



**LEADER
IN PROVIDING**

POWER

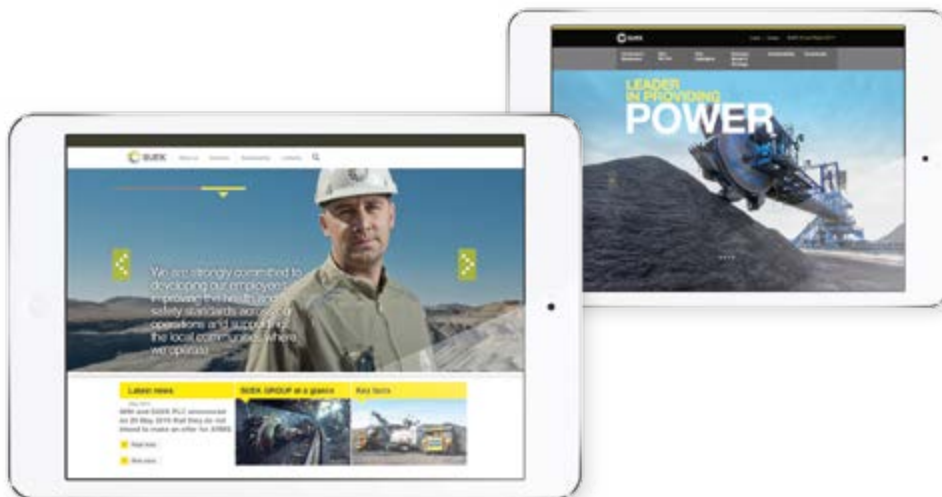
LEADER IN PROVIDING POWER

SUEK Group¹ is one of the largest coal companies in the world and the leading coal producer in Russia. Our vertically integrated business model ensures we have extensive control of our value chain: from taking coal out of the ground and processing, to delivering it to our customers via rail rolling stock, ports and our trade offices.

Our uniquely located asset base in Russia, broad geographic reach and access to key transport infrastructure, allow us to cost-effectively service Russian, Atlantic and Asia-Pacific markets. Continued investment in the quality of our product and increased efficiency in our production, processing and distribution means we are able to optimise margins and reinforce our position as a long-standing, sustainable leader in the global mining sector.

We are strongly committed to developing our employees, improving health and safety standards throughout our operations and supporting the local communities wherever the Group operates.

We are focused on a strategy aimed at delivering greater value and stable returns to our shareholders. With strong cash flows and a stable balance sheet, we are well positioned for growth and maintaining our position of leadership.



For more information please visit www.suek.com



This Annual Report is also available online as an interactive version at www.ar2014en.suek.com

¹ In this report each of the terms 'SUEK Group', 'SUEK', 'the Group', 'the company', 'we' refers to all companies consolidated in IFRS financial statements of SUEK PLC, including, inter alia, JSC SUEK (Russia) and its subsidiaries, Russian brown coal assets, SUEK AG (Switzerland) and its subsidiaries.

About this report

Welcome to our 2014 Annual Report. This year we are telling our success story – not just in terms of our leading position as a coal producer and supplier to Russian and international markets but also in the way we set new standards within our sector in terms of investment, quality, corporate governance and sustainability. This report explains how we strive to maintain a leading position in the coal mining industry and outlines our key achievements in 2014 and our plans for continued success.

LEADER IN

PRODUCTION

MARKETS

EMPLOYMENT

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Leading coal producer in Russia

SUEK Group is the number one coal producer in Russia – twice the size of our largest Russian competitor. We are also the sixth largest coal exporter in the world and one of the ten largest coal groups by reserves, with an estimated 5.5¹ billion tonnes under the JORC Code². We have large-scale open-pit and underground mines in Siberia and far eastern Russia.

 See page 53 for more information on our reserves.


We sell coal to almost 1,500 customers in Russian, Atlantic and Asia-Pacific markets through our extensive sales network. We continue to enhance our position as the largest coal exporter from Russia, focusing particularly on supplying high-quality, premium-priced coal to the growth markets of Asia as well as maintaining our market share in Europe – in 2014 our international sales volumes increased by almost 8%. We are also the largest supplier of thermal coal to the Russian market. We provided 38% of the total Russian thermal coal market in 2014 and 45% of the coal used in the country's electric power industry.

Some of our assets are located in the east of Russia, much closer to the markets of Asia-Pacific than most other Russian coal companies. This gives us a competitive advantage with regards to ease and cost of transportation. Our Tugnuisky open pit is located

2,500 km closer to these markets than the mines of other Russian producers, while our Urgal and Primorye assets are up to 5,000 km closer, delivering savings of around \$2-12 per tonne on transport costs.

The central feature of this integrated business is our logistics and transportation system. This includes our own rail infrastructure and port facilities, which enable us to efficiently deliver both to Russian and international markets. We have increased operational efficiency both in production and washing and continued to focus on managing logistics, especially enhancing the capacity of our port facilities.

In 2014, we had to operate in an extremely challenging market but, despite this, we were able to achieve our targets.

 See more details on our financial performance on pages 74-78.

Mission

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

- Reliably supplying high-quality coal products to our customers in Russian and international markets
- Building long-term relationships with suppliers and partners
- Developing the skills and competence of all our human resources
- Contributing to the socio-economic development of the country and of the communities in the regions where we operate
- Protecting the environment and leading the way in environmental standards
- Creating long-term value for our stakeholders

Vision

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

- Expanding our existing mining and processing assets
- Investing in further development of transportation and logistics and increasing output from deposits located closest to the target markets
- Innovating across our business

Values

The core values of our business are:

- Safety in all our operations
- Social and environmental responsibility
- Leadership in all areas
- Continuous development and improvement
- Financial and operational growth and stability
- Openness with customers and partners
- Professionalism and integrity in everything we do

¹ The Group's proven and probable reserves, according to the April 2011 report by SRK Consulting, amounted to 5.9 billion tonnes. Including extraction between April 2011 and December 2014, these reserves stood at 5.5 billion tonnes as at 31 December 2014.

² The JORC Code is the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, setting standards for public reporting on mineral resources and mineral reserves.

No 1

COAL PRODUCER IN RUSSIA

COAL EXPORTER FROM RUSSIA

COAL SUPPLIER TO THE RUSSIAN POWER GENERATION MARKET

1,500

CUSTOMERS IN 36 COUNTRIES

31,400

EMPLOYEES, 23,200 OF WHOM ARE PRODUCTION STAFF

5.5 Bt

JORC RESERVES. ACCORDING TO OUR ESTIMATE, THE GROUP IS THE TOP TEN LARGEST COAL COMPANY IN THE WORLD BY RESERVES

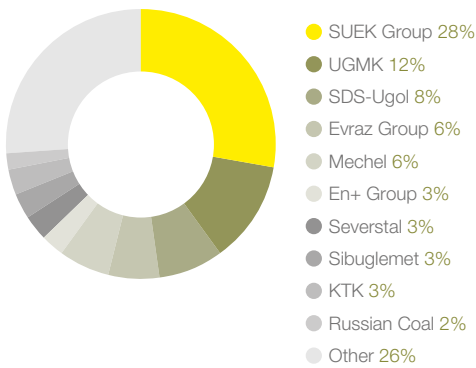
\$496m

THE GROUP'S CAPITAL EXPENDITURE IN 2014. OUR INVESTMENT PROGRAMME IS ONE OF THE LARGEST AMONG COAL COMPANIES IN RUSSIA

\$16m

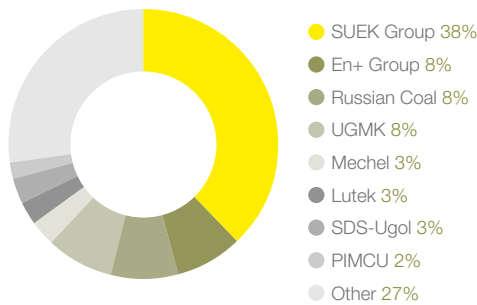
SPENT ON SOCIAL AND COMMUNITY PROJECTS DURING 2014

Coal production in Russia



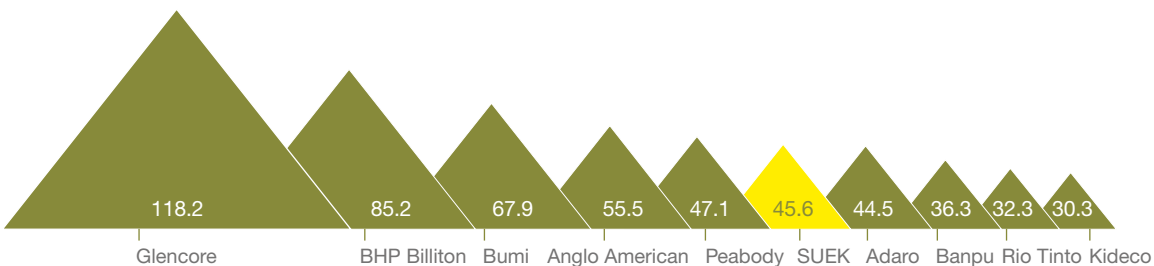
Source: Russian Government statistics

Thermal coal supplies in Russia



Source: Russian Government statistics

Coal international sales by the world's leading producers in 2014 (million tonnes)



Sources: Our estimates, companies' reporting

LEADER IN

PRODUCTION

MARKETS

EMPLOYMENT

LEADER IN POWERING THE WORLD

SUEK Group is the number one producer of thermal coal in Russia. We benefit from our size and level of resources and have one of the lowest production costs among coal mining companies. Investment in the latest technology and equipment at our 26 active mines in southern Siberia and far-east Russia ensures our production is highly efficient. Recent enhancements to our washing plants demonstrate our timely response to the increased global demand for higher-quality, premium-priced coal.

98.9 Mt

TOTAL PRODUCTION
IN 2014

5.5 Bt

COAL RESERVES UNDER
JORC CODE



PRODUCTION

MARKETS

EMPLOYMENT

LEADER IN RUSSIAN AND INTERNATIONAL MARKETS

The favourable location of our coal assets in Russia, with excellent access to transport links combined with our own trading offices in different countries and territories, gives us a significant competitive advantage in the coal industry. We operate our own rail stations and infrastructure as well as port facilities, so we are ideally situated to supply markets both inside and outside Russia.

Russian market

52%

OF OUR TOTAL
SALES

International
market

48%

OF OUR TOTAL
SALES



AL



MARKETS

EMPLOYMENT

LEADER IN THE WORKPLACE AND COMMUNIT

Our people are the main factor behind our success as a business and we are proud to be one of the largest employers in Russia, providing jobs for 31,400 people. We are investing in the health and safety of our workforce, supporting the professional and personal development of our staff, attracting and retaining young talent and developing the communities in which we operate. Our regular technical improvements help make the workplace safer, more efficient and more productive. We strive to improve our people's working conditions, their overall job satisfaction and their earnings.

31,400

EMPLOYEES

\$70m

SPENT ON HEALTH
AND SAFETY PROJECTS
DURING 2014

CE
ITY



EMPLOYMENT

Our strengths

Many factors contribute to our ability to maintain a leading position in coal mining and supply, both in Russia and internationally. Our business model and strategy have proven their stability over the years and our continued investments in efficiency ensure we remain well positioned for the future. We are aware of our strengths but also acknowledge that we must continually look to improve how we operate – both as a business and as an employer.

Reputation

We are a coal company with a track record as a reliable supplier with a robust presence in the Russian market, as well as in the main international markets.

Vast mineral reserves

Our extensive reserve base ensures sustainable supply of consistently high-quality coal for our customers.

Favourable geographic position

The advantageous location of our assets in Russia and their easy access to developed transport infrastructure simplifies sales to Europe and Asia.

Integrated business model

Our vertically integrated business model enables us to control the production, logistics and sales network, from mining through to end users.

Prudent corporate governance

We are committed to high standards of corporate governance, adopting governance principles in line with international good practice.

Our assets

We are one of the most efficient and competitive coal producers in Russia. Our competitive strengths include: large, high-quality coal deposits; modern quality-assured washing plants; an extensive and efficient transport system; and our port facilities. The favourable location of our Vanino Bulk Terminal, close to our assets at Urgal, Tugnuisky and Apsatsky open pits, is an obvious benefit.



Production units

The Group has 12 hard coal underground mines plus eight hard coal and six brown coal open-pit coal operations located in seven regions of Russia. Underground mining represents almost one third of our total annual coal production, with an output of 30.9 million tonnes per year. Our open-pit mines produce two thirds of our output, with production of 68.0 million tonnes in 2014.



Washing plants

Our seven dedicated washing plants and two processing facilities, with annual capacity of 40.6 million tonnes, improve the quality of our coal, enabling us to deliver higher-value products to our customers. Our washed coal is sold mainly to international markets.

 See pages 54-57 for more information.

 See page 58 for more information.



Operating efficiency

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

Investing in people

We pride ourselves in being the employer of choice in the coal mining industry in Russia and strive to develop the expertise of our employees.

Health and safety

We strive to achieve the highest standards of health and safety, placing special emphasis on safety technology and operational safety in our production units.

Environmental commitment

We have introduced and achieved high environmental standards including the sustainable use of natural resources. We continually look to minimise the adverse impact of our operations.



Rail

The majority of our coal is transported by rail. The Group operates one of the largest fleets of rail cars in Russia, distributing coal to over 1,300 Russian customers as well as to eastbound and westbound ports for international sales.



Port facilities

One of our competitive advantages is that we ship most of our coal through ports where the Group is the major shareholder. This ensures reliable and efficient dispatch of coal to 35 countries.



Sales network

Our trading network enables us to sell coal in Russia and internationally. JSC SUEK provides supplies to our Russian customers through sales offices located in Russia. International sales are conducted through our trader SUEK AG, which is represented in seven key overseas territories: Poland, China, Japan, Taiwan, South Korea, Indonesia and the US.

See page 58 for more information.

See page 59 for more information.

See page 59 for more information.

Year of good progress

We measure both financial and non-financial performance in order to determine whether we are on track to achieve our long-term goals.

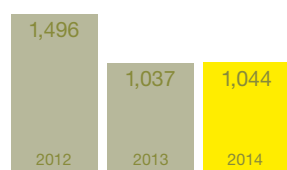
In 2014, SUEK Group delivered solid results despite a very challenging market environment, our production increased and sales volumes rose. We also saw EBITDA rise and EBITDA margins grow even though revenue was down mainly due to a fall in the global coal price.

 See pages 74-78 for more information.

Financial highlights

EBITDA
(\$m)

KPI



+1%

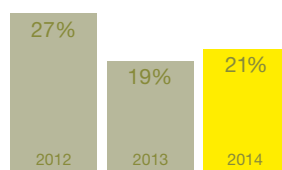
Measurement: EBITDA is an indicator of the company's financial performance and is calculated as earnings before interest, taxes, depreciation and amortisation within the calendar year. EBITDA margin is a measurement of the Group's earnings before interest, taxes, depreciation, and amortisation as a percentage of its total revenue.

Relevance to the business: EBITDA is an important indicator of our financial health and measures our operating profitability. As EBITDA excludes depreciation and amortisation, the EBITDA margin can provide a more accurate view of our profitability.

EBITDA margin is the key financial indicator that demonstrates the Group's operating profitability and measures success of implementation of its strategy.


EBITDA margin
(%)

KPI

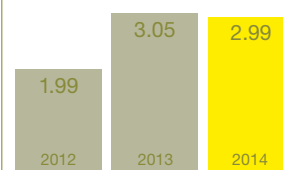


Performance: In 2014, increased international coal sales and a decrease in cost of sales in US Dollar terms as a result of Russian Rouble devaluation compensated for the negative effect of the decline in the global coal price on our financial performance. Consequently, in 2014 the company's EBITDA remained similar to 2013, amounting to \$1,044m.

EBITDA margin increased from 19% for 2013 to 21% for 2014, indicating a better performance by the Group despite lower coal prices.

Strategic priority:
1  Emphasising growth

Net debt/EBITDA




-2%

Measurement: Net debt to EBITDA calculated as the Group's financial borrowings minus cash and cash equivalents divided by EBITDA.

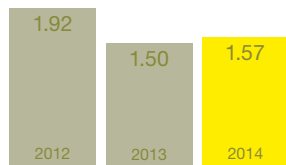
Relevance to the business: Net debt to EBITDA is a measure of the ability of a company to pay off its debts and demonstrates the financial health and liquidity position of the Group.

Performance: The key financial ratio net debt to adjusted EBITDA as at 31 December 2014 equalled 2.99x, which was still well below the maximum value of 4.0x provisioned by the current loan agreements. These figures demonstrate that the Group had sufficient funds to meet its financial obligations.

Strategic priority:
1  Emphasising growth

Non-financial highlights

Lost time injury frequency rate (LTIFR)



+5%

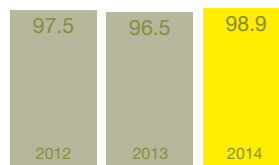
Measurement: LTIFR is calculated based on the number of lost time injuries at our production units per one million hours worked within the calendar year.

Relevance to the business: LTIFR demonstrates work-related injury frequency. This is an important measure to track and promote safety across our business.

Performance: In the last few years, the LTIFR at our production units has been steadily decreasing. The 2014 indicator broadly stayed in line with the previous year, showing only a small rise. We remain committed to improving the LTIFR score.

Strategic priority:
4 Achieving high safety standards

Production (million tonnes)



+2%

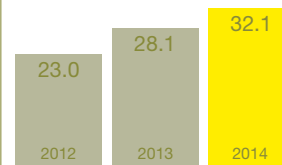
Measurement: Million tonnes of coal produced within the calendar year.

Relevance to the business: Production volumes demonstrate how SUEK Group is performing and expanding its coal mining business.

Performance: In 2014, our coal mining units produced 98.9 million tonnes of coal, which represents a 2% increase year-on-year compared to 2013. High-quality hard coal accounted for 65% of total coal production.

Strategic priority:
1 Emphasising growth

Coal washed (million tonnes)



+14%

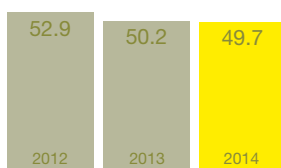
Measurement: Million tonnes of coal washed at our dedicated washing plants within the calendar year.

Relevance to the business: Coal washing improves the quality of our coal and enables us to deliver higher-value products to international markets. Processing of mined coal also leads to reduced transport costs as less waste is transported by rail.

Performance: In 2014 the volumes processed in our washing plants rose by 14% compared with 2013 to 32.1 million tonnes. The higher volumes were due to improvements in operating efficiency as a result of new or upgraded washing plants.

Strategic priority:
2 Improving operational efficiency and productivity

Sales to Russian market (million tonnes)

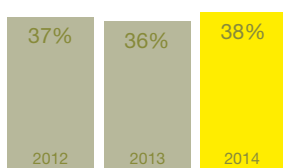


-1%

Measurement: Million tonnes of coal sold to the Russian market by the Group within the calendar year.

Relevance to the business: We are focused on retention of the Group's share of the Russian market and strive to retain our position as the largest supplier of thermal coal to this market.

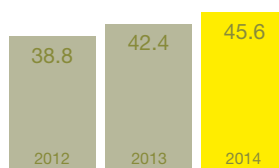
Share of supplies to Russian market (%)



Performance: In 2014, the Group's sales to the Russian market fell as a result of a reduced demand for coal from power companies in Russia. There were several reasons for this lower demand. High water inflow in the rivers in Siberia and far-east Russia in the first half of 2014 resulted in higher electricity generation by hydro-electric power stations. Reduced electricity consumption by aluminium manufacturers and the mild winter of 2013-2014 were other contributory factors.

Strategic priority:
1 Emphasising growth

International sales volumes (million tonnes)



+8%

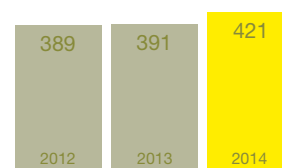
Measurement: Million tonnes of coal sold to international markets within the calendar year.

Relevance to the business: International sales volumes demonstrate the Group's performance in international markets and its retention of market share over a calendar year.

Performance: International sales have increased year-on-year since 2012. In 2014, growth was seen both in Asian and Atlantic markets.

Strategic priority:
1 Emphasising growth

Workforce productivity (tonnes per man-month)



+8%

Measurement: Labour productivity calculated as coal mined within the calendar year divided by annual average number of production personnel.

