminous coal to extremely high temperatures in the absence of air, which drives off the volatile components and impurities.

The main producers of coking coal are China, Australia, the USA, Russia and India. Australia is the world's largest exporter, accounting for approximately 55% of world exports according to energy, metals and mining specialist Wood Mackenzie. Emerging economies are the key drivers of demand for coking coal, due to increasing urbanisation and higher steel consumption.

24 hours of coal

Within every 24-hour period, coal is responsible for:

23 TWh

Producing 23 TWh (more than gas, wind and hydro power combined)

Security

Delivering enhanced energy security for dozens of nations across the globe

60%

Fuelling about 60% of China's industrial sector

2.4 million

Producing around 2.4 million tonnes of steel

3 billion

Providing more than half the electricity for three billion people

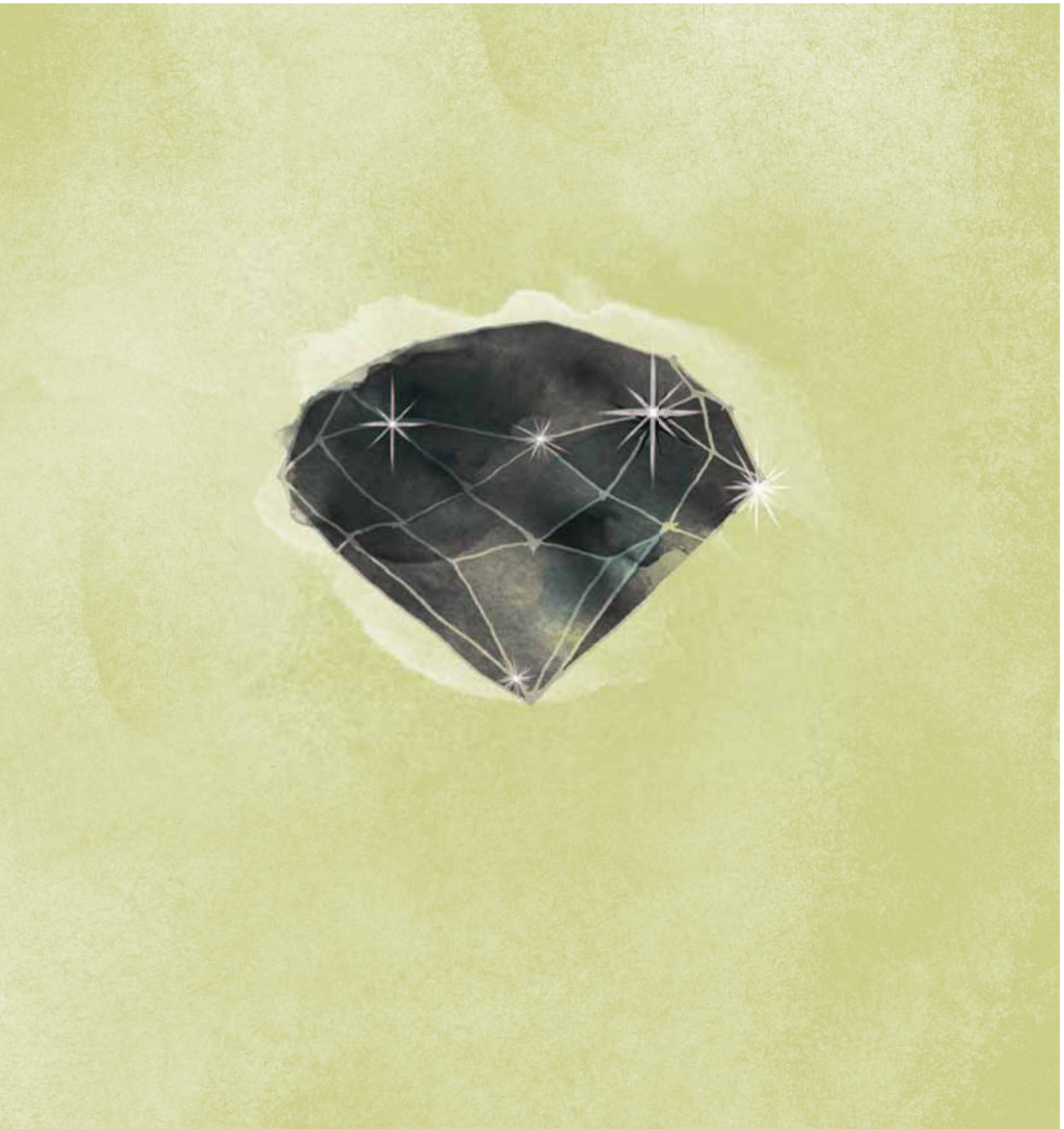
75 million

Providing the energy to activate 350,000 Android smartphones and send around 75 million tweets, and generated 40% of the power for 300 billion emails

1,340

Generating power equivalent to 1,340 nuclear plants

Source: Rocky Mountains Coal Mining Institute (RMCMI).



Our operating performance

Our mining, washing and transportation operations delivered strong results this year, thanks to our ongoing investment in development and maintenance.

Analysis of operating results

Production highlights

	2013	2012	Change %
Mining			
Coal mined, Mt	**96.5**	**97.5**	**(1%)**
– hard coal	62.2	60.2	3%
– brown coal	34.3	37.3	(8%)
– open-pit	66.2	66.0	0%
– underground	30.3	31.5	(4%)
Washing			
Coal washed, Mt	**28.1**	**23.0**	**22%**
Transportation			
Transhipment, Mt	**35.3**	**31.0**	**14%**
– Vanino Bulk Terminal	13.7	12.0	14%
– Murmansk Commercial Seaport	13.1	11.6	13%
– Maly port	2.2	2.5	(12%)
– Third-party ports	6.3	4.9	29%

Mining

Our mining operations across the business delivered a solid performance and achieved strong results. This year's production level was in line with the previous year and reached 96.5 million tonnes (a 1% decrease compared to last year). Approximately 64% of our total production was high-quality hard coal, just over half of which was extracted from our underground and opencast mines in the Kemerovo region. Some 36% of the year's total production was brown coal, all of which originated from our open pits, mainly in the Krasnoyarsk region.

In 2013 production of brown coal decreased by 8%. This was due to a reduction in domestic thermal power demand as a result of hydro power generation increases arising from weather conditions (a large inflow of water into reservoirs in Siberia and the Russian Far East).

Hard coal production increased by 3%. This was supported by improvements in operational efficiency, which resulted in an increase in productivity at units mining hard coal of 1% for the year. Production was also affected by external factors including increased demand for thermal coal from export markets, particularly in the Asia-Pacific region, and increased capacity through our own ports at Far Eastern (primarily Vanino Bulk Terminal) and European (Murmansk Commercial Seaport) locations.

See pages 40-41 for map of production results.

Coal reserves

Our proven and probable reserves of 5.6[1] billion tonnes, audited by mining consultancy SRK as at 1 April 2011 under the JORC Code, are the 5th largest in the world. The majority of our proven and probable reserves are concentrated in Siberia.

In 2012 and 2013 we acquired the Apsatsky and Kabaktinskoe coalfields, with total hard coal resources of around 0.5 billion tonnes defined according to Russian methodology.

Coal reserves[2] under the JORC Code

		Number and type of mine		
	Reserves	Underground	Open-pit	Total
Hard coal, Mt	1,364	12	8	20
Brown coal, Mt	4,240	–	8	8
	5,604	**12**	**16**	**28**

Source: SUEK JORC Report as at 1 April 2011 audited by SRK Consulting.

[1] SUEK's JORC-compliant reserves were estimated at 5.9 billion tonnes by SRK in April 2011. Allowing for extraction from April 2011 to December 2013, the Company has reserves of 5.6 billion tonnes.
[2] Reserves under the JORC Code do not include the reserves of our Apsatsky open pit and the Kabaktinskoe coal deposit.

Coal resources[3] under Russian methodology[4]

		Number and type of mine		
	Resources	Underground	Open-pit	Total
Hard coal, Mt	548	–	2[5]	2

Source: Licences issued by regulatory bodies of the Russian Federation.

[3] Resources under the Russian methodology include the resources of our Apsatsky open pit and the Kabaktinskoe coal deposit.
[4] The Russian methodology relies on geometric methods to determine reserves, with deposits falling into one of four classes, based on the complexity of their geological structure. Classification may take into account quantitative results measuring inconsistencies in the basic features of mineralisation.
[5] Coal resources under the Russian methodology include the resources of our Apsatsky open pit and the Kabaktinskoe coal deposit. Only our Apsatsky open pit is currently operating.

Our operating performance continued

"We now have a rare opportunity to considerably enhance our supply operations. Russian Railways' investment programme for its Far Eastern railways will provide greater throughput capacity for coal and other cargoes from the Far East and we will benefit from fixed five-year tariffs. We will also benefit from a decrease in the rail component of the tariff, due to a surplus of fleet on the railways."

Denis Ilatovsky
Director of Logistics

Washing

Washed coal volumes in our washing plants and processing facilities rose by 22% compared with 2012 to 28.1 million tonnes, improving the overall quality of our exported coal.

We continued to commit resources to the expansion of our washing capacities, enabling increased processing of coal volumes for export markets. We commenced operations at Module No.2 of the Kirova washing plant, with a high degree of automation and an annual capacity of 5.0 million tonnes. By the end of 2013 we had completed the main construction works at our Chegdomyn washing plant in Khabarovsk region with a capacity of 6.0 million tonnes. We also finished construction of the second module at our Chernogorsky washing plant in Khakasia, thus significantly increasing the plant's capacity.

We also operate sorting and crushing facilities. These are located in Kemerovo, Khakasia, Krasnoyarsk, Buryatia, Zabaikalye, Primorye and Khabarovsk. These sort coal to the required size and separate it from metal and other contamination. Sorting facilities are also installed at the Murmansk Commercial Seaport, Maly Port and Vanino Bulk Terminal.

Transportation

Rail

Rail transportation is an important element of our logistics system. We use our own rail infrastructure, which comprises approximately 790 km of rail lines, 28 internal loading stations and rail cars and locomotives to access the national rail network. We use Russian Railways to transport coal to domestic customers or to port facilities for export. We operate one of the largest rail fleets in Russia, totalling around 20,400 rented open cars.

We are implementing projects to expand the capacity of our internal railway stations and lines to increase volumes of transported coal. These improvements will ensure the stability and reliability of three of our producing regions: Kuzbass, Khakasia and Buryatia.

As the largest cargo shipper on the Russian Railways network, we currently require around 52-58,000 open cars for coal transportation. In September 2013 we took delivery of 6,000 innovative rail cars – the first Russian company to do so. These new cars deliver the following advantages:

- higher load capacity of up to 75 tonnes, which enables a 7% reduction in the number of rail cars needed, compared to the same volumes transported by existing rail car models, thus decreasing carriage charges by $2.4 per tonne; and
- a contingent economic benefit is also expected due to the new wagons' increased life span of 32 years compared to the 22 years of existing rail car models. Savings on repairs should also amount to $0.3 per tonne due to the longer working life of the rail cars.

The total economic benefit of the new rail cars compared to existing cars is up to $2.7 per tonne of transported coal. We plan to increase our fleet of these cars to around 10,000 in 2015-2017.

We concluded long-term rental agreements of 5-7 years for our fleet of rented rail cars, on favourable terms, benefiting from an advantageous market situation with reduced tariffs.

Russian Railways' infrastructure is of key strategic importance for us. It is located close to our assets and links to our key Vanino Bulk Terminal. In conjunction with Russian Railways, we participate in the development of new projects to increase infrastructure capacity and optimisation of tariffs, thus enhancing the efficient use of our own and rented rolling stock. With our active participation, Russian Railways issued an order in May 2013, allowing us to invest in general infrastructure in exchange for tariff preferences. We expect to derive significant benefits from this scheme, using it to reconstruct the railway station en route to Vanino Bulk Terminal, thus enabling us to increase the maximum capacity of our port.

Ports

We operate three ports: our own Vanino Bulk Terminal, Murmansk Commercial Seaport and Maly Port, which in 2013 increased sea transhipment volumes by 11% to 29.0 million tonnes – a record level.

Our Vanino Bulk Terminal shipped 13.7 million tonnes of coal to customers in the Asia-Pacific region during 2013. Several operating efficiency improvements were completed during the year and a number of maintenance projects were initiated, with the aim of improving equipment performance and enhancing coal handling facilities. We aim to increase the port's capacity to 21 million tonnes per annum.

In 2013 we shipped nearly 13.1 million tonnes of coal from Murmansk Commercial Seaport to Europe; a record level for the port. A number of maintenance projects and operating efficiency initiatives were undertaken throughout the year by our management, following our acquisition of 37.49% of voting shares. The port is currently implementing a programme to increase coal transhipment volumes further, to 13.9 million tonnes in 2014.

In 2013, 2.2 million tonnes of coal were exported through our operation at Maly Port on the Far East coast. This was 12% lower than the year before, due to a decrease in the rail traffic capacity of Russian Railways between our assets and the port.

Capital expenditure

Key investments in 2013 were focused on priority development areas and maintenance of our key production assets. One of our strategic objectives is to increase export sales, and our current investment programme is facilitating this aim, with exports of our own coal up 8% in 2013 to 38.7 million tonnes from 36.0 million tonnes in 2012.

Export-focused investment priorities in 2013 included:

- increasing the quality of exported coal through the construction of washing plants (Module No.2 of Kirova washing plant, Chegdomyn washing plant at Urgal, and Chernogorsky washing plant in Khakasia);
- increasing production of export-quality thermal coal in Kuzbass (from mines in the Kiselevsk area and Zarechny open pit);
- increasing exports of thermal and coking coals from production units located closest to our target markets (the Urgal deposit in Khabarovsk, our Tugnuisky open pit in Buryatia/Zabaikalye and our Apsatsky open pit in Zabaikalye); and
- developing port facilities at Vanino and Murmansk.

See pages 60-61 for more information on our investment programme.

Looking ahead

In 2014 we expect to achieve coal production of about 100 million tonnes. Our development strategy aims to continue increasing production of hard coals from underground mines located close to Asia (at Urgal) as well as in Kuzbass.

We also expect a significant increase in our washing capacity, primarily due to the commissioning of a new washing plant at Urgal (our Chegdomyn washing plant). This will contribute to increasing export sales of our own coal, including premium coals. We also plan to increase our exports of sized coals.

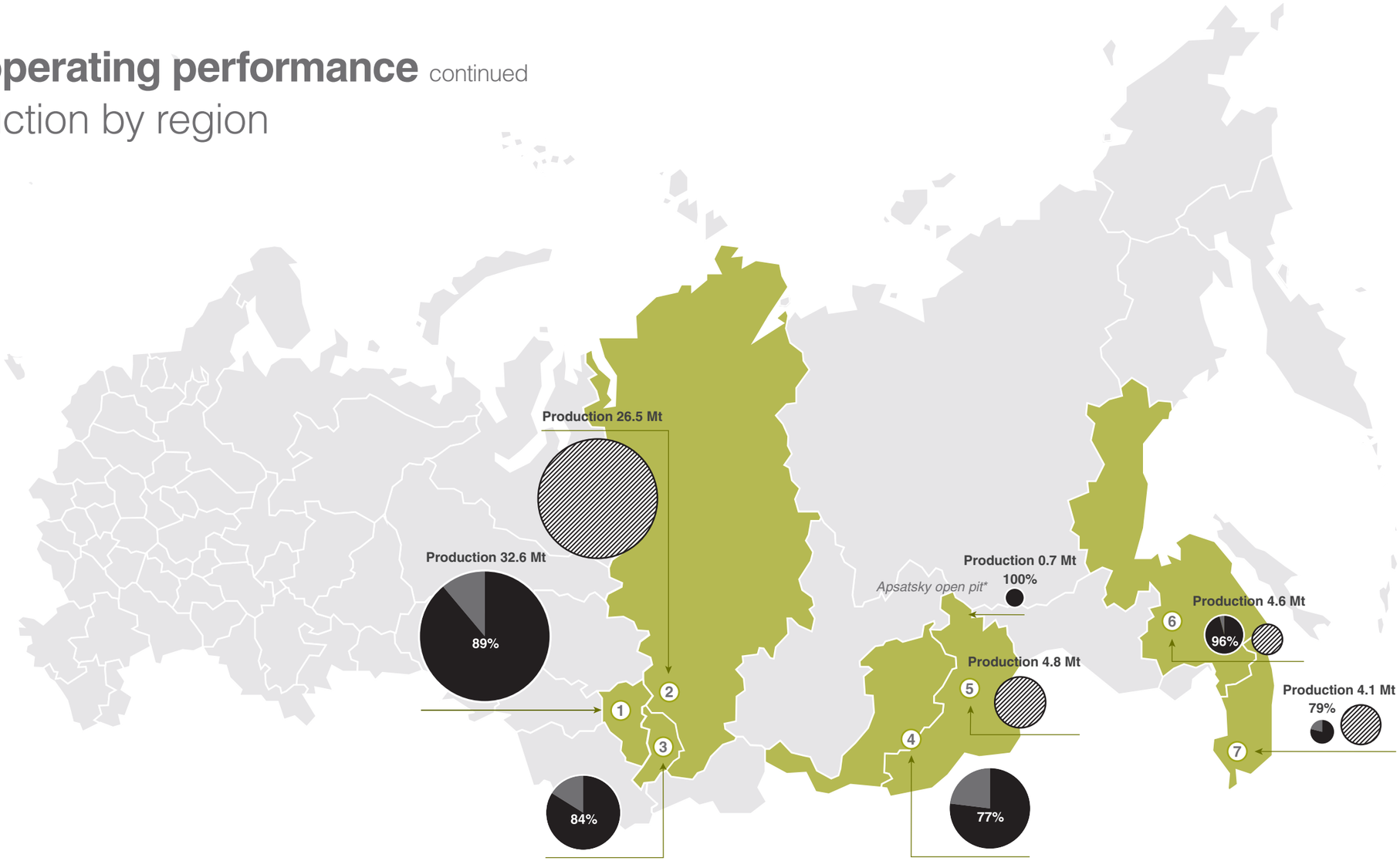
In 2014 we anticipate a significant increase in export and domestic railway transportation volumes, without tariff adjustments by Russian Railways. We expect substantial changes in the structure of our rolling stock adding 4,000 units to our innovative, high-capacity rail car fleet by the end of the year on our two most effective routes (Chelutay – Vanino and Chelutay – Maly) and a reduction in rail car rental rates (including those for already revised long-term contracts). In line with this development programme, we expect to see greater efficiency of unit train dispatching.

We expect coal transhipment volumes through our own ports to exceed 30 million tonnes in 2014. As a result of implementing investment programmes to increase the productivity of port facilities, coal transhipment to the Asia-Pacific region will be around 16.5 million tonnes through Vanino Bulk Terminal, 2.5 million tonnes through Maly Port and 13.9 million tonnes through Murmansk Commercial Seaport to Europe.

In 2014 SUEK will continue to implement its investment programme. More than 55% of total investments will be allocated to projects designed to expand production. Whilst maintaining our focus on key priorities, some projects have been optimised or deferred, due to changes in the market environment and forecasted macroeconomic parameters.

Our operating performance continued

Production by region



① Kemerovo

Type of coal	**Hard**
Production, Mt	**32.6**
Open-pit, Mt	8.0
Underground, Mt	24.6
Reserves, Mt	**866**
Market	**Domestic/export**
Share of total export supplies	**55%**
Share of total domestic supplies	**16%**
Expansion capital expenditure, $ million	**225**
Average headcount	**14,335**

② Krasnoyarsk

Type of coal	**Brown**
Production, Mt	**26.5**
Open-pit, Mt	26.5
Underground, Mt	n/a
Reserves, Mt	**3,609**
Market	**Domestic**
Share of total export supplies	**n/a**
Share of total domestic supplies	**53%**
Expansion capital expenditure, $ million	**3**
Average headcount	**5,053**

③ Khakasia

Type of coal	**Hard**
Production, Mt	**10.6**
Open-pit, Mt	9.0
Underground, Mt	1.6
Reserves, Mt	**228**
Market	**Domestic/export**
Share of total export supplies	**11%**
Share of total domestic supplies	**9%**
Expansion capital expenditure, $ million	**15**
Average headcount	**3,434**

④ Buryatia

Type of coal	**Hard**
Production, Mt	**12.6**
Open-pit, Mt	12.6
Underground, Mt	n/a
Reserves, Mt	**138**
Market	**Domestic/export**
Share of total export supplies	**24%**
Share of total domestic supplies	**2%**
Expansion capital expenditure, $ million	**0**
Average headcount	**2,126**

⑤ Zabaikalye[1]

Type of coal	**Brown**
Production, Mt	**4.8**
Open-pit, Mt	4.8
Underground, Mt	n/a
Reserves, Mt	**564**
Market	**Domestic**
Share of total export supplies	**n/a**
Share of total domestic supplies	**9%**
Expansion capital expenditure, $ million	**1**
Average headcount	**1,157**

**Apsatsky open pit, Zabaikalye*

Type of coal	**Hard (coking coal)**
Production, Mt	**0.7**
Open-pit, Mt	0.7
Underground, Mt	n/a
Resources, Mt	**420[2]**
Market	**Domestic/export**
Share of total export supplies	**1%**
Share of total domestic supplies	**0%**
Expansion capital expenditure, $ million	**15**
Average headcount	**251**

⑥ Khabarovsk

Type of coal	**Hard/brown**
Production, Mt	**4.6**
Open-pit, Mt	1.7
Underground, Mt	2.9
Reserves, Mt	**129**
Market	**Domestic/export**
Share of total export supplies	**8%**
Share of total domestic supplies	**4%**
Expansion capital expenditure, $ million	**181**
Average headcount	**2,089**

⑦ Primorye

Type of coal	**Hard/brown**
Production, Mt	**4.1**
Open-pit, Mt	2.9
Underground, Mt	1.2
Reserves, Mt	**70**
Market	**Domestic/export**
Share of total export supplies	**1%**
Share of total domestic supplies	**7%**
Expansion capital expenditure, $ million	**3**
Average headcount	**1,855**

[1] Data excludes Apsatsky open pit.
[2] Resources at Apsatsky open pit are estimated under the Russian methodology.

See page 37 for more details.

Our operating performance continued

Open-pit mining

We own and operate 17 open pits, comprising nine hard coal and eight brown coal deposits.

Open-pit mining is a cost-effective method of production, employed where the coal seams are relatively close to the surface.

Open-pit operations often occupy many square kilometres and require large equipment to remove the rock that lies above and between coal seams. This includes draglines, rope shovels, hydraulic excavators and large trucks.

The first stage involves the removal of overburden to expose the uppermost coal seam. This starts with bulldozing and excavation to remove soil and weak rock. Solid rock is then blasted before removal by excavators and trucks. Once the coal seams are exposed, extraction commences – often using high-powered hydraulic excavators to dig the coal and load it into trucks. Draglines can be used where material can be dumped directly into the extracted area. They are usually used to strip the lowest seam in the pit.

Open-pit coal mining has several advantages over underground methods. Principal amongst these is a higher level of productivity, achieved through the use of large, high-performance earth-moving machinery. For example, rope shovels can dig and load up to 3,500 m^3 of hard, blasted overburden per hour.

We are increasing production at many of our open-pit operations. This includes taking steps to lengthen the main excavation fronts and increasing the size and efficiency of equipment used. Longer working areas improve operational efficiency by separating blasting from drilling, excavation and loading areas. They also reduce the frequency of relocation of equipment. Use of mining equipment is being optimised with the aid of computerised truck deployment systems, which direct trucks to shovels to minimise queuing.

The unit capacity of excavators, trucks and bulldozers is also increasing. Blasting has been made more efficient by the use of software to optimise the amount of explosive in each hole and by accurate positioning of holes using GPS on drill rigs. All large equipment is fitted with electronic sensors that monitor and manage the main systems, optimising efficiency and minimising consumption of diesel fuel and electricity. The width of the working areas is also being increased, enabling trucks to be loaded on both sides of the shovels. Roads are being widened and improved to enable truck speeds to be maximised.

Case study

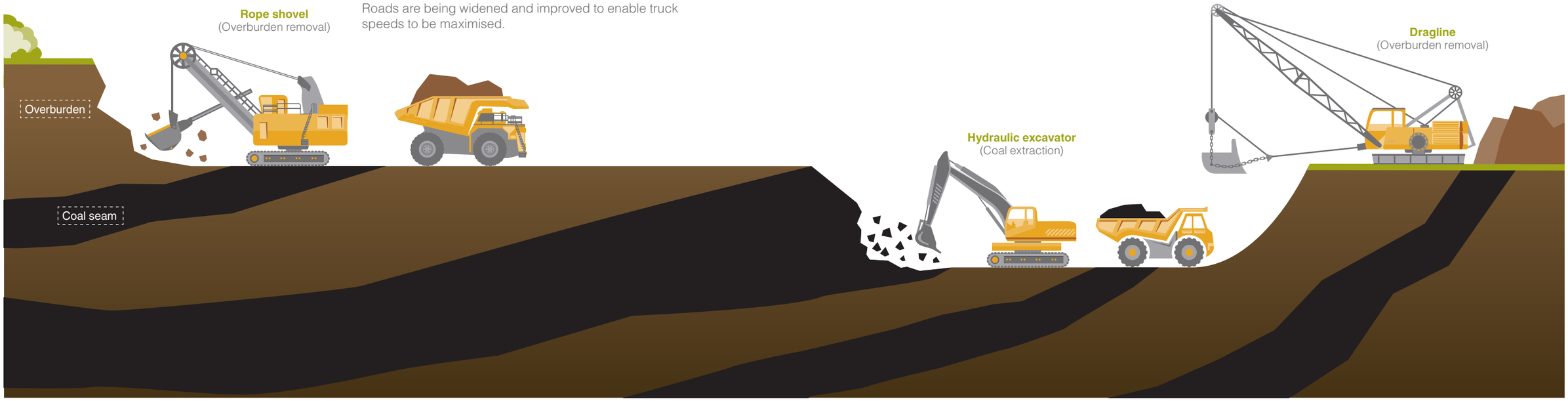
Tugnuisky open pit is the largest hard coal opencast mine in Russia, and one of our main enterprises. It has an annual production capacity of 12.6 million tonnes, and 9.7 million tonnes of saleable products. It is located in Buryatia and Zabaikalye, south of Lake Baikal.

Tugnuisky open pit extracts high-quality hard coal, up to 88% of which is exported, predominantly to Asia. The mine produces high-volatile coal with a low nitrogen content that meets the specific requirements of Japanese power utilities. Some of Tugnuisky's coal is also supplied to power generation companies and public utilities in Buryatia.

We have been implementing a project to develop our operations at Tugnuisky since 2006. This includes the purchase of highly productive mining equipment, development of the regional railway infrastructure and construction and expansion of a new washing plant to increase the output of high-quality coal. Between 2006 and 2013, our total investment in operations, the coal washing plant and related infrastructure at Tugnuisky was $359 million.

Tugnuisky open pit is now equipped with the most modern production equipment and employs sophisticated planning, operational and management methods. This includes two Bucyrus 495HD 40 m^3 rope shovels and four Komatsu excavators of seven to 14 m^3 bucket capacity, 23 Belaz dump trucks with a maximum capacity of 220 tonnes, 13 Belaz dump trucks with a capacity of 130 tonnes and 14 Terex coal dump trucks with a capacity of 90 tonnes. The equipment also includes five draglines of 10 to 40 m^3 capacity, new drilling rigs and ancillary equipment for cleaning working areas and maintaining optimum conditions on haul roads. We plan to invest a further circa $140 million in the development and maintenance of our operations at Tugnuisky from 2014 to 2018.

In 2013 the team at this open pit set several records. The crew of the No.1 Bucyrus 495HD rope shovel set a new world record, removing 2,011,000 m^3 of overburden in one month. A second world record, for drilling blast holes, was set by the crew of the Atlas Copco Pit Viper 271 drill, which drilled 50,499 metres of blast holes in one month, beating the previous record set in 2012 by some 8,000 metres (+18%).



Our operating performance continued

Underground mining

We operate 12 underground mines, in the Kuzbass, Khakasia, Khabarovsk and Primorye regions.

Most of SUEK's mines are accessed via inclined roads driven from the surface. This is the most efficient and highest capacity design for underground coal mines. All our underground mines use modern fully mechanised longwall methods for extraction and almost all the coal is transported directly to the surface by belt conveyors.

Increased rates of mining on the longwall faces have necessitated the introduction of improved roadheaders and bolter miners to speed up longwall development. These also discharge directly onto belt conveyors. Almost all roadways are supported with resin-anchored rockbolts, which reduce costs, increase labour efficiency and improve safety. Traditional steel arch supports are only used in roadways driven in rock. To minimise the amount of development and reduce the frequency of longwall transfers, the width of most faces has been increased to 300 m, and the panel lengths have been extended up to 4 km where possible.

Throughout all our underground mines, systematic work is underway to boost total output, increasing productivity and operational efficiency. Advanced, high-powered shearers were introduced at several mines in 2013, along with higher capacity armoured face conveyors to allow higher rates of production. Belt conveyors have also been re-engineered and many mines now have capacities of 3,500 tonnes per hour, matching the peak output of the longwall face equipment.