Relevance to the business: Workforce productivity is a key measure of workforce efficiency and successful business strategy.

Performance: The labour productivity at our production units increased as a result of improved operational efficiency at our mines and open pits and steady growth of mining in 2014.

Strategic priority:
2 Improving operational efficiency and productivity

Key developments and achievements

2014 has been another eventful year for SUEK Group. We demonstrated several records across our operations and expanded our geographic reach with the opening of a new Chinese office, incorporating a subsidiary company in Indonesia and opening a new distribution company in Russia. We were also recognised for our achievements and received several prestigious business awards across various sectors.

January

Raising a consortium loan

SUEK PLC raised a five-year syndicated loan for \$1.5bn. The loan was arranged with leading international banks coordinated by the ING Group. It has a grace period of two years, with subsequent equal repayments and an effective interest rate of 3.4%. The loan is secured against the company's revenue from international sales.



Subsidiary in Indonesia

SUEK Group incorporated a subsidiary company in Indonesia in January 2014 to strengthen its presence in Asian markets and to make trading of Indonesian coal more efficient.



New distribution operation in the Altay region

In January we opened a distribution company in the Altay region, with the aim of developing distribution networks in Altay and Khakasia for sale of sized coal.

February



World record in underground drilling

A new world record for drilling a degassing borehole was set in Kuzbass. Workers at Kirova mine drilled 504 metres in one day. The previous record was set by the same team in December 2013 – 456 metres in a day.

Winning Russian Business Leaders Competition

JSC SUEK won this all-Russia competition held by the Russian Union of Industrialists and Entrepreneurs. The company came first in the main category 'High social responsibility of company'.



See page 93 for more information.

April

New monitoring and tracking systems in Kuzbass

At Taldinskaya-Zapadnaya 1 and Taldinskaya-Zapadnaya 2 mines, a new system for monitoring, tracking and locating people trapped underground was installed. An analogue of internationally used systems, it provides continuous monitoring, via Wi-Fi, of each person underground, allowing communications between mine workers and the control room operator. In addition to helping to locate and rescue miners during an emergency, gas detectors fitted in each miner's lamp monitor gas levels in working areas.



World record in overburden removal

A team operating a Bucyrus rope shovel at Tugnuisky open pit set a new record for loading overburden into dump trucks – two million cubic metres in one month. This outstanding performance was due to the well-coordinated efforts of all participants in the mining process.

May

Award for social entrepreneurship

JSC SUEK won an award for 'Best Corporate Program for Developing Social Entrepreneurship' from the Russian Union of Industrialists and Entrepreneurs. The award was presented to JSC SUEK in recognition of its 'School of Social Entrepreneurship' project which runs in all the regions where we operate.

August

'Mining Olympics 2014'

Our production units held the 'Mining Olympics 2014' – a professional skills competition to coincide with Miners' Day. JSC SUEK has been holding these competitions amongst its production units since 2012. They allow employees from different regions of the company to exchange work experiences.



See page 88 for more information.

October

SUEK PLC's credit rating

Moody's international credit rating agency has maintained SUEK PLC's credit rating unchanged at Ba3 (stable outlook).



See page 78 for more information.

November

SUEK Group is praised for reporting quality

Based on the findings of a study of corporate transparency of companies conducted by the Russian Regional Network for Integrated Reporting, SUEK Group was rated first for reporting quality amongst private companies.

JSC SUEK is recognised as a leader in corporate charity

JSC SUEK has won several categories in the 'Leaders of Corporate Charity' project and made it to the top levels of corporate charity ratings in Russia. The following awards were won – 'For disclosure transparency' and 'For efficient management of charity programs'. JSC SUEK also came second in the 'Leaders of industrial corporate charity' category and fourth in the overall rating of Russian companies.



Vanino Bulk Terminal sets a new record

Vanino Bulk Terminal achieved a new monthly record by loading 2.0 million tonnes of coal into ships during November. The port handled 29 ships during the month – the best achievement in the Terminal's history.

December

New production facility commissioned in Khakasia

A new joint venture between JSC SUEK and Becker Mining (Germany) was commissioned in Chernogorsky. It is a facility for manufacturing flameproof, high-voltage switchgear for use in underground coal mines. The units are designed to minimise the risk of gas and dust explosion.



New Russian coal production record in Kuzbass

On 10 December 2014, Vasily Vatokin's team in the November 7th mine set a new Russian record for coal production from a single longwall face in one year – 4.7 million tonnes.



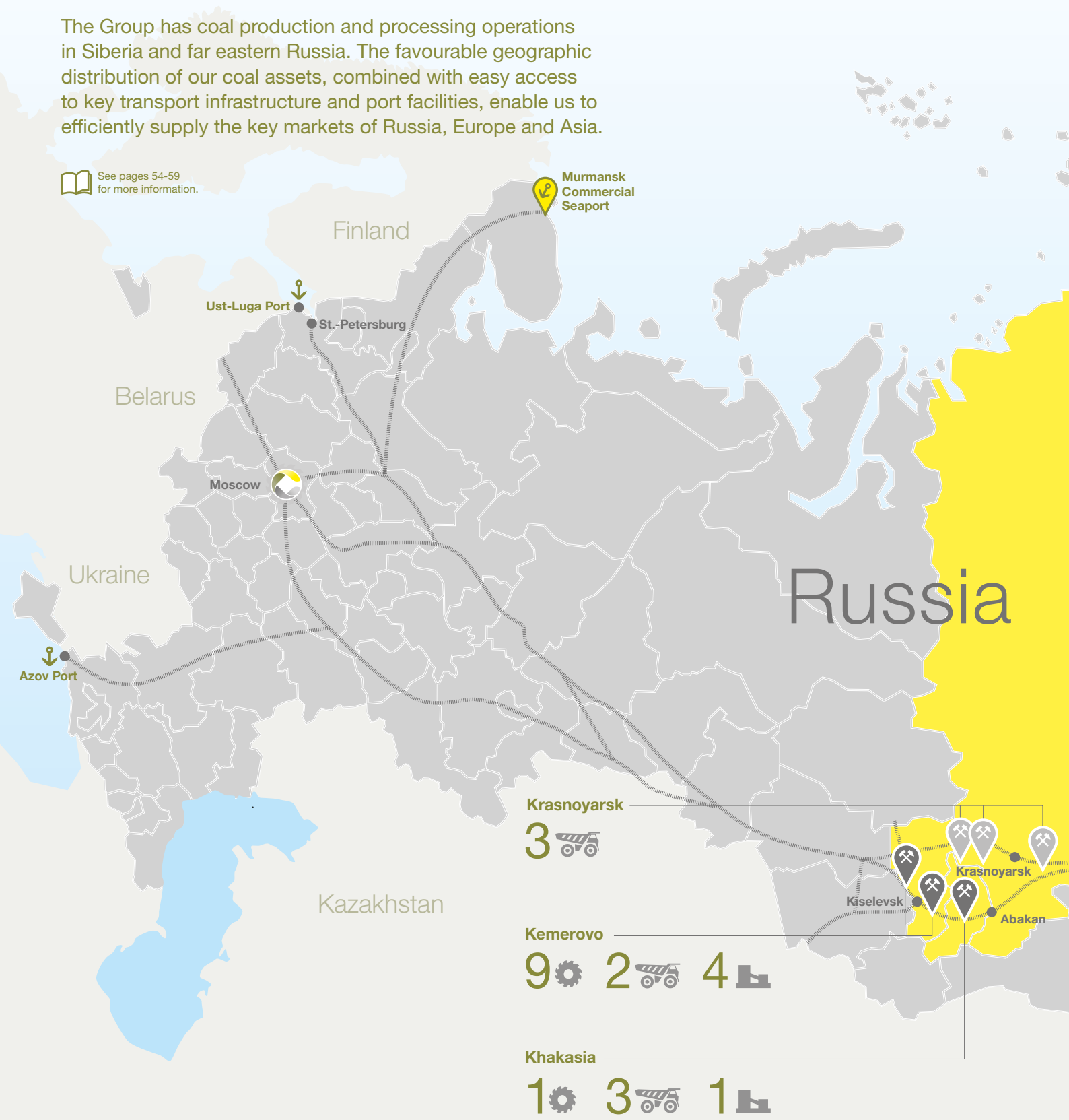
Office opening in China










In December the Group opened a third Chinese office at Harbin in the north to drive the growth of railway-based business and to strengthen our position in this market. Our other offices in China are in Shanghai and Beijing.

Well positioned to service global market

The Group has coal production and processing operations in Siberia and far eastern Russia. The favourable geographic distribution of our coal assets, combined with easy access to key transport infrastructure and port facilities, enable us to efficiently supply the key markets of Russia, Europe and Asia.

See pages 54-59 for more information.



- Regions where we operate
-  Hard coal assets
-  Underground mining
-  Third-party ports
-  Brown coal assets
-  Washing plants and processing facilities
-  Railways
-  Open-pit mining
-  Port facilities where the Group is a major shareholder
-  Office of JSC SUEK

12 
UNDERGROUND MINES

14 
OPEN-PIT MINES

9 
WASHING PLANTS AND PROCESSING FACILITIES



Strengthening our position as a leader

“ In 2014, we continued to demonstrate marked progress in the implementation of our strategic objectives, despite the difficult economic and market environment. We are consistently strengthening our position as a leader of the Russian coal mining industry and one of the leading players in international coal markets. ”

ANDREY MELNICHENKO
CHAIRMAN OF THE BOARD
OF DIRECTORS, JSC SUEK



Leader of the coal industry

The coal mining industry experienced a difficult year in 2014. The sharp drop in global coal prices due to excessive supply in several key markets was exacerbated by deterioration in the Russian economic climate and increased geopolitical tension. Nonetheless, our position as the largest coal producer in Russia and supplier in both Russian and international markets remains strong. As a result of recent investment in the modernisation of our production assets and logistics chain and an extensive programme to improve operational efficiency, we continue to show sustainable growth in key operational indicators and to follow the same growth strategy.

In 2014, we produced 2.4 million tonnes (+2%) more coal than in 2013. A number of our mines in Kuzbass, Khakasia and eastern Siberia achieved extraordinary results in terms of productivity and efficiency of operations.

In 2014, we managed to further strengthen our position in the global coal market – our international sales increased by 8% to 45.6 million tonnes, which is about 5% of total internationally traded thermal coal. The Group consistently ranks among the top ten global coal mining companies in terms of coal reserves and amongst the six largest international coal exporters.

Growth strategy

Our central strategy provides a firm basis for growth and for sustainable long-term competitiveness based on efficient, vertically integrated coal production, transportation and sales.

We have been systematically building direct relationships with important customers in our target markets, as evidenced by the expansion of our sales network. Since demand for our coal continues to grow, mainly in the Asia-Pacific region, we are focused on developing relationships with customers in these markets. At the same time, we intend to retain our position as the preferred supplier for our clients in Russia and Europe. Our competitive position in the international market was boosted at the end of 2014 as the Russian Rouble's exchange rate weakened.

The strategy for achieving our growth objectives in target international markets includes large-scale projects to increase coal production in regions situated closer to Asian markets. In particular, we are expanding production from the Urgal deposit in Khabarovsk region and from the Apsatsky open pit in north Zabaikalye. At the same time, we are modernising and enlarging our production facilities in Kuzbass, Khakasia, Buryatia and at Zabaikalye. Our investment programme and comprehensive set of measures to improve operational efficiency at our production units should ensure we maintain high productivity levels while continuing to achieve one of the lowest production costs within the coal mining industry in Russia.

Of special note is our programme for developing coal processing capabilities, which has enabled an increase in coal washing capacity from 28.1 to 32.1 million tonnes. We aim to increase this capacity by further development of washing plants at Urgal, Buryatia and Kuzbass.

An important aspect of our strategy is building optimal logistic chains and developing our own transport infrastructure. We have been steadily increasing coal shipments through Vanino Bulk Terminal and Murmansk Commercial Seaport. In 2014, both ports achieved the highest performance in their history based on their statistics, and our shipments through these ports are expected to increase further. At the same time, we are working to increase the capacity of our own rail infrastructure which provides us entry to the national Russian rail network.

One of the top priorities within our strategy is to achieve further progress in safety. The large-scale integrated programme we have been running for several years, including investment in emergency response provision, modern safety equipment and organisational and motivational measures, has allowed us to reduce injury rates and the number of production-related accidents. Despite all these efforts, and to our deepest regret, we had eight fatal accidents in 2014. The causes and details of each accident have been studied closely and discussed at all management levels – from meetings of mine personnel to Board members. In each case we have developed a specific action list to prevent similar accidents occurring, and we are implementing broader programmes to change behaviour and reduce risk taking throughout the workforce. We intend to reduce the number of fatal and severe injuries to zero.

Our approach to sustainable development

A major focus for the Board and the management team is sustainable development and corporate social responsibility. In this regard, we play a crucial social role in the cities and towns where our production units operate. We also seek to improve the environment and quality of life in these areas. Many of these are single-industry towns so our role is of major importance to the community.

We actively engage with the regional governments, municipal authorities and local communities to help create high-quality, modern social environments for our employees and their families. Dozens of social programmes and projects financed by the 'SUEK to the Regions' fund support this goal. The effectiveness and importance of our social and charitable work, even in a tough economic climate, was reflected in the multiple awards and top rankings for corporate social responsibility received in 2014.

Prospects

The difficult economic environment and poor global coal market conditions may persist in the medium term. The surplus of coal production and transport capacity in the major coal-exporting countries, compounded by weakening of demand, has resulted in increased competition between suppliers and the most significant drop in coal prices in recent years. Additional complications for coal mining companies in Russia include volatility in the financial markets, the geopolitical situation, and increased inflation of capital expenditure and operational costs.

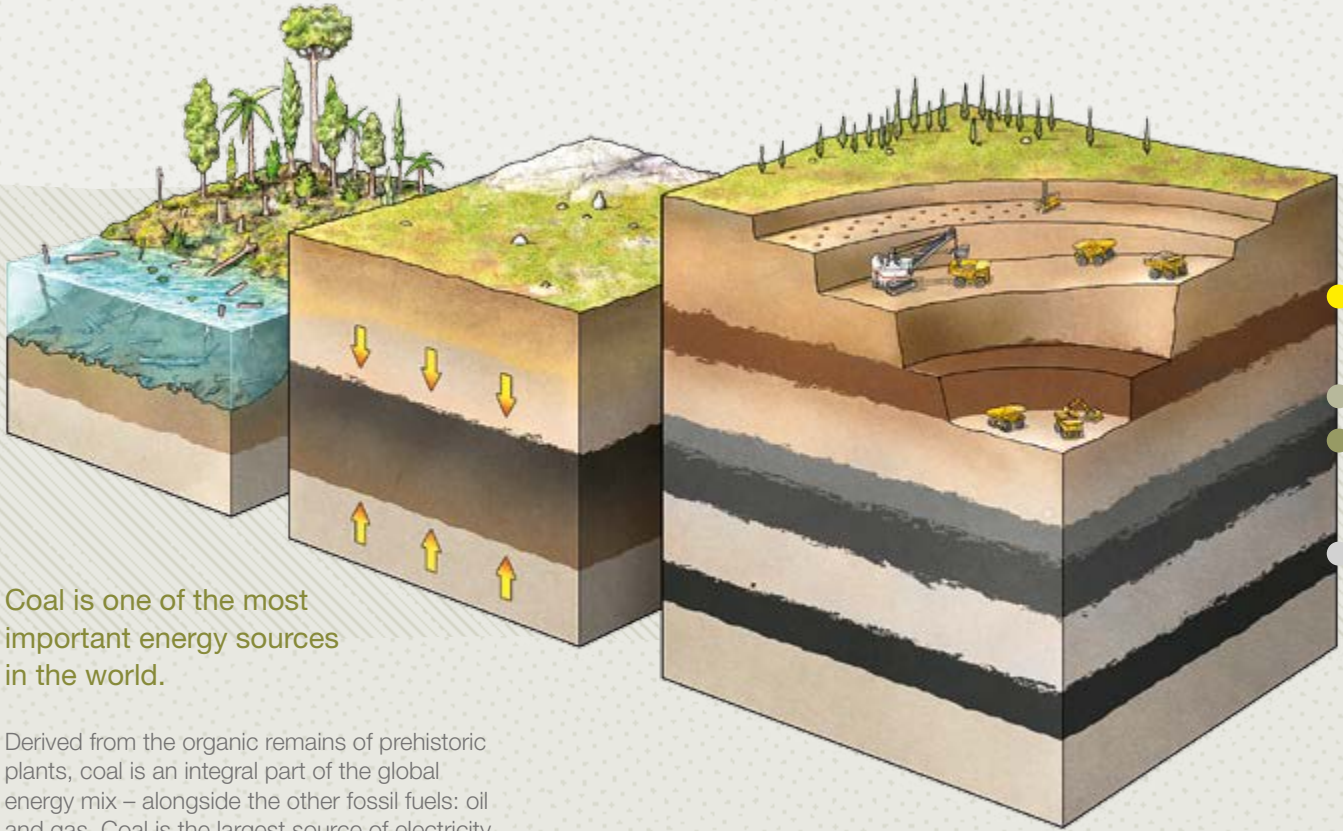
Despite these headwinds, coal continues to be one of the most important energy sources and remains essential to the power industry. Global coal consumption continues to grow and new projects are being implemented to ensure coal usage is more efficient and friendlier to the environment. These are the fundamentals of the future cyclical growth of the coal market.

In these circumstances, it is crucial for us to continue to implement the main principles of our strategy by consistently fulfilling targets for increased production capacity, building long-term relationships with key customers, improving our management approaches and upgrading our employees' skills. We continue to commit ourselves to the most effective investment projects with the highest payback in areas such as production, processing and logistics, as well as improving our operational efficiency and safety. In addition, allowing for the challenges imposed by the current business environment, we are focused on ensuring sustainability of our cash flow and liquidity.

We have ambitious objectives. If we pursue them aggressively and systematically we will get through the current market situation intact and remain a global leader in the coal mining industry for the long term.

ANDREY MELNICHENKO
CHAIRMAN OF THE BOARD
OF DIRECTORS, JSC SUEK

Coal: leader in electricity generation

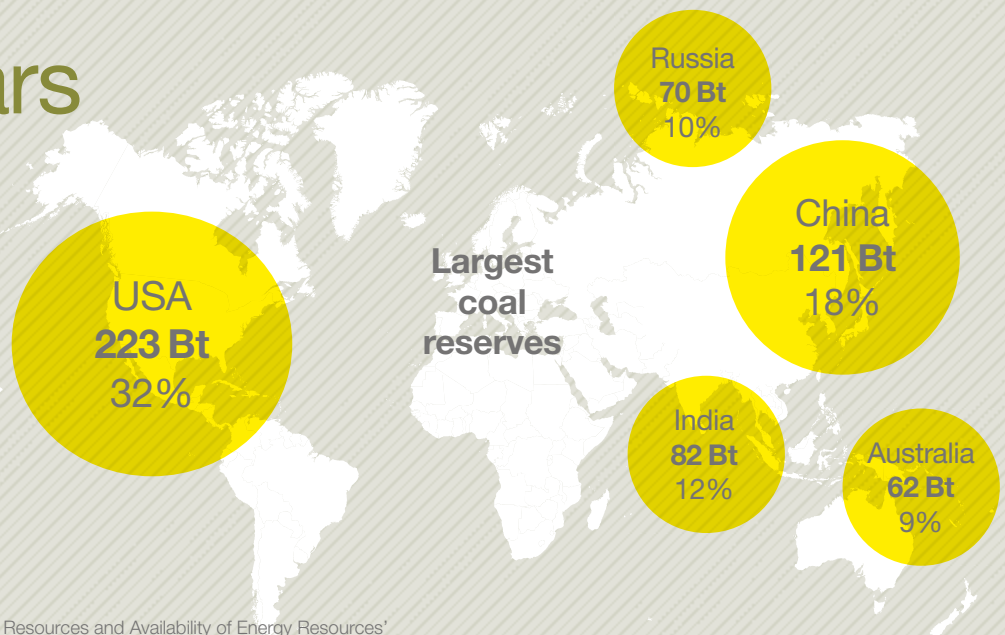


Coal is one of the most important energy sources in the world.

Derived from the organic remains of prehistoric plants, coal is an integral part of the global energy mix – alongside the other fossil fuels: oil and gas. Coal is the largest source of electricity generation in the world, providing 41%¹ of the world's supply. Global coal reserves are spread across 106² countries and proven reserves are estimated to last over 100 years at current production rates.