All our underground mines are equipped with monorail diesel transport for supply of materials, transport of personnel and to move longwall face equipment between panels. This has considerably reduced the non-productive time for longwall faces and significantly improved safety. All our operations incorporate comprehensive safety systems. These include ventilation and gas drainage systems – all of which have been extensively modernised and enhanced. Gas drainage removes methane at high concentrations before it mixes with the ventilation current. Our gas extraction and mine ventilation systems are continuously monitored, both locally and by centralised computer systems, at the surface. The electricity supply to any area is automatically tripped if methane exceeds permitted concentrations. Other systems track the location of underground personnel to facilitate evacuation in case of emergency.

Case study

In terms of production, productivity and use of advanced technology, Taldinskaya-Zapadnaya 1 mine in Kuzbass is one of the leading underground operations in the Russian coal industry.

Production at Taldinskaya-Zapadnaya 1 has increased by more than 50% since 2005 to 3.3 million tonnes in 2013. Labour productivity has almost doubled, due to improved infrastructure, mining machinery and management.

To increase production, we revised the design of the longwall, extending its length from 200 m to 300 m. This has increased the coal reserves contained in each panel and reduced the amount of development per tonne of extracted coal. We also introduced a new, higher-powered shearer and a wider, higher-capacity armoured face conveyor. The powered supports were modernised during the last face transfer, improving roof support and enabling faster operating times and higher hourly production rates. Increased rates of production have resulted from an upgrade in the mine belt conveyor system from 1,200 mm to 1,600 mm wide. Conveyor power and belt speeds have also been increased and modern variable speed drives have been installed.

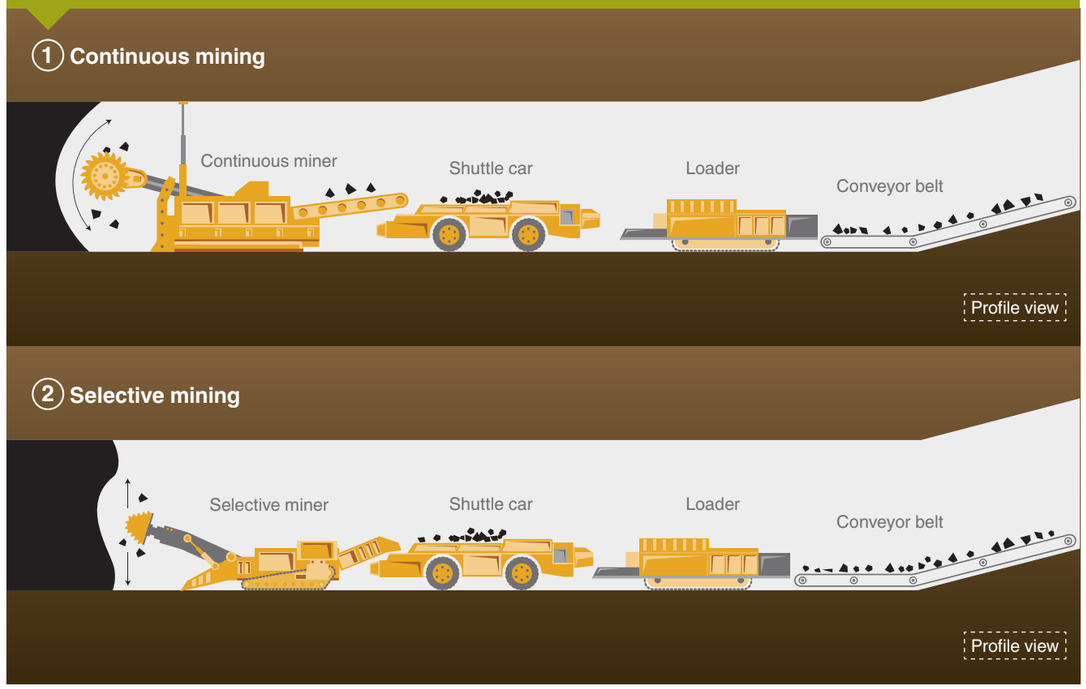
In March 2013, the mine set a new Russian record for single-longwall output in a calendar month, producing 1,007,000 tonnes and beating its own previous record of 827,000 tonnes by 22%. This rate of production is comparable with the best performing foreign mines.

The mine is equipped with underground gas drainage, which removes gas from the collapsed area behind the longwall face. This ensures that high rates of production can be maintained without approaching the limits for safe concentration of methane in the ventilation system. Modern rock-dusting machines also ensure that the risk of coal dust explosions can be eliminated.

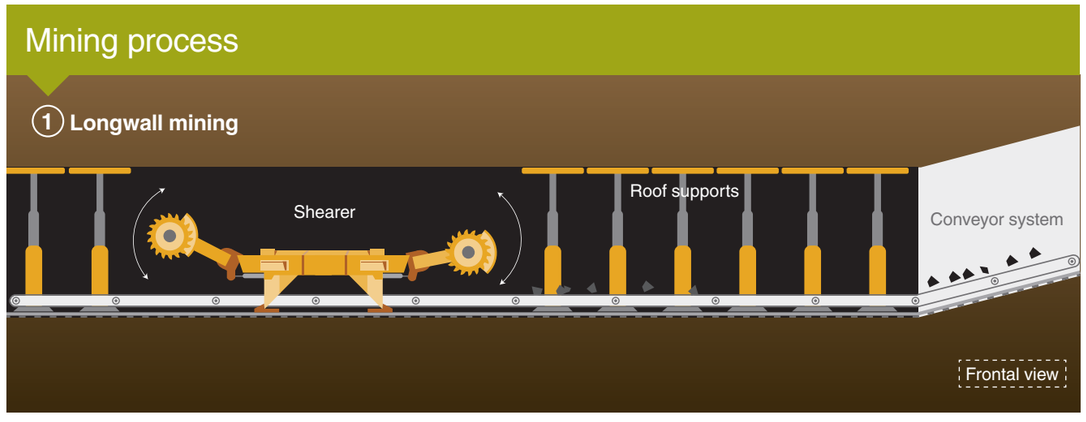
"Our Taldinskaya-Zapadnaya 1 underground mine in Kuzbass set a new Russian record for monthly production from a single longwall face: over one million tonnes. This magnificent achievement is due to the commitment and hard work of the entire mine staff, selected technical and operational solutions and investment. It has made the mine one of the world's most productive underground coal operations."

Vladimir Artemiev
Production Director

Development process



Mining process



Our operating performance continued

Washing

We process and wash coal at dedicated facilities located adjacent to our mines.

We improve our margins through processing mined coal to reduce ash content and increase its calorific value. This improves its quality, and hence its value. The coal is also crushed and screened to produce coals that precisely meet customers' size specifications without altering their quality.

An important parameter at every processing plant is the minimum size of raw material that can be washed. Large pieces of coal are simpler to process than small fragments and very fine particles, but it is now common to wash all sizes. This maximises the production of clean, high-value coal.

Our processing plants mainly operate with closed water cycles, using screens, sieve bends and centrifuges to grade coal by size and to dewater it. Thickeners and filter presses are used to recover fine rejects from the process water. All water extracted from the products and rejects is recycled. All waste material is solid and suitable for disposal in dumps by truck; so settling ponds are not required. These measures have increased the recovery of fine coal and reduced the environmental impacts of washing plants.

Gravity processing separates coal from high-ash material using jigs, or in dense medium baths and hydro-cyclones. These use a suspension of fine magnetite to float the lighter coal – ensuring that the denser, high-ash material sinks and is rejected. Spiral separators are used to recover very fine coal particles. Dewatering of the coal products and the rejects then takes place, using screens for coarse material, filter presses and centrifuges for progressively finer fractions.

The washing facilities can produce a full range of sized products to suit internal and export market requirements. All products are quality-assured and satisfy tests conducted by SUEK and by independent testing authorities.

Case study

Construction of the new Module No.2 of our Kirova washing plant in Kuzbass is one of our largest investments to date.

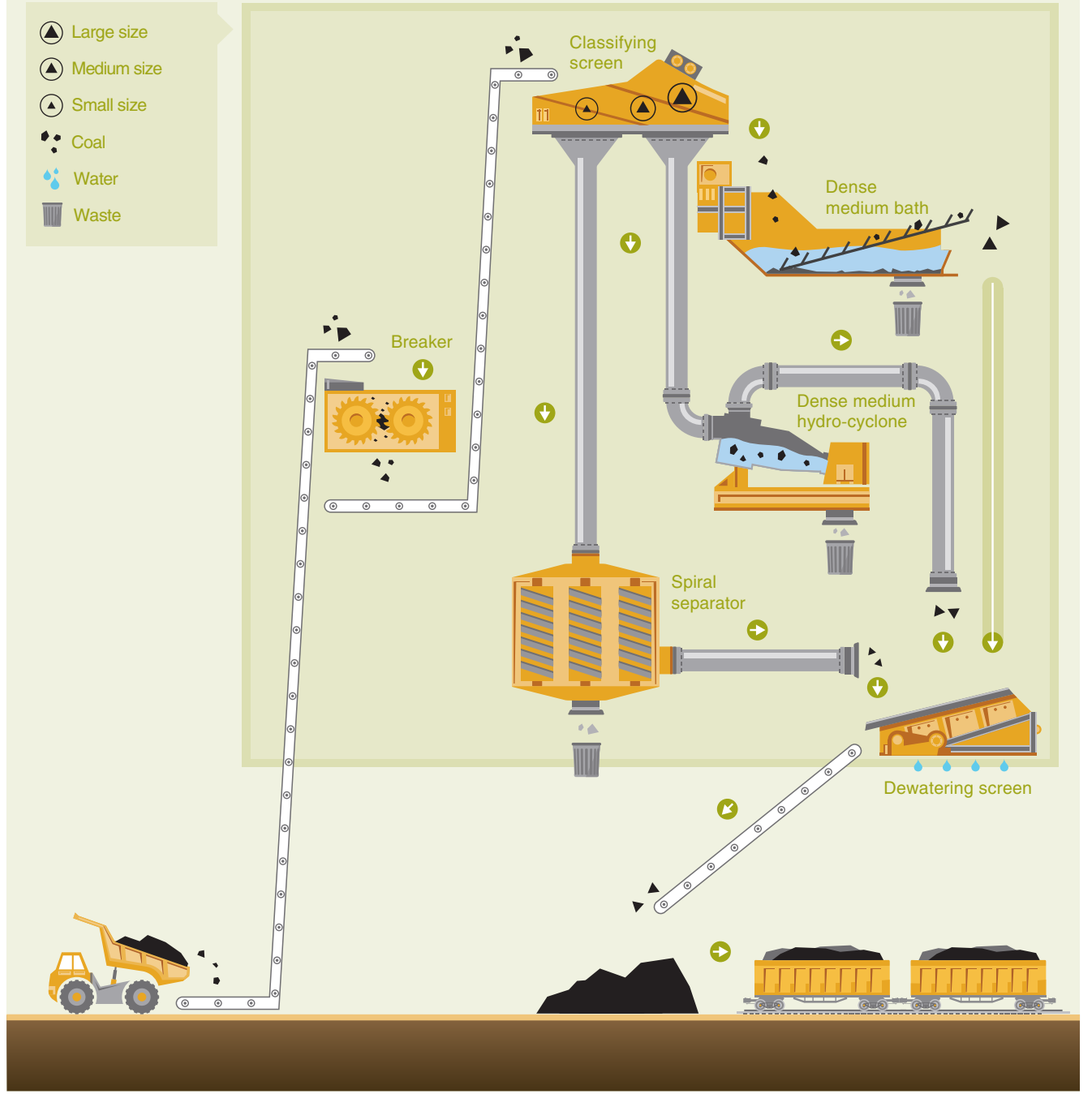
With the increase in production at Kirova mine over recent years, we decided to build a new facility, Module No.2, with an additional capacity of 5.0 million tonnes of run of mine coal. This will operate in addition to the existing facility, providing a combined washing capacity of 8.2 million tonnes. The new facility washes coarse and fine coal using a jig, dense medium hydro cyclones and spiral separators. The plant now has a closed water cycle, and no fines are discharged to settling ponds. The new facility increases the yield of low-ash coal, improves the quality of the products and minimises any adverse environmental impacts.

The project was executed on schedule: test operations commenced in October 2012 and the plant reached its designed capacity in 2013. The new facility features the most advanced processing equipment sourced from leading suppliers in Germany, Russia and the USA.

The plant significantly improves the quality of our Kirova mine coal – reducing the ash content from 33% to 8% and increasing its calorific value from 4,700 kcal/kg to 6,700 kcal/kg. This extension of our washing facilities significantly increases the options for washing coal from our other Kemerovo mines and provides considerable additional economic benefit.

To date we have invested around $69 million in the expansion and modernisation of the Kirova washing plant and we believe it will maximise the amount of premium coal we can export from the Kuzbass region.

Washing process



Our operating performance continued

Ports

Our ports use two main coal-handling technologies: grab loading and the stacker-reclaimer-loader technique.

The grab loading technique uses a pivot crane and grab, designed to lift loose loads between six and 20 m^3 in volume. Coal is removed from the rail cars and loaded directly into a ship.

The stacker-reclaimer-loader method uses a travelling machine to form a long stockpile. Coal is tipped out of the rail cars and discharged onto a belt conveyor. This carries the coal to a travelling stacker, which forms long, high stockpiles. To load a ship, a rotary-wheel reclaimer picks up the coal and loads it onto a belt conveyor. This leads to an adjustable shiploader conveyor, which discharges directly into the ship's hold. This can significantly increase the efficiency of loading operations – provided there are no storage limitations – and is especially suitable for ships with greater deadweight. To operate effectively, the coal-handling process requires the use of rotary-wagon tippers that overturn the rail cars, discharging the coal into a hopper that feeds onto the belt conveyors leading to the stacker.

Vanino Bulk Terminal was designed as a specialised coal-handling complex, featuring stacker-reclaimers in the stockpile areas and shiploading machines in the cargo loading area. Its design and construction took account of the extreme climatic conditions during winter. The port is therefore equipped with devices to heat rail cars that thaw the coal after its journey from the mines, enabling it to be fully discharged. It also has crushing and screening machines to allow sizing of coal where necessary. The water surrounding the port is generally frozen from January to May, with only ice-class vessels and icebreakers able to operate during this period.

Originally established for handling of all kinds of bulk materials, Murmansk Commercial Seaport and Maly Port use the grab method. Installing similar stacker-reclaimer-loader equipment at Murmansk Commercial Seaport and Maly Port is either impossible, because of shortage of space on existing storage facilities, or not feasible due to the need for a fully integrated system.

Case study

One of our key priorities is the development of our own logistics facilities. We have ambitious plans to increase the capacity of our Vanino Bulk Terminal to 21 million tonnes per year.

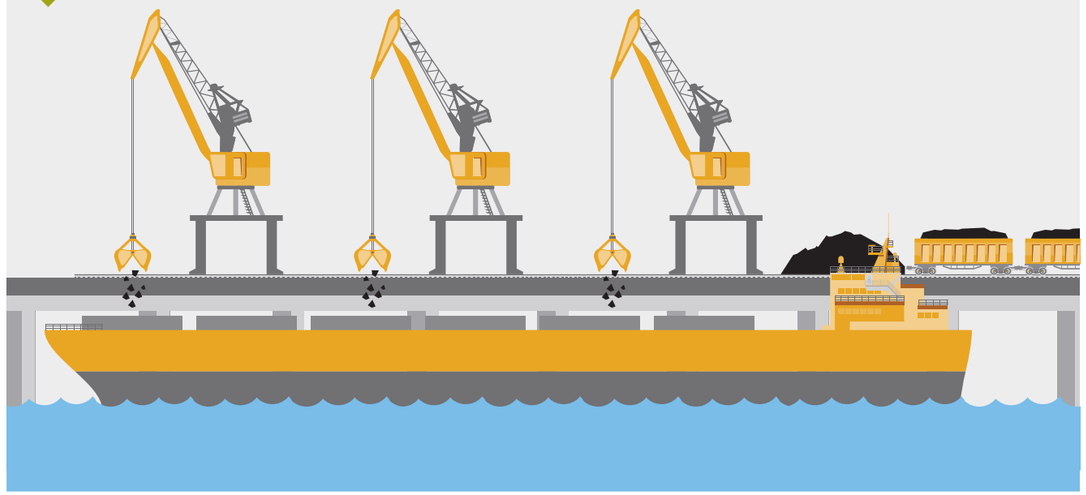
Commissioned in 2008, Vanino Bulk Terminal is a highly automated commercial seaport. With a current annual capacity of 13.7 million tonnes, it provides the most cost-efficient transhipment routes from our mines to end-users across the Asia-Pacific region. In 2013, 13.7 million tonnes – some 70% of our seaborne coal exports to Asia – passed through Vanino Terminal.

The terminal features an innovative pre-port railway station, a looped rail system, automated unloading, and long-term storage facilities – all of which significantly enhance the port's operational efficiency. The berthing facilities include an 87 m approach jetty, a gantry carrying a 170 m belt conveyor and a 365 m pier designed for mooring bulk carriers with DWT up to 200,000 tonnes such as Panamax and Capesize. In August 2013 the port served its first two Capesize vessels.

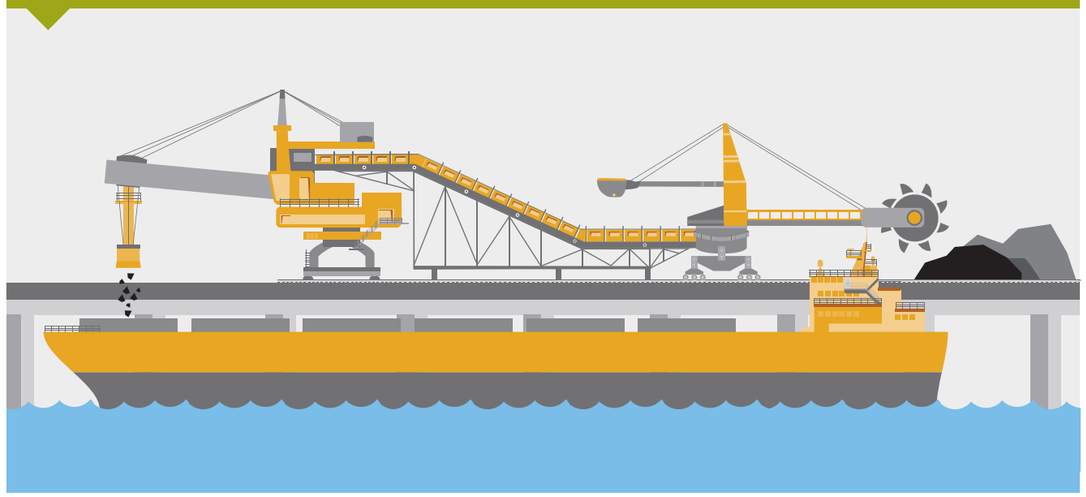
With the steady growth of the Asia-Pacific thermal coal market, our ongoing investment in this key export hub is of considerable strategic importance, eliminating potential shipment bottlenecks and reducing our dependence on other Russian Far East ports.

We invested $435 million between 2006 and 2013. Additional investment is planned to increase the port's capacity to 21 million tonnes a year by 2018, delivering further economies of scale.

Grab loading



Stacker-reclaimer loading



Our operating performance continued

Our assets

Production units

SUEK has large-scale coal assets in seven regions of the Russian Federation, extracting various grades of brown, hard and coking coals.

We operate 17 opencast mines and 12 underground mines, with an annual production capacity of 96.5 million tonnes in 2013. We wash some hard coal to achieve export quality, but many mines produce internationally tradable coal without the need for washing.

In 2013 we acquired additional hard and coking coal reserves in the Kabaktinskoe coalfield located in Yakutia; production is expected to begin here in 2018.

Kemerovo
Three-quarters of the valuable coal mined in Kuzbass is sold for export, to both European and Asian destinations. We have the capacity to wash almost all the high-ash coal produced in this region to supply our export markets.

Komsomolets mine

Kuznetsk basin, or Kuzbass, is one of the largest coalfields in the world – and the largest coal-producing region in Russia. It is located in the Kemerovo region and accounts for 58% of total Russian coal production.

We mine valuable grades of hard coal from the following nine underground mines and three open pits:
- Kirova mine
- November 7th mine
- Polysaevskaya mine
- Komsomolets mine
- Rubana mine
- Kotinskaya mine
- Mine No.7
- Taldinskaya-Zapadnaya 1 mine
- Taldinskaya-Zapadnaya 2 mine
- Zarechny open pit
- Kamyshansky open pit
- Maisky open pit

We supply Kuzbass coal to both domestic and export markets. In 2013 we exported almost three-quarters (73%) of the coal from this region with a calorific value of 5,700-6,100 kcal/kg to electricity-generating companies in Europe (including the UK, Germany, Israel and Finland) and Asia (including China, South Korea and Japan). Output from many mines and open pits does not require washing to achieve export quality. Some coal from open pits with a calorific value of 5,000-5,700 kcal/kg is sold to domestic power generating companies, including SGK.

Commissioning of Module No.2 of our Kirova washing plant in 2012 has enabled us to wash almost all coal produced in this region and supply up to 100% of coal from the Kemerovo region to export markets. Moreover, the highest quality coal from our Kirova and Komsomolets mines can be sold as semi-soft coking coal to premium metallurgical customers.

Our Kuzbass mines are located around 4,750 km from the Murmansk Commercial Seaport and around 5,450-6,000 km from the Far Eastern ports. The weighted average distance by rail between these mines and our domestic customers was 200 km in 2013.

Krasnoyarsk
Brown coal from our Krasnoyarsk open pits is supplied mainly to domestic power stations and public utilities.

Nazarovsky open pit

Our Krasnoyarsk production units are situated in the Kansk-Achinsk basin. In this region we mine brown coals from three open pits:
- Berezovsky open pit
- Borodinsky open pit
- Nazarovsky open pit

Coal from our Krasnoyarsk units is supplied only to the domestic market, principally to power stations and public utilities located nearby.

The combination of seams up to 58 m thick and flat gradients in Krasnoyarsk allows us to use bucket-wheel excavators, many of which load directly into the railway wagons. The mining process at these locations is relatively simple and economical due to limited overburden, which results in the lowest stripping ratio among our production units.

The weighted average distance of rail deliveries from these mines to our domestic customers was 700 km in 2013.

Khakasia
In Khakasia we produce hard coal, exporting half of our high calorific value production to Europe and Asia, including deliveries of steam coal to premium markets.

Vostochno-Beisky open pit

Our production units in Khakasia are located in the Minusinsk basin. Hard coals are mined at three open pits and one underground mine:
- Chernogorsky open pit
- Vostochno-Beisky open pit
- Izykhsky open pit
- Khakasskaya mine

We export more than half of the coal (51%) from this region to Europe and Asia. The main markets in 2013 were Poland, Turkey, Bulgaria, South Korea, China and Japan. As an integral part of our strategy, we aim to increase supplies of washed sized coal with a calorific value of 5,500-5,600 kcal/kg from Khakasia to the Atlantic market. This is sold at a premium to unsized steam coal.

The distance from our Khakasia operations to Murmansk Commercial Seaport is around 5,250 km, and to our Vanino Bulk Terminal about 4,950 km.

Our largest customers are local distributing companies, which sell coal to households and public utilities. The weighted average distance by rail between sites and customers was 1,900 km in 2013.

Our operating performance continued

Our assets

Buryatia and Zabaikalye

We operate one open pit in this territory, which extracts high-quality hard coal. Up to 88% of the pit's coal is exported, mainly to Asia. The open pit is equipped with modern production equipment and employs sophisticated planning, operational and management methods.

Tugnuisky open pit

Tugnuisky open pit has an annual production capacity of 12.6 million tonnes. The open pit uses truck and shovel methods for coal mining and rope shovels, hydraulic excavators and draglines for the removal of overburden.

Approximately 88% of the coal is exported to customers in the Asia-Pacific region, mainly to China, Japan and South Korea. As the Tugnuisky open pit produces low-nitrogen hard coal, it satisfies the requirements of Japanese power utilities and we aim to increase exports to Japan in future.

Distances between Tugnuisky and the Far Eastern ports vary between 3,500 km and 3,700 km. Around 36% of coal exported from Tugnuisky is delivered directly by rail to China across the Russian-Chinese border crossings. The weighted average rail distance from production units to the Chinese border was 950 km, and to domestic customers 100 km.

See page 43 for more information about Tugnuisky open pit.

Zabaikalye

Historically, our Zabaikalye open pits produced only brown coal, but in 2012 we started to develop our coking coal deposit at Apsatsky. This extracts mid-volatile coking coals for Asian premium coking coal export markets and for domestic metallurgical markets.

Apsatsky open pit

Zabaikalye contains a number of isolated coalfields. We operate three open pits in this region:

- Kharanorsky open pit
- Vostochny open pit
- Apsatsky open pit

These opencast mines use truck and shovel methods for coal mining and draglines for removal of overburden to extract coal. Two open pits – Kharanorsky and Vostochny – produce brown coal predominantly for supply to nearby power generation companies. The weighted average distance by rail between these mines and our customers was approximately 380 km.

In 2012 we commenced production at the Apsatsky open-pit coal deposit located around 40 km from the Baikal-Amur Mainline (BAM) railway. This open pit extracts valuable mid-volatile coking coals for export to Asian premium coking coal markets and supply to domestic metallurgical markets. The distance between the Apsatsky coalfield and the Far Eastern ports varies from 2,550 km (Vanino Bulk Terminal) to 2,950 km (Maly Port).

Khabarovsk

Coal produced in Khabarovsk is known as 'Urgal' coal, which is mainly exported to customers in the Asia-Pacific region. The proximity of our Khabarovsk assets to our Vanino Bulk Terminal represents a significant strategic advantage.

Bureinsky open pit

There are three assets in this region at the following locations:

- Marekansky open pit
- Bureinsky open pit
- Severnaya mine

Our mining operations in Khabarovsk are located at the Urgal deposit in the Bureinsky basin and at Marekansky in Russia's Far East. Our Bureinsky open pit and the Severnaya underground mine both produce hard coals, while the Marekansky open pit produces brown coal.

Our mines in this region principally supply domestic power generating customers located in the Khabarovsk and Primorye regions. Our share of domestic sales from the region was around 40% in 2013. The weighted average distance of deliveries by rail between Khabarovsk production sites and domestic customers in 2013 was approximately 880 km.

We export coal from our Khabarovsk mines to customers in the Asia-Pacific region, and the proximity of these mines to Vanino Bulk Terminal represents a significant advantage for us. The distance between our mines and Far Eastern ports varies from 980 km to Vanino Bulk Terminal to 1,560 km to Maly Port.

Primorye

Our Primorye mines are located close to the Far Eastern ports. We therefore have a competitive advantage in supplying the Asia-Pacific markets with all this region's production, generating significant economies on transportation costs.

Pavlovsky open pit

The three assets in Primorye are:

- Pavlovsky open pit
- Severnaya Depressia open pit
- Vostochnoe mine

Our assets in Primorye are located in the Pavlovsky coalfield. SUEK operates two open pits – Pavlovsky and Severnaya Depressia – which supply brown coal principally for domestic power generation. Domestic supplies from these units amounted to 100% in 2013. The weighted average distance by rail between our production units and customers was approximately 260 km.

We also operate an underground mine at Vostochnoe producing hard coal, 51% of which is exported – mainly to China – by rail and also via Maly and Vostochny Ports. The rest is supplied to domestic customers.

The close proximity of these mines to the Far Eastern ports provides us with a competitive advantage in supplying the Asia-Pacific markets with that region's production, thus delivering significant savings on transportation costs.

Our operating performance continued

Our assets

Washing plants
We enrich coal at washing facilities located adjacent to our mines.

Tugnuisky washing plant

SUEK operates six coal washing plants: four in the Kemerovo region, one in Khakasia and one in Buryatia. In addition we operate two processing facilities: in Khabarovsk and Primorye. Our coal washing plants (in operation) have an aggregate annual capacity of 34.6 million tonnes.

Washing plants
- Module No.1 Kirova washing plant (Kemerovo)
- Module No.2 Kirova washing plant (Kemerovo)
- Komsomolets washing plant (Kemerovo)
- Polysaevsky washing plant (Kemerovo)
- Chernogorsky washing plant (Khakasia)
- Tugnuisky washing plant (Buryatia, Zabaikalye)
- Chegdomyn washing plant (Khabarovsk) (under construction)

Processing facilities
- Urgal processing facility (Khabarovsk)
- Primorsky processing facility (Primorye)

Additionally SUEK operates 15 sorting and crushing facilities: six in the Kemerovo region, three in Khakasia, two in Krasnoyarsk, one in Buryatia, one in Zabaikalye, one in Khabarovsk and one in Primorye. These have a total annual capacity of 42.7 million tonnes. We also have ten sorting facilities at the Murmansk Commercial Seaport, a further four at Maly Port and two at Vanino Bulk Terminal.

Rail transport
SUEK operates one of the largest rail fleets in Russia.

Rail fleet near the Borodinsky open pit

Coal traffic on the Russian rail network amounts to 25% of all cargo transported, with SUEK's share being 6% of total cargo. Rail accounts for 88% of coal deliveries in Russia and is therefore a vital component of our production and sales network.

We operate one of the largest rail fleets in Russia, with around 20,400 rented rail cars. We also operate over 200 locomotives.

At its receiving, dispatching and consolidating terminals, SUEK's dedicated rail network totals 790 km. In 2013 the average distance for delivering coal for export on our dedicated network and the national network was 4,050 km; for domestic deliveries it was 635 km.

Ports
SUEK's export traffic is carried through our own ports on the Arctic and Far East coasts.

Vanino Bulk Terminal

Vanino Bulk Terminal
Located on Russia's Far East coast, our Vanino Bulk Terminal is a key export gateway to the Asia-Pacific markets. The terminal was commissioned in 2008 specifically for the shipment of our own coal, providing the shortest routes from mines to end-users in China, South Korea, Japan, Taiwan and other countries in the Asia-Pacific region.

The terminal represents a $435 million investment and features an automated rail wagon unloading system and coal storage capacity of up to 1.2 million tonnes. The port is capable of receiving and handling 'Capesize' vessels. The largest vessel loaded to date was 'Stella', with 179,700 DWT, in December 2012.

The port loaded 13.7 million tonnes in 2013 and we plan to further increase its capacity to 21 million tonnes per year.

Maly Port
Maly Port is located in the south of the Primorye region (Russian Far East). It has the capacity to export more than 2.6 million tonnes of coal annually to Asia-Pacific customers mainly in Japan, South Korea, China, Taiwan and Vietnam. We hold a 49.9% stake in this port.

With a daily dispatch of 160 rail cars, the port has a ship loading rate of 11,000 tonnes per day and can accept vessels of up to 22,000 tonnes DWT. Currently an increase in transhipment capacity by deepening the ship channel is being considered to provide access to vessels of up to 30,000 tonnes DWT.

Murmansk Commercial Seaport
Murmansk Commercial Seaport is the largest year-round ice-free seaport north of the Arctic Circle. We hold a 37.49% stake in the voting shares of the port. It provides regular access to the Atlantic Ocean and links to ports in Western Europe, the Mediterranean and on the eastern seaboard of the US.

The seaport has 19 berths with a total length of approximately 3,200 m. The maximum depth adjacent to the berths is 14.5 m at low tide. The port is able to accommodate 'Capesize' vessels of up to 176,000 DWT and offers modern cargo handling and storage facilities. In August 2013 the vessel 'Golden Beijing' with 175,819 DWT (ship length 297 m and beam 45 m) was processed in the port, the largest carrier ever loaded at the port's berth. This is also the biggest vessel that has been loaded with coal in the north-western ports of Russia and Baltic countries.

Destinations for coal exports from Murmansk include the UK, Germany, the Netherlands and Israel.

Financial review

This financial review and results of operations should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended 31 December 2013.

Financial position

$ million	2013	2012	Change %
Revenue	**5,381**	**5,635**	**(5%)**
Export revenue (including purchased coal)	3,648	3,920	(7%)
Domestic revenue	1,580	1,603	(1%)
Other revenue	153	112	37%
Cost of sales	**(4,812)**	**(4,367)**	**10%**
Cash cost of coal sold	(1,735)	(1,543)	12%
Transportation	(2,062)	(2,052)	0%
Depreciation	(592)	(384)	54%
Purchased coal (including transportation)	(304)	(280)	9%
Other	(119)	(108)	10%
Selling, general and administrative expenses	**(128)**	**(139)**	**(8%)**
EBITDA	**1,037**	**1,496**	**(31%)**
EBITDA margin	19%	27%	
Income tax	**(28)**	**187**	**(115%)**
Net profit	**133**	**967**	**(86%)**
Net profit margin	2%	17%	
Capital expenditure	**797**	**938**	**(15%)**
Net debt	3,444	3,139	10%
Net debt to adjusted EBITDA[1] ratio	3.1x	2.0x	55%
Adjusted EBITDA to interest expense ratio	8.9x	12.7x	(30%)

[1] Adjusted EBITDA calculated in accordance with our existing credit agreements.

Sales highlights

	2013	2012	Change %
Export sales[2], Mt	**42.4**	**38.8**	**9%**
Asia-Pacific region	22.9	20.5	12%
Atlantic region	15.8	15.5	2%
Purchased coal	3.7	2.8	32%
Domestic sales, Mt	**50.2**	**52.9**	**(5%)**
Brown coal	34.2	36.9	(7%)
Hard coal	16.0	16.0	0%
Total sales, Mt	**92.6**	**91.7**	**1%**

[2] We supply hard coal to export markets.

See pages 32-33 to review map of our supplies.

Exchange rates

	2013	2012	Change %
RUB/US$ (average for year)	31.8480	31.0930	2%
RUB/US$ (as at the year end)	32.7292	30.3727	8%

Source: Central Bank of Russia.

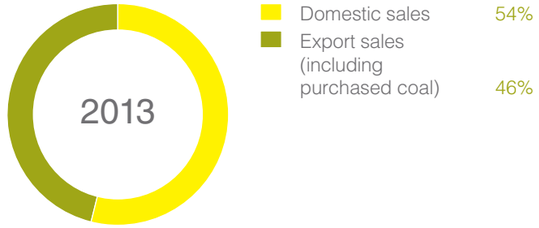
All amounts in this financial review are expressed in US Dollars and all amounts in tables and graphs are in millions of US Dollars, unless otherwise indicated. The majority of the Company's export revenues and borrowings are denominated in US Dollars, whilst domestic revenues and the majority of costs of sales are denominated in Russian Roubles. This means that changes in exchange rates affect our financial performance.

"Given the decline in coal prices and overall challenging economic and industry environment, we paid particular attention to cost optimisation and capital expenditure efficiency in 2013. Although we have always been focused on cost control, in 2013 we performed a thorough review of the existing system and introduced several new optimisation measures. I believe all these initiatives will help us offset inflation and sustain mid-cycle EBITDA margin of circa 19%."

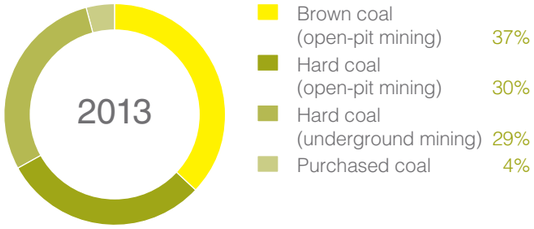
Kuzma Marchuk
Chief Financial Officer

Revenue

Sales structure by markets, million tonnes



Sales structure by coal type, million tonnes



In 2013 coal revenue decreased by $295 million (-5%), comprising an export revenue decrease of $272 million (-7%) and a domestic revenue decrease of $23 million (-1%).

The decrease in export sales was due to a decline in export FOB prices by an average of 18%. The Company partly offset the price reduction by an increase in export sales of its own coal of 2.7 million tonnes. The main factor that enabled us to increase sales was increased transhipment volumes through our own ports: Vanino Bulk Terminal, Maly Port and Murmansk Commercial Seaport.

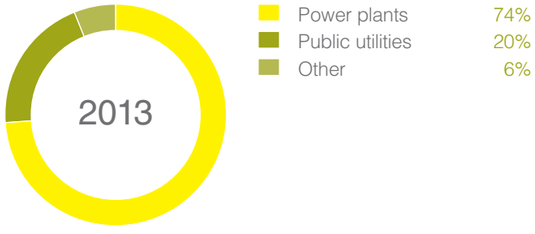
See pages 34-35 for more information in our International market review.

Domestic revenue decreased due to a reduction in coal sales to domestic customers of 2.7 million tonnes (-5%). The main reason for the negative trend was a substantial reduction in coal demand by the power generation sector. This was due to a number of negative factors: a mild winter, reduced demand from industrial consumers and the extremely high water levels of Siberian rivers, which resulted in higher loads on hydro-electric power stations.

See page 36 for more information in our Domestic market review.

Export sales structure, million tonnes

Domestic sales structure, million tonnes



Average export FOB price -18%
$ per tonne

Average domestic price +7%
$ per tonne

Cash cost of coal sold

Cash cost of coal sold
$ per tonne

+12%

SUEK's own coal sold
million tonnes

0%

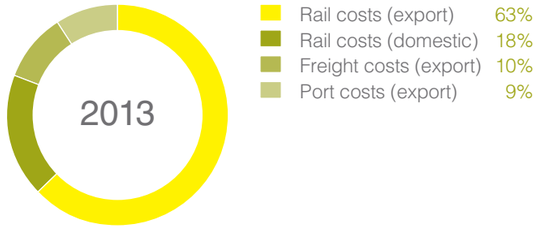
In 2013 cash cost per tonne of coal sold increased by $2 (+12%) mainly as the result of the following:

- The increase in cash cost per tonne of brown coal sold was due to a higher inflation rates and reduction in coal production by 3 million tonnes (-8%), which resulted in an increased share of fixed costs in the production cost structure per tonne of coal sold.
- The increase in cash cost per tonne of hard coal sold was the result of inflation. This growth was partly offset by the increase in hard coal production by 2 million tonnes (+3%).

Transportation costs

$ million	2013	2012	Change %
Rail costs	1,674	1,592	5%
Freight costs	212	220	(4%)
Port costs	176	240	(27%)
– SUEK's own ports	94	38	147%
– Third-party ports	82	202	(59%)
Total transportation expenses	**2,062**	**2,052**	**0%**

Transportation cost structure



Coal is delivered to export customers by rail and sea. Coal is delivered to the Asia-Pacific region through the Far East ports (our Vanino Bulk Terminal and Maly Port, and the third-party Vostochny Port) and by rail to China. Coal is delivered to the Atlantic region through Murmansk Commercial Seaport, the third-party Ust-Luga Port and southern ports, as well as by rail to Poland and the Baltic countries.

Cost of delivery by rail per tonne of coal was unchanged in 2013 compared with 2012. Whilst railway tariffs increased, the cost of operators' services and rail car rental reduced.

SUEK's port costs per tonne decreased by 38% due to the consolidation of the operating results of Murmansk Commercial Seaport and Maly Port from 2013.

See pages 38-39 for more information on transhipment through our ports.

Coal is delivered to the domestic market mainly by rail, but also by belt conveyor to Berezovskaya power station, by truck and by customer pick-up. The cost of transporting one tonne of coal by rail in 2013 remained unchanged from the previous year.

Transportation costs continued

Rail costs (export)
$ per tonne

0%

Rail costs (domestic)
$ per tonne

0%

Port costs (export)
$ per tonne

-38%

Freight costs (export)
$ per tonne

-8%

Selling, general and administrative expenses

Selling, general and administrative expenses
$ million

-8%

Selling, general and administrative expenses decreased by 8% due to management's focused efforts to reduce these costs.

Selling, general and administrative expense structure

Financial review continued

EBITDA

In 2013 the Group's EBITDA decreased by $459 million (-31%) compared with 2012 and amounted to $1,037 million, resulting from multiple offsetting factors:

- The average FOB export price decline of 18% affected EBITDA negatively by $571 million. This was partly offset by increased export supplies of our own coal up 2.7 million tonnes (+8%) (the positive effect on EBITDA was $273 million).
- The decrease in supply to the domestic market of 2.7 million tonnes (-5%) affected EBITDA by $81 million. This was offset by a 7% increase in average domestic prices (the positive effect on EBITDA was $58 million).
- The increase in the cash cost of coal sold of 12% affected EBITDA by $192 million. This was due to changes in the structure of coal production, with a shift towards export-oriented high-quality hard coal – up 2.7 million tonnes (+5%) – and inflation of 6.5% per annum.

Net profit

Net profit decreased in 2013 by $834 million to $133 million. This was due to the decrease in EBITDA of $459 million, a currency exchange loss from the revaluation of borrowings of $3.1 billion (due to depreciation of the Russian Rouble from 30.37 RUB/US$ to 32.73 RUB/US$, affecting EBITDA by $197 million), and an increase in depreciation of $208 million as a result of the revaluation of mineral rights from 1 January 2013 of $130 million and investments in property, plant and equipment. The loss was partly offset by a reduction in the profit tax of $215 million.

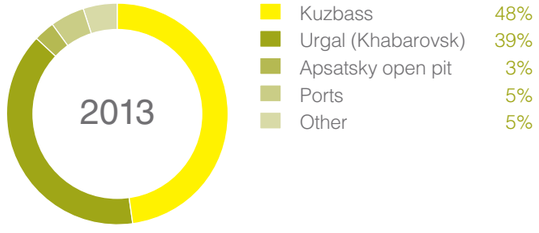
Capital expenditure

Capital expenditure in 2013 decreased by 15% compared with 2012 and amounted to $797 million. Expansion capital expenditure areas were:

- An increase in thermal coal exports to the Asia-Pacific region from mines located relatively close to these target markets (Buryatia, Zabaikalye, Khabarovsk): an increase in production at our Tugnuisky open pit to 12.6 million tonnes and in the capacity of the Tugnuisky washing plant to 10.8 million tonnes; development of the Apsatsky coking coal open pit; production growth at Urgal up to 8.1 million tonnes and construction of the Chegdomyn washing plant located nearby.
- An increase in the production of export coal in our Kuzbass open-pit and underground mines (Kotinskaya mine, Mine No.7, Taldinskaya-Zapadnaya 2 mine and Zarechny open pit) by using more productive longwall and development equipment and high-capacity belt conveyors, and by developing lower seams. We also focused on increasing output at Komsomolets mine to 2.3 million tonnes, upgraded its washing plant to increase clean coal yields by creating a closed fine circuit and completed a key project for constructing Module No.2 of the Kirova washing plant.
- With the development of the transportation infrastructure as a key investment area to support our strategy to increase export coal volumes, we focused on expanding the capacity of Vanino Bulk Terminal to 21 million tonnes and upgrading the coal transhipment technology at Murmansk Commercial Seaport.

Capital expenditure by type

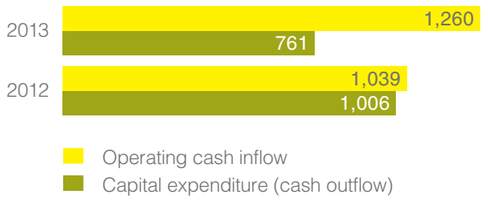
Expansion capital expenditure by projects



Operating cash flow and net debt

Operating cash flow vs capital expenditure

$ million



In 2013, net cash generated from operating activities increased by 21% compared with 2012 and reached $1,260 million, despite the decline in export coal prices during the year. This was achieved through the monetisation of receivables, leading to a reduction in working capital. As a result, free cash flow in 2013 was positive and amounted to $499 million.

With regard to the currency structure of cash flows, our expenditure in Russian Roubles substantially exceeded cash inflows from sales to the domestic market. Conversely, in terms of earnings, export revenue in US Dollars exceeded expenditures in US Dollars.

Net debt as at 31 December 2013 was $3,444 million with a cash balance of $269 million and bank debt of $3,713 million. Net debt increased by $305 million (+10%) compared with 2012, mainly due to cash payments to shareholders amounting to $900 million.

As at 31 December 2013, the majority of bank loans (94%) were denominated in US Dollars (including Russian bonds which were converted into US Dollars using cross-currency swaps) with an effective interest rate of 2.8%. The rest of the debt (6%) was in EUR with an effective interest rate of 1.5%. In terms of currency debt management, the Company has the opportunity to use natural hedging. This means the debt is serviced by positive cash flow in US Dollars from export sales, rather than using financial instruments for hedging a foreign currency risk. Moreover, borrowings in US Dollars bear a lower interest rate.

The main borrowing instrument for the Company is pre-export financing (PXF) secured by export revenues, which, together with ECA (export credit agencies) during the year comprised 70-75% of the loan portfolio structure.

The key financial ratio of the Company (net debt/EBITDA adjusted) as at 31 December 2013 was 3.1x. This is still substantially below the maximum threshold of 4.0x permitted under the Company's credit agreements. The main reason for the ratio increase in 2013 was the decrease in EBITDA.

In November 2013 SUEK PLC was rated Ba3 with 'Stable' outlook by Moody's. This assessment takes into account our low-cost operations, vast coal reserves and fairly simple geology, control over a considerable portion of our transportation infrastructure (including ports), the stability of our domestic sales and SUEK's growing role as a global thermal coal producer. The outlook also reflects the fact that SUEK remains financially stable within the current challenging macroeconomic environment.

Risks and risk management

Given the risks inherent in mining we are, of course, acutely risk aware in our day-to-day operations. We are also very conscious of the need to manage a much broader range of risks as we expand our operational and market activity. Our fundamental strategic risks may not change quickly, but market conditions constantly present new challenges. As we continue to move towards a more vertically integrated approach, we have to recognise and manage new situations. Developments in coal extraction and processing also mean we must monitor constantly changing conditions and demands.

We are putting renewed effort into creating risk management systems that help us identify changes in our exposure to risks and ensure a sound mitigation approach is adopted and implemented.

Our risk management system

We have developed and implemented a corporate risk management system that enables us to assess, identify and minimise risks – and raise awareness of them across the business. Whilst we have operated such a system for some years, we have reviewed the process in the past year to ensure it is meeting our needs for the future, and to reinvigorate it. We now have a more structured approach, which we will continue to develop throughout 2014 to make sure it remains effective in practice.

The risk management process has been strengthened through a refreshed risk management methodology approved by the Risk Management Committee. This methodology sets out the main objectives and principles of risk management and lists the methods of risk identification, evaluation and mitigation. The process includes regular risk identification and prioritisation, which takes place at all levels within the Company. A strengthened approach to maintaining a risk register is helping us analyse and prioritise identified risks and allocate responsibility for management at the appropriate level.

To respond quickly to any possible adverse consequences, we continuously monitor and analyse trends and changes in our markets and the wider operating environment. Based on this analysis, we implement appropriate changes to our production, sales or financial policies.

Operational management issues and the coordination of the risk management process are considered at Risk Management Committee meetings, established in accordance with Management Board regulations. The Committee meets at least once a quarter and enables cross-functional interaction between key managers and experts on issues relating to SUEK's core activities.

The Risk Management Committee considers changes to controlled risk situations, with alterations made as necessary to the Risk Management Action Plan, and considers any changes required to the risk management and evaluation system. The risk owners determined within our risk matrix look to ensure timely responses to changes in risks and are expected to report on the adopted approach to the Risk Management Committee.

Risks are monitored through an annual structured review of the risk matrix:

- on an ongoing basis by the individuals responsible for monitoring each risk, to ensure prompt identification of any material changes in risk; and
- through quarterly review by the Risk Management Committee.

Overall our risk management approach enables:

- the application of a risk management system, aligned with our goals and integrated across all management levels, functions and planning;
- integration of the risk management system within the overall corporate governance system;
- identification, assessment and documentation of risks that could adversely affect operations at all levels as well as the achievement of our strategic objectives;
- planning of risk management measures on an integrated basis; and
- education and awareness initiatives informing employees of their risk management responsibilities.

Management communicates regularly with the Audit Committee of the Board of Directors on internal control effectiveness. We are developing an approach to structured reporting to the Board on risk exposures and risk mitigation, supported by the Risk Management Committee's review of the risk matrix and regular discussion on the mitigation of key risks.

The coal industry (and therefore to a large extent, our own position) is dependent on – and influenced by – a variety of external factors. This Annual Report does not contain an exhaustive description of all the risks that may affect our operations and financial results. The principal risks that could have a material impact on SUEK Group actions, our financial position, and our operating and financial results are described below. Other risks not listed in this Annual Report could be material and have a significant adverse impact on the Group, its operations, financial position and financial results.

Principal risks

Category	Name	Description and potential effect	Mitigation measures
Production risks	**Risks of non-fulfilment of production plan**	Whilst carrying out our activities, we face the potential risk of not fulfilling our production programme. This could be due to various internal factors (eg downtime, complex geological conditions, declining coal quality etc) and/or external factors (eg rising prices for petroleum products, electricity, materials, equipment and services or non-fulfilment of obligations by suppliers and contractors). These could lead to a failure to achieve performance indicators (eg reduced coal mining volumes, failure to meet investment programmes, increased cost of production).	We implement LoM (life of mine) models for each production unit based on well-developed, 3D geology. The LoM models are based on XPAC-XERAS mining software, which makes the existing long-term models significantly more precise. The annual budget of each production unit and its implementation are compared against LoM models on a regular basis. We pay considerable attention to – and have individual strategies for – reducing longwall relocation times, increasing the equipment availability ratio and the utilisation of the main production equipment at open-pit mines and increasing the pace of work and other programmes designed to boost operational efficiency. We have a well-developed system of KPIs, which the Management Board uses to assess operations on a monthly basis, with the Board of Directors assessing operations quarterly.
	Risks associated with availability of staff	A qualified, experienced workforce, including field workers and engineers, represents a major asset. An inability to attract and retain skilled personnel could lead to non-achievement or late achievement of goals, as well as an increase in expenses. Socio-demographic trends in Russia – and in the regions where we operate – increase the risks of qualitative and quantitative shortages of key personnel. Consequences could include a lowering of prestige associated with working in the coal industry, an insufficient number of secondary vocational educational institutions, poorly skilled graduates and migration from regions where we operate due to underdevelopment of social and housing infrastructure.	To minimise the risk of a shortage of qualified professionals, we focus on the training and development of personnel and the improvement of reward and motivation systems. SUEK actively works to attract and train staff, raise loyalty benefits and encourage professional development. We also implement programmes aimed at promoting the development of those regions in which we operate. See pages 72-73 for more details.

Risks and risk management continued

Category	Name	Description and potential effect	Mitigation measures
Production risks continued	**Risks of business interruption**	Our mining and production operations are subject to various legal and regulatory requirements in relation to the environment, exploration of natural resources, healthcare and safe working conditions. Some of the Group's activities are subject to government licensing.	We are committed to complying with existing legislation as well as any requirements and measures set out in technical documentation to reduce the risk of business interruption. In particular, planned and targeted audits are carried out alongside monitoring of any changes to legislative requirements.
	Risks associated with accidents and injury to personnel	Mining carries an increased potential risk of accidents and incidents. These could be due to geological factors, technical conditions or human action. Ensuring a safe working environment is an essential component of sustainable coal mining, and our increasing productivity and competitiveness as a whole.	Our Industrial Safety Committee reports directly to the Management Board. Following any serious injury, the Committee analyses the causes and draws up measures to prevent them recurring. Based on results obtained during 2013, we decided to invest an additional $20 million (capital expenditure) in completely replacing the equipment that failed to comply with additional, tougher safety requirements. In 2013, we appointed the recognised international consultancy RAG Mining Solutions to carry out two consecutive independent audits of industrial safety and, based on the results, successfully implemented a plan to address existing shortcomings. Examining each case of serious injury is also the Company's top priority, considered as the first agenda item at all meetings of the Nomination and Compensation Committee of the Board of Directors. See pages 74-75 for more details.

Category	Name	Description and potential effect	Mitigation measures
Sales risks	**Decline in coal demand**	Reduction in demand for electricity, and a consequent reduction in coal consumption for power generation (combined with the emergence and development of alternative fuels) could potentially lead to a decrease in demand, which could have a negative impact on our position.	We continuously monitor and analyse the coal industry's production conditions and markets. SUEK prepares forecast reports on coal demand based on research and analysis by investment analysts. Our sales offices located in the main coal-consuming countries also undertake market and sales analyses. See pages 28-36 for more details.
	Coal price decline	Our activities are influenced by any potential decline in the coal industry. Key among the factors that could influence this change is the decline in world fossil fuel prices – particularly those of coal and natural gas – as the principal fuels used in power generation.	We continually analyse, monitor and forecast fuel and coal pricing. We also monitor trading policy with regard to long-term contracts. See pages 28-36 for more details.
Financial risks	**Market risk**	Changes in market indicators such as foreign exchange rates, interest rates and stock prices could have a negative impact on SUEK's financial results or the fair value of financial instruments held within the Company.	We undertake regular analysis of currency and interest rate risks, aiming to keep the risk exposures within acceptable parameters, whilst optimising the return on risk. See pages 56-61 for more details.
	Credit risk	A counterparty could be unable to meet its obligations on a timely basis, which could result in financial losses.	We seek to diversify sales across various markets and counterparties, including large international companies, Russian power generating companies, military organisations and public utilities. Shipments to our customers are undertaken on credit terms only after all our credit approval procedures have been completed.
	Liquidity risk	There could be a potential situation in which we were unable to settle our liabilities by the date of maturity.	We constantly monitor our financial covenants and use a well-developed system to forecast the implementation of financial covenants for reporting periods. Available credit lines are several times greater than current requirements for finance. See pages 56-61 for more details.

Risks and risk management continued

Category	Name	Description and potential effect	Mitigation measures
Regulatory and legal risks	**Country risk**	The conduct of our business is subject to laws and regulations administered by government bodies in the markets in which our products are produced and sold. The Group operates and conducts business predominantly in the Russian Federation. Russia is an emerging market, and currently has a less developed business and regulatory infrastructure – as well as less stable banking and judicial systems – than more developed markets. Our operations could be influenced by the decisions of authorities in respect of tariffs, quotas, trade barriers, non-resident ownership restrictions, subsidies, licensing and competition policy, the establishment of refinancing rates and other actions. We conduct our export sales through our Swiss trading company SUEK AG which is, in turn, represented in seven key overseas territories – Poland, China, Japan, Taiwan, South Korea, Indonesia and the USA – where we also have to comply with an extensive range of requirements and regulations. SUEK PLC is registered in Cyprus and therefore is also subject to Cypriot law.	We constantly conduct compliance and internal procedures for the organisation of business processes to minimise risks of claims from anti-monopoly and tax authorities. Our managers and specialists actively participate in expert discussions of trends and actions of state policy relating to issues such as the coal industry, coal markets, coal transportation, technical supervision, social and labour relations, financial markets.
	Changes in existing legislation	Legislative changes could have a significant impact on us. These include changes in tax law, securities law, anti-monopoly legislation and corporate law, customs and duties regulations, exchange control regulations, licensing and subsoil use legislation, changes in judicial practice and possible tightening of legislation on environmental protection or enforcement practices.	We monitor planned and adopted changes in the legislative and regulatory framework, in order to make changes to business processes and the corporate organisational structure to ensure compliance with current legal and regulatory requirements.
	Political risk	Our activities can be impacted by certain political risks caused by the ongoing reforms in the Russian Federation, as well as the crisis in global markets. These could adversely affect our market value and the business environment.	We monitor trends in Russian federal and regional legal enforcement practices and we analyse and assess planned regulatory changes.
Regulatory and legal risks continued	**Risk of deficiency of mineral rights**	Licences for production of coal held by production units could be suspended, terminated early (withdrawn) or not extended after their termination. These risks are largely dependent on the discretion of the regulator (Rosnedra). We must apply for new licences with regard to depletion of fields developed on the basis of existing licences.	We have in place appropriate internal procedures and take measures to comply with licensing requirements, ensuring timely extension and reissuance of the licences. We also strive to address promptly any cases of non-compliance with licences highlighted by regulatory authorities.
	Anti-monopoly legislation	Companies of the Group are recognised as having a dominant position in certain regional thermal coal markets and ports – and are natural monopolies in terms of Russian anti-monopoly laws. We are therefore subject to specific anti-trust requirements and regulation by the Federal Antimonopoly Service (FAS) of the Russian Federation.	We have established internal procedures and regulations aimed at ensuring conformance of our production and operational units with the applicable anti-monopoly rules and restrictions.
Social and environmental risks	**Ecological risks**	Risks associated with mining and coal processing include potential harm to the environment (eg from emission of pollutants into the atmosphere, emissions of coal dust, soil and water pollution, noise).	SUEK develops and implements land regeneration projects and is introducing methane capture and utilisation projects. We implement protection measures close to human habitations. We work to reduce any adverse impacts on the environment and ecosystems in the areas where we operate and to reduce harmful emissions, as well as providing for proper disposal and recycling of waste. The schedule of mining, processing and reclamation works is determined by current legislation, our environmental policy and environmental protection measures. See pages 77-79 for more details.

Sustainability

As Russia's largest coal company, we are keenly aware of our responsibility to our employees and their families, the communities in which we operate and society in general.

Our approach to sustainability

To operate safely, responsibly and efficiently, we take a disciplined and integrated approach to the economic, social and environmental aspects of all our activities. Our commitment to health, safety, the environment and local communities is incorporated in our corporate social responsibility (CSR) principles and environmental policy. We focus on our human resources, implement regional social programmes, strive to provide safe and comfortable working conditions in our enterprises and undertake environmental protection activities.

We have a regulatory framework to support our sustainable growth and CSR activities. Our corporate social policy is the key document that determines our principles, priorities and activities.

Our specific policies and standards are accessible via our website at: **www.suek.ru**

Our CSR policies are guided by internationally accepted principles and standards. These include the United Nations Global Compact, the Social Charter of Russian Business, ISO 26000 (Guidelines on Social Responsibility)[1] and the Global Reporting Initiative recommendations. At all times we aim to comply with legal requirements, adhere to generally accepted moral and ethical standards, respect human rights and endorse business transparency.

Our sustainability priorities:

Objectives related to potential development of personnel:
- improved labour resource efficiency;
- enhanced people skills and motivation levels; and
- greater employee loyalty.

See pages 72-73 for more details.

Objectives related to occupational safety:
- improved management of industrial and occupational safety;
- efficient response to emergencies and safety relating to hazardous gases and dust;
- management of industrial injury occurrence rates and reduction in occupational mobility; and
- improved production safety culture.

See pages 74-76 for more details.

Objectives related to environmental protection:
- improvement of environmental protection-related management systems;
- reduction of adverse environmental impacts;
- minimisation – and as far as possible, elimination – of negative effects of our operating activities on health and safety of local communities during our operations; and
- increased energy efficiency.

See pages 77-79 for more details.

Objectives related to relationships with external social and business partners:
- dialogue with stakeholders and stronger inter-sector partnerships to promote sustainable socio-economic development in the regions where we operate;
- development of regional, social and economic potential; and
- introduction of innovative social technologies.

See pages 80-81 for more details.

[1] ISO 26000:2012 standard, enacted in 2012, is identical to international ISO 26000:2010 Guidance on Social Responsibility (ISO 26000:2010 approved by the Federal Agency for Technical Regulation and Metrology, Exec. Order of 29 November 2012).