100 years

OF RECOVERABLE RESERVES



Source: BGR, Energy Study 2014 'Reserves, Resources and Availability of Energy Resources'

¹ 'World Energy Outlook 2014', International Energy Agency.

² BGR, Energy Study 2014 'Reserves, Resources and Availability of Energy Resources'.

Coal classification

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

Lignite was formed from peat dried and hardened due to heat and pressure from overlying alluvial deposits. Often referred to as ‘brown coal’, it has higher moisture and lower calorific values than higher rank coals. It is, however, an important source of energy for generating electricity. Due to its low calorific value, lignite is used mainly in Russian markets. Many Russian power plants are designed to use lignite and are therefore located close to lignite reserves.

Sub-bituminous

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

Bituminous

Bituminous coal was formed in subterranean temperatures of up to 180°C, as sub-bituminous layers were subjected to deeper burial. Darker and denser than lignite or sub-bituminous coal, it is usually divided into three sub-groups: low volatile, mid volatile and high volatile. Depending on its characteristics, bituminous coal can be used for electricity generation or for the production of iron, steel and other metals. It is commonly referred to as ‘hard coal’. When used to produce metal, it is known as ‘coking coal’.

Anthracite

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

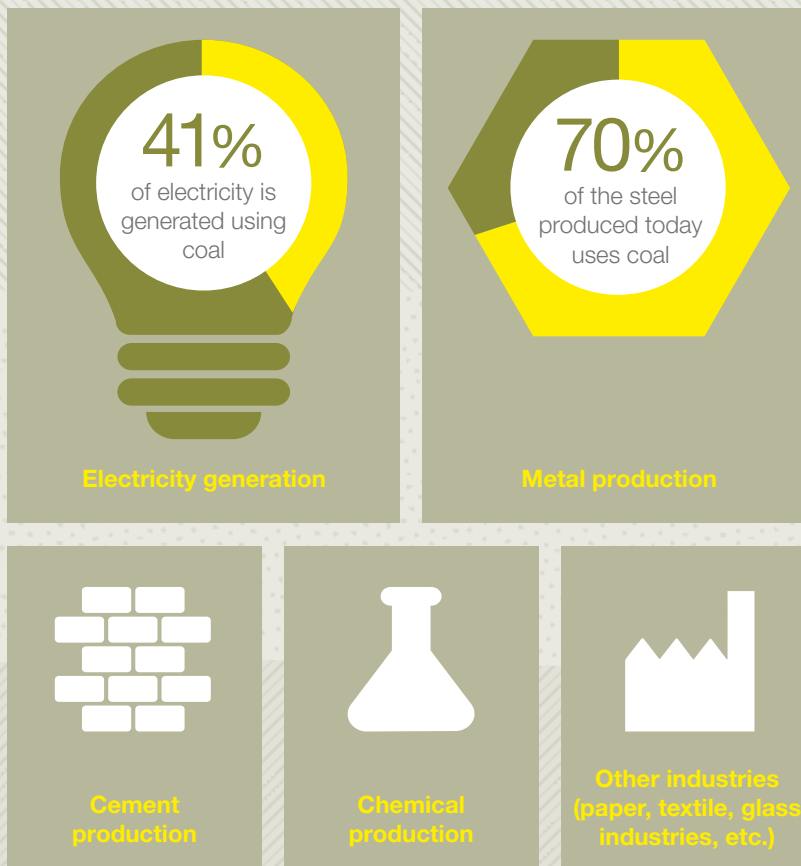
CALORIFIC VALUE	CALORIFIC VALUE	CALORIFIC VALUE	CALORIFIC VALUE
<4,600 kcal/kg	4,600-6,400 kcal/kg	5,800-8,300 kcal/kg	No specific limit under ASTM
MOISTURE CONTENT	MOISTURE CONTENT	MOISTURE CONTENT	MOISTURE CONTENT
30-75%	10-30%	1-10%	<5%
FIXED CARBON CONTENT	FIXED CARBON CONTENT	FIXED CARBON CONTENT	FIXED CARBON CONTENT
No limit	No limit	<86% ^{dry} basis	>86% ^{dry} basis
VOLATILE MATTER	VOLATILE MATTER	VOLATILE MATTER	VOLATILE MATTER
No limit	No limit	>14% ^{dry} basis	<14% ^{dry} basis

Produced by SUEK Group

Coal: one of the most important energy sources

How coal is used

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



The advantages of coal

Availability

Coal does not require high-pressure pipelines, expensive protection during transport or costly processing. It is easy to store for use on demand, making it the world's most readily available energy source.

Usability

Coal only needs to be mined before it can be used. Other fossil fuels must be refined, using lengthy and costly processes. Other energy sources such as wave, wind and solar are dependent on the vagaries of nature, so the power they are able to deliver is less reliable.

Versatility

It is the most versatile energy resource. As well as generating electricity, coal is a core component in iron and steel making and is integral to a vast range of processes and products, including aluminium refining, paper manufacture and chemical production.

Affordability

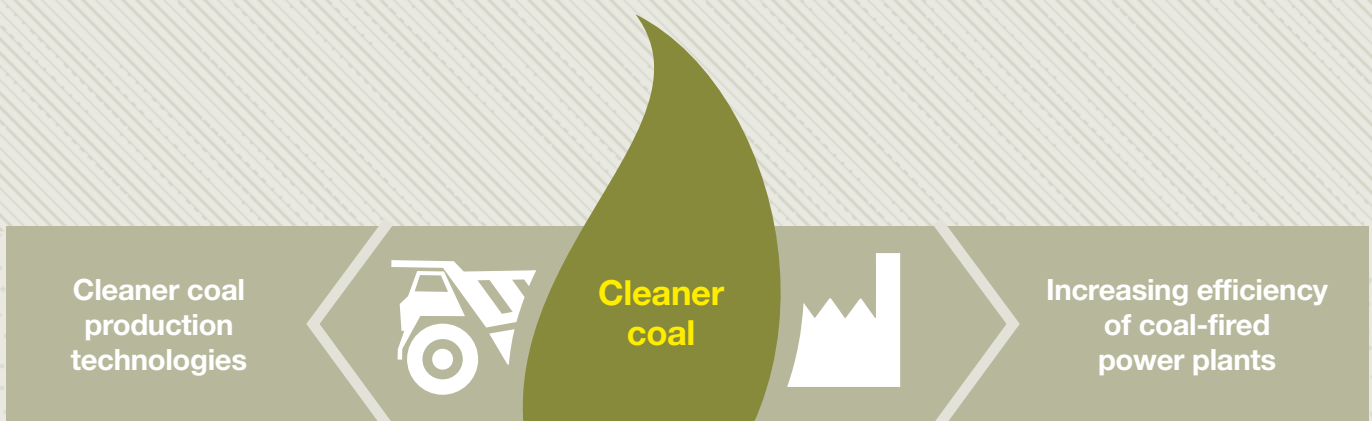
The abundance of coal, its easy accessibility, straight-from-the-mine usability and lower transport costs, make it an affordable form of energy. Electricity produced from coal is less expensive than other sources such as solar, wave, wind or even nuclear power.

Safety

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

Coal and environment: changes for the better

Improvements in technology in recent years have substantially reduced the environmental effects of coal production and its use in electricity generation.



Cleaner coal production technologies



Cleaner coal



Increasing efficiency of coal-fired power plants

Increased coal washing typically lowers ash content by more than 50% by removing extraneous rock and high ash coal. Cleaner coal means less waste is transported by rail or by ship, ash disposal after use is reduced and the coal itself provides greater thermal efficiency. We are making a significant contribution to environmental protection by increasing the volumes of coal we wash.

 See pages 70-71 for more details.

During underground mining highly concentrated methane (CH₄) can be captured and removed by extraction systems. Where practical, this gas is used to generate electricity or to heat mining facilities. Otherwise, it can be safely flared rather than discharged into the atmosphere. The result is reduced greenhouse gas emissions per tonne mined. At some of our Kuzbass mines, methane is captured and fed to gas engines which drive electricity generators. This provides financial benefits as well as reducing harmful emissions.

 See pages 90-91 for more details.

Coal-fired power stations mainly use pulverised coal combustion (PCC) – where boilers are fired with a mixture of finely ground coal and air to create steam, which drives a turbine to produce electricity. Most conventional coal-fired power 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-supercritical¹ conditions with improved efficiencies.

The efficiency of sub-critical power stations is mostly below 40%, with average generating efficiencies between 33% and 37%.² Supercritical coal-fired power plants can achieve efficiencies above 40%, whilst ultra-supercritical plants can potentially boost efficiency to 50% or more. Globally, 64% of coal power plants under construction are supercritical or ultra-supercritical, up from 50% in 2012.³

Over the last 30-40 years, developments in technology have dramatically increased efficiency and reduced emissions. For instance, advanced cleaning and firing systems on coal-fired power plants have helped to reduce the output of sulphur dioxide (SO₂), nitrogen oxides (NO_x), complex hydrocarbons, dust and heavy metals.

¹ Supercritical and ultra-supercritical power plants operate at temperatures and pressures above the critical point of water. These power plants require less coal than conventional plants, leading to lower emissions, higher efficiency and lower fuel costs per megawatt.

² 'The Future of Coal, Options for a Carbon-Constrained World', Massachusetts Institute of Technology.

³ 'Tracking Clean Energy Progress 2014', International Energy Agency.

Leadership through vertical integration

SUEK Group is a leading, vertically integrated producer of coal, one of the most important energy sources in the world. We create and deliver long-term value to our shareholders at every stage of our value chain – mining, processing, transportation, shipment through port facilities, sales and distribution. Our integrated business model enables us to benefit from economies of scale and helps us maintain our status as the leading coal exporter from Russia.



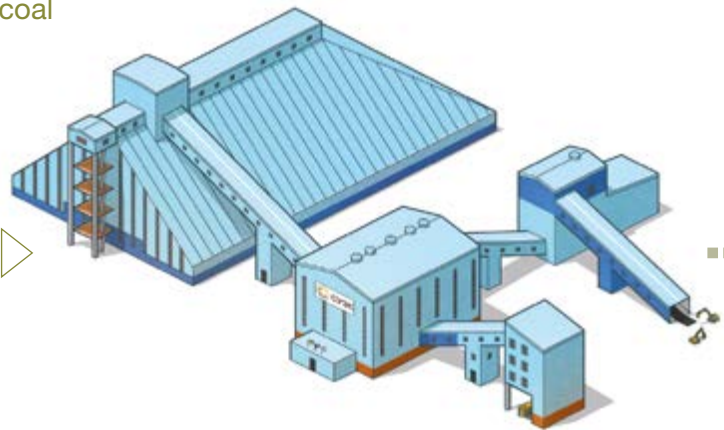
Mining

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

We intend to expand our production of high-quality hard coal, principally for international sales to the Asia-Pacific region from Vanino Bulk Terminal. We aim to operate our high-quality portfolio of assets safely, reliably and efficiently.

Having successfully managed the business through the recent market downturn with tight cost control, we produced 98.9 million tonnes of coal in 2014 – up from 96.5 million tonnes in 2013. Investment in production facilities has helped to increase output at most of our operating units.

 See Operating review for more details on page 62.



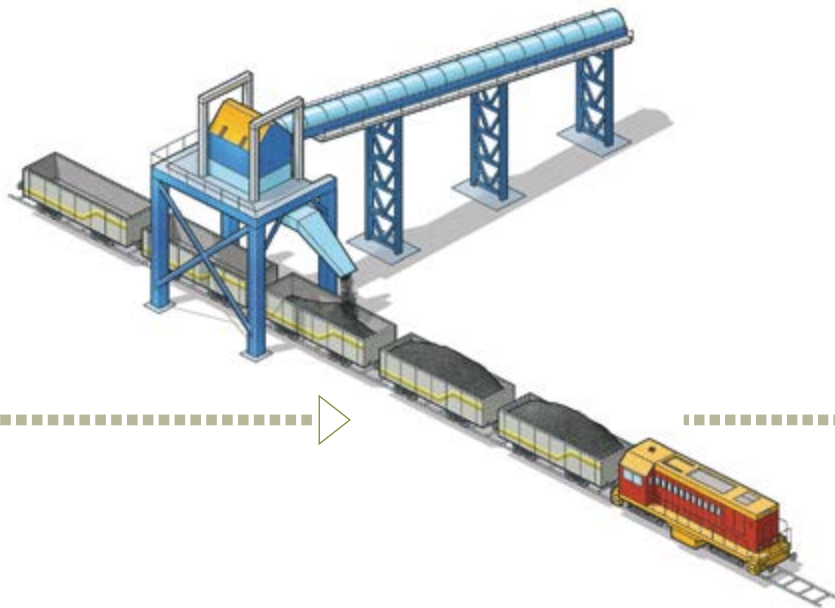
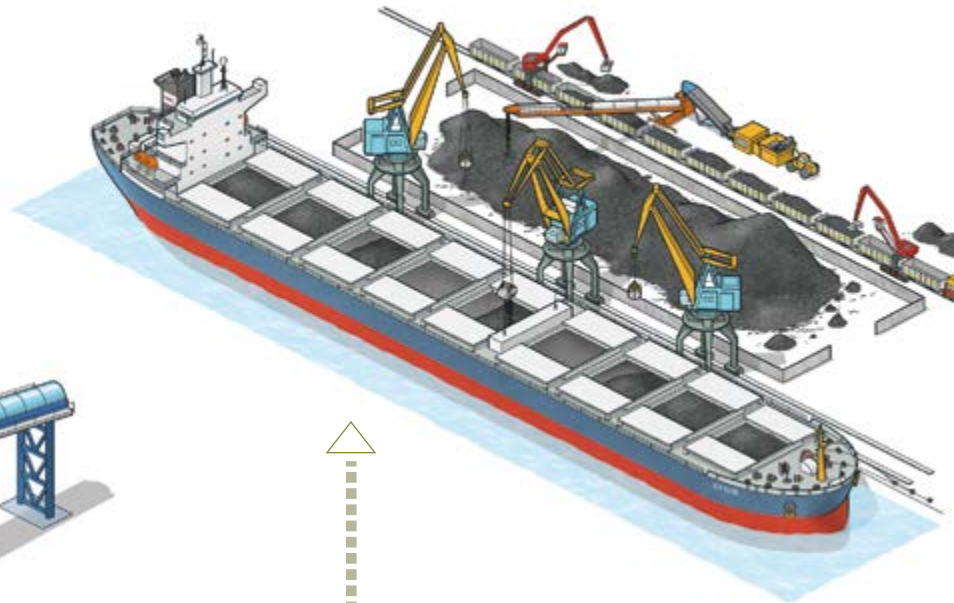
Washing and processing

The Group's processing and coal-washing facilities enable us to enhance the quality of mined coal: reducing ash and moisture improves coal's calorific value, and lowering transportation costs. Our international sales volumes are to a certain extent also driven by our coal washing and processing capacity, enabling us to meet the higher-quality requirements for coal sold on international markets.

We have responded to increasing global demand for higher-quality coal by building new facilities and by improving the operating efficiency of existing washing plants. Our actions have produced positive results, as we increased our processing capacity by 17% in 2014 compared to 2013, and helped boost our international sales by 8%.

We are particularly focused on developing facilities that will maximise opportunities in the Asia-Pacific region.

 See Operating review for more details on page 63.



Sales

We sell coal to a long-standing and diverse customer base through our established distribution and trading platform. We sell coal in more than 35 countries internationally with the help of our representative offices. We maintain a strong focus on the key markets of Asia-Pacific and Europe. More than 80% of international sales are direct to end users.

We continue to expand our presence in international markets, primarily in China. We recently opened a third Chinese office at Harbin in the north east (joining existing Shanghai and Beijing locations) to drive the growth of railway-based business. The establishment of SUEK Shanghai Trading has also allowed us to reach end users who buy only on domestic terms. We are able to extract additional value on price by removing intermediate traders. We have made real progress in developing business to Japan – a great achievement given it is such a hard market to penetrate – and established long-term business in new markets such as South Korea, Malaysia and Sri Lanka. In addition, we have maintained strong third-party sourcing of products from Indonesia, Chile and US to satisfy our customers' different quality requirements.

In Europe, we have a strong retail network in Poland which we are looking to expand. We plan to open more stockyards and to boost coal sales. In 2015, we also intend to increase our focus on sales to Mediterranean markets such as Italy, Morocco and Israel.

Our coal sales in Russia are principally to power plants under long-term contracts. This creates an important synergy for us, providing stable demand from locations close to our mines.

 See our Map of supplies on pages 28-29.

Logistics

The favourable locations of our coal assets, combined with easy access to key transport infrastructure and to Vanino Bulk Terminal, Murmansk Commercial Seaport and Maly port, enables us to reliably and cost-effectively supply the major markets of Russia, Europe and Asia-Pacific. We are closer to key Asian markets than many of our competitors, so we benefit from reduced transportation costs.

The Group currently manages the rail distribution of our coal to over 1,300 customers in Russia and to eastbound and westbound seaports for onward delivery to nearly 200 customers in 35 countries. We employ our own rail stations and infrastructure and also use contracted rail cars under various terms and conditions. These provide us with the flexibility to manage the rail fleet in the long term and to minimise risks associated with renting rolling stock in a volatile market. We aim to eliminate bottlenecks through reconstruction of our rail stations and also by adding new, higher-capacity rail cars to our fleet.

We continue to invest heavily in our infrastructure near mines and to expand the capacities of our dedicated port – Vanino Bulk Terminal.

 See Operating review for more details on pages 63-64.

Delivering stable financial and operating results



Operational performance

In 2014, the Group's mines produced 98.9 million tonnes of coal, an increase of 2.4 million tonnes compared to 2013 (+2%). Most importantly, our mines located closest to the most promising and growing markets of the Asia-Pacific region (Buryatia, Zabaikalye and Khabarovsk) produced more export-quality hard coal. We also increased output of the most valuable sized, metallurgical and high-energy thermal coal in Kuzbass and Khakasia. This coal is more resistant to reductions in price. In the reporting year, we also made substantial progress in terms of increased underground roadway development rates – from 78 km in 2013 to 94 km in 2014. This means we are able to access more reserves for extraction.

In 2014, many of our mines achieved outstanding results. For example, the November 7th mine in Kuzbass set a Russian record for annual production from a single longwall panel of 4.7 million tonnes. The majority of our production units recorded the best performance in their history. Overall, in 2014 our coal production units increased their workforce productivity by 8%, which is one of the highest productivities in the coal mining industry in Russia.

In 2014, we sold 1% less coal in the Russian market compared to 2013 – 49.7 million tonnes, of which 37.7 million tonnes was supplied to power plants. The major reason for reduced sales was low utilisation of coal-fired power capacity in Siberia in the

first half of 2014, due to commissioning of new hydroelectric plants and high water inflow in rivers. Another factor affecting coal demand from the Siberian power industry was reduced output at aluminium plants – normally the largest users of energy. In addition, commissioning of new aluminium plants has been deferred. However, in the second half of 2014 there was a trend of increased sales to coal-fired power plants. In particular, we concluded long-term contracts with a number of leading Siberian energy companies, accounting for more than 25 million tonnes of sustainable coal sales per year. We also continued to develop our own coal distribution network and storage areas within key regions for coal consumption by utilities. In particular, in 2014 we commenced distribution operations in the Altay region of Russia.

Projects

Our 2014 investment programme was \$496m and, in view of the adverse market situation, we have been focusing on higher-priority projects. Among these are projects to increase production capacity of those assets which supply coal to the Asia-Pacific region. For example, the project to increase production from Urgal in the Khabarovsk region to 8.1 million tonnes has reached its final stage. We have also developed the Apsatsky coking coal deposit in Zabaikalye: in 2014, its third year of operation, the open pit produced 1 million tonnes. Investment in increasing productivity and improving safety at our production units also form an important part of our projects.

In 2014, we achieved important results in terms of development of our coal processing facilities. We commissioned a new washing plant at Urgal with a target capacity of 6 million tonnes and Tugnuisky washing plant achieved record-breaking productivity by processing over 1 million tonnes of coal in August 2014. We upgraded the Komsomolets washing plant and improved the operational efficiency of the other processing facilities in Kuzbass and Khakasia. We also commenced construction of a washing module at Taldinskaya-Zapadnaya 1 mine in Kuzbass. Overall, in 2014 we washed 32.1 million tonnes – up 14% on 2013 – and the share of washed hard coal increased from 45% to 49%.