Engaging with our stakeholders

Our key stakeholders are those groups with a particular interest in SUEK – either through their influence on our activities or our influence on their wellbeing. These include shareholders and investors, employees, consumers, suppliers and business partners, government authorities and the wider communities in which we operate.

We strive to build and maintain strong relationships with all our stakeholders. These are built on the principles contained in our Corporate Code of Conduct:
- compliance with appropriate legal standards;
- business transparency and openness;
- adherence to business ethics;
- pursuing a balance of all groups' interests.

We interact with stakeholders using a system of corporate communications, which, in accordance with our information exchange policy, ensures that Company information is accurate, complete, relevant, objective, consistent and freely accessible.

Our external communications channels include our corporate and affiliated company websites, media releases, media conferences and tours, interviews and facility visits.

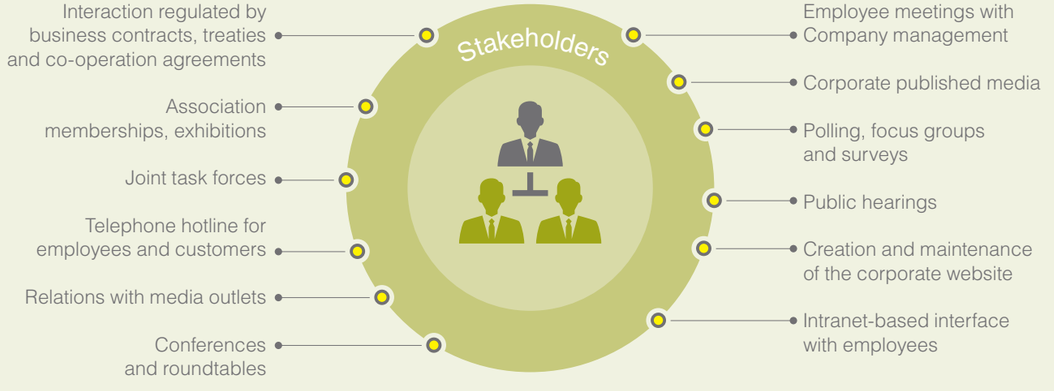
These allow all stakeholders to freely access comprehensive information on SUEK, including financial results, performance parameters and corporate strategies. We are developing a system to organise roundtables, workshops and public conferences.

Our internal communications methods include corporate media, an intranet, a telephone hotline and conferences for employees to exchange experiences. Our companies also regularly hold meetings where staff meet management and discuss current issues of interest or concern.

Interaction between SUEK and its stakeholders can be both formal and informal. It may be legal in character (eg signing and executing collective contracts or social and economic co-operation agreements), mandated for a specific reason (eg public hearings held as part of the EIE procedure[2]); or initiated by the Company and/or its stakeholders (eg conferences and roundtables).

We maintain an ongoing dialogue with key stakeholders on issues important to both parties. Topics for discussion are chosen based on corporate communications and media coverage, social studies and public polls in the areas in which we operate.

Main formats for SUEK's interaction with stakeholders



[2] EIE stands for 'environmental impact estimate', a measure devised to assess environmental impact and which includes related consequences.

Shareholders

In our formal relationships with shareholders, we rigorously comply with procedures outlined in Cyprus and Russian law, the Company's Charter and internal documents. We also ensure enforcement of the basic rights of shareholders and effective involvement of shareholders in making key decisions regarding corporate governance.

We inform shareholders of activities that affect their interests in a timely manner. The procedure for information exchange between the Company and shareholders is governed by regulatory and internal documents.

Financial stakeholders

We are committed to disclosing in full any information of interest to financial stakeholders including financial reports, detailed information on our activities and annual reports. We also publish media releases on our operating results, key events and achievements. We adhere to the principles of transparency and reliability in our disclosure of information.

Employees

We aim to ensure fair and respectable remuneration, fulfilment of social commitments, development of employees' professional and personal competencies, greater labour efficiency and occupational safety, health protection and the implementation of social programmes aimed at improving the living standards of employees and their families.

Our employee interface is regulated by policies including our Corporate Code of Conduct. Our social commitments are captured in bilateral territorial agreements with trade unions and collective bargaining agreements; these regulate the social and labour-related relations between employer and employees as well as the relevant social benefits and guarantees.

Internal communications with employees include corporate media, an intranet portal, a telephone 'hotline' and conferences for employees to share working experiences. We regularly organise meetings between employees and management to discuss topical issues.

Suppliers and business partners

We believe that mutual growth and development are core features of success. We therefore strive to maintain long-term, sustainable business relationships with suppliers and business partners to create a mutual strategic vision. A crucial procurement principle is fair competition among suppliers. To this end we use transparent buying procedures through SAP SRM (Supplier Relationship Management) and walk-in tenders. We also carry out continuous assessment of suppliers to ensure punctual deliveries of products and high-quality services.

We implement cost-saving initiatives together with our partners to maintain the efficiency of our businesses. We encourage partners to supply the highest quality, innovative products and to comply fully with safety and legal requirements. Continuous improvement is key in developing a transparent and efficient supply chain. Furthermore, our relationships with suppliers and partners are founded on adherence to business ethics and consistent fulfilment of our contractual commitments.

Consumers

Ensuring reliable and timely deliveries and the highest quality service are our priorities. We constantly improve product quality and seek to take a customised and personal approach to each consumer. We conduct regular client satisfaction surveys, based on the American Customer Satisfaction Index (ACSI) model.

We have developed and introduced a claim filing system.

Local communities

SUEK encourages local communities to participate in addressing the most important regional problems, including the selection and implementation of the social programmes and projects. We support the development of social initiatives, and small and medium-sized businesses in the regions, as well as joint programmes of improvement in the territories (eg the 'Best Working Environment' programme), and educational, cultural and sports programmes.

To develop and optimise communications with local communities, we organise training courses and conduct roundtables on relevant topics, including business development and improving the quality of municipal administration. We use various forms of feedback, including interviews and surveys, to maintain close links with community groups.

Government authorities

We are actively working with government at both federal and regional levels. At the federal level, we participate in both statutory and non-governmental organisations (including the Russian Union of Manufacturers and Entrepreneurs (RUME)) and commissions (including those of the Ministry of Energy, Ministry of Regional Development, and Ministry of Economic Development) as well as the Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security). Experts take part in the development of strategic industry-specific decisions and development and amendments of legislative acts, including the Tax Code, Labour Code and others.

SUEK also co-operates with regional administrations. Every year we sign agreements on social and economic co-operation, which define the parameters of joint actions between the Company and the regions for the implementation of important socio-economic projects, primarily in areas where our enterprises operate. We also actively participate in the initiation of and expert support for important federal programmes for the regions, including integrated investment plans.

Expert organisations and NGOs

SUEK maintains an open dialogue with expert organisations and non-profit organisations. We work on social projects with the 'New Eurasia' fund, the Agency for Social Information and charitable organisations (including the Russian Fund) as well as the Association of Managers and the Donors' Forum (a non-profit grant-making partnership).

Our people

Our employees are fundamental to our success and future growth.

As a major employer in regional labour markets, we aim to ensure a fair remuneration and benefits package for all our employees, whilst fostering their continuing professional and personal development.

As of the end of the year we employed 33,588 people. Approximately 74% of these were production workers, with the remaining 26% engaged in managerial, engineering and service roles. The average age of our employees remains stable, at 40.1 in 2012 and 40.4 in 2013. Gender ratios remained unchanged in 2012-2013: 75% of employees were men and 25% women.

Remuneration

Our system of incentives and remuneration aims to ensure competitive pay and fair reward for our people. We regularly monitor labour market trends, which enables us to offer attractive remuneration and benefits to our employees. In accordance with existing collective agreements, and based on data provided by the Federal State Statistics Service, SUEK enterprises conduct wage indexation every quarter.

Our employee remuneration package comprises both fixed and variable elements. The fixed component is paid for performance at the required level of skill and the variable part comprises a significant incentive for more effective performance and achievement of specific targets. For employees directly engaged in mining activities, the 'fixed to variable' ratio is 70:30, regardless of whether production targets are met. Salary increments are paid for safe operating practices.

We also operate a system of monthly and quarterly bonuses, as well as various financial incentive programmes for managers at different levels within SUEK. The system of short-term incentives for our management is based on their achievements against designated key performance indicators.

Social support

The welfare of our people is one of our key priorities. During 2013 we continued to implement social programmes aimed at improving the living standards of our employees and their families. Social support includes benefits, compensation and social guarantees, which are provided for by legislation, sector-specific agreements with trade unions and collective contracts.

The social package includes vouchers and travel costs to vacation destinations for employees and their families, a lump sum payment of 15% of average earnings for each year employed in the coal industry on retirement, a voluntary health insurance scheme, free coal supplies for employees' households, compensation for electricity charges, and transport to and from work for employees who live in remote locations.

Training and development

We place particular emphasis on occupational training and career development, aiming to provide employees at all levels with the opportunity to fulfil their potential. Our training and development system not only provides the knowledge and skills for employees to work effectively, but also builds our internal talent pool and preserves and shares valuable knowledge and experience within SUEK.

Our Corporate University is the centre for knowledge management and people development. It aims to develop a knowledge system that supports strategic change and develops leadership potential. The Corporate University runs a series of programmes including:

- 'Top List' – strategic sessions aimed at enhancing the skills of SUEK's senior management;
- 'Locomotive' – a long-term programme to develop our future leaders;
- 'Director' – for the development of directors of production units; and
- 'Section Head' – a learning programme aimed at developing competencies in key middle managers.

Additional training and career development is administered through our own regional vocational training network, which includes 17 state-licensed centres staffed by professional teachers. In 2013, 21,161 employees completed retraining or skills upgrade courses, 17,564 of whom were field workers.

We also work closely with several universities to facilitate the training of young specialists in mining-related and engineering-based technologies. We currently have co-operation agreements with Moscow State Mining University, Kuzbass State Technical University, the Institute of Mining, Geology and Geotechnology, Siberian Federal University, Irkutsk State University and the Mining Institute of the Far Eastern Federal University.

Communications

We use a range of channels to communicate with our people, including a corporate newspaper, an intranet portal and email.

The intranet enables easy exchange of information between regions and Group operations, and provides extensive access to Company documents, details of current and future projects and other information. Across all our operations, management holds regular meetings with employees; these provide opportunities for dialogue on a range of topics including corporate developments and local employment issues. Employees also benefit from a telephone hotline on which they can report non-compliance, abuse or safety breaches at work.

Relations with employees are regulated by several policies including SUEK's Corporate Code of Conduct. Our commitments are enshrined in bilateral territorial agreements with trade unions and in collective bargaining agreements, as well as relevant social benefits and guarantees.

Priorities for 2014 include:

Improve the remuneration and benefits system:

- align regulations on bonuses across our production sites;
- roll out voluntary health insurance programmes to all employees, including discount options for family members.

Recruitment:

- implement programmes to recruit and retain young employees;
- accelerate the rotation of engineering and technical employees across Group companies in different regions.

Reward employee loyalty:

- promote SUEK's image as a reliable and generous employer;
- help employees access low-cost mortgages and consumer loans;
- provide comfortable work-related transport for employees.

Provide basic and advanced training for employees:

- upgrade SUEK's training programme;
- relaunch mentoring schemes;
- develop incentives to reward high skill levels among both production workers and executives.

Increase productivity and contain staff-related spending:

- introduce staffing quotas and optimise employee numbers under investment programmes to deploy high-output equipment;
- work with government agencies to improve regulatory systems.

Case study

Launched in 2012, our 'Director' training and development programme aims to develop the management skills of employees aspiring to senior positions. In 2013, 44 people completed the programme.

The programme is designed around the terms of reference for the job, with a particular focus on the core competencies and knowledge needed to perform current and future tasks by those employees who will ultimately occupy senior positions.

The programme involves teamwork on specific projects that address urgent challenges within the business, with a final presentation of the results. Within the framework of each project, directors of SUEK's production units identify a topic. Participants can either accept it, or choose an alternative topic. Projects presented during the final stage address a range of topics, including strategy development and various business plans, suggesting measures to improve operational and personnel management, as well as measures to improve efficiency and reduce costs.

'Improving operational and personnel management at our Vostochno-Beisky open pit' was one of the most successful projects in our 2013 programme. The project's key achievements were eliminating duplication of effort in some functions, reducing repair times by optimising and standardising procedures for maintenance personnel and saving more than $94,000 in four months by reducing downtime.

The project identified and implemented highly efficient technological solutions to improve the efficiency of excavator performance. It also introduced continuous monitoring of production time management. This helped to considerably improve crew performance on PC-3000 and PC-1250 excavators, which in turn resulted in a bonus payment for employees.

Health and safety

Coal mining, processing and washing carries a number of technical, technological and organisational risks. The health and safety of all our people is therefore our unconditional priority.

In order to minimise production risks, we have developed and implemented integrated plans for occupational safety and health on each of our sites. Our occupational health and safety (OHS) system aims to raise our health and safety practices to the highest international standards and continuously decrease injury and accident rates across the Company. All our internal standards are governed by Russian federal law and apply to our employees as well as to contracting organisations.

Safety in the workplace

In 2013 we spent over $88 million addressing occupational safety-related issues, an increase of $1 million over 2012. We introduced modern technology to ensure dust explosion safety in roadways and reduce the risk of methane and dust explosions, as well as to improve ventilation and gas drainage, gas and respirable dust safety, mine communication and emergency notification systems.

By introducing cutting-edge safety technologies and equipment, increasing mechanisation and automation, and constantly raising employee awareness, we are striving to improve the production safety culture of our operations.

Despite our ongoing focus on safety issues, there were 89 production-related accidents in our operations in 2013 (a decrease of 20% on the previous year). Annual working time lost due to industrial accidents reduced from 9,934 days in 2012 to 9,797 days in 2013.

Expenditure on health and safety protection and industrial safety
$ million

+1%

Tragically, we experienced 17 fatal accidents during the year, in regions where we mainly extract coal from underground mines: Kuzbass, Primorye and Khabarovsk. Eight miners were killed in a methane explosion at Mine No.7 in Kuzbass in January. Two miners from Kuzbass and one miner from Primorye were fatally injured by falls of rock and other materials. Two miners from Kuzbass and Urgal were killed by electrocution. Four miners from Kuzbass were killed whilst working at height and operating mining equipment. We deeply regret that our employees lost their lives whilst working for SUEK.

The main causes of the production-related accidents were organisational issues, breaches of industrial and occupational safety rules and lack of employee competence with regard to safety issues. We rigorously analysed every accident to identify their causes and to define preventative steps for the future. The objective is to reach our goal of zero fatal accidents.

The tragedies that occurred in our mines have made all our managers and employees focus on ensuring a consistent level of industrial safety. Following detailed analysis of the accident at Mine No.7, we developed a comprehensive plan entitled ‘Measures to ensure the specified level of industrial safety, to prevent accidents and injury of personnel at SUEK mines’, which contains both technical and organisational action plans. The key areas of focus are to reduce as far as possible the human risk factor, improve discipline, upgrade skills and improve the motivation of our staff.

To eliminate the possibility of bypassing the protection systems in electrical equipment, we have decided to replace the starters in development headings with units equipped with electronic and microprocessor-based control circuits. We have allocated more than $2 million to a pilot project for this at the Rubana mine in 2014.

Continuous engineering supervision of our operational processes is a requirement for ensuring safe operations. In our Kuzbass mines we are planning to introduce infra-red surveillance cameras in belt-conveyor roadways to monitor employees on conveyors. We are planning to spend almost $3 million on telemetry equipment for transferring data and video surveillance on the operation of production equipment to the mine control room on the surface.

Our action plan for improving industrial safety also places particular emphasis on additional education and training, skills development and testing of our employees’ industrial safety and occupational safety competence. One of these measures was the introduction of testing to establish the propensity of employees to behave in an unsafe or risky way. The first stage of the project evaluated current production and technical employees. The results have enabled us to qualify different groups of employees by indicators such as risk appetite, degree of aptitude for learning, and tendency to follow specified rules. This data forms the basis for a segmented approach to how we improve the culture of safe working behaviour and develop employees’ safety knowledge. A second testing tool has been implemented to evaluate candidates for vacant positions.

SUEK operates an Industrial Safety Committee, run by the Management Board. This Committee co-ordinates actions for improving industrial safety, occupational safety and health protection, and ensures stability of automatic emergency response system of production units with an acceptable level of risk. The Committee reviews the causes and details of every serious injury and assesses whether actions taken and planned to prevent similar accidents are adequate and effective.

In 2013, the Committee also reviewed important safety issues, approved technical strategies for power supply to development headings and selection of ventilation systems to ventilate development faces, heard the results of integrated safety inspections of coal mining units and made the decision to conduct an independent external safety audit.

During 2013, experts from RAG Mining Solutions, Germany, conducted two technical audits of safety at our Kuzbass mines. Their overall conclusion was that, in general, planning and organisation of production processes in all the inspected mines were adequate. However, there are opportunities for optimisation and improvement in various areas. The auditors’ recommendations relating to rectifying identified infringements were taken into account during the development of operational production programmes.

Acknowledging the importance of ensuring safe working conditions in the Company, the industrial safety report is reviewed regularly as the first item on the agenda at each meeting of SUEK’s Board of Directors.

Occupational health

Much of our work takes place in a hazardous production environment and we have a range of measures in place to protect employees’ health and prevent occupational diseases. These include regular workplace assessments, mitigation of negative effects of the production environment and preventive medical care.

Workplace assessments evaluate working conditions and potentially harmful factors at our production sites, and identify specialist measures to reduce their effects. These include reduction of the dust load in underground works through the installation of upgraded production technologies and dust extraction units. Employees are also provided with personal protective work clothing, including footwear, dust masks and safety goggles.

Since 2010 we have been running a programme called ‘Health’, which includes actions to identify occupational illnesses in the early stages, reduce operating time lost due to illnesses, organise systematic work for healthcare maintenance for employees, and promote a healthy lifestyle.

We aim to promote awareness amongst all employees of the need for health protection and improvement, as well as safe working practices. We also aim to put in place effective health protection measures that take into account both production and individual risk factors.

Comprehensive medical care is available to all employees, including information provision, consulting, diagnosis and medical support.

Health and safety

Priorities for 2014 include:

Further enhance OHS management:
- continue to implement SUEK's OHS management system across the business;
- establish a central hub to provide rapid-response management of complex OHS and gas and mine atmosphere safety issues, and ensure an efficient response to emergencies.

Ensure efficiency of response to any emergency and safety issues relating to hazardous gases and dust:
- introduce dust management units on development machines in mines;
- further roll out gas emission management at SUEK's businesses using sophisticated gas drainage methods;
- continue to implement a project to drill directional gas drainage boreholes, including surface drilling of angled and horizontal boreholes;
- implement modern systems of stone dusting in mine roadways;
- increase amounts of stone dust applied in roadways, to improve coal dust explosion safety in mines.

Reduce the risk of industrial injuries and occupational diseases:
- further implement and develop SUEK's 'Health' programme;
- implement actions to further reduce lost time incidents due to industrial injuries.

More details of how we manage occupational health and safety can be found in our Corporate Social Responsibility Report for 2011-2013. The report is accessible via our website at: **www.suek.ru**

Case study

Comprising a package of health protection measures and disease prevention, our award-winning 'Health' programme is aimed at maintaining and improving our employees' health and wellbeing.

The programme is aligned with our 'Safety behaviour' and 'Prevention of fatal injuries' programmes, which are based on international best practice. Economic benefits include a reduction in lost time due to illness, with industrial and domestic injury rates falling from 12.4 calendar days per worker in 2010 to 7.7 days in 2013. The proportion of employees taking no sick leave rose from 55% to 68% and the share of employees taking frequent and extensive sick leave declined from 7% to 2% over the same period.

In 2013, the programme received an award from the Institute for Health and Productivity Management (IHPM), an international non-profit institution focused on employee health as a driver of a company's efficiency. SUEK is the first Russian company – and the first coal mining company in the world – to be recognised by this organisation.

Environmental protection

A proactive approach to environmental management is an integral part of our strategy.

Built around the concept of sustainable development, and with the emphasis on maintaining favourable conditions for future generations, all our production activities and investment decisions take into account environmental considerations.

Our approach

We regard environmental protection as an integral part of the way we do business. We ensure compliance with Russian environmental legislation, committing to the careful and considered use of natural resources and to a constant improvement in our overall environmental performance.

Environmental issues are the responsibility of our Environmental Safety Department, a subdivision of SUEK's Production Supervision, Industrial, Occupational and Environmental Safety Division. Environmental services are also established in our regional production units, and each unit has its own environmental department. Our environmental policy reflects ISO 14001:2004[1] international standards and comprises a comprehensive suite of regularly updated documentation.

The key mechanisms for implementing the policy include action programmes to preserve the environment and use resources rationally, as well as ecological risk mitigation programmes. They also include improvements to our environmental training modules and participation in global initiatives aimed at averting climate change and protecting biodiversity.

SUEK is aware of the production-induced impact of its operations on the environment – and the fact that coal mining is associated with environmental risks. We adhere to the concept of sustainable development and strive for the preservation of a favourable environment for future generations. We are therefore implementing a range of projects to reduce any negative effects on the environment.

[1] ISO 14001:2004 is a standard that specifies a set of environmental management requirements for environmental management systems.

These include actions for the reduction of hazardous emissions, rational use and treatment of wastewater, disposal and processing of waste, rehabilitation of land, upgrading of our operations, energy efficiency and environmental training for staff. We invested more than $12 million in our environmental activities in 2013.

Air, water and earth

Almost 87% of our atmospheric emissions are methane, derived from underground mines and released as part of the gas drainage activity undertaken to improve mine safety related to hazardous gases and dust. In compliance with the Kyoto Protocol, we are actively working to reduce our emissions of greenhouse gases. Gas recovery and gas engine plants are installed at our Kirova and Komsomolets facilities, enabling methane to be captured and used for electricity production and our mines' thermal energy requirements.

In 2013 we harnessed 5.0 million m^3 of methane. During the year, the effect of the capture of methane from underground mines amounted to 7,300 MWh for electricity generation at communal thermal power plants and 12.5 Gcal for heat energy usage (boiler facility).

Most of our wastewater occurs naturally during our mining operations and therefore has the same characteristics as local groundwater. Our operations incorporate facilities for the treatment and purification of industrial wastewater and sewage. As a result of our ongoing attention to pollution control and resource conservation, the pollutant content of wastewater from our operations declined by 33% in 2013 compared with the previous year, amounting to 0.4 kg per tonne mined. We are involved in the design and construction of modern mine and domestic wastewater treatment facilities, as well as the reconstruction of existing water and wastewater systems, which should reduce concentrations of pollutants in our wastewater.

Total wastewater
million m^3

-30%

Sustainability continued
Environmental protection

Our capital investment in environmental protection includes actions that are part of SUEK's 2013 investment programme:
- construction of a modern mine water treatment facility at our Rubana mine;
- construction of a modular mine water treatment plant at our Kotinskaya mine;
- construction of a domestic wastewater treatment facility at our Khakasskaya mine;
- renovation of the existing water supply and sewage disposal system at our Berezovsky open pit (design);
- design of a treatment facility for mine and domestic wastewater at our Taldinskaya-Zapadnaya 1 mine;
- design of a mine water treatment facility at our Severnaya mine.

Most of the solid waste generated in the coal mining process is non-toxic overburden. This is predominantly stored in internal dumps and/or waste disposal sites within the industrial zone of enterprises for further use in the rehabilitation of land disturbed by mining operations. We undertake extensive reclamation of land, including the restoration of the terrain, levelling of rock dumps, soil remediation, tree planting and landscaping.

In 2012, we returned 23 land plots disturbed by mining operations with a total area of 747 ha to their owners. In the same year we reclaimed a further 455 ha of land. In 2013, we returned 53 land plots with a total area of 144 ha to their original owners, and reclaimed more than 400 ha of land disturbed by mining operations.

Following the principle of rational use of natural resources, we are striving to reduce the footprint of mined-out and undermined areas and external dumps. When managing land rehabilitation projects we aim to use advanced technologies and conduct research and engineering studies, looking for the most efficient rehabilitation technologies.

Together with Khakasia's Research Institute of Agricultural Problems we are implementing a unique project – which is more efficient than existing technologies – and conducting research to develop recommendations on biological reclamation in forestry. This includes an experimental technique of planting fruit and berry trees and conifers in waste dumps. Studies have shown that as a result of biological reclamation, the humus layer in coal dumps is regenerated 2.5 times faster, whilst the concentration of heavy metals is much lower than maximum allowable concentrations. Instead of levelling dumps, they are filled in small rows. Ridges and hollows are formed, the latter providing a perfect place for vegetation. In terms of effectiveness, this technique requires less work and has lower rehabilitation costs.

Continuing the trend of previous years, there were no instances of soil contamination as a result of our activities during 2013.

Despite the absence of landscape protection zones in the areas where we operate, we strive to minimise the impact of our activities on the biodiversity of these regions. We conduct regular monitoring of water assets, their biological properties and protection zones, as well as carrying out environmental monitoring at the boundaries of ecological buffer zones of our enterprises.

Energy efficiency

We work constantly to improve our energy efficiency. Between 2008 and 2012 we conducted energy surveys of all our enterprises, and in 2013 we developed an integrated programme for energy saving and increasing energy efficiency for 2014-2016. The programme features specific actions to optimise power consumption, utilise secondary energy resources, upgrade existing and purchase new modern energy-efficient equipment and process systems, and increase the thermal protection properties of cladding on our buildings.

These actions help us to reduce energy losses, increase power available per worker and meet the increased demand of our enterprises for energy without increasing their consumption, thus reducing their environmental impact.

We are working closely with Russian state agencies, enterprises, scientific and production organisations on issues regarding the efficient use of energy resources. SUEK is a member of the Russian Ministry of Energy's Co-ordinating Council on Energy Saving and Energy Efficiency in the Coal Industry. Our energy efficiency practice has been recommended to other coal mining companies by the Ministry.

More details can be found in our Corporate Social Responsibility Report for 2011-2013. The report is accessible via our website at: **www.suek.ru**

Priorities for 2014 include:

Further develop environmental management systems:
- maintain efficient systems for environmental management efficiency at SUEK's businesses to ISO 14001:2004 standards;
- implement corporate policies and standards on energy efficiency and energy saving;
- develop corporate policies and standards on environmental protection.

Mitigate any negative environmental impacts:
- develop and implement a long-term environmental action programme using the best technologies available;
- participate in global initiatives aimed at averting climate change and protecting biodiversity;
- energy efficiency improvement;
- develop and implement the integrated programme for energy saving and increasing energy efficiency.

Case study

In 2013 we built a new water treatment plant at our Rubana mine as a part of a large-scale environmental project.

In 2013, a water treatment plant was built by the German company Enviro Chemie GmbH at the Rubana mine in Kuzbass, allowing the cleaning of 350 m^3 of water per hour based on the floto-filter process.

After the plant is commissioned, quality indicators of the treated mine water will meet the drinking water standard of sanitary norms and rules. Of the purified water, 30% is expected to be used for technological needs and the remaining 70% to be discharged into water bodies. We are also planning to decommission the settling ponds that were previously used for water treatment and which occupied 13 ha of rented land. These new facilities are part of a large-scale environmental project within SUEK that runs until 2020, as part of the region's 'Green Lounge' activities.

We have also started construction of container-based water treatment facilities at our Kotinskaya mine in Kuzbass, with a capacity of 90 m^3/hour. The treatment technology here is also based on the floto-filter process, but all treatment modules are situated inside compact containers. The technology is based on preliminary settling of mine water in settling ponds.

Sustainability continued
Communities

We play a leading role in the sustainable development of the regions in which we operate – as an employer, a taxpayer and a significant player in the local economy.

Our relationships with communities are focused on developing local initiatives and social activities. We implement programmes to improve the quality of life for our employees and their families and communities.

We strive to increase the effectiveness of our efforts by co-ordinating our actions with regional administrations, engaging with NGOs and the business community and local authorities. Specifically, every year we sign co-operation agreements with regional authorities for activities aimed at regional development, primarily in those territories where SUEK's operations are located.

We provide support to vulnerable social groups and implement a variety of social and charitable projects spanning public health, education, housing, culture, sport and social infrastructure development.

Key projects

Our social programmes cover 48 towns and villages in seven Russian regions and in 2013 our social investments totalled $19 million. We continued to implement programmes aimed at improving quality of life for our employees and their families and communities. We maintain ongoing constructive dialogue with numerous community groups through regular roundtable discussions, workshops, seminars and conferences.

An important development in 2013 was the evolution of public-private partnership. Our experience has shown these to be effective tools for solving many topical social and economic issues. They also enable us to invest in social needs without duplicating government development activity, serving instead as complementary tools. In 2013, we implemented a number of projects in conjunction with regional authorities. These included the development and implementation of an integrated investment plan for Sagan-Nur township in Buryatia, arrangements for relocating people from hazardous dwellings in Kuzbass, establishment and development of the Chernogorsky industrial park in Khakasia, awarding 'regional investment project' status to the development of our Apsatsky open pit in Zabaikalye, joint efforts to develop single-industry towns and interaction with Housing and Utility Reform Foundation and others.

In 2013 we implemented more than 20 social and charitable programmes in the regions where we operate. These included 'SUEK work teams' (see case study opposite), the 'Economic and financial history of Russia' educational project, 'Establishing a centre for staff training and modern educational technologies', our 'School of social entrepreneurship' and 'Development of service industry.' A total of 39 business and socio-business projects were also created and started. We held 25 training sessions, attended by more than 600 students as part of the 'School of social entrepreneurship', 'Third Best Age', 'Development of service industry', 'Development of workforce capacity' and 'Establishing a centre for staff training and modern educational technologies' projects.

Through the 'High technology medical treatment for children' project (together with the Rusfond), we provided medical aid to severely ill children from the regions in which we operate. Some 150 children and 42 honoured coal industry workers also received specialist medical advice and underwent rehabilitation at leading Russian medical facilities as part of the project for improving the quality of life for the Company's employees and their families.

Other 2013 programmes included: organising a series of projects to support children's sporting activities; relocating 47 orphans to newly-built housing in Leninsk-Kuznetsky; and holding sports competitions for people with health problems and disabilities in Novoshakhtinsk.

Evaluation and effectiveness

We regularly measure the success of our social investments, using both in-house and independent experts and quantitative and qualitative criteria. The effectiveness of our 2013 projects indicated that our social investment principle, where money is allocated to projects with clear development potential and measurable results, continues to be the most flexible tool for tackling regional socio-economic challenges.

Our social responsibility activity has received accolades from the public and the expert community alike – with almost 20 Russian and international awards in one year. These included the Russian Union of Industrialists and Entrepreneurs' award in the all-Russian contest for the 'Best Russian Enterprises. Changes, efficiency, responsibility'. We were also a winner in several categories of the 'Leaders of Corporate Charity 2013' project.

"In 2013 we began to implement a wider range of regional social projects. Previously piloted on a smaller scale, we used feedback to modify these projects for a number of 'our' Company towns. We are now applying integrated solutions to specific regional issues through the implementation of multi-purpose projects to foster the development of social networks, education, career guidance, and the creation of small and medium-sized businesses."

Sergei Grigoriev
Public Relations and Communications Director
President of the 'SUEK to the regions' charity fund

'SUEK to the regions' fund

Our non-profit 'SUEK to the regions' charity fund is the main tool for the implementation of our regional social policy. In 2013, the Fund's key areas of focus were the promotion and support of:

- new mechanisms and practices for regional development;
- public initiatives;
- youth initiatives;
- the development of small and medium-sized businesses;
- social entrepreneurship;
- regional innovation systems;
- healthcare, education, cultural and sporting facilities; and
- social infrastructure.

More details on 'SUEK to the regions' can be found on the website at **www.fond.suek.ru**

Priorities for 2014 include:

Develop regional socio-economic potential, enhance human capital and adopt innovative social technologies:

- adopt new mechanisms for regional development and disseminating successful experience;
- activate community stakeholder groups to create and improve social interaction;
- provide advanced training to employees of social infrastructure providers and local government;
- build a system to attract revenue and capital funding;
- promote workforce development in the regions;
- diversify the labour market and support small and medium-sized businesses;
- support youth initiatives;
- help to modernise social infrastructure;
- support cultural and educational institutions;
- support sports and promote healthy lifestyles; and
- support disadvantaged groups.

Foster dialogue with stakeholders and inter-sectoral partnership to promote sustainable regional socio-economic development:

- continue discussions on how to better address the modernisation challenges of single-industry towns;
- implement formal agreements on socio-economic co-operation with regional administrations;
- develop public-private partnerships; and
- work with non-governmental organisations and business partners on the implementation of socially important projects.

Case study

'SUEK work teams' is one of our best-known social projects.

Launched in 2005, this social project is organised by the 'SUEK to the regions' fund in partnership with Krasnoyarsk region's labour and employment agency, as well as city and district administrations.

The project provides activities for teenagers in the summer holidays, enhances the local environment and helps participants develop a sense of pride in their home towns. The Company funds wages for the teenagers and team leaders as well as organising recreational and careers events.

In 2013, the project won a prize at Eventiada-2013 as the best corporate project targeted at young people. It also won in the special projects category of the Russian Energy Ministry's 'Context' awards.

During 2013, approximately 500 young people participated in this project in Krasnoyarsk region. The work teams cleaned up an area of 2,674,000 m^2 and collected 626 tonnes of rubbish. They also planted trees and flowerbeds, whitewashed trees, replaced old railings with new fences, pruned bushes and constructed a culvert. The premises of 32 kindergartens were improved. As part of the 'Granny online' project, the children taught 20 pensioners about IT, spending 490 hours on lectures and 840 lessons on practical training.

In addition, there was a wide-ranging sporting, cultural and entertainment programme. Participants also visited SUEK's businesses, learned about mining and underwent tests to assess their professional skills.

In 2013, the project was extended to other regions where SUEK has a presence, including Primorye and Kemerovo regions.

Corporate governance

Contents

SUEK PLC's corporate governance

SUEK PLC has the following principal responsibilities:
- to make investment decisions relating to the purchase and sale of coal assets;
- to focus on financing the Group's operating activities.

It accumulates funds by borrowing from international banks and other sources and allocating these funds to its principal production units. Profits generated are reinvested into business activities or distributed to the shareholders as dividends.

SUEK PLC also has audit and reporting responsibilities. It consolidates the financial accounts of its subsidiaries at Company level, audits the consolidated accounts and undertakes the Group's filing and reporting requirements.

Composition of the Board

The Board of Directors comprises seven members:
- George Cardona
- Vera Bulenkova
- Alina Constantinou
- Kirill Shein
- Maxim Streknev
- Kuzma Marchuk
- Vladimir Rashevskiy

The Board is chaired by one of the current directors, elected from time to time by the Board.

For meetings requiring shorter notice, the Standing Committee provides a mechanism for quick action whenever necessary. The Standing Committee reports to the Board of Directors. Chaired by Vera Bulenkova and composed of at least two additional directors, the Committee is empowered to take almost all Board decisions, with certain exceptions and subject to certain limits on the amounts relating to approved transactions.

Board meeting attendance

Director	Board of Directors	Standing Committee
Total meetings	**20**	**6**
George Cardona	19	0
Vera Bulenkova	19	6
Alina Constantinou	19	6
Kirill Shein	19	6
Maxim Streknev	20	5
Kuzma Marchuk	2	0
Vladimir Rashevskiy	0	0

In 2013 the Board held 20 meeting and the Standing Committee held six meetings. The average number of participants during the Board meetings was five; the Standing Committee usually comprised three or four participants.

In addition to the above, four resolutions were unanimously adopted by all the directors as written resolutions.

Board performance

The Board of Directors of SUEK PLC remained firmly focused on ensuring that the Group has the most effective financial structure. The loan portfolios of the Company's subsidiaries were reviewed and, where cost-effective, assigned to the Company. The Company also continued to review and adopt resolutions on key officer appointments, explored opportunities to improve the holding and management structures, reviewed subsidiary operations and defined the voting position at the subsidiaries' general meetings.

The following decisions were made by the Board of SUEK PLC during 2013:
- debt transfer of existing PXF ($600 million credit facility, a credit facility of up to $1,500 million, a credit facility of up to $200 million and a credit facility up to $900 million) from OJSC SUEK to SUEK PLC was supported and approved by Board of Directors of SUEK PLC;
- the Board approved a reduction in the share capital of OJSC SUEK by cancelling the treasury shares held by OJSC SUEK;
- approval of an entry into loan agreements (as lender) with OJSC SUEK for the amount of up to $1,500 million at the annual rate of 6.6% for a period of up to three years;
- approval of an entry into a facility agreement of up to $500 million between the Company (as borrower), OJSC SUEK and OJSC 'SUEK-Kuzbass' (as guarantors) and VTB Bank (as original lender and agent) was approved;
- SUEK PLC approved the reorganisation of OJSC SUEK in the form of spin-off of brown coal assets;
- re-election of the Board of Directors of OJSC SUEK by SUEK PLC;
- approval of an entry into a number of novation, amendment and restatement agreements with OJSC SUEK and various banks, including Commerzbank Aktiengesellschaft, HSBC Bank, BNP Paribas;
- approval of a dividend policy of the Company; and
- approval of an entry into a $1,200 million five year pre-export finance facility for SUEK PLC (as the borrower) with a syndicate of international banks.

Board of Directors

George Cardona, 62

Mr Cardona was elected to the Board in October 2011.

Mr Cardona was formerly Head of Strategy of HSBC Group, and was subsequently appointed General Manager of International Banking at HSBC Bank. He has been a board member of a number of banks and financial companies in Europe and the USA. In 1979 he was appointed Special Adviser to the UK Treasury under the Margaret Thatcher administration.

He is a former member of the Boards of EuroChem, Russia's largest mineral fertilisers producer, and OJSC SUEK, and was previously Chairman of the Strategy Committee of the OJSC EuroChem Board.

Mr Cardona graduated from Trinity College, Oxford, with Honours in philosophy, political science, and economics.

Maxim Streknev, 37

Mr Streknev was elected to the Board in November 2012.

Mr Streknev previously worked as a corporate governance specialist in OJSC SUAL Holding, OJSC Glavstroy and ProfMedia Ltd. Since May 2012 he has supervised the cross-border corporate governance/corporate administration procedures of large holding structures for the SUEK Group.

Mr Streknev is a graduate of Saratov State University (English philology) and the Diplomatic Academy of the Russian MFA (international economic relations).

Kirill Shein, 32

Mr Shein was elected to the Board in October 2011.

Mr Shein worked as a legal associate for a leading international law firm and as an in-house legal counsel for major Russian telecommunications companies, specialising in M&A, borrowings and cross-border transactions. He joined the Group in 2008 and is currently in charge of legal affairs for the Company.

Mr Shein graduated from the Moscow State University of International Relations, Department of International Law, majoring in international civil and trade law.

Vera Bulenkova, 41

Ms Bulenkova was elected to the Board in October 2011.

Ms Bulenkova previously worked for Interfax, Deloitte (Cyprus) and BrokerCreditService (Cyprus). She joined the Group in 2007 and is currently in charge of the Company's financial, treasury and investment affairs.

Ms Bulenkova is a graduate of Lomonosov Moscow State University and a Fellow of the Association of Chartered Certified Accountants.

Alina Constantinou, 35

Ms Constantinou was elected to the Board in October 2011.

Ms Constantinou previously worked for Deloitte (Cyprus) and a major multi-industry Cyprus-based holding company. She joined the Group in 2009.

Ms Constantinou graduated from Intercollege Cyprus with a Diploma (with distinction) in Business Administration (MIS) and is a Fellow of the Association of Chartered Certified Accountants.

Kuzma Marchuk, 40

See page 91 for biography.

Vladimir Rashevskiy, 40

See page 88 for biography.

OJSC SUEK's corporate governance

Letter from the Chairman

We fully recognise the importance of corporate governance in ensuring that our operations are efficient, under control and functioning in a transparent and ethical way. We aim to ensure that sound corporate governance has a real impact on how we work. We therefore look to our governance system to help us make sure that:

- the business is well managed and well controlled, so that we are constantly creating and protecting value, and not losing it through inefficiency or poor risk management;
- we are maintaining and developing highly effective reporting, both externally to support our commitment to transparency, and internally to strengthen our operational and strategic decision-making and management accountability;
- our motivation systems constantly encourage management towards strengthening performance and achieving our strategic goals.

During 2013 we continued to improve SUEK's system of corporate governance, taking steps to strengthen and enhance our procedures and practices. These included:

- maintaining a very active programme for the Board of Directors and Committees, including site visits as well as regular meetings;
- ensuring the right mix of experience on the Board through recruitment of new Directors whose competencies meet our strategic requirements;
- ensuring close Board-level involvement in the development of a ten-year consolidated strategy, aimed at securing our long-term competitiveness;
- developing and implementing measures to increase operational efficiency in the context of adverse market situations;
- reinforcing supervision of activities relating to health and safety, including implementation, independent monitoring of industrial safety at enterprises, and the involvement of international experts;
- harmonising the disclosure of information in the Annual Report and Corporate Social Responsibility Report;
- implementing new approaches to planning the work of the Board of Directors and management, in line with our priorities.

We regard good corporate governance as an evolutionary process and will continue to review and improve our approach in the year ahead. The Board will continue dealing with issues related to the implementation of key investment projects and the system of management motivation. We will also transfer to an economic model of managing the Company targeted at increasing shareholder value, in particular through redesigning our processes and supporting systems to secure better decision-making, and by planning and prioritising changes to our operations.

Andrey Melnichenko
Chairman of the Board of Directors
OJSC SUEK

SUEK PLC's principal asset is OJSC SUEK, which has an established system of corporate governance; therefore, we decided additionally to disclose corporate governance of OJSC SUEK.

SUEK's corporate governance system is based on the following principles:

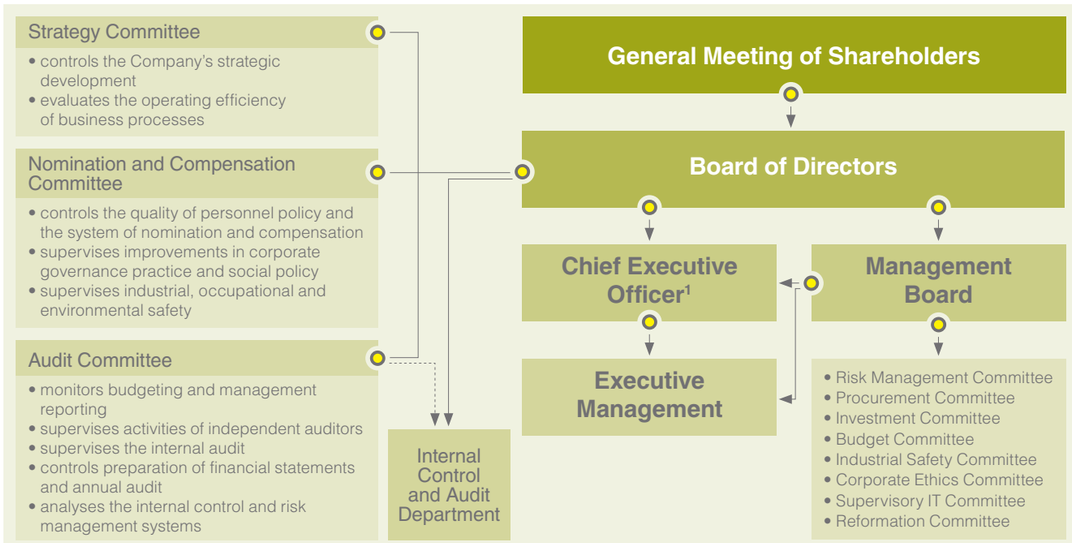
- equal treatment of Company shareholders and the legal recognition and protection of their rights;
- implementation of effective internal controls and systems;
- transparency of information and finances;
- compliance with ethical standards of business conduct;
- effective interaction with employees to provide appropriate working conditions and address social issues.

Our comprehensive internal corporate governance regulations comprise SUEK's Charter, its Code of Corporate Conduct and its information policy as well as protocols covering the Board of Directors, Management Board and insiders. Regulations also cover preparing, convening and conducting a General Meeting of Shareholders. These documents can be accessed via the Company's website.

Compliance

We adhere to the provisions of the Code of Corporate Conduct of the Federal Securities Market Commission (FSMC) of the Russian Federation, embracing the 'comply or explain' provisions of this Code. We have also voluntarily adopted certain recommendations of the UK Financial Reporting Council's Corporate Governance Code. These include:

- separate Chairman and CEO positions;
- all Directors are subject to election on an annual basis after appointment;
- the Company has a majority of independent non-executive Directors (excluding the Chairman);
- the independence of the independent non-executive Directors is evaluated using standards from the UK Corporate Governance Code;
- the Company has a Nomination and Compensation Committee comprising four independent non-executive Directors;
- the Company has an Audit Committee comprising two independent non-executive Directors, both of whom have relevant financial experience. (During 2013 the Audit Committee had three independent Directors, Dmitry Bosky stepping down at the beginning of 2014);
- the independent status of a Director is verified by the Board of Directors;
- assessment of the activities of the Board of Directors is conducted annually; and
- members of the Board of Directors avoid potential conflicts of interest when making decisions on agenda items.



[1] The Chief Executive Officer is also the member of Board of Directors and chairs the Management Board.

OJSC SUEK's corporate governance continued

Board of Directors

Andrey Melnichenko, 42
Chairman of the Board of Directors
Non-executive Director

Chairman of the Strategy Committee

Mr Melnichenko was elected to the Board in March 2004.

Over the past 20 years, Mr Melnichenko has helped build some of Russia's most successful corporations. In 1993 he co-founded MDM Bank, one of Russia's largest private banks. From 1997 to 2001 he was Chairman of the bank's Management Board and then Chairman of its Board of Directors from 2001 until 2005.

Mr Melnichenko was formerly a member of the Board of Directors at RAO UES of Russia and steel pipe manufacturer TMK. He is currently the Chairman of the Board of Directors of OJSC EuroChem Mineral and Chemical Company and also chairs the Board of Directors of Siberian Generating Company. He also sits on the Bureau of the Management Board of the Russian Union of Industrialists and Entrepreneurs.

He studied physics at Lomonosov Moscow State University and graduated from Plekhanov Russian University of Economics, majoring in finance and credit.

Alexander Landia, 51
Independent Director

Chairman of the Nomination and Compensation Committee

Member of the Strategy Committee

Mr Landia was elected to the Board in December 2006.

Between 1993 and 2001 Mr Landia worked for Dresdner Bank AG in Frankfurt and left as First Vice President Oil & Gas Global Debt. Until 2004, as a partner of Accenture, he was General Director of Accenture Russia, and was subsequently appointed Global Gas Lead Partner. Between 2006 and 2010 he was Chairman of the SUEK Board of Directors and he received the 'Chairman of the Year' award from the Russian Association of Independent Directors in 2007.

Mr Landia is a Director of Lambert Energy Advisory Ltd (UK), The Mobility House (Switzerland) and Barloworld (South Africa). He is a co-founder and Managing Director of Bernotat & Cie (Germany).

Mr Landia graduated from Tbilisi State University with honours, and has a Dr.Rer.Nat. (Candidate's Degree) in mathematics from Institute of Mathematics (Belarus).

Vladimir Rashevskiy, 40
Chief Executive Officer

Member of the Strategy Committee

Mr Rashevskiy was elected to the Board in June 2011.

Between 1992 and 2000, Mr Rashevskiy held various positions in banking, including Vice-Chairman of the Management Board of Avtobank. In 2000 he joined MDM Bank as Head of the Investment Department and in 2001 was appointed Deputy Chairman of the bank's Management Board.

In 2004 he became President of OJSC SUEK, and was appointed CEO of the Company later that year. His principal responsibility was the development and implementation of a new strategy for Russia's largest coal company, consolidation of its coal and power generation assets, restructuring of the management system and the launch of an efficiency and productivity improvement programme to meet the objective of creating a world-class company.

Mr Rashevskiy graduated from the Moscow Financial Academy of the Government of the Russian Federation (Department of International Economic Relations), majoring in global economics. He also holds a PhD in economics.

Dmitry Bosky, 54
Independent Director

Member of the Audit Committee

Member of the Nomination and Compensation Committee

Mr Bosky was elected to the Board in December 2006 and stepped down in January 2014.

After working for Shell Oil, he joined Security Pacific Capital Group, where he ultimately became Managing Director, Europe. Until 2004, he chaired the Board of X5 Retail Group N.V. (Pyaterochka) and, since 2008, has been CEO of Aton Capital Partners, the private equity division of IG Aton. Mr Bosky has been Chairman of Berkeley Capital Partners since founding the business in 1992. He is a Fellow of the Royal Society of Arts and an advisor to the European Bank for Reconstruction and Development.

Mr Bosky graduated with Honours from the University of California, Berkeley with a degree in operations research, accounting and finance. In 1983, he earned an MBA from Harvard University, where he was elected President of the International Business Club.

Klaus-Dieter Beck, 59
Independent Director

Member of the Strategy Committee

Member of the Nomination and Compensation Committee

Mr Beck was elected to the Board in June 2012.

He joined RAG in 1981 and worked in a variety of technical and operational roles. He became Chief Engineer of the company's Ruhrkohle Niederrhein subsidiary in Germany, and held management positions at the Rheinland and Heinrich mines between 1996 and 1998. He joined RAG's Riverton Coal subsidiary in America, ultimately becoming Senior Vice President Planning, Engineering & General Equipment Management at Foundation Coal Holdings, Inc. (formerly RAG's American coal business) between 2004 and 2007.

Mr Beck was Chairman and CEO of the Czech coal producer OKD between 2007 and 2012, during which period he was also an executive director of NWR NV. He was a non-executive Director of NWR until March 2013. He has been a member of the supervisory board of TUEV-Nord/ Hannover in Germany since 2008.

Mr Beck holds a PhD in mining engineering and an MS in mining engineering from Rheinisch-Westfalische Technische Hochschule in Aachen.

Jaroslav Mil, 55
Independent Director

Member of the Nomination and Compensation Committee

Mr Mil was elected to the Board in June 2013.

He was previously CEO and Chairman of the Board of Directors of Czech energy group CEZ, a.s., leading the company through organisational restructuring, vertical transformation and initiating its international expansion.

Mr Mil was also formerly President of the Confederation of Industry of the Czech Republic, Vice-President of BUSINESSEUROPE, and served on the Board of EURELECTRIC. He was a member of the Board of Slovenske elektrarne – ENEL S.p.A. and CEO and Chairman of the Board of Elektrarny Opatovice, a.s. – the largest independent power generator in the Czech Republic. He is a member of the Czech Government Council for Energy and Mineral Sources Strategy and advises the Energy Regulatory Body of the Czech Republic.

Mr Mil holds an MSc in economics and management of the energy sector from the Czech Technical University in Prague and an MBA from Sheffield Business School.

OJSC SUEK's corporate governance continued

Board of Directors

Clifford Kent Potter, 67
Independent Director

Member of the Audit Committee

Mr Potter was elected to the Board in September 2013.

He joined Chevron in 1974 and in a 27-year career held financial management positions across the company's operations, including Finance Director for Chevron's North Sea operations, CFO of Tengizchevroil in Kazakhstan and CFO of Chevron Overseas Petroleum.

He subsequently assumed the position of Senior Vice President and CFO of Chevron Phillips Chemical Company ('CPChem'). Whilst serving as a member of CPChem's Board of Directors, he helped direct the merger and integration of Chevron's and Phillips' worldwide chemical operations. In 2003, he was appointed Chief Financial Officer of TNK-BP. Most recently, Mr Potter served as Executive Vice President and CFO of LyondellBasell. He was also previously a director of Black Beauty Coal Company and Texas Petrochemical Company.

Mr Potter served three years as a US Army officer. He holds a BA in engineering and an MBA from the University of California, Berkeley.

Richard Sheath, 51
Independent Director

Chairman of the Audit Committee

Mr Sheath was elected to the Board in June 2012.

He has extensive experience of internal control, risk management and reporting. He is a director and co-founder of Independent Audit Limited, a consultancy specialising in corporate governance. He advises boards of major companies in the UK and overseas on all aspects of governance, with a particular focus on audit and risk committees, risk governance, control culture and corporate reporting.

Mr Sheath was formerly a partner in the risk management consulting practice of PricewaterhouseCoopers and spent six years with the firm in Russia. He began his career with the Bank of England and HM Treasury. He is a non-executive director of EuroChem, Russia's largest mineral fertilisers producer.

He holds a BA (Hons) from the University of York and an MBA from City University (London).

Dmitry Strezhnev, 46
Non-executive Director

Member of the Strategy Committee

Mr Strezhnev was elected to the Board in June 2011.

He was formerly the head of Agrodortekhsnab LLP and Tekhsnab-2000 LLC (road and construction machinery trading companies providing maintenance and repair services). He is a former deputy director of Dorstroykomplekt CJSC, a company specialising in highway engineering, and was subsequently head of the Likino Bus Manufacturing Plant OJSC.

For several years he held executive positions in RusPromAvto LLC – a holding company which includes car, truck, bus, road and construction equipment manufacturing – and in GAZ OJSC, an automobile manufacturer. Since 2003 he has been CEO of EuroChem, Russia's largest mineral fertilisers producer, and a member of its Board since 2007.

Mr Strezhnev graduated with honours from Lomonosov Moscow State University with a degree in physics. He holds an MBA from the Academy of National Economy of the Government of the Russian Federation.

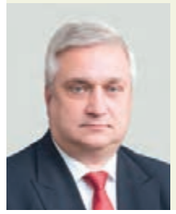
Management Board

Vladimir Rashevskiy, 40
Chairman of the Management Board

Chief Executive Officer

See page 88 for biography.

Vladimir Artemiev, 48



Production Director

Mr Artemiev has been a member of the Management Board of SUEK since January 2007.

Mr Artemiev worked for Gukovugol Industrial Association for over 15 years, commencing his career as an overman at the Zapadnaya underground mine. In 1998 he was appointed General Director of Gukovugol, a position he held for four years. In 2002 he was appointed Head of the Coal Industry Department at the Russian Ministry of Energy and in 2004 was appointed Head of the Mines Inspectorate for the Federal Administration of Environmental, Technological and Nuclear Supervision. In 2006 he was appointed SUEK's Production Director.

Mr Artemiev graduated from Novocherkassk Polytechnic Institute as a mining engineer and has a PhD in engineering science. He was awarded the Order of Courage for a miners' rescue operation, and holds all three degrees of the Miner's Glory medal.

Igor Gribanovsky, 41

Sales and Marketing Director

Mr Gribanovsky has been a member of the Management Board of SUEK since January 2007.

Between 1996 and 2001 Mr Gribanovsky worked at the Moscow office of the Japanese Nichimen Corporation in its Department of Coal and Metals. From 2001 to 2005 he headed the export divisions of Vostsibugol, Rosuglesbyt and SUEK.

In 2005 he was appointed Managing Director of SUEK AG, Switzerland, a 100% subsidiary of SUEK supplying coal to international markets – a post that he held until 2007. He was appointed Sales and Marketing Director of SUEK in March 2007.

Mr Gribanovsky graduated from the Moscow Institute of Steel and Alloys, majoring in metal forming. He pursued his postgraduate studies at the Faculty of Economics of Lomonosov Moscow State University, majoring in public sector economics.

Kuzma Marchuk, 40

Director of Economics and Finance (CFO)

Mr Marchuk has been a member of the Management Board of SUEK since December 2011.

Between 1995 and 1997, Mr Marchuk held several financial positions in Deloitte & Touche, Rosexpertiza and Norilsk Nickel. In 1997 he joined the Protek Group of pharmaceutical companies, and in 1998 he was appointed Chief Financial Officer and a member of the Board.

Between 2004 and 2010, Mr Marchuk was Chief Financial Officer and – from 2007 – a member of the Board of Directors at Uralkali, a potash mining company. He was responsible for the initial public offering (IPO) of Uralkali on the London Stock Exchange in 2007 and for the sale of Uralkali to a group of strategic investors in 2010. He joined SUEK as Chief Financial Officer in December 2011.

He graduated in 1995 from Plekhanov Russian University of Economics, Faculty of International Business, majoring in foreign affairs of enterprises and organisations. The following year he graduated from Lomonosov Moscow State University's Faculty of Physics.

OJSC SUEK's corporate governance continued

Executive management

Denis Ilatovsky, 42
Director of Logistics

Between 1994 and 2007, Mr Ilatovsky worked for the MAIR Industrial Group, where he held several positions including Export Director, General Director of OJSC Saratov Metalware factory, Vice-President of MAIR, Executive Director of the Managing Company, Vice-President for Innovation and IT and Vice-President for Production and Logistics.

He subsequently worked for United Metallurgical Company (OMK), where he simultaneously held the positions of Director-General of the Baltic Metallurgical Terminal (Ust-Luga) and Director of Logistics. He joined SUEK in 2012 and was appointed Chairman of Murmansk Commercial Port in August 2013.

Mr Ilatovsky graduated from the Moscow State Institute of Steel and Alloys in 1994 and obtained an MBA from Antwerp University (Belgium) in 2011.

Akhmed Bedredinov, 47
Director of HR and Administration

Mr Bedredinov's early career was spent with Philip Morris where he joined the first HR team at the Moscow Representative Office and was appointed Head of HR at the Krasnodar tobacco factory.

He has held senior HR management positions at several companies including Nestle, Yuganskneftegaz, YUKOS Exploration and Production, Metinvest Holding, RUCOM and Sberbank of Russia. Prior to joining SUEK he worked with Rosatom subsidiaries as advisor to the General Director of JSC AtomRedMetZoloto and as Deputy General Director – Director for HR Management Projects at Priargunskoye Industrial Mining and Chemical Company. He joined SUEK in 2012.

Mr Bedredinov graduated from the Plekhanov Russian University of Economics in 1989, and from the Stockholm School of Economics in 2006.

Sergei Grigoriev, 57
Public Relations and Communications Director

Mr Grigoriev's early career was spent with the Soviet Union Association of Friendship Societies. From 1984 to 1990, he worked for the International Department of the Central Committee of the Communist Party, subsequently joining the USSR President's Press Office.

He was formerly a political consultant and commentator; his roles included advisor to the Chairman of the All-Russian State Television and Broadcasting Company and chief of staff of the Russian President's Business Management Office in 2001. From 2004 to 2006 he was Vice-President of the National Reserve Bank. He was then appointed Deputy General Director of the National Reserve Corporation.

He is also Vice President of the Russian-American Business Cooperation Council and a member of the Oversight Council of the China Business Development Foundation.

Mr Grigoriev graduated from the Institute of Asian and African Countries at Lomonosov Moscow State University. He holds a Master of Public Administration (MPA) Degree from Harvard's John F. Kennedy School of Government and a PhD from Tufts University and Fletcher School of Law and Diplomacy.