In November 2014 the Vanino Bulk Terminal loaded almost 2 million tonnes of coal. Annual loading rate of the terminal reached the record volume of 17 million tonnes in 2014. We also increased coal shipments through Murmansk Commercial Seaport from 13.1 million tonnes in 2013 to a record 13.9 million tonnes in 2014.

Developing our own railway infrastructure remains a key commitment. We have consistently increased the capacity of loading units and railway divisions of our production units, as well as that of connecting stations. We have also become the largest user of Russian-made increased-capacity open rail cars, which further improves our performance.

People

The successful operation of the Group depends on the competence and professionalism of our 31,400 employees. The operational excellence of employees at our production units was recognised during the all-Russian competition of miners' skills – 'Mining Olympics 2014' – which was held in August. Teams from most Russian coal mining companies took part in this competition. Our teams impressed, and were placed first or second in most categories.

In the reporting year, we continued to follow our adopted strategy in human resources management and development. A key objective is to attract skilled employees to work in the remote areas where some of our mines are located. We also want to ensure the commitment of employees and to improve their skills so they can tackle even the most complex production and operational tasks. The challenging economic situation in Russia at present makes trust-based, meaningful dialogue between the employer, the workforce and the trade unions especially vital. These good relations are built on the safe and dependable operation of our mines and the guaranteed fulfilment of all our social obligations to workers.

Safety

Improving the professional competence of our staff and developing a culture of safety in the workplace are paramount to fulfilling one of our key objectives – compliance with the most advanced industrial safety standards and prevention of production-related accidents. In the last five years, LTIFR

– which is the key industrial safety index – has decreased from 2.88 to 1.57 at our production units. Total investment in health and safety related measures was over \$70m in 2014.

Despite this improvement, last year we had eight fatal accidents at our mines. Clearly we find this situation totally unacceptable and are making huge efforts to ensure the required level of industrial safety is in place to prevent fatal accidents and ensure a fundamental reduction of injury rates. The key areas we are concentrating on include gas drainage, ventilation and dust removal from underground mines; reliable and comprehensive monitoring of mine atmospheric safety; technical and operational measures to reduce injury rates related to operation of various types of equipment; and reinforcement of the safety management structure. We are improving the safety culture by targeted interaction, motivation and training of our workforce.

In 2014 we started to integrate various automated control and management systems (e.g. mine atmosphere and gas safety) into a single system to improve emergency awareness and response at our mines. In 2014, a Situational Control Room was established in the head office of JSC SUEK in Moscow. A unified control and analytics centre was also commissioned in Kuzbass.

Corporate responsibility

Our social and charitable programmes continue to receive accolades from non-governmental organisations and government agencies. In 2014, JSC SUEK won several competitions and was awarded prizes for social responsibility.

Our priority is to support social projects aimed at developing human capital in the regions where we operate, improving the quality of life of people and satisfying their real needs. We are currently running several dozen social projects, including our landmark 'Work teams' programme for teenagers; a health improvement programme for children, veterans and the disabled in the best health centres and clinics in the regions; and the School of Small Scale Entrepreneurship. We are continuing to build playgrounds and other community leisure facilities.

Acknowledgement

I would like to thank all of our employees, partners and contractors for their contributions. Such well-established cooperation is of particular value at a time when the coal mining industry faces tough challenges.

Overall, the Group's achievements, in what has been a difficult year for the industry, confirm that our strategy and business model are sustainable and effective and are resistant to dramatic changes in the market. In 2015, we will strive to strengthen all areas of our operations, substantially grow our business and reinforce our leadership in the industry.

VLADIMIR RASHEVSKY
CHIEF EXECUTIVE OFFICER,
JSC SUEK

Global reach to key markets

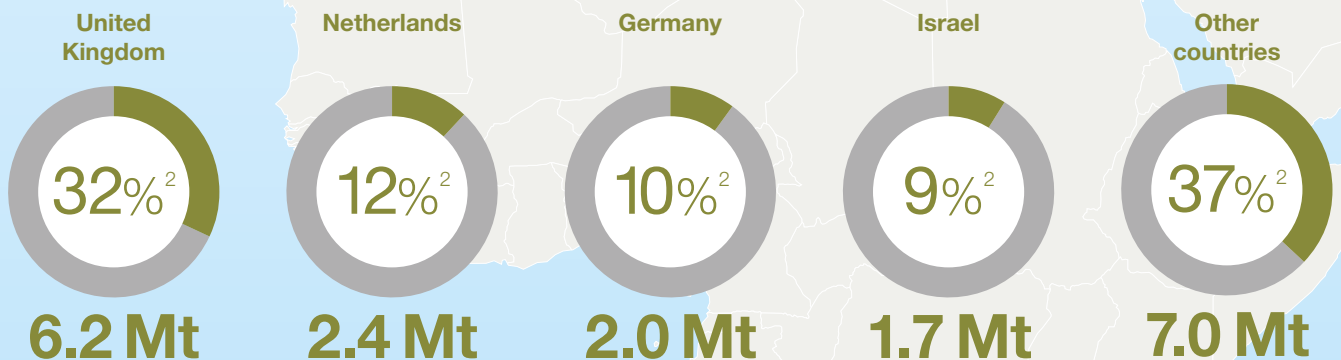
We are well-positioned to meet the coal demand across the key markets.

95.3 Mt

TOTAL SALES IN 2014



Atlantic region



¹ Sales volumes to the Atlantic region comprise sales of own coal mined by SUEK (16.9 million tonnes) and sales of coal purchased from third parties (2.4 million tonnes).

² Share of sales to the country from total sales to the Atlantic region.



Russia

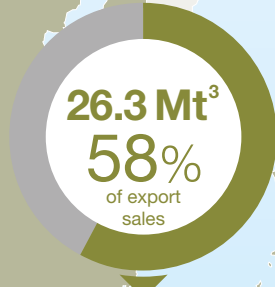
Baikal-Amur Mainline

Trans-Siberian Railway

Vanino Bulk Terminal

Maly Port

Vostochny Port



Asia-Pacific region

- Hard coal assets
- Brown coal assets
- Ports where SUEK Group is a major shareholder
- Third-party ports
- Railways

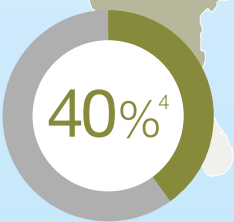
China

South Korea

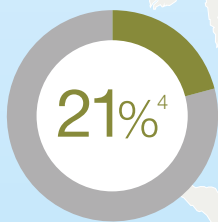
Japan

Taiwan

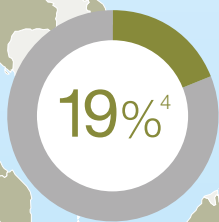
Other countries



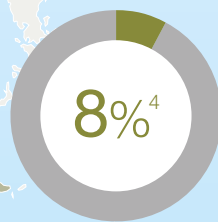
10.5 Mt



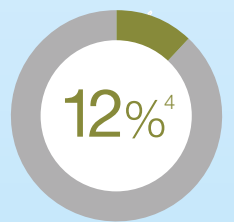
5.6 Mt



5.1 Mt



2.1 Mt



3.0 Mt

³ Sales volumes to the Asia-Pacific region comprise sales of own coal mined by SUEK (23.5 million tonnes) and sales of coal purchased from third parties (2.8 million tonnes).

⁴ Share of sales to the country from total sales to the Asia-Pacific region.

Coal fundamentals

According to the latest research by the International Energy Agency, in 30 years' time coal will still be the major source of power generation globally. The volume of the international coal trade will increase by almost 1.5 times compared to current levels and trade flows will continue to move towards Asia.

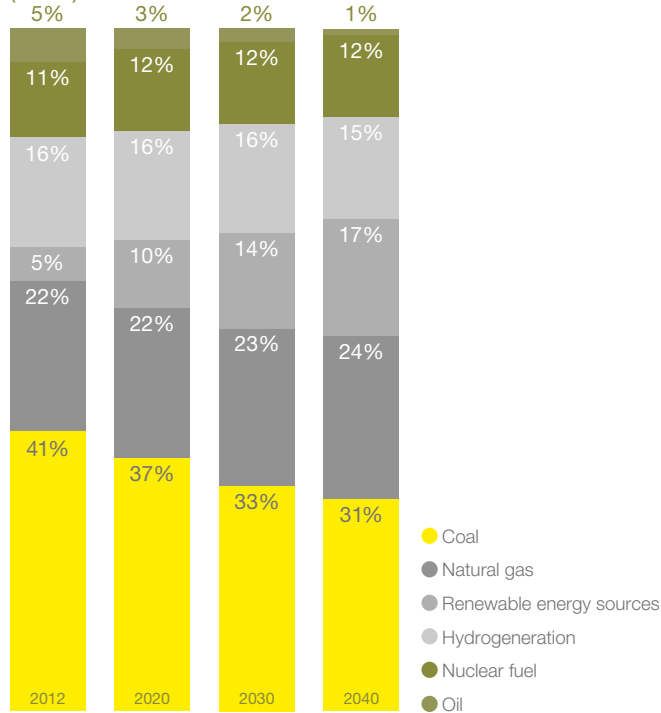
We believe that industry and regional trends will define the rules of the game in the thermal coal market for the next ten years, while surplus production and excessive coal supply in the market will have a more significant impact on pricing than demand.

Only major mining companies with low production costs will be able to remain in a market where significant surplus of coal has forced prices down.

Overview

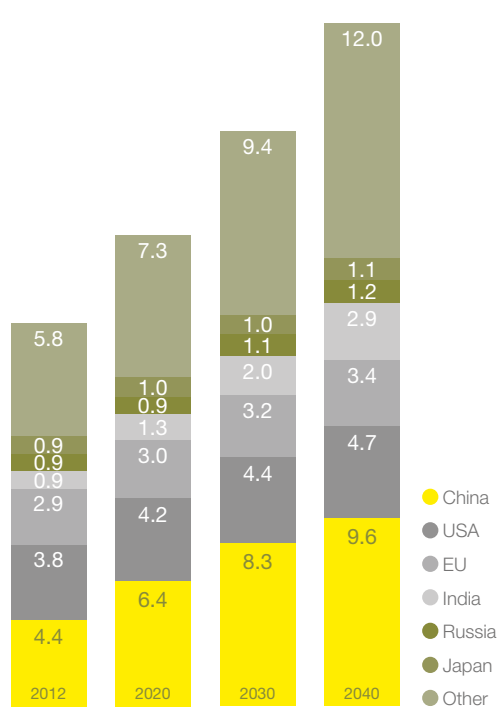
The future of coal-fired energy generation will depend on a number of factors, including the implementation of state and international policies supporting renewable and alternative energy sources, as well as initiatives to improve energy efficiency and reduce carbon emissions. However, we expect that in 30 years' time coal will continue to be the major fuel source for electricity generation, accounting for more than 30%¹ of global power generation. According to a forecast from the International Energy Agency, by 2040 global consumption of thermal coal will reach almost 5.5 billion tonnes, which is 0.8 billion tonnes higher (+18%) than the current consumption rate of 4.7 billion tonnes.² The volume of internationally traded coal will significantly increase. In 2040, 1.1 billion tonnes of thermal coal will be exported for burning by power stations and other plants located in importing countries.³ Coal will continue to be one of the fundamental commodities of the global economy.

Electricity generation by source type (TWhr)



Source: World Energy Outlook 2014, International Energy Agency

Power consumption by countries and regions (TWhr)



Source: World Energy Outlook 2014, International Energy Agency

¹ World Energy Outlook 2014, International Energy Agency.

² World Energy Outlook 2014, International Energy Agency.

³ Idem.

Factors influencing thermal coal demand

In the last ten years, global demand for coal has more than doubled.⁴ This has been mostly due to rapid consumption growth in China, for use in power generation, cement production, metallurgy and other industries of fundamental importance to developing economies. At present, China accounts for more than 50% of global coal consumption. Between 2012 and 2014, Chinese economic growth slowed; demand for coal will continue to increase but at a lower rate. However, despite the reduction of growth in China, it will still account for 60% of the global coal consumption in the medium term (next five years).

Growth in the global coal market (given that Chinese growth will be slow) will be associated with South-East Asian countries like Vietnam, Thailand and Malaysia, as well as Indonesia – which is the largest exporter of coal today and in the future may become one of the major coal users within the region. By 2040 the coal market in these countries will equal the consumption of the whole of the EU. Other regions offering potential growth in coal consumption include southern Africa and Latin American countries where plans for developing the power industry are primarily based on coal-fired generation.

India cannot be considered a new player on the global coal market because it is already a large consumer and importer of coal. However, there is still huge potential for growth of coal consumption in this country. Actual electricity consumption remains very low – only 700 kWhr per person per year, which is about one eighth of the EU level. Moreover, about a quarter of the Indian population still does not have access to energy sources.⁵ By 2040, power consumption in the country will rise sharply, making India the largest coal importer with imports twice as high as the current level in China.⁶

Today about 60% of total global coal production is used in the power sector, and in the foreseeable future the power industry will remain the largest consumer of coal.⁷ As outlined, many developing countries will reform their power industries and stimulate development of coal-fired generation.

Recovering the market balance: slow but inevitable

Intense growth of demand for coal in the Pacific region during 2007-2011 resulted in increased international coal prices and marine coal freight rates. Higher prices caused an inrush of investment into development of coal deposits, transportation infrastructure and ship building all over the world. In subsequent years investment decreased dramatically as market prices fell.

During the boom period, China turned from a net exporter to a net importer of coal. In 2014, China imported 226 million tonnes of thermal coal.⁸ In the future, it is expected that China will further increase coal imports, although at lower rates than

previously. At the same time, global coal production and supply capacity continue to increase following investments made in previous years in anticipation of a continuing rise in demand.

The discrepancy between actual demand and existing and new production capacity has resulted in surplus coal supply. This has led to a reduction in price in the international market. The response of producers has been to increase their output to reduce fixed costs per unit of production, which has caused further excess of supply. Surplus coal production has also partly been caused by existing contractual obligations of a number of suppliers to rail and port operators under take-or-pay contracts. Under these conditions, producers continued to supply coal despite the low prices and negative profits.

At present coal companies are making intense efforts to optimise their management structures and improve budgetary discipline and production efficiency. This is already paying off in the form of substantial reduction in operational costs. Also, a major external factor which improves coal supplier competitiveness is the recent devaluation of currencies of many exporting countries, particularly Russia.

Natural selection

When the scope for efficiency improvement comes to an end and external factors stop contributing to reductions in operational costs, the natural selection principle comes into effect. When applied to the coal industry, this means that only companies with the best production assets and lowest costs will remain in the market.

At present, many coal mines with high production cost have ceased operation. In 2014, several US mines with total production of 15 million tonnes per year were shut down, while Australia and Indonesia saw mines with a total capacity of 2 and 4 million tonnes per year, respectively, close. At the same time, Chinese coal production has suffered the most – today it is producing 87 million tonnes less coal than a year ago. About 11 million tonnes of this production decline was exported. Based on the data available at the time of publishing this report, a total of 132 million tonnes of thermal coal production capacity may be lost in various countries in 2015, 31 million tonnes of which are currently exported.⁹

In 2012-2014, as coal market prices declined, heavy investment in the mining industry slowed. Due to a long investment cycle and the impact of external factors, this has not yet affected coal supplies, but it will negatively impact the commissioning of new projects in the future. A combination of fewer new projects coming online, inefficient coal producers leaving the market and higher demand for coal in the Pacific region, will eventually contribute to the recovery of market balance and an increase in prices.

⁴ World Energy Outlook 2014, International Energy Agency.

⁵ World Energy Outlook 2014, International Energy Agency.

⁶ World Energy Outlook 2014, International Energy Agency.

⁷ World Energy Outlook 2014, International Energy Agency.

⁸ China Customs Statistics (CCS) Information Service Center.

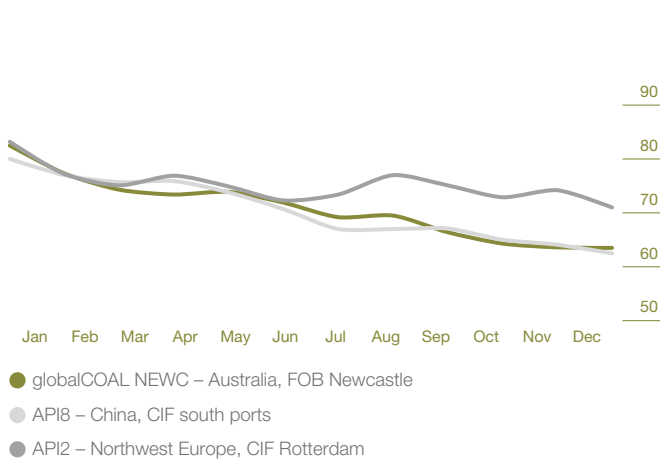
⁹ Wood Mackenzie.

International coal market

Changing environment produces new challenges

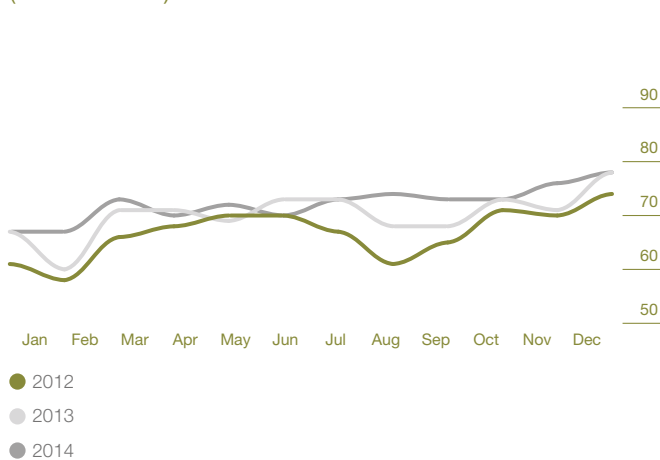
It was a very difficult year for the coal industry in 2014. Mild weather conditions further reduced demand for coal in Europe while in the Asia-Pacific region, China, which exerts huge influence over the global coal market, also contributed to weakening demand. A surplus of coal in the international market due to weak demand and rapid growth of supplies from exporting countries and a fall in oil prices at the end of the year were additional factors behind a sharp decrease in global coal prices.

Thermal coal price indexes in 2014 (\$ per tonne)



Source: Argus/McCloskey, globalCOAL (Newcastle)

Thermal coal exports¹ (million tonnes)



Source: SUEK estimates, public filings

Atlantic market

In 2014, the Atlantic thermal coal market suffered decreasing demand due to a mild winter and increasing competition from alternative fuels. There were also higher coal sales from South Africa, Colombia and Russia. As a result, coal prices in the Atlantic region dropped substantially, although relatively high prices did occur in the second half of 2014 due to geopolitical instability within the region.

In early 2014, European users encountered limitations on Colombian coal supplies as a major Colombian mining company was forced to suspend its exports because the barge-loading technology at the company's port did not meet 2014 environmental standards. Exports were completely stopped until the ship terminal was completed. However, by year-end Colombia managed to regain its previous level of coal exports, and to increase it by two million tonnes (+2%).²

In 2014, South Africa increased its coal export sales to the Atlantic basin by 7 million tonnes (+27%), 5 million tonnes of which were re-directed from their traditional Pacific markets to the Atlantic. Exports of Russian coal to the Atlantic region also increased by about 2 million tonnes by the year end (+4%).³ Meanwhile, falling prices caused US coal exporters to reduce sales to this market, only fulfilling their obligations under existing long-term contracts. US coal export sales reduced by 15 million tonnes compared to 2013 (-34%).⁴ However, this decrease was insufficient to balance the market.

The mild winter of 2013-2014 caused a decline in demand for coal in Europe. At the start of 2Q 2014, Europe held surplus stocks of energy sources – not only coal but natural gas, which resulted in a sharp drop in gas prices and increased gas usage for power generation. In 2014, UK power plants had reduced coal usage by almost 12 million tonnes (-23%) compared to the previous year.⁵ Meanwhile in Germany, coal was being aggressively replaced by renewables – in 2014, power generated from hard coal declined by 10% while wind and solar generation capacity increased by 3%.⁶

The decrease in oil prices has a profound impact not just on the international coal market but on the global energy economy. On the one hand, inexpensive oil results in lower gas prices and makes gas-fired generation in Europe more attractive; on the other hand, it enables coal mining companies to reduce their mining costs and sea freight rates to decrease. These factors may result in significant changes in the international coal market in the long term.

¹ Seaborne thermal coal exports from major exporting countries: Indonesia, Australia, Colombia, Russia, South Africa, USA, Canada and Venezuela.

² Deep Blue Agency.

³ SUEK estimates.

⁴ US National Mining Association.

⁵ UK Department of Energy & Climate Change.

⁶ Fraunhofer Institute for Solar Energy Systems.

Pacific market

A decrease in Chinese coal imports and growing supplies of coal from Australia, Russia and Indonesia have resulted in a sharp price reduction in the Pacific region.

In 2014, the influence of China on the global coal market was demonstrated by declining demand for imported coal, which was caused by a number of legislative initiatives to support Chinese producers. In particular, the Chinese Government approved duties on imported coal, required the major domestic coal companies to reduce their production and introduced informal constraints on coal imports by limiting the content of harmful contaminants in imported coal. These factors had a significant impact on the volume of international trade in the whole of Asia. As a result of these measures and a sharp increase in energy generated by hydroelectric power stations in China, the import of thermal coal to the country declined by 22 million tonnes (-9%) in 2014 – the first drop since China became a net importer of coal.⁷

While China is importing less coal, sales to India have grown by 20 million tonnes (+15%) compared to 2013. Domestic Indian coal production still can't meet the demand from the country's recently commissioned coal-fired power stations. In 2014, total capacity increased by 16 GW to 154 GW.⁸ Reforms aimed at making the Indian coal mining industry more efficient are progressing rather slowly. Meanwhile, in 2014 the power generation capacity was growing at a much faster rate, as was the demand from newly created infrastructure. These trends are likely to persist in the foreseeable future, so the amount of coal imported to India will continue to increase.

South Korean power plants are being fully utilised. In 2014, two new coal-fired blocks each with 1 GW capacity were commissioned, and in 2015 there are plans to increase coal-fired generating capacity by another 2 GW. This will ensure a sustained increase of coal imports to the country.

In 2014, the Japanese coal-fired generating capacity remained at 2013 levels. This trend will persist in 2015 because the potential re-commissioning of nuclear power plants in Japan will mainly affect the usage of the more expensive energy sources such as liquefied gas and oil.

The increased volumes of coal supplied to the Pacific region were partly due to the growing supplies from Australia, Russia and Indonesia. Australian coal companies, who are striving to improve productivity and reduce unit costs, exported 13 million tonnes more coal than in 2013 (+7%).⁹ Due to increased competition in the market and the Chinese limitations on coal imports, the Australian exporters re-directed their shipments to India in the second half of 2014. Russian exporters have achieved an all-time record increase in eastbound shipments of thermal coal as a result of upgrades in railway and port capacity as well as improving competitiveness due to the sharp devaluation of the Russian Rouble at the end of the year. Supplies of Russian thermal coal to the Pacific market increased by 12 million tonnes (+37%).¹⁰ Indonesian coal exports in 2014 increased by 10 million tonnes (+3%); however, this is a much lower increase compared to previous years.¹¹

It is clear that in 2014 the Pacific market suffered from excessive supply. The increase in the Indian coal imports could not fully compensate for the reduced demand from China while the increased requirements from other Asian countries did not match the surplus coal in the market. Not surprisingly, given these circumstances, we have seen frequent closure or mothballing of inefficient mines and cancellation or deferment of infrastructure projects.

⁷ China Customs Statistics (CCS) Information Service Center.

⁸ Wood Mackenzie.

⁹ Australian Bureau of Statistics, SUEK estimates.

¹⁰ CIS sea ports coal shipment statistics, SUEK estimates.

¹¹ Indonesia sea ports coal shipment statistics, SUEK estimates.

Russian coal market



Demand for thermal coal in Russia in 2014 was strongly influenced by weather conditions and variations in hydroelectricity generation. The decline in domestic coal sales in the first half of the year shifted to a significant growth in demand by 4Q 2014. Increased export sales enabled Russia to counter the fluctuations in domestic demand and increase the overall sales of Russian coal.

Overview

In 2014, the total production of brown coal in Russia was 74 million tonnes, while hard thermal coal production reached 215 million tonnes.¹ Brown coal is mostly supplied to domestic power generation and public utilities companies. Hard coal is used in these industries too, but also to produce cement, metals and other industrial goods. A large part of the high-quality hard coal produced in Russia is exported.

Total Russian brown and hard thermal coal sales in 2014 increased by 1% compared to 2013 and reached 267 million tonnes.² While domestic sales decreased due to reduced demand from the power generation and public utility companies, this decline was compensated by the significant increase in export sales.

Overall, prices in the domestic market denominated in Russian Roubles have shown moderate growth despite the sharp drop of thermal coal prices in all of the key international markets in 2014. Most domestic coal is sold under long-term contracts to power generation companies. Under these contracts, the price is normally adjusted annually, allowing for inflation rates in Russia.

¹ Russian Government statistics.

² Russian Government statistics, SUEK estimates.

³ Based on the Federal State Statistics Service data, the amount of electric power generated by the hydroelectric power plants in Russia in 2014 reduced by 4% to 175 billion kW/hour; in 4Q 2014, the amount of power generated was 19% lower compared to 4Q 2013.

Domestic sales

Throughout 2014, domestic sales of thermal coal continued to be constrained by exceptional weather conditions. The growth in hydroelectricity generation in 2013 (due to commissioning of new plants and high water inflow to the reservoirs in Siberia and far eastern Russia), as well as a mild winter, resulted in reduced output from coal-fired power plants. This caused accumulation of large amounts of coal stocks at power plants in early 2014.

Throughout the first half of the year, power generation companies limited coal purchases as they used up their stocks, commencing stock replenishment later than normal. A hot summer and limited rainfall in the second half of 2014 caused a drawdown in Siberian reservoirs, resulting in a drop in hydroelectric generation³ and a sharp increase in utilisation of coal-fired power stations. Higher coal usage and low coal stocks resulted in significant growth in coal demand from Siberian power generation companies in 4Q 2014. However, total coal sales to power plants in 2014 dropped by 4% compared to 2013, to 87 million tonnes.⁴

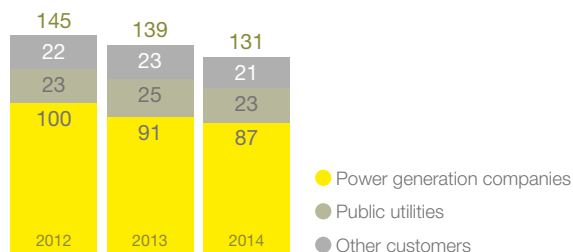
Public utility companies also had high coal stocks left over due to the relatively short and mild winter. This resulted in reduced coal purchases in the second half of 2014. As a result, the sales of coal in this market for 2014 dropped by 8% to 23 million tonnes.⁵ Total domestic sales of thermal coal in 2014 were 131 million tonnes, which is lower than the previous year by 6%⁶. Imports of thermal coal, mainly from Kazakhstan, reduced by 12% to 24 million tonnes.⁷

Export sales

During 2014, export sales of thermal coal from Russia exceeded domestic sales for the first time ever – reaching 136 million tonnes – an increase of 11 million tonnes (+9%) from 2013.⁸

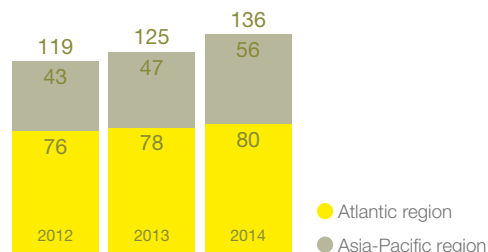
Due to the recent sharp increase in demand for coal in Asia and slower growth of demand for coal in Europe, export flows of Russian thermal coal are being increasingly directed from the west to the east. The share of sales to the Asia-Pacific area in relation to total Russian thermal coal export sales in 2014 increased to 41%. Data for the year shows the largest importers of Russian thermal coal were the UK, China, South Korea, Japan, Turkey and the Netherlands.⁹

Thermal coal domestic sales by users
(million tonnes)



Sources: Russian Government statistics, SUEK estimates

Russian thermal coal export sales by region
(million tonnes)



Sources: Railway coal transportation statistics, SUEK estimates

⁴ Russian Government statistics, SUEK estimates.

⁵ Russian Government statistics, SUEK estimates.

⁶ Russian Government statistics, SUEK estimates.

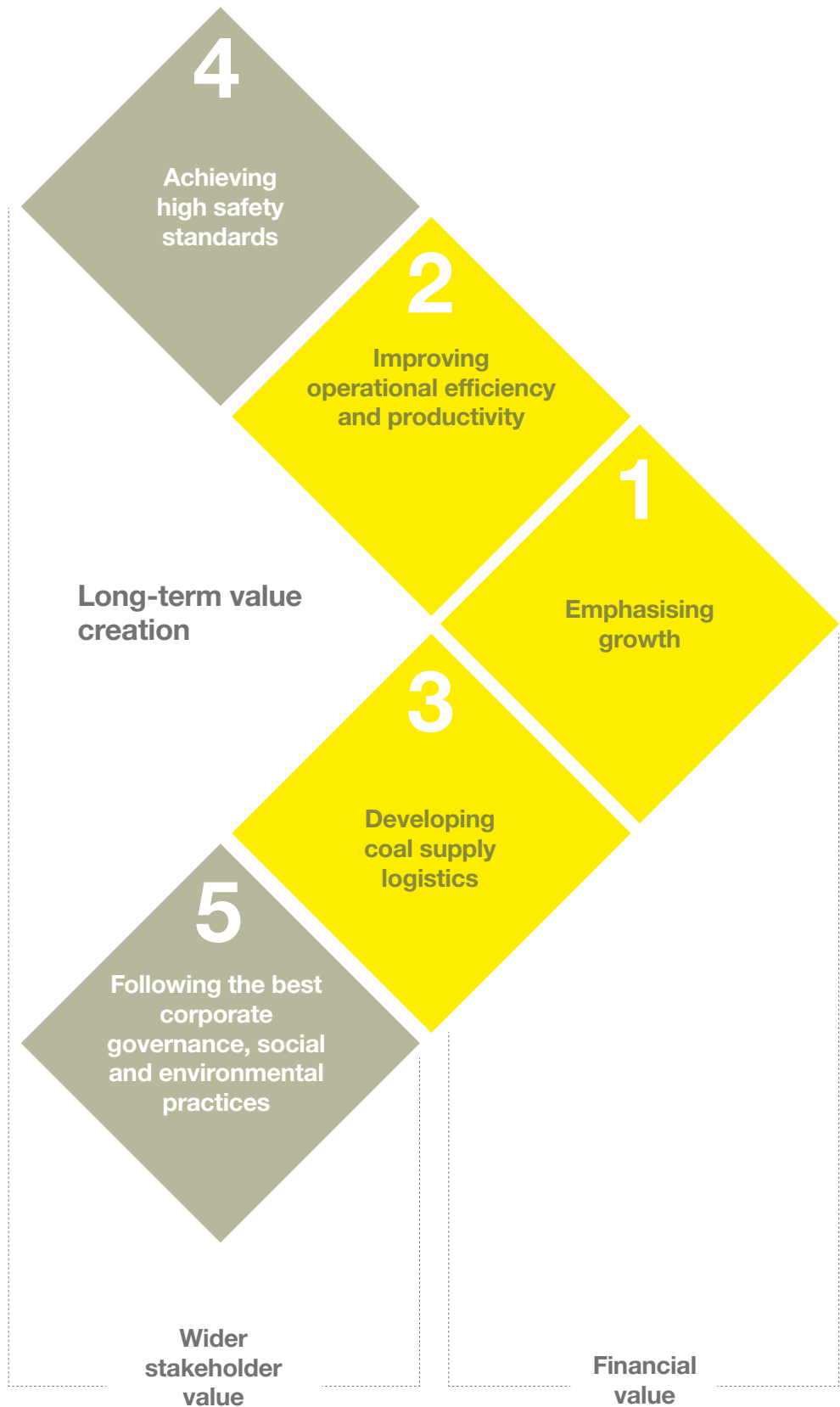
⁷ Russian Government statistics, SUEK estimates.

⁸ Russian Government statistics, SUEK estimates.

⁹ 'Metal Courier' Information Agency, CIS coal markets, December 2014.

Strategy for growth

Securing our leading position in the industry is an important goal for SUEK Group. We continue to look for opportunities to reinforce our competitive advantage, expand our market share and develop a socially responsible business. To meet these objectives, we have identified five strategy pillars to focus on.





1 Emphasising growth

We want to enhance our position as the leading producer of thermal coal in Russia and to strengthen our presence in international markets, particularly in the Asia-Pacific region. Increasing the share of washed coal in SUEK's product portfolio is a major contributor to this growth. We also plan to develop sales of premium sized coal and to increase trading of semi-soft and hard coking coal with international and Russian metallurgical customers. All current and planned projects for developing new coal deposits indicate our growth potential. We expect to maintain the synergies from association with the Russian electric power industry by signing long-term contracts with energy producers.

 See pages 38-39 for more information.



4 Achieving high safety standards

We will ensure compliance with the best international standards in occupational and industrial safety in all areas where we operate and we will seek to reduce injury rates and to prevent fatal accidents.

 See page 42 for more information.



2 Improving operational efficiency and productivity

Our goal is to maintain low-cost coal production, re-equip our production units and further expand our mining assets. By modernising mining equipment and refining operational processes, we can improve the efficiency of our business.

We will continue to improve internal management processes and will benefit by maximising the value of the business.

 See page 40 for more information.



3 Developing coal supply logistics

Through focused investment, we plan to maximise the efficiency of coal transportation, including upgrades of stations that connect main rail lines to ports and end users and to increase the loading capacity of our port facilities.

 See page 41 for more information.



5 Following the best corporate governance, social and environmental practices

Our current programme of employee training and development will strengthen our reputation as one of the most attractive employers in the coal mining industry in Russia.

We plan to continue our investment in a number of public, educational and social projects to improve the welfare of people in the regions where we operate. In all aspects of our business, we aim to minimise any adverse impact on the environment.

 See page 43 for more information.



Emphasising growth

Strategic priorities

Increasing production of high-quality and desirable coal products

Balanced management of the reserves portfolio

Strengthening our position in the Asia-Pacific region and retaining our presence in the largest Atlantic markets

2014 results

In 2014, SUEK Group increased production by 2.4 million tonnes compared to 2013.

The proportion of washed hard coal by the Group increased from 45% in 2013 to 49% in 2014. In late 2013 and first half of 2014 we started test operations at two units of the Chegdomyn washing plant. By the end of the year we had finished set up of the equipment.

In 2014, we continued to acquire licences for developing new coal mining areas in Kuzbass, Khakasia, and Urgal.

Our coal sales to Asia in 2014 totalled 26.3 million tonnes, which is 2% higher than 2013.

KPI according to strategy

TOTAL PRODUCTION:

98.9 Mt 

JORC RESERVES:

5.5 Bt

TOTAL EXPORT SALES:

45.6 Mt 

AVERAGE LIFE OF HARD COAL DEPOSITS:

over 30 years

SALES TO ASIAN COUNTRIES:

26.3 Mt 

Plans for 2015

- The Group's priority is to produce high-quality products which are in high demand in international and Russian markets;
- We are planning to expand open-pit mining in Urgal by developing an open-pit mine in the recently acquired Pravoberezhny area;
- To further improve the quality of our products, in 2015 we plan to launch a washing plant at Taldinskaya-Zapadnaya 1 mine;
- In 2015, we are also planning to increase shipments of coal to international markets by 8% through ports where the Group is one of the major shareholders.
- The objective is to ensure a sustainable portfolio of high-quality thermal and coking coal which meets market demand. We will continue to monitor promising coal deposits.
- We intend to enhance our presence in the Chinese market and to retain our position in Japan, Korea and Taiwan;
- We plan to increase direct sales by developing our recently established distribution networks in Shanghai and South Korea.

Retaining our position as the largest coal producer and supplier of thermal coal in Russia

We managed to remain the leading thermal coal supplier in Russian market – the Group’s market share is 38%.

Increasing sales in metallurgical and premium sized-coal markets

International sales of metallurgical coal amounted to 2.2 million tonnes, while Russian sales were 59 thousand tonnes.

In 2014, sized-coal sales totalled 1.8 million tonnes.

RUSSIAN SALES:

49.7 Mt  -1%

SALES TO SGK (THE GROUP’S RELATED PARTY):

20.6 Mt  +7%

METALLURGICAL COAL INTERNATIONAL SALES:

2.2 Mt  -19%

RUSSIAN SALES:

59,000 t  +379%

SIZED-COAL INTERNATIONAL SALES:

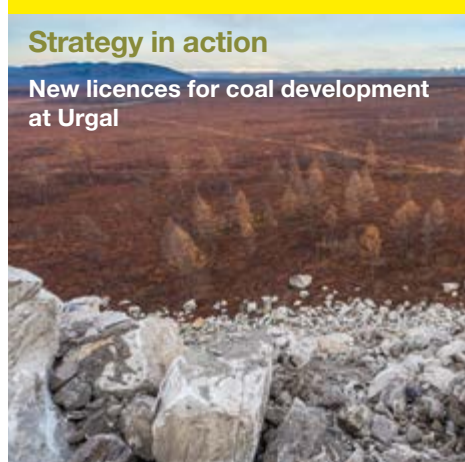
1.8 Mt  +22%

- We plan to retain our leadership in the Russian market and to seek new opportunities to increase sales;
- We intend to continue selling coal to the major Russian energy producers – SGK, E.ON, Gazprom Energoholding, TGK-14 and DGK.

- Following modernisation of two washing plants in Kuzbass, we are expecting an increase in production of semi-coking coal. We are planning to increase production of premium, low-ash, semi-hard, mid-volatile coking coal from Apsatsky open pit;
- We also intend to increase sales of semi-coking high-volatile coal in the new markets;
- We are planning to increase sales of sized coal to Poland through our dedicated distribution company – SUEK Polska, particularly in view of the plans of the Polish government to close loss-making coal mines.

Strategy in action

New licences for coal development at Urgal



In order to expand the open-pit mining resource base, in 2014 we acquired a licence for developing the Pravoberezhny area at Urgal. In 2015, we commence the development of the project, which will enable us to mine 3-5 million tonnes per year in three to five years. By developing the existing Bureinsky open pit and commissioning mining operations in the Pravoberezhny area, the total capacity of Urgal can be increased to 12 million tonnes per year – and potentially more in the future.

At the end of 2013, we also commissioned the first unit of the Chegdomyn washing plant and in 2014 we commissioned the second. The annual design capacity of the washing plant is 6 million tonnes. As we increase production we are considering further expansion of washing capacity. The objective is to ensure supplies of high-quality product to Southeast Asia and to maximise profit due to short haulage distance to the major customers in that region.

2 Improving operational efficiency and productivity

Strategic priorities	Improving efficiency of production activities	Improving coal quality	Ongoing programme for modernising mining equipment
<p>2014 results</p>	<p>In 2014, we achieved a number of world and Russian records in terms of productivity, including:</p> <ul style="list-style-type: none"> • World record in excavating raw coal in Khakasia; • World record in loading overburden into dump trucks using Bucyrus and Hitachi excavators at Tugnuisky open pit; • World record in gas drainage hole drilling rates in Kuzbass; • All-time Russian record in longwall rates at November 7th mine in Kuzbass. <p>We continued to improve operational efficiency at the Tugnuisky open pit. In 2014, we introduced automated centralised lubrication systems for excavators and systems for monitoring tyre pressure on trucks. We also ran a pilot project for automated planning of diesel fuel consumption usage.</p>	<p>In 1Q 2014, we completed the upgrade of the Komsomolets washing plant by changing to a closed-fines circuit. This enables us to increase the clean coal yield and stop producing low-quality fines and slimes. We are bringing the washing plant to its design capacity.</p> <p>We started to construct a washing plant at Taldinskaya-Zapadnaya 1 mine.</p> <p>Our Tugnuisky washing plant has reached record-breaking processing capacity. In 2014, the plant processed 11.1 million tonnes of coal.</p> <p>In 2014, we commissioned units of the Chegdomyn washing plant in Urgal and completed setup of the equipment.</p>	<p>In 2014, we invested in new equipment. Most of it came from the major international manufacturers – Joy, Caterpillar, Komatsu, Liebherr, Terex and Bucyrus.</p>
<p>KPI according to strategy</p>	<p>PRODUCTIVITY OF PRODUCTION PERSONNEL:</p> <p>421 +8%</p> <p>tonnes per person per month</p>	<p>COAL WASHED:</p> <p>32.1 Mt +14%</p>	<p>INVESTMENT IN MODERN MINING EQUIPMENT:</p> <p>\$215m</p>
<p>Plans for 2015</p>	<ul style="list-style-type: none"> • The Group plans to increase overall production by improving underground mine layouts and further modernising equipment; • We also plan to continue to implement a programme for improving energy efficiency across all of our enterprises. 	<ul style="list-style-type: none"> • We intend to fully utilise our coal washing facilities and to improve their productivity; • Our aim is to increase the production rate of Chernogorsky washing plant to 1,200 tonnes per hour; • In 2015, we are planning to prove that the capable operating capacity of Chegdomyn washing plant is 6 million tonnes per year. 	<ul style="list-style-type: none"> • In 2015, we will continue to modernise mining equipment and will focus on strategically important and effective investment projects.