Alexander Redkin, 52
General Counsel

Between 1986 and 2001, Mr Redkin worked in the public prosecution department. He subsequently joined OJSC 'SIDANCO' – OJSC 'TNK-BP Management', where he held several positions including Deputy General Counsel, General Counsel of SIDANCO's branch in Saratov, Deputy General Counsel of SIDANCO branch – Head of Legal Department. Mr Redkin joined OJSC SUEK in 2005, initially as Deputy General Counsel, and in 2008 was appointed General Counsel.

Mr Redkin graduated from the Saratov Law Institute in 1986.

Irina Zaytseva, 37
Procurement Director

From 2002 to 2011, Ms Zaytseva worked at OJSC Uralkali, a potash mining company, where she held a number of senior positions including Director of Inventory and Logistics. She was appointed Procurement Director of SUEK in May 2011.

Ms Zaytseva graduated in 1998 from Perm State University, Faculty of Law and from the State University – Higher School of Economics, Faculty of Economics in 2001.

Alexander Dolgopolov, 34
Chief Audit Executive

From 2000-2005 Mr Dolgopolov worked as an assistant manager in the Energy and Mining Department at PricewaterhouseCoopers. In 2005 he joined the Internal Control and Audit Department at OJSC SUEK as Head of the Audit Division and was subsequently appointed Chief Audit Executive.

Mr Dolgopolov graduated from MGIMO University (Moscow State Institute of International Relations) of the Ministry of Foreign Affairs of Russia, faculty of International Economic Relations, and is a Member of the Institute of Internal Auditors (IIA, USA).

Andrei Mironov, 48
General Affairs Director

Mr Mironov spent the early part of his career in the Federal Security Service. In 2007 he joined an oil company as Deputy General Director for security. He joined SUEK in 2011 as General Affairs Deputy Director and was appointed General Affairs Director in 2012.

Mr Mironov is a graduate of the Leningrad Higher Military Commanders' Training School, the Academy of Federal Security Service and the Academy of National Economy (now the Russian Presidential Academy of National Economy and Public Administration).

OJSC SUEK's corporate governance continued

SUEK's governing bodies

SUEK's principal governing bodies are the General Meeting of Shareholders, the Board of Directors, the Management Board and the Chief Executive Officer.

General Meeting of Shareholders

The General Meeting of Shareholders is SUEK's highest governing body. It has authority over decisions relating to the Company's most significant operations, including amendments to the Charter, reorganisation and liquidation issues, an increase or decrease in share capital and election of the Board of Directors.

The most recent annual General Meeting of Shareholders was held on 20 June 2013. Decisions taken at the meeting included the approval of the Annual Report and financial statements for 2012, election of the Board of Directors and reappointment of KPMG as external auditors. A complete list of resolutions adopted at the Meeting is available on the Company's website.

From 1 June 2013 SUEK PLC became the sole shareholder of OJSC SUEK. Among the decisions adopted by the shareholder are the election of a new Board of Directors, approval of the amended Charter and the remuneration of the Board of Directors, as well as the approval of major transactions on financing.

Board of Directors

The Board of Directors determines the mission and strategic direction of the Company. Its principal aim is to ensure that the management is able to run the Company efficiently, leverage strategic opportunities, adequately assess risks and provide for SUEK's sustainable development over the longer term. The breadth of knowledge and extensive experience of our Board members provides a robust foundation for our business activities and ensures a high level of strategic oversight.

Since 2005, SUEK's Board has included independent Directors. As at 31 December 2013, six out of the total of nine Directors (excluding the Chairman) were independent. Independence criteria are set out in the Board of Directors' Regulations and comply with the FSMC Code of Conduct and the UK Corporate Governance Code.

The Board works closely with SUEK's senior management to support an effective exchange of information between Board meetings. Directors receive monthly reports, notification of significant Company events and market and industry news. Members of the Board also participate in informal consultations within the business and visit the Company's production facilities.

In 2013, the Board held six face-to-face meetings and 27 meetings *in absentia* and based its work on the professional judgements and recommendations of its three committees:

- the Strategy Committee;
- the Audit Committee; and
- the Nomination and Compensation Committee.

The responsibilities of the Committee for Health and Safety and Production Performance (HSPP Committee), established in September 2012 and disbanded in 2013, reverted to the Strategy Committee and the Nomination and Compensation Committee. This decision was made because, on the one hand, production safety issues are a strategic priority and are considered during strategic decision-making processes. On the other hand, production safety is a key element of our production culture and employee behaviour. It was therefore decided that these two Committees should be asked to examine these matters.

All Board members may attend the meetings of any Committee. The Office of the Board of Directors is managed by the Company Secretary. Briefing materials are made available in advance of Board meetings, allowing Directors to review matters for discussion in depth and perform more effectively. Board documentation is available in English and Russian.

The Company employs IT solutions that enable Board members to work with the corporate archive (minutes of meetings and Board papers) remotely.

Composition of the Board

As at 31 December 2013 the Board of Directors of OJSC SUEK consisted of:

- Andrey Melnichenko (Chairman)
- Alexander Landia (Independent Non-executive Director)
- Vladimir Rashevskiy (Chief Executive Officer)
- Dmitry Bosky (Independent Non-executive Director)
- Klaus-Dieter Beck (Independent Non-executive Director)
- Jaroslav Mil (Independent Non-executive Director)
- Clifford Kent Potter (Independent Non-executive Director)
- Richard Sheath (Independent Non-executive Director)
- Dmitry Strezhnev (Non-executive Director)

See pages 88-90 for biographies of the Board of Directors.

Changes in composition of the Board in 2013

The composition of the Board of Directors changed significantly during the year. This was the result of a consistent effort to engage independent Directors whose competencies align with the Company's development goals.

On 1 January 2013 the Board of Directors comprised the following members:

- Martin Andersson
- Klaus-Dieter Beck
- Dmitry Bosky
- George Cardona
- Alexander Landia
- Roger Munnings
- Andrey Melnichenko
- Vladimir Rashevskiy
- Dmitry Strezhnev
- Richard Sheath

Changes during the year:

- George Cardona (Non-executive Director) resigned from the Board (resolution of the Extraordinary General Meeting of Shareholders, 22 February 2013);
- Roger Munnings (Independent Director) resigned from the Board (resolution of the Annual General Meeting of Shareholders, 22 June 2013);
- Martin Andersson (Non-executive Director) resigned from the Board of Directors (resolution of the Sole Shareholder of SUEK, 19 September 2013);
- Jaroslav Mil (Independent Director) was elected as a member of the Board (resolution of the Annual General Meeting of Shareholders, 22 June 2013);
- Clifford Kent Potter (Independent Director) was elected as a member of the Board (resolution of the Sole Shareholder of SUEK, 19 September 2013).

Changes after the reporting date:

- Dmitry Bosky (Independent Director) resigned from the Board (resolution of the Sole Shareholder of SUEK, 30 December 2013).

As a result of the scheduled turnover, two new independent Directors were elected to the Board: Jaroslav Mil and Clifford Kent Potter.

Andrey Melnichenko was Chairman of the Board of Directors throughout the year.

OJSC SUEK's corporate governance continued

SUEK's governing bodies

Meetings of the Board of Directors

Director	Board of Directors	Audit Committee	Nomination and Compensation Committee	Strategy Committee	HSPP Committee[1]
Total meetings[2]	**6 (27)**	**9**	**6 (1)**	**6**	**2[3]**
Martin Andersson	3 (21)[4]	–	–	–	–
Klaus-Dieter Beck	5 (27)[5]	–	4 (1)[6]	3[7]	1[8]
Dmitry Bosky	6 (27)	9	6 (1)	–	–
George Cardona	0 (3)[9]	–	–	–	–
Alexander Landia	6 (27)	–	6 (1)	6	–
Roger Munnings	2 (12)[10,11]	4	–	–	–
Jaroslav Mil	4 (14)[12]	–	3[13]	–	–
Andrey Melnichenko	6 (27)	–	–	6	–
Clifford Kent Potter	3 (6)[14]	3[15]	–	–	–
Vladimir Rashevskiy	6 (27)	–	–	6	–
Dmitry Strezhnev	6 (27)	–	–	6	2
Richard Sheath	6 (27)	9	–	–	–

[1] The HSPP Committee was disbanded on 20 June 2013. Its functions were transferred to the Nomination and Compensation and the Strategy Committees.
[2] The number of meetings *in absentia* is given in brackets.
[3] On 15 April 2013 a joint meeting of the Strategy Committee and HSPP Committee took place.
[4] Mr Andersson resigned from the Board on 19 September 2013.
[5] Mr Beck did not participate in the Board meeting on 17 April 2013.
[6] Mr Beck did not participate in the Nomination and Compensation Committee meetings on 16 April 2013 and 17 December 2013.
[7] Mr Beck joined the Strategy Committee on 20 June 2013, but did not participate in the meeting on 16 December 2013.
[8] Mr Beck did not participate in the joint meeting of the Strategy Committee and HSPP Committee on 15 April 2013.
[9] Mr Cardona resigned from the Board on 22 February 2013.
[10] Mr Munnings resigned from the Board on 20 June 2013.
[11] Mr Munnings did not participate in the Board meeting on 14 March 2013.
[12] Mr Mil joined the Board on 20 June 2013.
[13] Mr Mil was elected to the Nomination and Compensation Committee on 2 September 2013.
[14] Mr Potter joined the Board on 19 September 2013, but did not participate in the Board meeting on 27 December 2013.
[15] Mr Potter was elected to the Audit Committee on 20 September 2013.

Board remuneration

Directors' remuneration is determined by a number of factors including overall performance of duties and membership and/or chairmanship of Board committees.

The total amount of remuneration paid to members of the Board of Directors in 2013 amounted to $1,223,248. The total amount of expenses reimbursed to Board members in 2013 was $25,182.

Board of Directors – performance results

In 2013 the Board held six face-to-face meetings and 27 meetings *in absentia*. Discussions focused on issues related to the strategic development of the Company and its business segments.

Production safety issues remained the fundamental priority for the Board of Directors. They analysed the causes and consequences of emergencies resulting in production downtimes or accidents and evaluated management action for learning lessons and implementing appropriate measures.

The disaster at Mine No.7, in which eight miners lost their lives, resulted in a renewed drive to toughen occupational safety requirements. The Board commissioned extensive inspections of several mines through RAG Mining Solutions and an action plan was developed and implemented to prevent such tragedies in future. Klaus-Dieter Beck, Independent Director, participated in the technical auditors' work and visited Mine No.7, Kotinskaya mine, Taldinskaya-Zapadnaya 1 and Taldinskaya-Zapadnaya 2. His recommendations were presented to the Board of Directors.

The Board reviewed an integrated strategy for the next ten years, as well as individual strategies by segment and function, including a logistics strategy for 2013-2016 and sales strategies for individual market segments. Strategies for major enterprises were revised, including those in Kuzbass, Khakasia, Krasnoyarsk, Buryatia, Urgal and others.

The Company implemented a range of actions to compensate for the negative coal market situation and increase the productivity of SUEK's mines. These are intended to review the investment portfolio, optimise production, procurement, transportation costs, sales policy and to monitor and reduce expenditure.

The Board analysed management's strategic initiatives to expand the resource base and approved a number of important investment projects to expand production and processing capacity and develop port and railway capacities.

The Board also identified top managers' goals for 2014 in conjunction with the Company's strategic priorities. Senior managers will have greater accountability for achieving KPIs in industrial and occupational safety.

In co-operation with government agencies, a number of measures were devised to develop the Russian coal industry, and overcome the major constraints to growth of the coal business – for SUEK in particular.

Board evaluation

The performance of the Board is assessed on a regular basis. Under the supervision of the Nomination and Compensation Committee, the annual evaluation of the Board of Directors' work was conducted. In 2013, this appraisal was conducted via a survey, in which Directors were asked to express their degree of satisfaction with the state of affairs in the key areas of Board activity. After discussion, the Committee identified steps that can be taken to improve processes that are especially important for new Directors, such as improving how they are informed and establishing a stronger rapport with management. A new approach was adopted for planning work that will help the Board focus on Company priorities and rationally use the resources provided both by management and the Board.

Management Board

The day-to-day activities of the Company are overseen by an executive body, comprised of the Chief Executive Officer (CEO) and the Management Board.

The CEO is appointed by the Board of Directors for an indefinite term. Vladimir Rashevskiy has been CEO of SUEK since 2004 and chairs the Management Board. The principal tasks of the CEO and Management Board include the timely and effective execution of decisions arising from the General Meeting of Shareholders and the Board of Directors, as well as coordination of the Company's overall development strategy and activities.

The Management Board acts in the interests of the Company and its shareholders and reports to the General Meeting of Shareholders and to the Board of Directors. In accordance with the Company's Charter, members of the Management Board may not account for more than one-quarter of Board members.

As at 31 December 2013, the Management Board of OJSC SUEK membership was:

- Vladimir Rashevskiy – Chief Executive Officer
- Vladimir Artemiev – Production Director
- Igor Gribanovsky – Sales and Marketing Director
- Kuzma Marchuk – Director of Economics and Finance (CFO).

SUEK's governing bodies

During the year the Management Board held 23 meetings, including 12 face-to-face and 11 *in absentia*. 90 issues were discussed. The principal focus of discussions in 2013 included:

- taking prompt managerial decisions when actual results of operations deviate from forecasts. Improving the preparation and analysis of management statements to facilitate detailed discussion of current operations;
- leading implementation of key measures as part of the overall strategy, the various areas of business and regional production units, and handling related matters;
- regularly examining reports from regional production units and discussing key aspects of their operations;
- improving industrial safety and risk management procedures;
- leading implementation of the investment programme, ensuring effective implementation of major investment projects and improving how they are monitored;
- aspects of strategy in key sales sectors of export and domestic markets;
- implementing a programme to develop integrated logistics and ensure the infrastructure has enough throughput capacity for SUEK's coal exports;
- leading implementation of specific key business tasks for 2013 (eg increasing the pace of coal work and reducing time taken for equipment relocations in Kuzbass, completing the programme to eliminate outsourcing, executing projects to boost operational efficiency and choosing a programme to open up the Apsatsky open pit);
- studying new strategic development opportunities (eg acquiring new licences, reconfiguring the electricity business, transport assets);
- devising a new HR management strategy, emphasising staff and management motivation issues and introducing draft principles for long-term motivation. Examining issues relating to reducing staff shortages, undertaking organisational development and improving the structure of functional divisions; and
- devising a new IT strategy on the basis of an IT systems and infrastructure audit.

Management Board remuneration

Members of the Management Board and the CEO of the Company are remunerated via a fixed component (salary) and a variable component (bonus). The fixed element is established according to members' respective duties while the variable element provides an incentive for members to achieve the Company's strategic goals and facilitates the recruitment and retention of key individuals.

The size of the annual bonus is determined based on the attainment of key performance targets, which are determined annually for each member of the Management Board and individually for the CEO, based on the strategic goals of the Company. The total amount of performance-based remuneration paid to members of the Management Board and the CEO in 2013 was $5,918,458.

Accountability and effectiveness

Robust risk management is essential if SUEK is to achieve its strategic objectives and long-term sustainable growth. We therefore operate internal systems of control and audit that help to ensure the effective management of risk across the business.

Internal control and audit

Management is responsible for developing and implementing internal controls within SUEK. The Internal Control and Audit Department (ICAD) verifies their existence and monitors their effectiveness. The department's activities are focused on the assessment of:

- safeguarding of assets;
- quality of the reporting process;
- compliance with legal, regulatory and internal frameworks; and
- risks related to projects, processes, decisions and contracts – and the management of these risks.

SUEK's internal control system covers all key business processes including the preparation of financial statements, the system for collecting, processing and transferring information, and the generation of reports and communications containing operating, financial and other information.

ICAD's assignments within SUEK are conducted by teams with the requisite skills and experience. Internal audit guidelines and manuals cover the main procedures for key areas. The team reports on the results, including: the purpose of the assignment, the audit programme involved, inefficient controls identified, estimates of actual or potential losses and recommendations aimed at mitigating risk.

On completion of an audit, findings are communicated to management and the Audit Committee, and a rectification plan is developed. The results of the plan's implementation are assessed by ICAD specialists during subsequent assignments to establish whether the identified risks have been addressed and mitigated.

Fraud prevention

The Company operates a programme of activities aimed at combating fraud, theft and corruption. This comprises physical controls and technical measures, the promotion of honest behaviour by employees and the involvement of employees in identification and prevention of theft. Scheduled and unscheduled inspections are held regularly to review inventories and cash.

Several channels of communication are available to employees to notify management of any actions they consider fraudulent. Channels include email, a telephone 'hotline' and post. The provision of information is encouraged through a system of financial reward for identified fraudulent activities, depending on the extent of loss or potential loss resulting from the fraud.

Risk Management Committee

The responsibilities of the Risk Management Committee (which is a management committee, not a Committee of the Board) include overseeing the effectiveness of the risk management and internal control systems within SUEK and drafting recommendations on how to improve procedures. The Committee is responsible for approving the map of key risks and monitoring the operations' ability to mitigate them.

See pages 62-67 for more details of our risk management policy and processes.

OJSC SUEK's corporate governance continued

Committees of the Board of Directors

Strategy Committee

"The Strategy Committee shapes the development strategy for the Company. It implements a range of actions to mitigate any adverse effects of the global coal market environment, such as those observed during 2013."

Andrey Melnichenko
Chairman of the Strategy Committee
Chairman of the Board of Directors

See page 88 for biography.

Members
Andrey Melnichenko (Chairman of the Committee)
Klaus-Dieter Beck
Alexander Landia
Vladimir Rashevskiy
Dmitry Strezhnev

In 2013, the Committee held six face-to-face meetings.

Primary responsibilities
- Prepare recommendations for the Board of Directors concerning medium-term and long-term development strategies.
- Evaluate how SUEK responds to changing macroeconomic and market situations as well as the Company's cash flows, financing and investment programmes.
- Assess the state of industrial and environmental safety conditions at SUEK Group enterprises, and develop and monitor the system of key safety indicators.
- Analyse how strategic initiatives, risks and other factors may affect SUEK's performance.
- Prepare solutions that enable SUEK to make the most of its strategic advantages and new business opportunities.

Actions during 2013
- The Committee's agenda was driven mainly by the Board's work plan.
- The Committee reviewed the consolidated strategy for the next ten years, as well as individual strategies by segment and function, and plans for developing crucial and problem enterprises.
- The Committee implemented a set of actions to mitigate against the adverse coal market situation and increase SUEK's competitiveness.
- Production safety issues were high on the Committee's agenda. The Committee commissioned international experts RAG Mining Solutions to conduct integrated inspections.
- The Committee reviewed management's strategic initiatives and – allowing for existing risks – approved a number of proposals to expand the resource base, increase capacities, and purchase or sell individual assets etc.

Priorities for 2014
- Implementation of previously approved strategies and plans for developing business-critical enterprises.
- Identification of investment priorities and analysis of strategic options and their risks, organisational effectiveness, etc.
- Development of a concept for transferring to a new economic model of managing the Company with the aim of increasing shareholder value.

See page 96 to review our Strategy Committee meetings and attendance.

Nomination and Compensation Committee

"The Nomination and Compensation Committee continues to work on all aspects of human resources and governance as the Company transforms itself to the new model of management. In 2013 it was enhanced by the addition of two new Directors with substantial international experience in health, safety and environmental issues."

Alexander Landia
Chairman of the Nomination and Compensation Committee, Independent Director

See page 88 for biography.

Members
Alexander Landia (Chairman of the Committee)
Klaus-Dieter Beck
Dmitry Bosky (until January 2014)
Jaroslav Mil

In 2013, the Committee held six face-to-face meetings.

Primary responsibilities
- Assist management with HR strategy, nominations and compensation, corporate governance and social issues.
- Ensure continuity and strength of leadership and the creation of a talent pool.
- Evaluate and create training and development programmes for various management levels.
- Evaluate the effectiveness of controls over compliance with HSE regulation and internal policies and risk mitigation approaches.

Actions during 2013
- During the year the Committee monitored implementation of the HR strategy, identified key issues and assessed management actions to solve them.
- We implemented a pilot project for labour rate-setting at our Komsomolets mine and our Tugnuisky open pit. This allowed us to increase the quality of planning and personnel management, by assessing whether current recruitment methods are appropriate and successful and matching staffing numbers to production requirements. We also analysed management action to provide competent staff to mines, especially Urgal.
- The Committee worked to improve business processes and transferred to a target-based organisational structure.
- We set targets for top managers for 2014. These allow for the corporate EBITDA index in bonus cards, not only for key managers, but for all participants in the short-term incentives that affect achievement of targets either directly or indirectly. Top managers now have more stringent accountability for achieving KPIs in industrial and occupational safety.
- Under the Committee's supervision, systems for incentivising management were improved to align with SUEK'S strategic goals, including a newly-developed system of motivation for the head of the Sales Department.
- In consultation with shareholders, the Committee worked on attracting competent and active Directors to the Board and facilitated their involvement in the Company's activities. This resulted in the appointment of two new independent Directors with power generation and finance backgrounds.
- The Committee also arranged the annual evaluation of the Board and its activities.

Priorities for 2014
- Industrial and occupational safety.
- Monitoring the implementation of the HR strategy.
- Improvement of SUEK's organisational structure, including developing targets and concepts for management restructuring.
- Review of the 2014 targets and setting of management targets for 2015 in line with the Company's priorities.
- Recommendations for key appointments to the management team and Board.
- Creation of an effective incentive system.
- Assurance of continuity in the Company's management.
- Design of an integrated continuing professional development programme for Board members, supporting them to efficiently realise their professional potential developing policy decisions that contribute to the sustainable and profitable long-term development of SUEK.

See page 96 to review our Nomination and Compensation Committee meetings and attendance.

OJSC SUEK's corporate governance continued

Committees of the Board of Directors

Audit Committee

"During 2013 the Audit Committee was particularly satisfied with the thoroughness and efficiency of the financial reporting and auditing processes. Again SUEK PLC has issued audited annual IFRS accounts within a month of the year end – a highly creditable achievement. The Committee was also pleased to see progress during the year in the risk management approach, with the operation of the Risk Management Committee and more thorough development of the risk register. Controls around investment evaluation and planning processes have also brought greater rigour, control and accountability."

Richard Sheath
Chairman of the Audit Committee
Independent Director

See page 90 for biography.

Members
Richard Sheath (Chairman of the Committee)
Dmitry Bosky (until January 2014)
Clifford Kent Potter

In 2013, the Committee held seven face-to-face meetings and two meetings by conference calls.

Primary responsibilities
- Ensure the integrity of financial and other reporting.
- Supervise the preparation of annual financial statements and review the independent auditor's report and management letter.
- Assess the effectiveness of the external audit process;
- Oversee the internal control and risk management system including approval of procedures for internal control and monitoring of effectiveness.
- Oversee the Internal Control and Audit Department including reviewing of its audit findings on a quarterly basis and an annual effectiveness review.

Actions during 2013
- The Committee agreed an annual agenda with management, which ensures it is meeting its formal responsibilities. This included more specific reviews of particular aspects of internal control and risk management to ensure these are covered in depth.
- The IFRS financial statements were produced only for SUEK PLC. However, as this primarily consists of the operations of SUEK OJSC, the Audit Committee (as the Audit Committee of SUEK OJSC) made a recommendation to the SUEK PLC Board on the approval of the SUEK PLC IFRS accounts. Much of the Committee's work therefore focused on supervising the delivery of reliable and consistent financial statements by SUEK PLC. In 2013 a one-off exercise was conducted to audit the end-March IFRS financial statements. The usual end-June IFRS statements were also subject to review by KPMG.
- The financial statements for the year ended 2013 were published before the end of January. This was made possible by the management and auditor's work on the financial statements during November. This enabled the Audit Committee to discuss issues identified at that stage before the year end, so that any outstanding questions from the Committee could be investigated at an early stage. The Committee was pleased with the very limited number of unadjusted differences as agreed with the auditors.
- During 2013 the Committee paid particular attention to the valuation of mineral rights, impairment testing and the accuracy and valuation of inventory. The accounting for the investment in Murmansk Commercial Seaport also received particular attention.
- As part of the annual assessment of the efficiency of auditing processes, the Committee undertook a detailed review of the effectiveness of the external auditors. This included a questionnaire-based review of the opinions of stakeholders who have interaction with the auditors. KPMG also gave their opinion. The assessment was followed by a specific discussion with the auditors at a Committee meeting at which the KPMG relationship partner was present as well as the engagement partner. A number of actions were identified for both the auditors and management to address, but these were minor in nature. The Committee held two meetings with the external auditor partner without the presence of management; this partner also attends all Committee meetings.
- Under the Committee's supervision, an independent assessment of the effectiveness of the internal audit function was conducted by the Institute of Internal Auditors in Russia. The results enabled the Committee to agree recommendations for the further development of the internal control and audit function.
- As part of its routine activities, the Committee reviewed the reports of the Internal Control and Audit Department each quarter, and approved the internal audit plans and the department's budget.
- The Committee also worked closely with management to develop an improved structure for the Annual Report and the Corporate Social Responsibility Report. It is keen to ensure that stakeholders have the information they need to assess the Company's performance and risks. Having steered through changes in structure, format and content over the 2013 reporting cycle, it will pay particular attention to controls around non-financial indicators in 2014.
- Work on the format and content of management reports is ongoing. The Committee focuses on analytical sections, insisting on inclusion of representative data and strategic KPIs and clear interpretation of factors that affect achievement of the Company's goals.
- The Committee worked with management to develop risk management systems that are more effectively integrated into specific business processes. This work will continue throughout 2014 as management looks to implement a new approach to core business processes. The Committee also looked closely at IT risk management – and this will continue as IT systems are developed to support the new business process development.
- The control of the investment process was evaluated, leading to recommendations for project management standards, methods of project assessment, reporting on project management consistent with international standards, and accountability for implementation.
The Committee also reviewed a number of internal policies and practices including Company security, communication processes in the case of emergencies, transfer pricing, compliance with anti-monopoly and anti-bribery laws and liability insurance for Directors and officers.

Priorities for 2014
- Assurance of the quality of the risk management system, including further embedding into specific process areas.
- Management control of non-financial parameters in reporting.
- Supervision of compliance with regulatory requirements.
- Project governance for future IT system development.

See page 96 to review our Audit Committee meetings and attendance.

Auditors' report

to the Shareholders of SUEK PLC

We have audited the accompanying consolidated financial statements of SUEK PLC (the 'Company') and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

Emphasis of matter

During the year the Group changed its accounting policy for mineral rights. The reason for and the effects of this change are described in note 3.3 to the consolidated financial statements.

Romanenko A.M.
Director, (power of attorney dated 1 October 2013 No. 84/13)
ZAO KPMG
28 January 2014
Moscow, Russian Federation

Audited entity: SUEK PLC

A public limited liability company, incorporated in Cyprus on 13 April 2011 under the Cyprus Companies Law, Cap. 113.

Registered at 3 Georgiou Katsounotou, Kitallides Building, 2nd floor, 3036, Limassol, Cyprus

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership 'Chamber of Auditors of Russia'. The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2013

Millions of US Dollars

	Notes	2013	2012
Revenue	6	**5,381**	**5,635**
Cost of sales	7	(4,812)	(4,367)
Gross profit		**569**	**1,268**
Selling, general and administrative expenses	8	(128)	(139)
Other income/(expense), net	9	4	(17)
Operating profit		**445**	**1,112**
Finance costs, net	10	(142)	(144)
Share of profit of associates		–	9
(Loss)/gain from disposal of investments		(1)	28
Foreign exchange (loss)/gain		(197)	149
Profit before tax		**105**	**1,154**
Income tax benefit/(expense)	23	28	(187)
Net profit for the year		**133**	**967**
Net profit attributable to:			
Ordinary shareholders of the parent		100	927
Non-controlling interests		33	40
Net profit for the year		**133**	**967**
Basic and diluted earnings per share (in US Dollars)	18	0.24	2.26

Vladimir Rashevskiy
Director

Kuzma Marchuk
Director

28 January 2014

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 112 to 140.

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2013

Millions of US Dollars

	Notes	2013	2012
Net profit for the year		**133**	**967**
Other comprehensive (loss)/income			
Items, which may be re-classified to profit or loss in the future:			
Translation difference		(272)	72
Transfer of changes in fair value of cash flow hedges to profit or loss, net of deferred tax	15	(18)	(28)
Effective portion of changes in fair value of cash flow hedges, net of deferred tax	15	(16)	40
Change in fair value of available for sale investments, net of deferred tax		–	(17)
Total items, which may be re-classified to profit or loss in the future		**(306)**	**67**
Items, which may not be re-classified to profit or loss in the future:			
Revaluation surplus	4	2,756	–
Tax effect of revaluation surplus	4	(551)	–
Actuarial losses		(6)	(14)
Total items, which may not be re-classified to profit or loss in the future		**2,199**	**(14)**
Total other comprehensive income for the year		**1,893**	**53**
Total other comprehensive income attributable to:			
Ordinary shareholders of the parent		1,806	51
Non-controlling interests		87	2
Total other comprehensive income for the year		**1,893**	**53**
Total comprehensive income attributable to:			
Ordinary shareholders of the parent		1,906	973
Non-controlling interests		120	47
Total comprehensive income for the year		**2,026**	**1,020**

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 112 to 140.