Strategy in action

Introduction of a programme for development of longwalls and roadways



In 2013, we adopted a strategy for developing longwall roads and permanent underground roadways. The main features of the strategy were:

- Reducing the required amount of development by rationalising mine layouts;
- Increasing development rates by improving organisation of work;
- Increasing productivity of the existing equipment and introducing new high capacity equipment;

- Optimising repairs, improving the employee motivation system and maintaining safety in the development sections.

As part of this strategy, in 2014 we introduced progressive layouts and managed to reverse the negative trend of reducing development rates – in 2014 we developed 94 km of roadways, 21% more than in 2013.



Developing coal supply logistics

Strategic priorities

Development of Group’s rail infrastructure and rail fleet

Efficient management of port facilities and expansion of our export ship-loading capacity from Russia

2014 results

We implemented projects to expand the capacity of our internal railway stations. For example, we invested into expansion of Karasuk railway station, enabling us to remove logistical constraints in transporting coal from production units located in Khakasia to Russian Railway’s network.

In 2014, the Group’s rail fleet has been improved by new, higher-capacity rail cars able to hold 75 tonnes.

In 2014, we continued to implement a programme for developing Vanino Bulk Terminal, and it loaded 17 million tonnes in 2014.

We were working on establishing a ship refuelling system at Vanino Bulk Terminal.

KPI according to strategy

RAIL CARS WITH HIGHER CAPACITY:

6,500

THE ULTIMATE COAL SHIP-LOADING CAPACITY THROUGH DEDICATED PORTS:

41 Mt

Plans for 2015

- We plan to continue to develop and increase capacities of our dedicated loading stations in 2015;
- In 2015 we aim to add new, higher-capacity rail cars to our fleet to increase coal supplies to international markets from our production units located in Khakasia.

- We strive to cover all of our ship-loading needs within dedicated port capacity;
- We plan to increase the ship-loading capacity of Vanino Bulk Terminal to 24 million tonnes in 2015-2016.




Strategy in action
Increase of coal shipment through Vanino Bulk Terminal

In order to strengthen the Group’s presence in the Pacific markets we have been systematically increasing our ship-loading capacity at Vanino Bulk Terminal. In 2013 we loaded 13.7 million tonnes of coal through the port while in 2014 we managed to load 17 million tonnes.

In 2014 we set records in daily unloading of rail cars and loading coal into ships as well as in the monthly ship-loading rate of 2 million tonnes. During 2014, Vanino Bulk Terminal proved that the port is capable of loading 24 million tonnes of coal per year.

However, bottlenecks in the external railway infrastructure leading to the terminal remain the major constraint in terms of maximising its loading capacity. In 2015-2016, we plan to remove these bottlenecks and increase the ship-loading capacity of the terminal to 24 million tonnes.

 For more information about Vanino Bulk Terminal refer to page 59.



Achieving high safety standards

Strategic priorities

Introducing high international standards in Health and Safety

2014 results

We have significantly improved the system of production supervision of industrial safety in our enterprises – we have developed a new Industrial Safety Policy and introduced new regulatory documents which include regulations on duty system, investigation of incidents and a unified methodology for risk assessment for open pits and underground mines.



Read more about our measures to improve safety on pages 82-84.

KPI according to strategy

FATAL ACCIDENTS:

LTIFR:

8

1.57 +5%

Plans for 2015

- For 2015 we plan to continue investments to sustain and develop further systems for monitoring and providing safety alerts, particularly in relation to ventilation and gas drainage;
- We will continue to introduce modern warning and automation systems which reduce the level of human errors;
- We will further develop our safety culture through improved training of our employees.

Strategy in action 'Mining Olympics 2014'



In August 2014, JSC SUEK hosted a competition of mining professional skills in several of our operating regions associated with the annual Miners' Day in Russia. All leading coal mining companies in Russia participated in the event. The total number of participants was 486 and competitions in 32 coal mining categories were held.

This was an opportunity for participants to share experiences and ideas in their professional fields. The underlying theme of the event was health and safety in mining.



For more information refer to page 88.

5

Following the best corporate governance, social and environmental practices

Strategic priorities

Developing social infrastructure in the regions where we operate

Reducing adverse environmental impact

2014 results

We are actively cooperating with regional and municipal governments to develop social infrastructure in the regions where we operate. For example, in 2014 we constructed a sports playground in Novaya Chara located in North Zabaikalye nearby our Apsatsky open pit.

We continued to upgrade the living environment in Sagan-Nur town nearby Tugnuisky open pit and carried out a number of social projects – for example the ‘Work teams’ project.

We used modern technologies to reduce general adverse impacts of our operations on the environment. We designed and constructed water treatment plants, implemented projects for reducing methane emissions (greenhouse gases) as a result of gas drainage activities, and improved land rehabilitation.

We commissioned several projects which enable us to reduce energy consumption and minimise cost. Our production units in Kuzbass, Buryatia, Khakasia, Ural and Apsatsky open pit are now utilising modern energy-efficient equipment and energy management systems.

KPI according to strategy

INVESTMENT IN PUBLIC AND SOCIAL PROJECTS:

\$16m

INVESTMENT IN ENVIRONMENTAL ACTIVITIES:

\$80m

Plans for 2015

- We will continue to invest in suitable public and social projects.

- We will strive to minimise our adverse environmental impact by implementing appropriate programmes and by modernising our operations, including projects for reducing methane emissions;
- We will continue to implement energy saving programmes by the introduction of automated energy management systems. This will enable us to control energy consumption by monitoring mining equipment energy consumption rates.



Strategy in action
JSC SUEK’s ‘Work teams’

The project is an example of effective public/private partnership and is based on co-funding with regional employment offices and municipal authorities.

The idea behind the project is to pay senior high school students from mining cities and towns to improve their living environment. It is not only children of employees who do this work but other children including those with disabilities or from families with low incomes.

The project started in Krasnoyarsk region in 2005. At present, it is running in Kemerovo region, Primorye, Khabarovsk, Buryatia and Khakasia. In 2014, 1,090 school children were working in JSC SUEK’s ‘Work teams’. In 2015 we are planning to set up the project in Zabaikalye.

Effective risk management

The Group continues to develop effective measures to identify, analyse and ultimately mitigate risks in response to challenges in the current environment.

Considering the particular nature of the coal mining industry, we constantly focus on risks specific to this sector. We also understand that, as our production, sales and financial activities grow, the need for efficient management of a wider range of risks increases every year. We continue to improve the corporate system of risk management by developing effective ways of mitigating risk, which are applied right through the Group.

In 2014, we improved our risk management system, developing a more structured approach to risk assessment. We also improved the classification of information and preparation of risk assessment reports.

In 2013, we conducted a qualitative study of the risk map and revised a large number of the major risks for the Group. Based on this analysis, a new risk map for 2014 was reviewed by management. Due to major macroeconomic and market issues in 2014, management focused on the following initiatives:

- We approved a revised programme at four production units whose financial performance was below target. This included three underground mines and one open pit;
- We revised our internal control system to ensure more detailed coal market segmentation by types of products (coal grades, mixtures, slimes and processed products which are sold at different prices in different countries and to specific customers);
- We approved a programme to increase productivity of underground development units – particularly relevant in view of the deteriorating economic situation;
- We approved a programme of increased energy efficiency.



Approval of programme of increased energy efficiency

We approved the strategy to improve our energy efficiency, which includes a variety of actions to optimise power consumption, utilise secondary energy sources, and upgrade existing and purchase new modern energy-efficient equipment.

In 2014, as part of JSC SUEK's programme to reduce the inefficient use of fuel and risk of fraud and manual error of production personnel, we introduced fuel consumption meters linked to an accounting system. These meters automatically record consumption rates on transport equipment and ensure automatic ordering of fuel when required. As fuel requirements are known in advance, replenishment from the fuel depot is guaranteed, thus ensuring a continuous production process and minimal diversion of working capital. The metering system also ensures efficient operation of staff and transportation equipment, tracking the route of the trucks and positions of excavators.

By the end of 2014, most diesel mining equipment was equipped with fuel consumption monitoring systems and meters were linked to our accounting system.

Review of the key risks

Below is a list of the key risks which may have a major impact on the Group's financial and operational performance.


The Annual Report does not contain an exhaustive list of all the risks which may affect the Group's business. Other risks not detailed in the report may also be material and may have an adverse impact on SUEK Group's performance.

External risks

	Description of risk and its potential impact	Changes year on year	Actions to minimise the risk
Risk of reduction in coal prices	The Group's business may be affected by a decline in demand for coal and a drop in prices due to a period of excessive supply in the industry or due to competition from other types of fuels. The greatest risk is a decrease in global prices for coal and natural gas – which are the main types of fuel in the power industry.	<p>⬆️ The risk has increased</p> <p>In 2014 coal prices came under pressure as new mines and infrastructure projects opened, creating an excess of supply to international markets.</p>	We are continuously monitoring and forecasting price behaviour of commodities in general and coal in particular, as well as observing trade policy related to long-term contracts. We are constantly analysing information showing correlation between demand trends, and coal mine expansion, as well as closure of existing mines and postponement of development projects.
Country risk	<p>We follow the legal and regulatory requirements set by the governments of the countries where we produce and sell our products, as well as the countries from which we import goods and services.</p> <p>The Group's operating activity mainly takes place in Russia, therefore country risk is mainly associated with that country. This risk may involve economic and political turmoil, instability of the banking system or inconsistencies of law enforcement practices. The Russian government may pass resolutions which, from the point of view of the international political community, are questionable and may have an adverse impact on the Russian investment climate.</p> <p>For example, we are often affected by insufficiently reasoned government decisions relating to issues including taxation, tariffs, quotas, trade restrictions, foreign exchange regulation, restriction of ownership rights for non-residents, subsidies, licensing and anti-monopoly policies and setting refinancing rates.</p> <p>The performance of the Group largely depends on statutory and regulatory requirements imposed on our business, as well as the costs associated with their implementation. For us, areas of tightest regulation are land tenure, mineral extraction and environmental and industrial safety. In recent years, the imposed requirements have increased and the penalties for violation have become stricter. In particular, we have seen regulatory bodies such as the Russian Federal Agency for Mineral Resources (Rosnedra), the Russian Federal Agency for Natural Resources (Rosprirodnadzor), and the Federal Environmental, Industrial and Nuclear Supervision Service (Rostekhnadzor) enforce tighter controls.</p>	<p>⬆️ The risk has increased</p> <p>Following the situation in Ukraine in 2014, the US, EU, Switzerland and a number of other countries imposed personal sanctions against some Russian individuals and companies and sectorial sanctions aimed at creating restrictions for certain industries within the Russian economy. Whilst none of the sanctions directly targeted the coal mining industry, or the Group's companies or their business, they do affect the availability of financial resources in the Russian market in general and complicate the import of certain types of equipment used by companies operating in Russia. If, in future, sanctions are tightened, the Group may be confronted with increased risks, although the consequences cannot be assessed at present.</p>	We constantly monitor compliance with all applicable legislation. We also follow internal policies with regard to organisation of business processes to minimise the risk of claims raised by the Russian and European regulatory bodies. Our managers and staff are well-represented on industry panels. These expert panels assess the impact of state policy on the mining industry, coal markets, coal transportation, technical supervision, labour relations and financial markets. Our management also monitors the sanctions situation and responds to any emerging risks.

External risks (Continued)


	Description of risk and its potential impact	Changes year on year	Actions to minimise the risk
Country risk (Continued)	<p>The Group operates in the international market via SUEK AG, which has offices in seven key countries and territories: Poland, China, Japan, Taiwan, South Korea, Indonesia and the US. The Group's companies strive to operate in compliance with the statutory and regulatory requirements of all of these countries.</p> <p>SUEK PLC is registered in the Republic of Cyprus and therefore ruled by its legislation and that of the EU. As a Cyprus resident and in accordance with covenants set forth by its credit agreements, SUEK PLC must comply with sanctions imposed by the EU and the US. Sanctions often result in a decline of business activity and may have a negative impact on our market value and business environment, including the conditions and execution of commercial contracts and the raising of bank financing by SUEK PLC.</p>		
Foreign exchange and interest rate risk	<p>Changes in market indicators such as currency exchange rates and interest rates can have an adverse effect on the financial performance of the Group, on its debt burden and on the fair value of the financial instruments on the balance sheet. Currency and interest rate risk needs to be managed to mitigate unfavourable effects of rate fluctuation.</p>	<p>⬆️ The risk has increased</p> <p>In 2014, foreign exchange and interest rate risk increased due to the sanctions imposed by the US and the EU. Another factor was OPEC's decision to maintain oil production amid a slump in demand, which resulted in an oil and derivatives price drop.</p> <p>The combination of sanctions and the fall in the oil price resulted in sharp devaluation of the Russian Rouble, and a squeezing out of available and affordable foreign currency financing in Russia. There was a dramatic increase in bank rates for obtaining new Rouble loans as well as reduced opportunities for risk hedging using derivatives.</p>	<p>We analyse the risks of changes in currency exchange and interest rates on a regular basis. We also benefit from the opportunity to use natural hedging, as a significant part of our revenue and the majority of bank loans are denominated in US Dollars. At the beginning of 2014 SUEK PLC obtained a \$1,500m syndicate loan which enabled us to cover financing needs in 2014 and partially in 2015; the rest is forecasted to be covered by operational cash flow.</p>
Inflation risk	<p>The risk relates to rising rates of inflation in countries where we carry out our main operations as well as individual business transactions. Increasing inflation rates may result in increased production costs.</p>	<p>⬆️ The risk has increased</p> <p>In 2014, the sanctions imposed by the US and the EU as well as OPEC's decisions regarding regulation of oil production, resulted in significant devaluation of the Russian Rouble relative to the US Dollar, Euro and other currencies. Another consequence was rising inflation rates during the year, which could increase further in 2015. Indeed, the hard-to-predict 2015 inflation rate and the pricing method based on export netbacks fixed in various foreign currencies (used by most equipment manufacturers and suppliers), may increase the cost of investment, escalate operating costs and reduce the Group's financial results.</p>	<p>To manage inflation risk we entered into long-term agreements on procurement of services, materials and supplies using fixed rate of annual growth. We also negotiated with trade unions for indexation of employees' salaries in 2014 and 2015 using the 2014 annual inflation rate of 11.4% according to Russian Federal State Statistics Service.</p>


 For more detailed information please refer to pages 74-78.

	Description of risk and its potential impact	Changes year on year	Actions to minimise the risk
Risk of changes in current legislation	<p>The Group adheres to the legal and regulatory requirements applied in the countries where we operate and sell our products, and in those countries where we import goods and services.</p> <p>In Russia, legislation changes may relate to tax, customs and foreign exchange regulations, securities market law, anti-monopoly and corporate law, licensing and mineral resources law, judicial and enforcement practices, as well as tightening of legislation relating to environmental safety.</p> <p>Our business may be significantly affected by the Russian government imposing tariffs, quotas, trade restrictions, stricter ownership rights for non-residents, subsidies, licensing and anti-monopoly policies and setting refinancing rates.</p> <p>Our companies may also feel the impact of restrictions imposed by governmental bodies within other jurisdictions. This could involve additional controls on exported coal and its subsequent sale in specific countries, or the setting of special conditions for goods and services imported to Russia.</p>	<p>⬆ The risk has increased</p> <p>In 2014 we saw some major tax law changes in the Russian Federation. In particular, a 'deoffshorisation' law has been passed which involves:</p> <ul style="list-style-type: none"> • Special tax regulations for Russian companies which own controlled foreign companies; • New procedures for deduction of tax at source. These relate to possible levying of tax by two or more jurisdictions. Existing international taxation treaties can mitigate the double tax liability; • Possibility to declare a foreign company a Russian tax resident. <p>A number of regulations which disadvantage tax payers have also been adopted. In particular, the tax relief for tangible assets has been retrospectively cancelled in certain instances.</p> <p>In July 2014, sanctions were introduced forcing exporters to obtain licences and authorisation from the relevant internal regulatory authorities for exporting certain types of power-generating equipment and technologies to Russia.</p> <p>In October 2014, China cancelled the zero import duty rate on coal which had been in effect from 2007. It introduced import duties on five categories of coal ranging from 3% for coking coal and anthracite, to 6% for hard thermal coal. In addition to these measures, starting on 1 January 2015 China will introduce a ban on trade and use of coal with ash content in excess of 16% and sulphur in extent of 1%. This ban will apply in those regions of China which are the main consumers of thermal coal. The consequence of all these measures is that requirements for the quality of imported coal will become much tighter.</p>	<p>We are constantly monitoring changes in legislation and regulatory requirements in Russia as well as reviewing and summarising the law enforcement practices. This allows us to quickly adapt the Group's business processes and organisational structure to the new environment and to operate in full compliance with the current regulatory and legal framework.</p> <p>Either independently or using external consultants, we also monitor relevant changes in the legislation and law enforcement practices in other countries where business transactions of the Group can be regulated by the local jurisdiction.</p>

External risks (Continued)

	Description of risk and its potential impact	Changes year on year	Actions to minimise the risk
Risk of changes in current legislation (Continued)		<p>In early November 2014, Poland introduced a licensing system to limit the amount of coal imported from Russia. According to the law, which has been passed by the lower chamber of the Polish Parliament, importers will have to obtain licences from URE – the Polish State Energy Regulator. Coal exported to Poland will also have to comply with more stringent quality standards. The tighter laws are also in response to Polish miners claiming that lower priced coal from Russia undermines their industry.</p>	
Liquidity risk	<p>Liquidity risk is directly related to cash turnover of a production unit and arises if the Group's companies cannot fulfil their payment obligations when they become due. It is often linked to the effects of inflation and foreign exchange and interest rate risks. Prudent management of liquidity risk requires maintaining adequate monetary assets, ensuring at the same time swift access to open lines of credit.</p> <p>There are also risks in relation to a decrease in coal production and a fall in prices or demand for coal, resulting therefore in reduced revenue which could affect the opportunity to service the Group's external debt.</p>	<p>⬆️ The risk has increased</p> <p>During 2014, the capital markets were highly volatile and there was a shortage of available financing in Russia due to restriction of western financing as a result of EU and US sanctions imposed against Russia. Rouble devaluation continued and at the middle of December reached its peak of over 80 RUB/US\$; overall it devalued from 32.73 on 1 January to 56.26 on 31 December 2014. To respond to the situation, the Central Bank of Russia increased the base interest rate to 17% in the middle of December. In 2015 the Central Bank of Russia consistently reduced the base rate and in March it stood at 14%.</p> <p>The market situation continues to be volatile and liquidity risk has become more significant. Borrowing may be complicated by prevailing restrictions in credit markets, increased rates of financing and shortage of financial resources of Russian banks.</p>	<p>The Group continuously monitors loan covenants and uses an extensive system of forecasting to ensure compliance with covenants. At present, the amount of our open credit lines significantly exceeds our financing needs.</p>
Risk of reduction in coal demand	<p>Reduced use of coal in power generation and the emergence of alternative fuels may result in a decline in demand for coal which could have an adverse effect on the performance of the Group. Tightening international environmental standards on coal quality and production conditions may also impact the demand for coal produced by the Group.</p>	<p>⦿ The risk has not changed</p>	<p>Through washing we improve the quality of our coal, enabling us to deliver higher value product to international markets. We constantly monitor the production and sales environment within the industry. Our forecasts for coal demand are based on detailed research and investment analysts' reports. Our offices in the major consuming countries also analyse the sales markets.</p>

 For more detailed information please refer to pages 74-78.



 For more detailed information please refer to pages 30-35.


	Description of risk and its potential impact	Changes year on year	Actions to minimise the risk
Risk of emergency situations	<p>The Group operates sophisticated and hazardous production facilities, so the risks of disaster and emergency situations are serious and require effective management and mitigation.</p> <p>Preventing loss of life or serious injury is of course our primary concern. Damage or loss of property due to explosions, fires or unscheduled failures in the operation of mining equipment may result in direct losses for our production units. The costs of emergency response and recovery, as well as forced downtime at individual production units, may negatively impact the financial result of the Group.</p>	<p>● The risk has not changed</p>	<p>The Group remains vigilant to potential hazards throughout all phases of its operations, and particularly focuses on operating safely. All accidents are thoroughly investigated by experts who serve as members of special panels. Based on the results of their work, action plans are developed to prevent similar emergencies in the future.</p>
Regulatory risk	<p>The Group's mining and production operations are governed by extensive legislation related to exploration and use of mineral resources, healthcare and industrial safety.</p> <p>Coal mining licences which are held by the production companies may be suspended, prematurely terminated (recalled) or not extended upon their expiry. These risks are largely at the discretion of the respective Russian regulatory body (Rosnedra) and we are subject to scheduled and random inspections.</p>	<p>● The risk has not changed</p>	<p>We make every effort to comply with current legislation, thus minimising the risk of suspension of operations at our production units. We monitor any changes in legislation as a matter of course.</p> <p>The Group's entities have implemented compliance procedures in order to ensure necessary renewals of licences on a timely basis. We also strive to act quickly if the regulator notes any discrepancy with licence requirements.</p>
Anti-monopoly risk	<p>The Group's companies hold leading positions with regards to thermal coal production and sales in a number of Russian regions. Therefore the Group's operations are subject to Russian anti-monopoly control including compliance with specific covenants and restrictions aimed at preservation of competition within the thermal coal market.</p>	<p>● The risk has not changed</p>	<p>We have set up and follow strict compliance procedures to ensure we are in line with all applicable anti-monopoly legislation and regulations as well as implementation practice.</p>

Operational risks

Production risks	<p>The Group's operations are vulnerable to a number of internal factors (e.g. downtime, adverse geology, reduced coal quality) and external factors (increase in fuel and lubricant prices, electricity, supplies, equipment, services or failure of suppliers/contractors to fulfil their obligations). These factors may affect production targets, which in turn could require additional investments and might lead to an increase in the cost of sales.</p>	<p>● The risk has not changed</p>	<p>We are introducing Life of Mine (LoM) deposit development models for all of our production units. Based on geological data, the LoM models have been developed using the XPAC-XERAS software package. Annual budget and actual execution by each production unit is compared with the LoM models on a regular basis. We pay special attention to operational efficiency projects associated with reducing the duration of longwall face moves, improving availability and deployment of opencast mining equipment, increasing work rates, as well as other programmes aimed at boosting operating efficiency. JSC SUEK has a well-established system of KPIs and ERP system that allows the Management Board to assess the performance of JSC SUEK and its subsidiaries on a monthly basis.</p>
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Operational risks (Continued)

	Description of risk and its potential impact	Changes year on year	Actions to minimise the risk
People risk	<p>Experienced and highly qualified personnel are an essential asset – especially skilled engineers and mine workers. Failure to recruit and retain adequate personnel may result in missed production targets and increased costs.</p> <p>The socio-demographic situation in Russia means it is a challenge to attract sufficient numbers of people with the necessary skills. Decline in population and poor housing in the regions where we operate, shortage of secondary education institutions and low professional skills of graduates are all factors which make recruitment difficult.</p>	<p>● The risk has not changed</p>	<p>To tackle potential shortages of skilled staff, we have designed employee training and development programmes to enable professional advancement. To incentivise staff we have improved motivation and remuneration systems, provided social support and promoted professional development of our staff. We are also investing in social projects in the regions where the Group operates.</p> <p> For more detailed information refer to pages 86-88.</p>
Health and safety risk	<p>Coal mining is associated with relatively high risk of accident – whether attributable to geological factors, technical condition of mines or human errors. Major accidents can impact the Group negatively due to reputational damage, refusal of business partners to continue relationships and claims from lenders for early loan repayments.</p>	<p>● The risk has not changed</p>	<p>Every meeting of the Board of Directors and Nomination and Compensation Committee of JSC SUEK starts with a review of health and safety issues. We also have an Industrial Safety Committee which reports to JSC SUEK's Management Board. It logs and tracks every injury, analysing the causes and proposing actions to prevent similar accidents in the future. In 2014 we developed and implemented an action plan to address existing shortcomings based on the results of independent audit of industrial safety conducted at several of the Group's production units by RAG Mining Solutions.</p> <p>All the Group's companies hold general liability insurance cover as owners of dangerous industrial equipment that could cause personal injury or damage to third-party property. There is also insurance cover in the event of death or permanent/temporary disability of staff.</p> <p> For more detailed information please refer to pages 82-85.</p>

	Description of risk and its potential impact	Changes year on year	Actions to minimise the risk
<p>Risks of infrastructure availability</p>	<p>The risk of infrastructure availability is associated primarily with access to railway or port infrastructure, electricity networks and reliable supply of water.</p> <p>Inefficient or limited infrastructure may result in reduced revenue owing to higher operating expenditure and direct losses due to downtime at our production units. For the Group, this risk may increase because a number of our production units operate in harsh climatic regions where power and transportation infrastructure is seriously dated. Availability of infrastructure is also dependent on whether service providers fulfil their obligations to our production units. Refusal to provide these services may result in forced suspension of production, negatively impacting our operations and the financial results of the Group.</p> <p>Certain infrastructure facilities which are operated by state-owned monopolies are subject to regulated tariffing. This may sometimes adversely affect the availability of such infrastructure and the performance quality of the service provider.</p>	<p>● The risk has not changed</p>	<p>The Group's production and logistics units strive to create sustainable, long-term relationships with infrastructure providers. When agreeing contracts, we pay special attention to the technical condition and regular servicing of railway tracks at connecting stations, railway and port-loading facilities, electric substations and networks. We also minimise this risk by investing in critical infrastructure such as Vanino Bulk Terminal.</p>
<p>Environmental risk</p>	<p>There are environmental risks associated with coal mining and processing – including emission of pollutants into the atmosphere, discharge of coal dust, soil and water contamination and noise pollution.</p>	<p>● The risk has not changed</p>	<p>The Group seeks to minimise these risks by designing and implementing projects for land rehabilitation, methane utilisation and health protection near inhabited areas. We have introduced measures to lessen the environmental impact in the ecosystems where we operate, reducing pollution and ensuring efficient disposal and recycling of waste. While many measures are stipulated under government law, we also have our own strict environmental policy and protection programme.</p> <p> For more detailed information please refer to pages 89-91.</p>

Accountability and effectiveness

Effective risk management is essential to the Group, helping us meet strategic targets and secure long-term sustainable growth. We have an internal audit framework in place to better manage our risks across the business.

Internal audit

SUEK's management is responsible for developing and introducing internal control tools. Our Internal Audit Department (IAD) ensures all these required controls are in place and performing adequately. As part of its mandate, IAD oversees:

- Effectiveness and adequacy of controls;
- Asset security;
- Reporting framework quality;
- Compliance with applicable laws and internal regulations;
- Operating effectiveness.

SUEK's internal control framework covers all the key business processes, including financial reporting, data collection, transfer and processing and preparation of operating reports, authorisation of expenditures and segregation of duties.

To guarantee high-quality internal audits from IAD, SUEK has a system of regular external and internal assessments in place, along with rules and regulations on audit processes and procedures. The assessments are used by the IAD as a basis for audit reports, providing an overview of the audit objectives and scope, while identifying ineffective controls, quantifying actual or potential losses, and providing risk-mitigation recommendations.

After an audit is complete, the results are submitted to the management and an action plan is proposed to address highlighted issues. The plan is then assessed by the IAD team as part of follow-up oversight to ensure that risk controls have been put in place. The Audit Committee of JSC SUEK is responsible for a regular review of IAD's performance, its recommendations based on internal audits and progress on the action plan.

Fraud prevention

SUEK has a set of measures in place to prevent corporate fraud, theft and corruption. The framework combines security measures with activities to promote business ethics. The aim is to engage with employees and help them identify and prevent occupational theft. We have scheduled ad hoc inspections to check inventory. A number of programmes are underway to introduce automated controls and reduce human intervention. These include automated fuel consumption control, bundled weighing and accounting solutions.

Under the corporate whistle-blowing process, employees can report their concerns about fraud or theft to their managers using e-mail, hotline or post. SUEK has an incentive programme for whistle-blowers who help identify fraud, with reward payments linked to actual or potential losses from the exposed fraud.

Coal reserves and resources



The Group has the largest portfolio of coal reserves in Russia, most of which are located in Siberia.

The Group's policy for re-appraising reserves with external consultants is to engage them generally every five years. The last time SRK Consulting audited reserves was in April 2011. The Group's proved and probable reserves of steaming coal under the JORC Code currently stand at 5.5 billion tonnes¹. According to our estimates, the Group currently ranks among the top ten in the world in terms of its reserves.

Coal reserves under the JORC Code²

Billion tonnes	Reserves (underground mines)	Reserves (open pits)	Total reserves
Hard coal	0.8	0.5	1.3
Brown coal	–	4.2	4.2
Total	0.8	4.7	5.5

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

 For more detailed information on coal types refer to pages 20-21.

Since the last estimate of JORC reserves in 2011, the Group has acquired licences to develop the Apsatsky coalfield in the north of Zabaikalye, the Kabaktinskoe coalfield in Yakutia, as well as several areas in Kemerovo, Khakasia, Zabaikalye, Khabarovsk, Primorye and Krasnoyarsk. These fields are expected to add coal resources of approximately 1.2 billion tonnes, according to methodology used in Russia. Out of these areas, the Group is currently operating at Apsatsky open pit, Lineiny area at Chernogorsky open pit and Kirovsky Gluboky area at the Kirova mine.

Additional coal resources under methodology used in Russia³

Billion tonnes	Resources (underground mines)	Resources (open pits)	Total resources
Hard coal	0.5	0.6	1.1
Brown coal	–	0.1	0.1
Total	0.5	0.7	1.2

Source: Licences issued by regulatory bodies of the Russian Federation

¹ The Group's JORC-compliant reserves were estimated at 5.9 billion tonnes by SRK in April 2011. Allowing for extraction from April 2011 to December 2014, the company has reserves of 5.5 billion tonnes. This includes that coal which is technically feasible to extract and to sell at a profit.

² Reserves under the JORC Code do not include Apsatsky open pit, the Kabaktinskoe coal deposit and reserves at currently undeveloped areas located in Kemerovo, Khakasia, Zabaikalye, Khabarovsk and Primorye.

³ The methodology used in Russia relies on geometric methods to determine resources and is significantly different from the JORC Code, especially in terms of methodology and the allowance for economic and technical factors in estimation of resources.

The Group's assets

Production units

The Group's production units in Russia include 14 open pits and 12 underground mines producing brown, hard and some coking coal.






The high-quality coal mined in the Kemerovo region is mainly supplied to Europe and Asia.

The Kuznetsk basin (Kuzbass), located in the Kemerovo region, is one of the biggest coalfields in the world and accounts for 59% of coal production in Russia. In this region, the Group mines high-quality hard coal from nine underground mines and two open pits.

The Group supplies Kuzbass coal mainly to international markets. In 2014, our production units exported almost three-quarters of the coal from this region to energy companies in Europe (including the UK, Netherlands, Germany and Finland) and Asia (including Japan, China and South Korea). Products from most of our mines and open pits in this region have a calorific value of 5,800-6,100 kcal/kg. The high-quality coal mined at the Kirova and Komsomolets mines can be sold as semi-soft coking coal to premium markets in the iron and steel industries.

Coal with calorific value of 5,000-5,700 kcal/kg is mainly sold to Russian power generation companies, including Siberian Generating Company (SGK), our related company.

-  Distance to ports in far-eastern Russia – 5,450-6,000 km
-  Distance to Murmansk Commercial Seaport – 4,750 km
-  Weighted average distance by rail to our Russian customers – 290 km in 2014

Coal	Hard
Production	Open pit Underground
Sales markets	Russian International
Employees	14,483
Production units	Kirova underground mine November 7th underground mine Polysaevskaya underground mine Komsomolets underground mine Rubana underground mine Yalevskogo underground mine¹ Kotinskaya underground mine Taldinskaya-Zapadnaya 1 underground mine Taldinskaya-Zapadnaya 2 underground mine Zarechny open pit Kamyshansky open pit
Washing plants	Kirova mine WP No.1 Kirova mine WP No.2 Komsomolets mine WP Polysaevskaya mine WP

¹ In October 2014, Mine No. 7 was re-named after V.D. Yalevsky, a prominent figure in the development of the coal industry in the Kemerovo region.



A map of the Group's assets is shown on pages 16-17.



2 Khakasia

In Khakasia our production units produce premium hard steaming coal with high calorific value, exporting from Russia half of production to Europe and Asia, including deliveries of premium sized steam coal.

The Group's production units in Khakasia are located in the Minusinsk basin. Hard steaming coal is mined from three open pits and one underground mine.

Production units export more than half of the coal from this region to Europe and Asia. The main markets in 2014 were China, Poland, South Korea, Japan, Turkey and Taiwan. As an integral part of our strategy, the Group aims to increase sales of washed, sized coal with a calorific value of 5,500-5,600 kcal/kg from Khakasia to the Atlantic region. It is sold at a premium to un-sized steam coal.

The largest Russian customers are power plants, including SGK and coal distribution companies, which supply households and public utilities.

Distance to the ports in far-eastern Russia – 4,950 km

Distance to Murmansk Commercial Seaport – 5,250 km

Weighted average distance by rail to Russian customers – 1,770 km in 2014

Coal	Hard
Production	Open pit Underground
Sales markets	Russian International
Employees	3,049
Production units	Chernogorsky open pit Vostochno-Beisky open pit Izykhsky open pit Khakasskaya underground mine
Washing plant	Chernogorsky WP



3 Krasnoyarsk

The brown coal from our Krasnoyarsk open pits is supplied solely to Russian markets.

Krasnoyarsk production units are situated in the Kansk-Achinsk basin, where the Group mines brown coal from three open pits. This coal is supplied principally to power stations and public utilities within the region.

These mining operations are relatively simple and low cost due to limited overburden thickness, which results in the lowest stripping ratio among the Group's production units. The combination of seams up to 58 metres thick, soft overburden and flat gradients allows us to use bucket-wheel excavators which load directly onto railway wagons or conveyor belts.

Weighted average distance of rail deliveries from these mines to Russian customers – 600 km in 2014

Coal	Brown
Production	Open pit
Sales markets	Russian
Employees	5,029
Production units	Borodinsky open pit Berezovsky open pit Nazarovsky open pit

Production units (Continued)



4 Buryatia

In this territory the Group extracts high-quality hard coal at Tugnuisky open pit, which is located partly in Zabaikalye. Virtually all coal is exported to the Asia-Pacific region.

The Tugnuisky open pit uses modern equipment and employs sophisticated planning, operational and management systems. The truck method is used for mining, with hydraulic excavators and draglines employed for the removal of overburden.

Most of this coal is exported from Russia to the Asia-Pacific region, mainly to China, Japan and South Korea. Approximately 9% of coal exported from Tugnuisky is delivered directly to China by rail across the Russian-Chinese border; the remaining coal is sold to Russian power plants and utilities.

Tugnuisky produces low-nitrogen hard coal, which meets the requirements of Japanese power utilities. The Group aims to increase sales to Japan in the future.

📍 Distance to the ports in far-eastern Russia – 3,500-3,700 km

📍 Weighted average rail distance to Chinese customers – 950 km in 2014

🚂 Weighted average rail distance to Russian customers – 80 km in 2014

Coal	Hard
Production	Open pit
Sales markets	Russian International
Employees	2,100
Production unit	Tugnuisky open pit
Washing plant	Tugnuisky WP



5 Zabaikalye

Historically, our Zabaikalye open pits produced only brown coal, but in 2012 the Group started to develop the Apsatsky coking coal deposit. This extracts high-quality coking coal, which is in high demand both in Asian coking coal markets and in Russian metallurgical markets.

There are three isolated coalfields in Zabaikalye. These use truck and shovel methods for coal mining and draglines for removal of overburden. Two open pits – Kharanorsky and Vostochny – produce brown coal, predominantly for supply to nearby power stations.

In 2012, the Group commenced production at Apsatsky coalfield, 40 km from the Baikal-Amur Mainline (BAM) railway. The open pit extracts valuable, mid-volatile coking coals for Asian coking coal markets and for Russian metallurgical markets.

📍 Distance between Apsatsky coalfield and Russia's far-eastern ports – 2,550-2,950 km

📍 Weighted average distance by rail from Apsatsky open pit to Russian customers – 1,935 km in 2014

🚂 Weighted average distance by rail from Kharanorsky and Vostochny open pits to Russian customers – 325 km in 2014

Coal	Hard (coking) Brown
Production	Open pit
Sales markets	Russian International
Employees	1,491
Production units	Kharanorsky open pit Vostochny open pit Apsatsky open pit



A map of the Group's assets is shown on pages 16-17.



6 Khabarovsk

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

The Group's mining operations in Khabarovsk are located at the Urgal deposit in the Bureinsky basin. The Bureinsky open pit and the Severnaya underground mine both produce hard coal. SUEK Group supplies coal from Khabarovsk mines to the Asia-Pacific region, mainly to China and South Korea. The proximity of the Urgal mine to our Vanino Bulk Terminal represents a significant advantage.

Mines in this region also supply coal to Russian power generation customers located in the Khabarovsk and Primorye regions.

Distance to Vanino Bulk Terminal and other far-eastern Russian ports – 980-1,560 km

Weighted average distance to Russian customers – 1,080 km in 2014

Coal	Hard
Production	Open pit Underground
Sales markets	Russian International
Employees	2,230
Production units	Severnaya underground mine Bureinsky open pit
Washing plant and processing facility	Chegdomyn WP Processing facility at Bureinsky open pit



7 Primorye

The Group's Primorye mines are located close to Russia's eastern border, which generates significant savings on transportation costs. SUEK Group therefore has a significant competitive advantage in supplying the Asia-Pacific markets with part of this region's production.

Our assets in Primorye are located in the Pavlovsky coalfield which supplies brown coal principally for Russian power generation. All sales in 2014 were to the Russian market.

The Group also operates the Vostochnoe underground mine which produces hard coal primarily for export – mainly to China by rail. The remaining coal is supplied to Russian customers.

The close proximity of the Vostochnoe mine to Russia's eastern border provides a competitive advantage due to significant savings on transportation costs.

Distance to far-eastern Russian ports – 315 km

Weighted average distance by rail to Russian customers – 270 km in 2014

Coal	Hard Brown
Production	Open pit Underground
Sales markets	Russian International
Employees	1,672
Production units	Pavlovsky open pit Vostochnoe underground mine
Processing facility	Dry coal separator at Vostochnoe mine

Coal washing facilities

To improve the quality of its products, the Group enriches coal at washing plants and processing facilities adjacent to our mines and open pits.



The Group operates seven coal washing plants (WPs), four in the Kemerovo region, with the others in Khakasia, Buryatia and Khabarovsk. The Group also operates two processing facilities for cleaning of larger size coal in Khabarovsk and Primorye.

Coal washing plants

- Kirova mine WP No.1 (Kemerovo)
- Kirova mine WP No.2 (Kemerovo)
- Komsomolets mine WP (Kemerovo)
- Polysaevskaya mine WP (Kemerovo)
- Chernogorsky WP (Khakasia)
- Tugnuisky WP (Buryatia)
- Chegdomyn WP (Khabarovsk)

Coal processing facilities

- Processing facility at Bureinsky open pit (Khabarovsk)
- Dry coal separator at Vostochnoe mine (Primorye)

Additionally, the Group operates 15 crushing and sizing facilities: six in the Kemerovo region, three in Khakasia, two in Krasnoyarsk, with the remainder in Buryatia, Zabaikalye, Khabarovsk and Primorye. These facilities have a combined total annual capacity of 42.7 million tonnes.