Consolidated statement of financial position

as at 31 December 2013

Millions of US Dollars

	Notes	2013	2012*
Assets			
Non-current assets		**6,904**	**4,430**
Property, plant and equipment	11	6,348	3,917
Long-term receivables	24	300	300
Goodwill	29	142	151
Deferred tax assets	23	84	25
Other assets		30	37
Current assets		**1,301**	**1,713**
Inventories	12	455	462
Trade accounts and other receivables	13	400	850
Prepaid and recoverable taxes	14	164	231
Derivative financial assets	15	13	11
Cash and cash equivalents	16	269	159
Total assets		**8,205**	**6,143**
Equity and liabilities			
Equity		**2,645**	**1,541**
Share capital	17	–	–
Share premium	17	6,251	7,151
Other equity		(8,145)	(8,145)
Revaluation reserve		1,982	–
Hedging reserve		(41)	(7)
Translation reserve		(218)	11
Retained earnings		2,566	2,367
Attributable to ordinary shareholders of the parent		**2,395**	**1,377**
Non-controlling interests		**250**	**164**
Non-current liabilities		**3,802**	**3,027**
Long-term borrowings	19	2,928	2,560
Deferred tax liabilities	23	691	265
Other liabilities	20	183	202
Current liabilities		**1,758**	**1,575**
Short-term borrowings	19	785	738
Trade accounts and other payables	21	851	553
Derivative financial liabilities	15	49	209
Taxes payable	22	73	75
Total shareholders' equity and liabilities		**8,205**	**6,143**

* Restated to reflect the adoption of *IFRS 10 'Consolidated Financial Statements'* (see note 29).

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 112 to 140.

Consolidated statement of cash flows

for the year ended 31 December 2013

Millions of US Dollars

	Notes	2013	2012
Profit before tax		**105**	**1,154**
Adjustments to profit before tax:			
Amortisation and depreciation	7	592	384
Foreign exchange loss/(gain)		197	(149)
Finance costs, net	10	142	144
Loss/(gain) from disposal of property, plant and equipment	9	10	(2)
Bad debt expense	9	4	2
Loss/(gain) from disposal of investments		1	(28)
Share of profit of associates		–	(9)
Other, net		(1)	1
Changes in working capital items:			
Increase in inventories		(23)	(69)
Decrease/(increase) in trade accounts and other receivables		154	(96)
Decrease in prepaid and recoverable taxes (other than income tax)		38	10
Increase in trade accounts and other payables		273	80
Increase/(decrease) in taxes payable (other than income tax)		9	(17)
Net cash inflow from operations		**1,501**	**1,405**
Interest and commissions paid		(150)	(190)
Income tax paid		(91)	(176)
Net cash inflow from operating activities		**1,260**	**1,039**
Investing activities			
Purchase of property, plant and equipment		(761)	(896)
Acquisition of OJSC 'MMTP', less cash acquired	29	–	(110)
Interest received		42	17
Loans repaid/(issued), net	13	256	(96)
Proceeds from disposal of non-current investments		27	42
Proceeds from disposal of property, plant and equipment		33	9
Net cash outflow from investing activities		**(403)**	**(1,034)**
Financing activities			
Purchase of additional interest in subsidiaries	29	(13)	(269)
Execution of option agreements for shares of power companies	24	(207)	–
Proceeds from long-term borrowings		1,605	798
Repayments of long-term borrowings		(1,090)	(462)
Repayments of short-term borrowings, net		(99)	(12)
Share premium return to shareholders	17	(900)	–
Dividends paid to non-controlling interests		(11)	(17)
Net cash (outflow)/inflow from financing activities		**(715)**	**38**
Foreign exchange effect on cash and cash equivalents		(32)	(2)
Net increase in cash and cash equivalents		**110**	**41**
Cash and cash equivalents at the beginning of the year	16	159	118
Cash and cash equivalents at the end of the year	16	**269**	**159**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 112 to 140.

Consolidated statement of changes in shareholders' equity

for year ended 31 December 2013

Millions of US Dollars

	Notes	Share capital	Share premium	Other equity	Revaluation reserve	Hedging reserve	Retained earnings	Translation reserve	Attributable to ordinary shareholders of the parent	Non-controlling interests	Total
Balance at 1 January 2013		**–**	**7,151**	**(8,145)**	**–**	**(7)**	**2,367**	**11**	**1,377**	**164**	**1,541**
Net profit for the year		**–**	**–**	**–**	**–**	**–**	**100**	**–**	**100**	**33**	**133**
Items, which may be re-classified to profit or loss in the future:											
Translation difference		–	–	–	–	–	–	(229)	(229)	(43)	(272)
Effective portion of changes in fair value of cash flow hedges	15	–	–	–	–	(16)	–	–	(16)	–	(16)
Transfer of changes in fair value of cash flow hedges to the profit or loss	15	–	–	–	–	(18)	–	–	(18)	–	(18)
Total items, which may be re-classified to profit or loss in the future		**–**	**–**	**–**	**–**	**(34)**	**–**	**(229)**	**(263)**	**(43)**	**(306)**
Items, which may not be re-classified to profit or loss in the future:											
Revaluation surplus	4	–	–	–	2,603	–	–	–	2,603	153	2,756
Tax effect of revaluation surplus	4	–	–	–	(520)	–	–	–	(520)	(31)	(551)
Transfer of portion of the revaluation surplus to retained earnings		–	–	–	(101)	–	93	–	(8)	8	–
Actuarial loss		–	–	–	–	–	(6)	–	(6)	–	(6)
Total items, which may not be re-classified to profit or loss in the future		**–**	**–**	**–**	**1,982**	**–**	**87**	**–**	**2,069**	**130**	**2,199**
Total comprehensive income for the year		**–**	**–**	**–**	**1,982**	**(34)**	**187**	**(229)**	**1,906**	**120**	**2,026**
Purchase of additional interest in subsidiaries, net	29	–	–	–	–	–	12	–	12	(23)	(11)
Share premium return to shareholders	17	–	(900)	–	–	–	–	–	(900)	–	(900)
Dividends to non-controlling interests		–	–	–	–	–	–	–	–	(11)	(11)
Balance at 31 December 2013		**–**	**6,251**	**(8,145)**	**1,982**	**(41)**	**2,566**	**(218)**	**2,395**	**250**	**2,645**

	Notes	Share capital	Share premium	Other equity	Hedging reserve	Retained earnings	Translation reserve	Attributable to ordinary shareholders of the parent	Non-controlling interests	Total
Balance at 1 January 2012		**–**	**7,151**	**(8,145)**	**(19)**	**1,497**	**(54)**	**430**	**81**	**511**
Net profit for the year		**–**	**–**	**–**	**–**	**927**	**–**	**927**	**40**	**967**
Translation difference		–	–	–	–	–	65	65	7	72
Effective portion of changes in fair value of cash flow hedges	15	–	–	–	40	–	–	40	–	40
Transfer of changes in fair value of cash flow hedges to the profit or loss	15	–	–	–	(28)	–	–	(28)	–	(28)
Actuarial loss		–	–	–	–	(14)	–	(14)	–	(14)
Change in fair value of available for sale investments		–	–	–	–	(17)	–	(17)	–	(17)
Total comprehensive income for the year		**–**	**–**	**–**	**12**	**896**	**65**	**973**	**47**	**1,020**
Purchase of additional interest in subsidiaries, net		–	–	–	–	(21)	–	(21)	(24)	(45)
Consolidation of OJSC 'MMTP'	29	–	–	–	–	–	–	–	72	72
Consolidation of LLC 'Stividornaya Kompaniya "Maly Port"'	29	–	–	–	–	(5)	–	(5)	5	–
Dividends to non-controlling interests		–	–	–	–	–	–	–	(17)	(17)
Balance at 31 December 2012		**–**	**7,151**	**(8,145)**	**(7)**	**2,367**	**11**	**1,377**	**164**	**1,541**

The consolidated statement of changes in shareholders' equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 112 to 140.

Notes to the consolidated financial statements

for the year ended 31 December 2013

Millions of US Dollars, unless otherwise stated

1. General information

Organisation and principal activities. SUEK PLC (the 'Company') was founded and registered in the Republic of Cyprus ('Cyprus') on 13 April 2011. The Company and its subsidiaries are collectively referred to as the Group. The principal activity of the Group is the extraction and sale of coal.

The principal ultimate beneficiary of SUEK PLC is Mr Andrey Melnichenko. MADAKE ENTERPRISES COMPANY LIMITED is the immediate parent company of SUEK PLC.

SUEK PLC has its registered office at 3, Georgiou Katsounotou, Kitallides building, 3036, Limassol, 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:

- valuation of property, plant and equipment, including mineral rights, at the date of adoption of *IFRS 1 'First Time Adoption of International Financial Reporting Standards'* ('IFRS 1') which provides for entities to elect to measure items of property, plant and equipment, including mineral rights at fair value, and use that value as deemed cost in the future. The Group elected to measure property, plant and equipment, including mineral rights, at fair value as of 1 January 2005, which forms the deemed cost of these assets;
- mineral rights were re-valued at 1 January 2013 and 31 December 2013 as described in note 4; and
- derivative financial instruments and available for sale financial assets which are stated at fair value.

Functional currency. The functional currency of the Russian subsidiaries of the Group is the Russian Rouble ('RUB'), which is the currency of primary economic environment where these entities operate. The functional currency of the Company and its foreign trading subsidiaries is the US Dollar ('USD').

Presentation currency. The presentation currency is 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 exchange rates applied at 31 December and during the years then ended (in RUB):

	USD	
	2013	**2012**
Year end	32.7292	30.3727
Average rate	31.8480	31.0930

Adoption of new and revised standards and interpretations

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2013:

- *Amended IAS 19 'Employee Benefits',* which makes changes to the recognition and measurement of defined benefit expense and termination benefits, and to the disclosures for all employee benefits. This amendment does not have a material effect on the Group's consolidated financial statements.
- *Amended IAS 28 'Investments in Associates and Joint Ventures'* prescribes the accounting for investments in associates and contains the requirements for the application of the equity method to investments in associates and joint ventures. This amendment does not have a significant impact on the Group's consolidated financial statements.
- *Amended IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities'* requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. This amendment does not have a significant impact on the Group's consolidated financial statements.
- *IFRS 10 'Consolidated Financial Statements',* which replaces all of the guidance on control and consolidation in *IAS 27 'Consolidated and Separate Financial Statements'* and *SIC-12 'Consolidation – Special Purpose Entities'*. The impact of adoption of this new standard is disclosed in note 29.
- *IFRS 11 'Joint Arrangements',* which replaces *IAS 31 'Interests in Joint Ventures'* and *SIC-13 'Jointly Controlled Entities – Non-Monetary Contributions by Venturers'*. The new standard does not have a significant impact on the Group's consolidated financial statements.
- *IFRS 12 'Disclosure of Interests in Other Entities',* which requires new disclosures by entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The Group has expanded its disclosure about its interests in subsidiaries (see note 29).
- *IFRS 13 'Fair Value Measurement',* which aims to improve disclosures and achieve consistency by providing a revised definition of fair value. The Group has included the required disclosures (see note 27).
- *IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine'.* Under the interpretation, production stripping costs that provide access to coal to be mined in the future are capitalised as non-current assets if the component of the coal body for which access has been improved can be identified and future benefits arising from the improved access are both probable and reliably measurable. The interpretation also addresses how capitalised stripping costs should be depreciated and how capitalised amounts should be allocated between inventory and the stripping activity asset. The effect of adoption of this IFRIC is explained in note 3.16.

A number of new standards, amendments to standards and interpretations are not yet effective at 31 December 2013, and have not been early adopted:

- *Amended IAS 32 'Offsetting Financial Assets and Financial Liabilities'* (effective for annual periods beginning on or after 1 January 2014, with earlier application permitted), which clarifies the meaning of 'currently has a legally enforceable right of set-off'. The Group does not expect the amendments to have any material effect on its consolidated financial statements.
- *Amended IAS 36 'Impairment of Assets'* (effective for annual periods beginning after 1 January 2014 earlier application is permitted if *IFRS 13 'Fair Value Measurement'* is applied for the same accounting and comparative period) removes the requirement to disclose the recoverable amount when a cash generating unit contains goodwill or indefinite lived intangible assets but there has been no impairment. The amendment will have an impact only on disclosures of an impairment of assets in the consolidated financial statements.
- *Amended IAS 39 'Financial Instruments: Recognition and Measurement'* (effective for annual periods beginning on or after 1 January 2014, with earlier application permitted) provides an exception to the requirement for the discontinuation of hedge accounting in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations. The Group does not expect the amendments to have any material effect on its consolidated financial statements.
- *IFRS 9 'Financial Instruments'* is to be issued in phases and is intended ultimately to replace *IAS 39 'Financial Instruments: Recognition and Measurement'*. The first phase of IFRS 9 (issued in November 2009, effective for annual periods beginning on or after 1 January 2017, with earlier application permitted) relates to the classification and measurement of financial assets. The Group is currently assessing the impact of the standard on the 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 arising from intra-group transactions, 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 the 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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2013

Millions of US Dollars, unless otherwise stated

3. Significant accounting policies continued

3.1. Basis of consolidation *continued*

Associates. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Interests in associates are accounted using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of associates, until the date on which significant influence ceases.

3.2. Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate ruling 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, liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated statement of financial position presented;
- all income and expenses in the consolidated statement of profit or loss are translated at the average exchange rates for the years presented;
- resulting exchange 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.

3.3. Property, plant and equipment

Basis of carrying value of property, plant and equipment.

Assets in existence at 1 January 2005. Property, plant and equipment in existence at 1 January 2005 were valued by an independent firm of professionally qualified valuers. The basis of the valuation was fair value, which is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of marketable assets was determined as their market value.

However, a significant part of property, plant and equipment, being of a specialised nature, was valued on the depreciated replacement cost basis. For each item of property, plant and equipment, the new replacement cost was estimated as the current cost to replace the asset with a functionally equivalent asset. The new replacement cost was then adjusted for accumulated depreciation, including both physical depreciation and functional and economic obsolescence, to arrive at the fair value of the asset.

Fair value amounts have subsequently been treated as deemed cost in accordance with the requirements of IFRS 1.

Assets acquired after 1 January 2005. Property, plant and equipment acquired after 1 January 2005 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 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 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.

Mineral rights. Mineral rights include expenditures incurred in acquiring mineral and development rights. Mineral rights are classified as property, plant and equipment.

The Group has changed its accounting policy for mineral rights which are carried at fair value starting from 1 January 2013. Management believes that the new accounting policy presents more fairly the consolidated financial position of the Group by recognising the value of the mineral resource base, which is the Group's core asset at fair value in its consolidated statement of financial position.

The fair value is determined as a value in use 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 restated to the revalued amount of the asset. Revaluations are performed on 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.

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 are as follows:

• mineral rights	5–95 years
• buildings, structures and utilities	15–44 years
• machinery, equipment and transport	4–15 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 capitalised 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, between:

- 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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2013

Millions of US Dollars, unless otherwise stated

3. Significant accounting policies continued

3.5. Impairment *continued*

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 geophysical, topographical, geological and similar types of expenditure) are capitalised as exploration and evaluation assets on a project-by-project basis pending determination of the technical feasibility and commercial viability of the project. The technical feasibility and commercial viability of extracting coal is considered to be determinable when proven coal reserves are determined to exist. Expenditure deemed to be unsuccessful is recognised immediately in profit or loss.

3.7. Inventories

Coal. Coal is measured at the lower of production cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. Production costs include on-mine and processing costs, as well as transportation costs to the point of sale.

Consumable stores and materials. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.8. Financial instruments

Non-derivative financial instruments. Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The 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 initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets 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: financial assets 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 classified as held-to-maturity. 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 principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. 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 instrument. 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, bank overdrafts, and 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 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 periods during which the hedged item affects profit or loss.

When a hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, or the designation is revoked, then hedge accounting is discontinued prospectively. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is reclassified to profit or loss.

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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2013

Millions of US Dollars, unless otherwise stated

3. Significant accounting policies continued

3.8. Financial instruments *continued*

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost. The Group considers evidence of impairment for these assets at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets. Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed through profit or loss; otherwise, it is reversed though other comprehensive income.

3.9. Provisions

Provisions are recognised when the Group has legal or constructive obligations, as a result of a past event for which it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.10. Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting year is recognised as an expense in that reporting year.

Defined contribution plan. The Group contributes to the Pension Fund of the Russian Federation, a defined contribution pension plan. The only obligation of the Group is to make the specified contributions in the year in which they arise and these contributions are expensed as incurred.

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. Treasury shares

Treasury shares are the Company's own equity instruments that are held by the Company or its subsidiaries.

3.12. 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 the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. In addition, deferred tax is not recognised for temporary differences arising on the initial recognition of goodwill and temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

3.13. 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.

3.14. Operating lease payments

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

3.15. 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.

3.16. Overburden removal expenditure

In open pit coal mining operations, it 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 open pit mine are capitalised as the cost of the development of the mining 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 volume of coal extracted) is relatively constant over the periods, therefore stripping costs incurred during the production phase of the open pit mine are recognised in the profit or loss as incurred.

Millions of US Dollars, unless otherwise stated

3. Significant accounting policies continued

3.17. Environmental obligation

Environmental obligation includes provision for decommissioning and site restoration costs.

Environmental provision is recognised when the Group has a present legal or constructive obligation as a result of past events that existed at the balance sheet date:

- to dismantle and remove its items of property, plant and equipment (decommissioning); and
- to restore site damage after the commencement of coal production to bring the land into a condition suitable for its further use (site restoration).

Estimated future costs are provided for at the present value of estimated future expenditures expected to be incurred to settle the obligation, using estimated cash flows, based on current prices adjusted for the inflation.

The increase in the provision through unwinding of the obligation over the life of mine, due to the passage of time, is recognised as a finance cost in profit or loss.

Changes in the obligation, reassessed regularly, related to new circumstances or changes in law or technology, or in the estimated amount of the obligation, or in the pre-tax discount rates, are recognised as an increase or decrease of the cost of the relevant asset to the extent of the carrying amount of the asset; the excess is recognised immediately in profit or loss.

Gains from the expected disposal of mining assets at the end of the life of mine are not taken into account when determining the provision.

3.18. Sale and leaseback transactions

The Group engages in certain transactions which meet the criteria for accounting as sale and leaseback transactions. Where the transaction results in a finance lease, the excess of sales proceeds over the carrying value is deferred and recognised in profit or loss over the term of the lease.

3.19. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in profit or loss for the year in which they are incurred.

3.20. Goodwill

Goodwill arises on acquisitions and is recognised as an asset initially measured at cost, being the excess of the cost of the business combination over the Group's share of the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition. If the Group's share of the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities, after reassessment, exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. Transaction costs incurred in a business combination are expensed.

The Group elected not to restate past business combinations at the date of adoption of IFRS.

4. Critical accounting judgements and estimates

In the process of applying the Group's accounting policies management has made the following principal judgements and estimates that have a significant effect on the amounts recognised in the consolidated financial statements. Actual results may differ from these estimates.

Coal reserve estimates. Coal reserve estimates are used as the basis for future cash flows, which enter into valuation of mineral rights, determination of provision for environmental obligations, calculations of amortisation and depreciation of mining assets, unwinding of discount on environmental obligation 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 the international miners' experts' terminology). The estimates are based on several assumptions as to 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 regular revisions of the coal reserve estimates that are confirmed by independent consulting mining engineers.

Although management's long-term mine plans exceed the remaining useful life of some of the mining licences of the Group, the Group has a legal right to apply for the extension of the licences for its existing mining resources and therefore management is confident that the licences will be extended provided that it is the same coal resource within the original mining licence and that certain other conditions are met. Extensions to new seams or adjacent areas are subject to open auctions. Delay or failure in securing relevant government approvals or licences, as well as any adverse change in government policies, may cause a significant adjustment to development and acquisition plans, which may have a material adverse effect on the Group's financial position and performance.

Valuation of mineral rights. Mineral rights for hard and brown 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 as a value in use 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. 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 machinery and equipment recently acquired by the Group or, if no such purchases were made, by applying a price index for the relevant year of acquisition for mining equipment to the residual value of items.

At 1 January 2013 the cumulative effect of the revaluation of the mineral rights assets was an increase of $2,756 million; the after tax effect on equity was an increase of $2,205 million.

At 31 December 2013 the Group re-measured mineral rights based on valuation performed by internal specialists. 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 life-of-mine models constructed for every cash-generating mining unit and based on an assessment of proven and probable reserves performed by the professional appraiser. The last appraisal of proven and probable reserves took place in April 2011;
- export coal sales volumes were estimated to grow at an average rate of 5% per annum in 2014-2018 based on projected production volumes of export-grade coal and the available capacity of the transport infrastructure and remain stable thereafter;
- export coal prices for 2014-2017 were projected to grow based on a consensus forecast of investment banks at 2.4% and 3.8% per annum for Asian and European markets, respectively; and at 2% per annum from 2018 in line with expected long-term USD inflation;
- domestic coal sales volumes were estimated to remain at the current level in 2014-2018;
- domestic coal prices for 2014-2017 were projected to grow based on long-term coal supply contracts in average at 5% in Russian Rouble terms and at 5% per annum from 2018 in line with expected long-term RUB inflation;
- regulated railroad tariffs were estimated to grow at 5% per annum in line with expected long term Russian CPI inflation;
- the cash flow forecasts were discounted to their present value at the nominal weighted average cost of capital of 13.8% for mining units in Russian Rouble terms.

Mineral rights of greenfield coking coal segment are carried at historical cost as the fair value does not significantly differ from its book value.

At 31 December 2013 the cumulative effect of the revaluation of the mineral rights does not materially differ from the valuation as at 1 January 2013 in RUB terms.

A change of 1% in the key assumptions has the following effect on the fair value of the mineral rights:

	Effect on the fair value
Export coal sales volumes	134
Export coal prices	57
Domestic coal sales volumes	80
Domestic coal prices	117
Regulated railroad tariffs growth	139
Weighted average cost of capital	63

Determination of recoverable amount of property, plant and equipment of coal segment (other than mineral rights). The recoverable amount of the property, plant and equipment of coal segment (other than mineral rights) as at 31 December 2013 was determined either based on market prices for similar items of machinery and equipment recently acquired by the Group or, if no such purchases were made, by applying a price index for the relevant year of acquisition for mining equipment to the residual value of items. As a result of the testing no impairment loss was recognised.

Notes to the consolidated financial statements continued

for the year ended 31 December 2013

Millions of US Dollars, unless otherwise stated

4. Critical accounting judgements and estimates continued

Determination of recoverable amount of property, plant and equipment and goodwill of ports and logistics assets.

The recoverable amount was determined based on value in use 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:

- the cash flows projections were based on the business model for 2014-2018;
- the coal transhipment volumes are projected to satisfy own sales requirements;
- the port tariffs are projected to grow at 2% per annum from 2013 in line with expected long-term USD inflation;
- the cash flow projections were discounted to their present value at the nominal weighted average cost of capital of 11% for port units in RUB terms.

The model applied for impairment testing is not sensitive to assumptions used by management because value in use is significantly greater than carrying values of cash generating unit assets.

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

5. Segmental information

The Group evaluates performance and makes investment and strategic decisions based upon a review of the profitability of the Group as a whole, and based on operating segments. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses and whose operating results are regularly reviewed by management.

Operating segments identified by management include hard coal, brown coal, coking coal, ports and logistics and power segments. Hard coal, brown coal and coking coal segments represent operations of the coal mining companies including extraction, washing and sales of respective coal; the ports and logistics segment includes railroad transportation assets and ports; power segment assets consist of a long-term receivable for the power business, investments in OJSC 'DEC' and OJSC 'Kuzbass Power Sales Company'.

Operating segment information of the Group at 31 December 2013 and for the year then ended is as follows:

	Hard coal	Brown coal	Coking coal	Ports and logistics	Power	Inter-segment elimination	Total
Segment revenue and profitability							
Segment external revenues	4,624	668	11	78	–	–	**5,381**
Inter-segment revenues	352	183	41	300	–	(876)	**–**
Segment expenses	(4,757)	(647)	(63)	(221)	–	876	**(4,812)**
Gross profit/(loss)	**219**	**204**	**(11)**	**157**	**–**	**–**	**569**
Amortisation and depreciation	(474)	(69)	(5)	(44)	–	–	**(592)**
Interest expense	(125)	(12)	(5)	(23)	–	38	**(127)**
Interest income	43	5	–	3	15	(38)	**28**
(Loss)/profit before tax	(203)	172	(9)	129	16	–	**105**
Income tax benefit/(expense)	44	2	2	(17)	(3)	–	**28**
Net (loss)/profit for the year	**(159)**	**174**	**(7)**	**112**	**13**	**–**	**133**
Capital expenditures incurred during the year	665	37	10	85	–	–	**797**
Segment assets and liabilities							
Total segment assets	**5,957**	**2,169**	**312**	**768**	**318**	**(1,319)**	**8,205**
Total segment liabilities	**5,378**	**1,077**	**87**	**337**	**–**	**(1,319)**	**5,560**

Operating segment information of the Group at 31 December 2012 and for the year then ended is as follows:

	Hard coal	Brown coal	Coking coal	Ports and logistics	Power	Inter-segment elimination	Total
Segment revenue and profitability							
Segment external revenues	5,203	420	1	11	–	–	**5,635**
Inter-segment revenues	320	356	5	212	–	(893)	**–**
Segment expenses	(4,566)	(557)	(22)	(115)	–	893	**(4,367)**
Gross profit/(loss)	**957**	**219**	**(16)**	**108**	**–**	**–**	**1,268**
Share of profit of associates	–	–	–	7	2	–	**9**
Amortisation and depreciation	(316)	(39)	(1)	(28)	–	–	**(384)**
Interest expense	(130)	(3)	(2)	(19)	–	29	**(125)**
Interest income	36	6	–	–	15	(29)	**28**
Profit/(loss) before tax	816	249	(17)	89	17	–	**1,154**
Income tax (expense)/benefit	(128)	(43)	14	(27)	(3)	–	**(187)**
Net profit/(loss) for the year	**688**	**206**	**(3)**	**62**	**14**	**–**	**967**
Capital expenditures incurred during the year	756	72	49	61	–	–	**938**
Segment assets and liabilities							
Total segment assets	**4,270**	**1,314**	**322**	**757**	**324**	**(844)**	**6,143**
Total segment liabilities	**4,537**	**299**	**72**	**345**	**193**	**(844)**	**4,602**

6. Revenue

	2013	2012
Coal sales	**5,228**	**5,523**
Pacific region	2,136	2,229
Atlantic region	1,512	1,691
Russian Federation	1,580	1,603
Other	**153**	**112**
Total	**5,381**	**5,635**

Notes to the consolidated financial statements continued

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Millions of US Dollars, unless otherwise stated

7. Cost of sales

	2013	2012
Transportation	2,126	2,154
Labour	681	555
Amortisation and depreciation	592	384
Consumables and spares	516	418
Coal purchased from third parties	266	238
Repairs and maintenance services	156	152
Purchased power	93	88
Tax on mining	53	46
Fire and rescue brigades expenses	34	31
Property tax	33	30
Land rent	31	27
Other	231	244
Total	**4,812**	**4,367**

8. Selling, general and administrative expenses

	2013	2012
Salaries	72	74
Charitable donations	19	20
Consulting, legal, audit and other professional services	16	20
Office rent	11	12
Customs duties	2	5
Other	8	8
Total	**128**	**139**

9. Other (income)/expense, net

	2013	2012
Loss/(gain) from disposal of property, plant and equipment	10	(2)
Bad debt expense	4	2
Penalties	(4)	2
Other	(14)	15
Total	**(4)**	**17**

10. Finance costs, net

	2013	2012
Interest expense	127	125
Bank commissions and charges	40	33
Unwinding of discount on environmental obligation	8	8
Change in fair value of derivatives, other than hedging	(5)	6
Interest income	(28)	(28)
Total	**142**	**144**

11. Property, plant and equipment

	Mineral rights	Buildings, structures and utilities	Machinery, equipment, transport and other	Construction-in-progress	Total
Cost					
Balance at 1 January 2012	**1,241**	**875**	**1,998**	**182**	**4,296**
Additions	18	–	–	920	938
Consolidation of ports (see note 29)	–	26	80	6	112
Transfers	3	125	401	(529)	–
Disposals	–	(4)	(41)	–	(45)
Effect of translation to presentation currency	75	56	126	20	277
Balance at 31 December 2012	**1,337**	**1,078**	**2,564**	**599**	**5,578**
Revaluation of mineral rights (see note 4)	2,756	–	–	–	2,756
Additions	23	–	–	774	797
Transfers	–	361	501	(862)	–
Disposals	–	(2)	(126)	–	(128)
Effect of translation to presentation currency	(297)	(93)	(195)	(45)	(630)
Balance at 31 December 2013	**3,819**	**1,344**	**2,744**	**466**	**8,373**
Accumulated amortisation and depreciation					
Balance at 1 January 2012	**200**	**144**	**876**	**5**	**1,225**
Amortisation and depreciation	34	73	286	–	393
Disposals	–	(2)	(36)	–	(38)
Effect of translation to presentation currency	13	10	58	–	81
Balance at 31 December 2012	**247**	**225**	**1,184**	**5**	**1,661**
Amortisation and depreciation	157	81	354	–	592
Disposals	–	(2)	(90)	(1)	(93)
Effect of translation to presentation currency	(22)	(18)	(95)	–	(135)
Balance at 31 December 2013	**382**	**286**	**1,353**	**4**	**2,025**
Net book value at 31 December 2012	**1,090**	**853**	**1,380**	**594**	**3,917**
Net book value at 31 December 2013	**3,437**	**1,058**	**1,391**	**462**	**6,348**

During the year ended 31 December 2013 borrowing costs of $8 million were capitalised into Group assets (2012 – $5 million).

Group assets include advances issued for capital expenditures of $43 million (31 December 2012 – $86 million).

If mineral rights had been carried at the historical cost, the net book value of property, plant and equipment at 31 December 2013 would have been $3,693 million.

Notes to the consolidated financial statements continued

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12. Inventories

	2013	2012
Coal stock	278	310
Consumable stores and materials	188	171
Less: Allowance for obsolescence	11	19
Net consumable stores and materials	177	152
Total	**455**	**462**

13. Trade accounts and other receivables

	2013	2012
Trade accounts receivable	306	456
Advances issued	86	98
Loans issued to related parties	–	256
Other receivables	21	62
Subtotal	**413**	**872**
Less: Allowance for doubtful debts	13	22
Total	**400**	**850**

14. Prepaid and recoverable taxes

	2013	2012
Value added tax recoverable	102	152
Income tax receivable	58	78
Prepaid other taxes	4	1
Total	**164**	**231**

15. Derivative financial instruments

	2013		2012	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Coal swaps	2	–	8	–
Freight swaps	–	–	–	16
Cross currency interest rate swap	–	49	–	–
Option agreements for shares of power companies (see note 24)	–	–	–	193
Other derivatives	11	–	3	–
Total	**13**	**49**	**11**	**209**

Derivative financial instruments were valued using observable inputs, which correspond to Level 2 of the hierarchy of the fair value measurements (see note 27). Details of the effective portion of changes in fair value of cash flow hedges were as follows:

	2013		2012	
	Loss recognised in comprehensive income	Gain recycled from comprehensive income to the profit or loss	Gain recognised in comprehensive income	Gain recycled from comprehensive income to the profit or loss
Effective portion of changes in fair value of cash flow hedges	(20)	(20)	46	(29)
Deferred tax	4	2	(6)	1
Total	**(16)**	**(18)**	**40**	**(28)**

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

	2013		2012	
	Volume (000 tonnes)	Derivative assets	Volume (000 tonnes)	Derivative assets
0–3 months	690	–	2,160	6
3–6 months	510	2	750	1
6–9 months	–	–	285	1
9–12 months	270	–	45	–
Total	**1,470**	**2**	**3,240**	**8**

At 31 December 2013 the average coal price under the coal swaps was $84 per tonne (31 December 2012 – $94 per tonne).

Freight swaps. The Group uses freight swaps to hedge the time-charter equivalent index used in determining the price of freight. At 31 December 2013, the notional amount of the hedged facilities amounted to 720 freight days (31 December 2012 – 2,244 freight days).

Cross currency interest rate swaps. In 2013, the Group entered into a number of RUB/USD cross currency interest rate swaps to manage interest and foreign currency risks associated with RUB-denominated bonds. At 31 December 2013, the outstanding balance of RUB-denominated bonds amounted to $367 million.

16. Cash and cash equivalents

		2013	2012
Current accounts	– RUB	99	30
	– foreign currency	93	74
Other cash and cash equivalents	– RUB	41	17
	– foreign currency	33	16
Restricted cash under coal swaps	– foreign currency	3	22
Total		**269**	**159**

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17. Share capital and reserves

	Number of shares, in thousands			
	2013	2012	2013	2012
Authorised share capital				
Ordinary shares	550,000	550,000	–	–
Issued share capital				
Ordinary shares	410,000	410,000	–	–
Total	**410,000**	**410,000**	**–**	**–**

Ordinary shares have a par value of $0.0005. All issued shares were fully paid.

Share premium return to shareholders. In the third and fourth quarters 2013, SUEK PLC reduced the share premium by cash payment to the shareholders of the Company in the amount of $900 million.

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.

	2013	2012
Weighted average number of ordinary shares in issue (in thousands)	410,000	410,000
Profit for the year attributable to ordinary shareholders of the parent	100	927
Basic and diluted earnings per share (in USD)	**0.24**	**2.26**

19. Borrowings

	Effective interest rate	2013	2012
Long-term borrowings			
Variable rate borrowings		**3,065**	**2,870**
USD denominated borrowings	6M LIBOR + 1.05% to 1M LIBOR + 3.7%	2,852	2,642
EUR denominated borrowings	6M EURIBOR + 0.7% to 1M EURIBOR + 3.25%	213	228
Fixed rate borrowings		646	350
RUB denominated bonds	8.25% to 8.7%	377	344
USD denominated borrowings	0.95%	258	–
Other borrowings		11	6
Subtotal		**3,711**	**3,220**
Less: Current portion of long-term borrowings		783	660
Total long-term borrowings		**2,928**	**2,560**
Short-term borrowings			
USD denominated borrowings	3M LIBOR + 1.5%	2	78
Subtotal		**2**	**78**
Current portion of long-term borrowings		783	660
Total short-term borrowings		**785**	**738**

The Group's long-term borrowings have restrictive covenants including, but not limited to, the requirement to maintain minimum ratios associated with the following items:

- 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. Other long-term liabilities

	2013	2012
Provision for environmental obligation	63	76
Provision for defined benefit obligation	79	77
Other long-term liabilities	41	49
Total	**183**	**202**

Provision for environmental obligation. The extent and cost of future site restoration programmes are inherently difficult to estimate and depend on the estimated lives of the 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:

Discount rate	9%	8%
Inflation rate	5%	6%

Provision for defined benefit obligation. Actuarial assumptions used for the calculation of the defined benefit obligation were as follows:

Discount rate	8%	8%
Inflation rate	5%	6%
Future increases of salaries	6%	6%

21. Trade accounts and other payables

	2013	2012
Advances from customers	318	176
Trade accounts payable and accruals	229	172
Promissory notes payable	104	–
Accrual for vacation payments	56	56
Wages and salaries	49	55
Other creditors	95	94
Total	**851**	**553**

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22. Taxes payable

	2013	2012
Value added tax	28	23
Income tax	19	27
Social security contributions	13	13
Other	13	12
Total	**73**	**75**

23. Taxation

	2013	2012
Current income tax expense	95	161
Deferred income tax (benefit)/expense	(123)	26
Income tax (benefit)/expense	**(28)**	**187**

A reconciliation of theoretical income tax, calculated at the rate effective in the Cyprus, 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:

Profit before tax	**105**	**1,154**
Theoretical income tax expense at 12.5% tax rate applicable to the Company in 2013 (2012 – 10%)	13	115
Tax effect of sale of power companies' shares	(42)	–
Impact of specific tax rates in Russian Federation	(7)	79
Impact of specific tax rates in Switzerland	(5)	(5)
Tax effect of non-deductible expenses	13	(2)
Total income tax (benefit)/expense	**(28)**	**187**

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

	Opening balance	Recognised in equity	Recognised in the statement of profit or loss	Effect of translation to presentation currency	Closing balance
2013					
Deferred tax assets	**67**	**4**	**127**	**(6)**	**192**
Tax losses carried forward	9	–	125	(5)	129
Derivative financial liabilities	1	4	(2)	–	3
Prepaid expenses and accruals	16	–	8	1	25
Employee benefit obligations	15	–	2	(1)	16
Environmental and other provisions	21	–	(4)	(1)	16
Trade accounts and other receivables	5	–	(2)	–	3
Deferred tax liabilities	**(307)**	**(551)**	**(4)**	**63**	**(799)**
Property, plant and equipment	(265)	(551)	(15)	60	(771)
Inventory	(20)	–	1	2	(17)
Other	(22)	–	10	1	(11)
Net deferred tax liabilities	**(240)**	**(547)**	**123**	**57**	**(607)**

	Opening balance	Recognised in equity	Recognised in the statement of profit or loss	Effect of translation to presentation currency	Closing balance
2012					
Deferred tax assets	**70**	**(5)**	**(1)**	**3**	**67**
Tax losses carried forward	22	–	(14)	1	9
Derivative financial liabilities	5	(5)	1	–	1
Prepaid expenses and accruals	11	–	4	1	16
Employee benefit obligations	11	–	3	1	15
Environmental and other provisions	18	–	3	–	21
Trade accounts and other receivables	3	–	2	–	5
Deferred tax liabilities	**(275)**	**–**	**(25)**	**(7)**	**(307)**
Property, plant and equipment	(257)	–	(1)	(7)	(265)
Inventory	(5)	–	(15)	–	(20)
Other	(13)	–	(9)	–	(22)
Net deferred tax liabilities	**(205)**	**(5)**	**(26)**	**(4)**	**(240)**

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 $1,833 million (31 December 2012 – $1,775 million).

Tax losses carried forward existing as at 31 December 2013 expire within 10 years from the balance sheet date.

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

	2013	2012
Deferred tax assets	84	25
Deferred tax liabilities	(691)	(265)
Net deferred tax liabilities	**(607)**	**(240)**

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24. Related parties transactions

Related parties are considered to include the ultimate beneficiaries, affiliates and entities under common ownership and control within the Group. 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:

	2013	2012
Revenue from SIBERIAN ENERGY INVESTMENTS Group	657	674
Coal sales to DEC Group, an associate of a party under common control	197	211
Transhipment services rendered by associates	–	53
Gain from disposal of investments to a party under common control	–	28
Other purchases	41	34

The outstanding balances with related parties are as follows:

Long-term receivables from SIBERIAN ENERGY INVESTMENTS Group	300	300
Trade accounts and other receivables from DEC Group	25	53
Advances received from SIBERIAN ENERGY INVESTMENTS Group	17	–
Trade accounts and other receivables from SIBERIAN ENERGY INVESTMENTS Group	3	90
Other loans issued to parties under common control	–	256
Remuneration of the Board of Directors and the Management Board members	7	7

Long-term receivables from SIBERIAN ENERGY INVESTMENTS Group. The long-term receivable is a part of consideration for the power business de-merged from the coal business of SUEK in 2011. The long-term receivable matures in 3 years, is denominated in USD and bears interest at 5%. The interest income for the year ended 31 December 2013 totalled $15 million (2012 – $15 million).

Option agreements for shares of power companies. At 31 December 2012, the Group held put-call option agreements with third parties to acquire for $292 million and with SIBERIAN ENERGY INVESTMENTS Group to sell for $92 million all of the following: 13.79% in Kuzbassenergo, OJSC 'Kuznetskaya TETS', OJSC 'Barnaulskaya TETS-3', OJSC 'Barnaulskaya Generation', OJSC 'Kemerovskaya Generation', OJSC 'Novo-Kemerovskaya TETS' and 10.09% in TGC-13, OJSC 'Krasnoyarskaya Heat Transportation Company', OJSC 'Nazarovskaya GRES', OJSC 'Krasnoyarskaya TETS-1'. These option agreements resulted in recognition of a liability with the carrying value of $193 million at 31 December 2012. In the third quarter 2013 all these option agreements were executed and settled in cash.

25. Commitments

Capital commitments. Management has approved the following capital expenditures:

	2013	2012
Contracted	125	96
Not yet contracted	325	510
Total	**450**	**606**

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:

	2013			2012		
	Land	Other	Total	Land	Other	Total
Due in one year	32	18	50	26	12	38
Due from two to five years	23	35	58	24	39	63
Due thereafter	29	–	29	34	–	34
Total	**84**	**53**	**137**	**84**	**51**	**135**

Land leases. The land in the Russian Federation on which the Group's production facilities are located is largely owned by the State. The Group leases land through operating lease agreements with the State. Payments by the Group are based on the total area and location of the land occupied. Operating lease agreements expire in various years through to 2062.

Other leases. The Group has long-term operating lease contracts on four ice-class vessels with third parties that expire in various years through to 2017.

26. 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.

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26. Contingencies continued

Environmental matters. The Group is subject to extensive federal, state and local environmental controls and regulations in the regions in which it operates. The Group's operations involve disturbance of land, discharge of materials and contaminants into the environment and other environmental concerns.

The Group's management believes that it is in compliance with all current existing health, safety and environmental laws and regulations in the regions in which it operates. However, changes in environmental regulations are currently under consideration in the Russian Federation. The Group is continually evaluating its obligations relating to new and changing legislation. The Group is unable to predict the timing or extent to which environmental laws and regulations may change. Such change, if it occurs, may require the Group to modernise technology and incur future additional material costs to meet more stringent standards.

Russian Federation risk. The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. 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.

27. 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 2013 and 2012, the fair values of financial instruments carried at amortised cost, which are mainly loans and receivables, did not materially differ from the carrying values. The fair values were determined based on discounted cash flow method which corresponds to Level 3 of the hierarchy of the fair 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 the 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 the fair values (see note 4).

28. 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 the risk management committee and by the central treasury department under policies approved by the Board of Directors. The Board of Directors provides principles for overall risk management. In addition, 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.

28.1. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will negatively impact the Group's results or the value of its holding 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 the future revenue streams is naturally hedged by the USD loan portfolio.

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

	2013			2012		
	USD	Other*	Total	USD	Other*	Total
Long-term receivables	300	–	**300**	300	–	**300**
Trade accounts receivable	152	12	**164**	198	23	**221**
Derivative financial assets	2	–	**2**	11	–	**11**
Cash and cash equivalents	91	38	**129**	85	27	**112**
Loans issued	–	–	**–**	252	–	**252**
Long-term borrowings	(2,369)	(177)	**(2,546)**	(2,040)	(190)	**(2,230)**
Short-term borrowings	(743)	(36)	**(779)**	(684)	(40)	**(724)**
Derivative financial liabilities	(49)	–	**(49)**	(209)	–	**(209)**
Trade accounts payable and accruals	(36)	(16)	**(52)**	(14)	(22)	**(36)**
Other creditors	(10)	(61)	**(71)**	(12)	(56)	**(68)**
Total net liabilities	**(2,662)**	**(240)**	**(2,902)**	**(2,113)**	**(258)**	**(2,371)**

* Other currencies include mainly EUR, Swiss Francs ('CHF') and UK Pounds sterling ('GBP').

A 10% increase/decrease in foreign exchange rates at the reporting date would have decreased/increased equity and profit for the year by the following:

	2013			2012		
	USD	Other	Total	USD	Other	Total
Equity	266	24	**290**	211	26	**237**
Profit for the year	266	24	**290**	211	26	**237**

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28. Financial risk management continued

28.1. Market risk *continued*

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The total net unhedged liability which exposes the Group to the interest rate risk amounts to $3,380 million (31 December 2012 – $2,943 million).

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 $31 million (2012 – $30 million).

28.2. 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 2013, 8% of the total trade receivables were due from the Group's largest customer and 53% of the total trade receivables were due from the Group's next 19 largest customers (31 December 2012 – 12% and 62%, respectively).

The table below analyses the Group's trade receivables into relevant groupings based on the year of them being considered past due.

	2013		2012	
	Gross	Allowance for doubtful debts	Gross	Allowance for doubtful debts
Not past due	302	–	450	–
Past due for less than 12 months	1	1	3	1
Past due for more than one year	3	3	3	3
Total	**306**	**4**	**456**	**4**

The movement in the allowance for doubtful debts in respect of trade receivables during the year was as follows:

	2013	2012
Opening balance	4	6
Additional doubtful debts	3	9
Bad debt written-off (impairment loss recognised)	(1)	(2)
Bad debt recovered	(2)	(9)
Closing balance	**4**	**4**

28.3. Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due.

During recent years global and Russian capital markets experienced significant volatility, including a lack of available sources of financing and significant fluctuation of Russian Rouble against the USD and the Euro. Despite stabilisation measures undertaken by various governments, markets remain volatile.

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group expects that cash generated from operations will be the major source of the Group's liquidity in 2014 and will be sufficient to cover the capital expenditures program of the Group. In addition, management believes that the Company will be able to attract additional sources of financing in order to re-finance the existing short-term facilities.

The central treasury department of the Group maintains flexibility in funding by ensuring the availability of credit lines facilities. The unused portion of these lines at 31 December 2013 totalled $2,831 million (31 December 2012 – $3,108 million).

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the contractual undiscounted cash flows to maturity, including interest payments.

	Carrying amount	Contractual cash flows	Due in the first year	Due in the second year	Due thereafter
Balance at 31 December 2013					
Long-term borrowings	2,928	3,192	104	1,393	1,695
Short-term borrowings	785	785	785	–	–
Net-settled derivative liabilities	49	49	–	–	49
Trade accounts payable and accruals	229	229	229	–	–
Promissory notes payable	104	104	104	–	–
Other creditors	95	95	95	–	–
Total	**4,190**	**4,454**	**1,317**	**1,393**	**1,744**
Balance at 31 December 2012					
Long-term borrowings	2,560	3,207	125	892	2,190
Short-term borrowings	738	738	738	–	–
Net-settled derivative liabilities	209	209	209	–	–
Trade accounts payable and accruals	172	172	172	–	–
Other creditors	94	94	94	–	–
Total	**3,773**	**4,420**	**1,338**	**892**	**2,190**

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28. Financial risk management continued

28.4. 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.

29. Investments in significant subsidiaries

Subsidiaries by country of incorporation	Principal activity	2013	2012
Russian Federation			
OJSC 'SUEK'	Holding company	100%	100%
Murmansk			
OJSC 'Murmanskiy Morskoy Torgovyi Port'	Port facilities	37.49%	49.86%
Kemerovo			
OJSC 'SUEK-Kuzbass'	Hard coal extraction	100%	100%
Krasnoyarsk			
OJSC 'SUEK-Krasnoyarsk'	Brown coal extraction	100%	100%
CJSC 'Razrez Berezovskiy'	Brown coal extraction	100%	–
CJSC 'Razrez Nazarovskiy'	Brown coal extraction	100%	–
Khakasia			
LLC 'SUEK-Khakasia'	Hard coal extraction	100%	100%
LLC 'Vostochno-Beyskiy razrez'	Hard coal extraction	50%	50%
OJSC 'Razrez Izykhskiy'	Hard coal extraction	100%	87%
Buryatia			
OJSC 'Razrez Tugnuiskiy'	Hard coal extraction	100%	100%
Zabaikalye			
OJSC 'Razrez Kharanorskiy'	Brown coal extraction	100%	100%
LLC 'Chitaugol'	Brown coal extraction	100%	100%
LLC 'Arcticheskie razrabotki'	Coking coal extraction	100%	100%
Khabarovsk			
OJSC 'Urgalugol'	Hard coal extraction	100%	84%
CJSC 'Daltransugol'	Port facilities	100%	100%
Primorye			
OJSC 'Primorskugol'	Brown coal extraction	85%	85%
CJSC 'ShU Vostochnoe'	Hard coal extraction	100%	82%
LLC 'Stividornaya kompaniya "Maly Port"'	Port facilities	49.9%	49.9%
Switzerland			
SUEK AG	Export sales of coal	100%	100%

Transactions with non-controlling interest. In March and November 2013, SUEK acquired 16% of OJSC 'Urgalugol' for $9 million from third parties. The transaction resulted in a decrease in non-controlling interest of $18 million and an increase in retained earnings of $9 million.

In June and October 2013, SUEK acquired 13% of OJSC 'Razrez Izykhskiy' for $4 million from third parties. The transaction resulted in a decrease in non-controlling interest of $4 million.

Spin-off of OJSC 'SUEK-Krasnoyarsk'. In May 2013, the respective assets of OJSC 'SUEK-Krasnoyarsk' were spun-off to newly created companies CJSC 'Razrez Berezovskiy' and CJSC 'Razrez Nazarovskiy'.

Consolidation of OJSC 'Murmanskiy Morskoy Torgovyi Port' ('MMTP'). In February 2012, the Group acquired 24.91% of MMTP for $106 million. In December 2012, SUEK acquired an additional 24.95% of MMTP and increased its voting share to 49.86%. In accordance with *IAS 27 'Consolidated and Separate Financial Statements'* MMTP was consolidated on 31 December 2012.

The fair value of the identifiable assets and liabilities of MMTP at 31 December 2012 were as follows:

Assets	**171**
Property, plant and equipment	100
Other non-current assets	5
Inventories	5
Trade accounts and other receivables	10
Prepaid and recoverable taxes	2
Cash and cash equivalents	49
Liabilities	**56**
Other long-term liabilities	46
Trade and other payables	8
Taxes payable	2
Net assets of MMTP	**115**
Less: Non-controlling interest in the net assets of MMTP	72
Company's share in the net assets of MMTP	**43**
Add: Goodwill	119
Total cost of investment	**162**
Less: Fair value of an associate at the date of consolidation	109
Cash consideration	**53**

Goodwill arose in the acquisition of MMTP because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and logistics capacity. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

In April 2013, SUEK acquired 0.13% of voting shares of MMTP from third parties and increased its voting share to 49.99%.

In August 2013, the shareholders of MMTP approved a resolution to retain profit for 2012 and not to pay dividends to ordinary and preferred shareholders, thus giving preferred shares voting rights and decreasing the voting share of SUEK from 49.99% to 37.49%. The number of shares owned by SUEK remained unchanged. The Group reassessed the control conclusion for MMTP under the provisions of IFRS 10 with no changes to previous conclusion made.

Millions of US Dollars, unless otherwise stated

29. Investments in significant subsidiaries continued

Consolidation of LLC 'Stividornaya Kompaniya "Maly Port"'. In accordance with new standard *IFRS 10 'Consolidated Financial Statements'* the Group consolidated LLC 'Stividornaya Kompaniya "Maly Port"', which was previously accounted for as an associate. The Group has consolidated the subsidiary retrospectively from the fourth quarter of 2012 when the IFRS 10 criteria were met.

The impact on the consolidated statement of financial position at 31 December 2012 is as follows:

	As previously reported	Retrospective consolidation under IFRS 10	As restated
Property, plant and equipment	3,905	12	3,917
Goodwill	119	32	151
Investment in associates	60	(43)	17
Current assets	1,711	2	1,713
Total assets	**6,140**	**3**	**6,143**
Non-current liabilities	3,024	3	3,027
Retained earnings	2,372	(5)	2,367
Non-controlling interest	159	5	164
Total shareholder's equity and liabilities	**6,140**	**3**	**6,143**

The impact on the consolidated statement of profit or loss and other comprehensive income and on the consolidated statement of cash flows for the year ended 31 December 2012 is not significant.

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

	LLC 'Vostochno-Beyskiy razrez'	MMTP
2013		
Non-controlling interests	50%	62.51%
Non-current assets	294	156
Current assets	53	46
Non-current liabilities	(53)	(42)
Current liabilities	(17)	(11)
Net assets	**277**	**149**
Accumulated non-controlling interests	**139**	**93**
Revenue	175	144
Net profit for the year	11	43
Revaluation of mineral rights	226	–
Profit allocated to non-controlling interests	5	27
Share of non-controlling interests in revaluation of mineral rights	113	–
Dividends to non-controlling interests	11	–
Cash flows from operating activities	20	37
Cash flows from investment activities	(9)	(36)
Cash flows from financing activities	(11)	–

Information on the Company

SUEK PLC was founded and registered in the Republic of Cyprus on 13 April 2011. SUEK PLC and its subsidiaries are collectively referred to as the Group. The main assets of SUEK PLC are Open Joint Stock Company 'Siberian Coal Energy Company' (OJSC SUEK) and its subsidiaries and individual Group entities. SUEK PLC also owns the sales company SUEK AG, which sells coal to export markets. Domestically, coal is sold by OJSC SUEK or directly by production units.

The principal ultimate beneficiary of SUEK PLC is Mr Andrey Melnichenko. MADAKE ENTERPRISES COMPANY LIMITED is the immediate parent company of SUEK PLC.

Corporate structure of SUEK PLC

Investments in significant subsidiaries by country of incorporation	Principal activity	2013
Russian Federation		
OJSC 'SUEK'	Holding company	100%
Murmansk		
OJSC 'Murmanskiy Morskoy Torgovyi Port'[1]	Port facilities	37.49%
Kemerovo		
OJSC 'SUEK-Kuzbass'	Hard coal extraction	100%
Krasnoyarsk		
OJSC 'SUEK-Krasnoyarsk'	Brown coal extraction	100%
CJSC 'Berezovsky open pit'	Brown coal extraction	100%
CJSC 'Nazarovsky open pit'	Brown coal extraction	100%
Khakasia		
LLC 'SUEK-Khakasia'	Hard coal extraction	100%
LLC 'Vostochno-Beisky open pit'	Hard coal extraction	50%
OJSC 'Izykhsky open pit'	Hard coal extraction	100%
Buryatia, Zabaikalye		
OJSC 'Tugnuisky open pit'	Hard coal extraction	100%
Zabaikalye		
OJSC 'Kharanorsky open pit'	Brown coal extraction	100%
LLC 'Chitaugol'	Brown coal extraction	100%
LLC 'Arcticheskie razrabotki'[2]	Coking coal extraction	100%
Khabarovsk		
OJSC 'Urgalugol'	Hard coal extraction	100%
CJSC 'Daltransugol'[3]	Port facilities	100%
Primorye		
OJSC 'Primorskugol'	Brown coal extraction	85%
CJSC 'ShU Vostochnoe'	Hard coal extraction	100%
LLC 'Stividornaya kompaniya "Maly Port"'[4]	Port facilities	49.9%
Switzerland		
SUEK AG	Export sales of coal	100%

[1] OJSC 'Murmanskiy Morskoy Torgovyi Port' (MMTP) is the legal name of Murmansk Commercial Seaport.
[2] LLC 'Arcticheskie razrabotki' is the legal name of Apsatsky open pit.
[3] CJSC 'Daltransugol is the legal name of Vanino Bulk Terminal.
[4] LLC 'Stividornaya kompaniya "Maly Port"' is the legal name of Maly Port.

Glossary

Abbreviations and acronyms

kg	Kilogramme
t	Metric tonne (1,000 kilogrammes)
Mt	Million tonnes
Mtpa	Million tonnes per year
kcal	Kilocalorie
kcal/kg	Kilocalories per kilogramme
Gcal	Gigacalories
MJ/kg	Megajoules per kilogramme
kWh	Kilowatt hour (1000 watt-hours/ 3.6 megajoules)
TWh	Terawatt hours
GW	Gigawatt (one billion watts)
mm	Millimetre
m	Metre
km	Kilometre
ha	Hectare
m^2	Square metre
m^3	Cubic metre
CO_2	Carbon dioxide
CH_4	Methane
SO_2	Sulphur dioxide
NO_X	Mono-nitrogen oxides NO and NO_2
$	US Dollar
RUB	Russian Rouble
$m	Million Dollars
bn	Billion
Q	Quarter

CAPEX	Capital expenditure
DWT	Deadweight tonnage
HR	Human resources
HSE	Health, safety and environment
OHS	Occupational health and safety
CSR	Corporate social responsibility
IFRS	International Financial Reporting Standards
JORC	Joint Ore Reserves Committee (standards for public reporting on mineral resources and mineral (ore) reserves, Australia)
HPP	Hydro power plant
PCC	Pulverised coal combustion
LNG	Liquefied natural gas
KPI	Key performance indicator
LTIFR	Lost-time injury frequency rate
ACSI	American Customer Satisfaction Index
NGO	Non-governmental organisation
ICAD	Internal Control and Audit Department

Terms and definitions

ASTM	American Society for Testing and Materials is a globally recognised leader in the development and delivery of international voluntary consensus standards.
SGK	Siberian Generating Company, SUEK's related party.
SRK	SRK Consulting is an independent, international consulting practice that provides advice and solutions mainly in the earth and water resource industries.
SUEK	'SUEK', the 'Company', the 'Group', 'SUEK enterprises', 'Company's enterprises' in this Report refer to SUEK PLC and its subsidiaries.
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.
High-volatile coal	Coal containing less than 69% fixed carbon and more than 31% volatile matter on a dry basis.
Low-volatile coal	Coal containing 78-86% fixed carbon, and 9-20% volatile matter on a dry basis.
Low-ash coal	Coal containing less than 10% ash on a dry basis.
Metallurgical coal	Generic term referring to coking coal and its different qualities as well as PCI.
Mid-volatile coal	Coal containing 69-78% fixed carbon, and 20-31% volatile matter on a dry basis
PCI	Pulverised Coal Injection is a technology that allows coal to be directly injected into the blast furnace to convert iron ore to pig iron. PCI allows steam coal to be used in the steel production process, partially replacing costly coke. PCI also refers to a type of coal used in the process.
Semi-hard coking coal	Coal with coke strength reactivity index falling between 35-65% and a free swelling index (FSI) of 5 to 7.
Semi-soft coking coal	Coal with low coke strength reactivity, usually between 10-35% and a free swelling index (FSI) around 3 to 5. It is bended with hard coking coal to reduce the cost of coke making in the steel making process.
Sized coal	Coal which has passed through a screening process and is grouped into ranges according to size of particles. It is used mainly by households for heating purposes.
Steam coal	Also known as thermal coal. Burned primarily in boilers, to generate steam for the production of electricity or for process heating purposes, or used as a direct source of process heat.
LoM	Life-of-mine 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.
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 4 Index	The FOB (fee on board) price of coal exported out of South Africa's Richards Bay terminal with coal calorific value of 6,000 kcal/kg.
globalCOAL NEWC	Index based on the FOB delivery of thermal coal at the Port of Newcastle in Australia with coal calorific value of 6,000 kcal/kg.
FOB Free On Board	'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.
CIF Cost, Insurance and Freight	'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.

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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.

Any statements referring to SUEK's competitive position are based on the Company's 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.

If you have finished reading this Report and no longer wish to retain it, please pass it on to other interested readers, return it to SUEK or dispose of it in your recycled paper waste. Thank you.

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