40.6 Mt

THE COMBINED ANNUAL CAPACITY OF OUR COAL WASHING PLANTS AND PROCESSING FACILITIES

Rail transport

The Group operates one of the largest rail fleets in Russia.



Railway transport is crucial to the coal production and distribution chain. The Group's 746 km rail system provides connections between the national rail network and our mines and port facilities. The Group also runs 190 locomotives and has 26 dedicated loading stations.

In 2014, the average distance for delivery of coal for international supplies on the combined rail networks was 4,325 km and for deliveries to Russian customers it was 635 km.

6%

SUEK'S COAL AS PART OF THE TOTAL CARGO TURNOVER ON RUSSIAN RAILWAYS, WHICH ARE OPERATED BY THE STATE MONOPOLY RUSSIAN RAILWAYS (RZhD)

6,500

FLEET OF NEW, 75-TONNE CAPACITY RAIL CARS IN 2014

60,000

MONTHLY FLEET OF RAIL CARS INVOLVED IN TRANSPORTATION OF COAL

Port facilities

The Group's export traffic from Russia is handled through our port facilities in the west and east of Russia.



Vanino Bulk Terminal

Located on Russia's far east coast, our Vanino Bulk Terminal has direct access to two independent main railway lines – Trans-Siberian and Baikal-Amur Mainline (BAM) – which connect Vanino to the whole of Russia. The terminal is a key export gateway from Russia to the Asia-Pacific markets. The port was built in 2008 specifically for the shipment of our coal, providing the shortest route to end users in countries including China, South Korea, Japan and Taiwan.

The terminal represents a \$435m investment and features an automated rail wagon unloading system and coal storage capacity for up to 1.2 million tonnes. The port is capable of receiving and handling 'capesize' vessels. The Group plans to increase the port's capacity to 24 million tonnes per year.

Maly Port and Murmansk Commercial Seaport

The Group is also one of the major shareholders at Maly Port (49.9% of shares) and at Murmansk Commercial Seaport (37.6% of voting shares). Maly Port is located in the Primorye region in far-eastern Russia and in 2014 the Group shipped 2.6 million tonnes through this port to Asia-Pacific customers, mainly in Japan, South Korea, China, Taiwan and Vietnam. Murmansk Commercial Seaport provides access to the Atlantic Ocean and links to ports in Western Europe, the Mediterranean and on the eastern seaboard of the US. In 2014 the Group shipped 13.9 million tonnes of coal through Murmansk to European countries, including the UK, Germany and Holland.

100%

EQUITY OWNERSHIP INTEREST
IN VANINO BULK TERMINAL

Sales network

The Group's sales network ensures close cooperation with consumers in the Russian, Atlantic and Pacific markets.



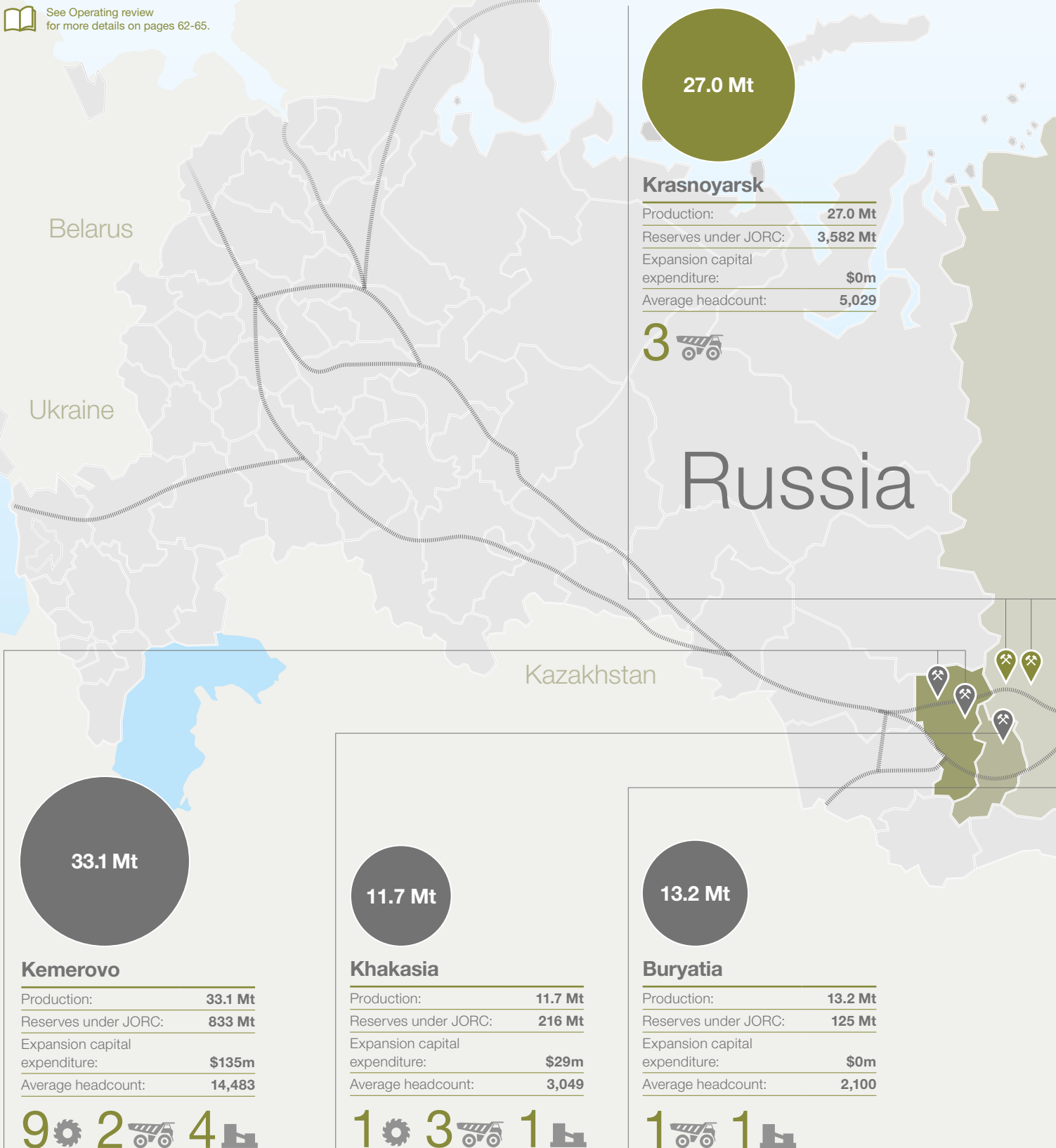
In the Russian market, the Group sells coal to large industrial companies, major energy providers and smaller customers. The commercial department of JSC SUEK manages the sales function of our production units, servicing customers directly within their regional areas of responsibility.

International coal sales are managed by SUEK AG, which has a network of offices and subsidiaries in countries of strategic importance to the Group. SUEK AG is able to maximise the efficiency of coal sales and secures the Group's position in international markets by increasing sales volumes and expanding the sales network. SUEK AG buys coal from production units at a market index-linked price. It bears all risks related to changes of market conditions and as a result executes the full cycle of coal sales operations independently.

SUEK AG determines market strategy in terms of international coal sales, searches for coal buyers and builds long-term partnership relations with them. It studies overseas markets, including information about coal producers, competitors, customers and logistics. It engages in negotiations with coal buyers and provides logistics support to coal customers. The company also attracts credit resources in the European markets to help fund its trading activities, as, being a Swiss resident, it has permanent access to the capital markets.

Production across the business

See Operating review for more details on pages 62-65.



Krasnoyarsk

Production:	27.0 Mt
Reserves under JORC:	3,582 Mt
Expansion capital expenditure:	\$0m
Average headcount:	5,029

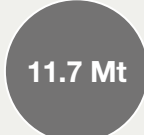


Russia



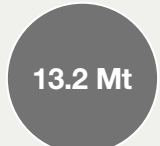
Kemerovo

Production:	33.1 Mt
Reserves under JORC:	833 Mt
Expansion capital expenditure:	\$135m
Average headcount:	14,483



Khakasia








Production:	11.7 Mt
Reserves under JORC:	216 Mt
Expansion capital expenditure:	\$29m
Average headcount:	3,049



Buryatia

Production:	13.2 Mt
Reserves under JORC:	125 Mt
Expansion capital expenditure:	\$0m
Average headcount:	2,100



-  Open-pit mining
-  Underground mining
-  Washing plants and processing facilities
-  Hard coal assets
-  Brown coal assets
-  Hard coal production
-  Brown coal production

5.3 Mt

Khabarovsk




Production:	5.3 Mt
Reserves under JORC:	124 Mt
Expansion capital expenditure:	\$82m
Average headcount:	2,230

1  1  2 

2.9 Mt **0.7 Mt**

Primorye


Production:	3.6 Mt
Reserves under JORC:	66 Mt
Expansion capital expenditure:	\$0m
Average headcount:	1,672

1  1  1 

4.0 Mt

Zabaikalye¹

Production:	4.0 Mt
Reserves under JORC:	560 Mt
Expansion capital expenditure:	\$0m
Average headcount:	1,168

2 

1.0 Mt

Apsatsky open pit (Zabaikalye)

Production:	1.0 Mt
Reserves under JORC:	n/a
Expansion capital expenditure:	\$0m
Average headcount:	323

1 

Mongolia

China

Japan

¹ Data excludes Apsatsky open pit.

2014 Operating results

We saw improved performance in many areas of our business – from coal output and processing to loading through port facilities. The improvements were largely a result of our investment programme and the completion of several projects aimed at expanding production capacity.

Production highlights

Million tonnes	2014	2013	Change, %
Mining			
Production	98.9	96.5	2%
• hard coal	65.0	62.2	4%
• brown coal	33.9	34.3	(2%)
• open-pit	68.0	66.2	3%
• underground	30.9	30.3	2%
Washing			
Coal washed	32.1	28.1	14%
Transportation			
Rail shipments on public tracks	78.6	74.1	6%
Shipment	41.7	35.3	18%
• Vanino Bulk Terminal	17.0	13.7	24%
• Murmansk Commercial Seaport	13.9	13.1	6%
• Maly Port	2.6	2.2	18%
• Other ports	8.2	6.3	30%

 Map of production performance is on pages 60-61.

Mining highlights

+2%

INCREASE IN COAL PRODUCTION IN 2014

+8%

INCREASE IN WORKFORCE PRODUCTIVITY IN 2014

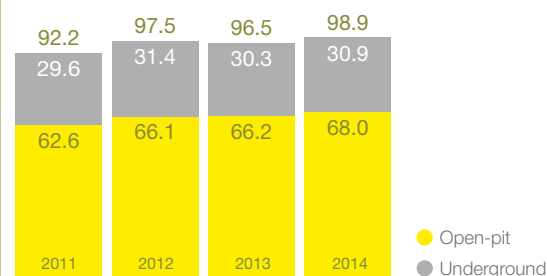
In 2014, the Group's coal mining units produced 98.9 million tonnes of coal, which represents a 2% increase compared to 2013. Open-pit coal production increased by 3% to 68 million tonnes, and underground production increased by 2% to 30.9 million tonnes.

High-quality hard coal accounted for 65% of total coal production, just over half of which was produced by underground and open-pit operations in Kemerovo region. Brown coal accounted for 35% of the total production and 80% of that volume was produced by open-pit mines in Krasnoyarsk region.

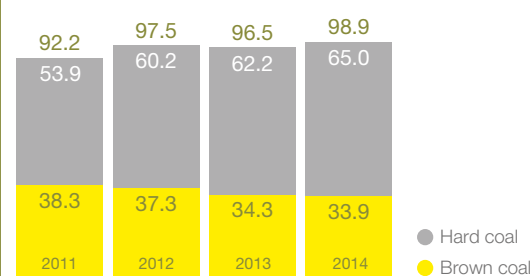
Brown coal production decreased 2% due to thermal power plants in the Primorye region switching to natural gas as well as a decline in power consumption in Zabaikalye. However, these negative trends were partly compensated by increased demand for thermal hard coal from international markets, particularly in the Asia-Pacific region.


Hard coal production increased by 4% compared to 2013. In terms of regional breakdown, production increased in Khakasia by 1.1 million tonnes; in Urgal by 0.7 million tonnes; in Buryatia by 0.7 million tonnes; in Kuzbass by 0.5 million tonnes; and in Zabaikalye by 0.4 million tonnes. These increases were achieved by implementing new coal production processes using modern, high-capacity equipment, as well as better organisation and management.

Production by method of production (million tonnes)



Production by coal type (million tonnes)



 Read more about coal production processes on pages 66-69.

Washing highlights


+14%

INCREASE IN VOLUMES OF COAL WASHED IN 2014

Part of our strategy is to maximise the value of our coal products. To increase the quality of mined coal, we wash it to reduce ash and increase heat content, thus reducing transport costs and boosting market value in order to improve our margins.

In 2014, we expanded our processing capacity to improve the quality of saleable coal. Washing volumes increased by 14% and reached 32.1 million tonnes. The share of processed hard coal increased from 45% to 49% over the year. This was achieved through building new facilities and improving operating efficiency of existing washing plants.

We commenced the pilot operation at Chegdomyn washing plant, which will be capable of processing 6 million tonnes of coal per year, and we finished reconstruction of the Komsomolets washing plant. In 2014 we also commenced construction of a new washing plant at Taldinskaya-Zapadnaya 1 mine in Kemerovo region to improve export quality requirements.

 Read more about our Chegdomyn washing plant on page 71.

+17%

INCREASE IN ANNUAL COAL WASHING CAPACITY IN 2014

Transportation highlights

+18%

INCREASE IN COAL SHIPMENT IN 2014

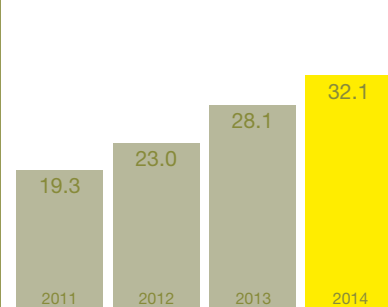
Coal shipment

In 2014, the Group's combined loadings increased to 41.7 million tonnes – a new company record. The amount of coal shipped to Asia-Pacific customers through our Vanino Bulk Terminal was 17.0 million tonnes. During the year, we introduced a programme to improve its operating efficiency and started several upgrade projects to increase the capacity of our equipment and coal-handling system to 24 million tonnes per year. The Group shipped a record volume of 13.9 million tonnes to the Atlantic market through Murmansk Commercial Seaport, 2.6 million tonnes through Maly Port in far eastern Russia, and 8.2 million tonnes through other ports.

+6%

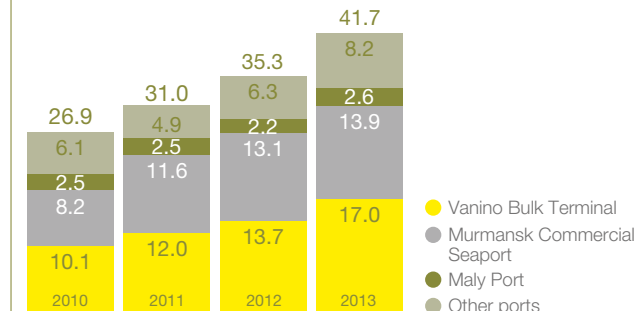
INCREASE IN RAIL SHIPMENT ON PUBLIC TRACKS

Coal washed
(million tonnes)



 Read more about coal washing process on pages 70-71.

Shipment
(million tonnes)



 Read more about shipment process on pages 72-73.

Rail

Railway transportation is pivotal to us delivering coal in a cost-efficient way. In 2014, we transported 78.6 million tonnes of coal to end users via Russian Railway’s network (RZhD), which is 6%¹ of the total tonnage transported on the network.

Russian Railway’s network is of strategic importance to us. Rail lines run close to our assets, connecting them to our Vanino Bulk Terminal in far east Russia as well as to ports in the west of the country. Together with RZhD we are undertaking projects to increase the capacity of the railways and make more efficient use of rail cars. Part of this programme is the upgrade of the station on the way to Vanino Bulk Terminal.

We use our own railway infrastructure, which includes 746 km of railway track, 26 dedicated loading stations and 190 locomotives, to provide access to the national railway network. Projects are underway to increase throughput of our dedicated railway stations and our own tracks to increase transport volumes. These improvements will benefit our production units in Kuzbass, Khakasia and Buryatia.

We have one of the largest rail car fleets in Russia, using 60,000 rail cars every day for coal transportation. Our fleet now includes 6,500 new rail cars with capacity of 75 tonnes, (compared with 69 tonnes for conventional cars) and with a service life of up to 32 years. We will obtain another 1,600 of these larger cars in 2015 and we have plans to increase the number to 10,000 in three to five years.

Safety

From 2011 to 2014, the key industrial safety metric, LTIFR, at our production units has decreased from 2.02 to 1.57. The general injury rate has decreased by almost 50% while the Group’s funding of health and safety programmes has significantly increased. In 2014 we recorded 77 industrial accidents at our production units, while in 2013 there were 75 accidents.

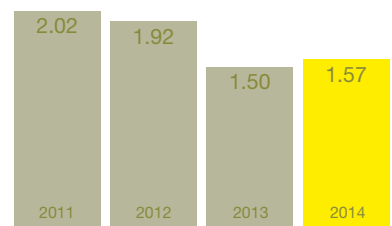
In 2014, we suffered eight fatalities. We deeply regret this loss of life and it has made us ever more determined to fulfil the target of zero fatal accidents throughout the company. We need to ensure our employees adopt the safest working practices as a matter of course. We recognise the need to educate those who take unnecessary risks in the workplace to be more responsible towards their own safety and that of their colleagues.

In 2014, we introduced tighter controls on industrial safety, particularly in relation to violation of health and safety rules. We are providing training to improve the skill levels of our safety professionals. Mine atmospheric safety issues are being addressed and we are equipping mines with more modern machinery and introducing cutting edge safety systems and monitoring devices.

Best non-public railway track operator

JSC SUEK WON THE ‘PARTNER OF RZHD’ AWARD FOR ‘THE BEST OPERATOR OF NON-PUBLIC RAILWAY TRACK’ IN 2014

Lost time injury frequency rate (LTIFR)



¹ RZhD statistics.

For detailed information on safety measures refer to pages 82-85.

Capital expenditure

\$215m

INVESTMENT IN MODERN
MINING EQUIPMENT IN 2014

In 2014, we invested mainly in priority projects for expanding and sustaining our major production units. One of the Group's strategic objectives is to increase international sales, and the investment programme ensured this objective was fulfilled. Export of our own coal in 2014 increased by 5% to 40.5 million tonnes, compared to 38.7 million tonnes in 2013.

Investment projects to target international markets in 2014 included:

- Improving the quality of export coal by constructing new washing plants – Chegdomyn washing plant, and Taldinskaya-Zapadnaya washing plant to serve mines around Kiselevsk (Kuzbass);
- Improving quality of export coal by upgrading Chernogorsky washing plant in Khakasia;
- Increasing the production of export quality thermal coal in Kuzbass – from mines near Kiselevsk and Zarechny open pit;
- Increasing international sales of thermal and coking coal from our mines which are located close to Pacific markets – Urgal mines in Khabarovsk region, Tugnuisky open pit in Buryatia and Zabaikalye, and Apsatsky open pit in Zabaikalye;
- Infrastructure development at Vanino Bulk Terminal.

Our priorities for the future

We plan to produce more than 100 million tonnes of coal in 2015. In accordance with our strategy, we will continue to increase the production of export-quality hard coal from underground and open-pit mines in Urgal, which are located closer to Asian countries, and also from assets in Kuzbass.

We plan an increase in the amount of coal processed at our washing plants, primarily due to the Chegdomyn washing plant reaching its design capacity and the commissioning of a new washing plant at our Taldinskaya-Zapadnaya mines in Kuzbass. These developments will contribute to the growth in international sales of our own coal. Our plan in 2015 is to increase sales of high calorific thermal coal and also metallurgical coal.

According to our 2015 forecast of energy consumption and utilisation of coal-fired heating and power plants, we are expecting a substantial growth in sales of hard and brown coal in the Russian market, including sales to SGK.

In 2015, we are anticipating a substantial increase in coal transported by rail, both for international and Russian markets. We are also planning to change the composition of rolling stock, in particular expansion of the fleet of higher-capacity rail cars. In line with our special-purpose development programme, we are aiming to improve the efficiency of rail transport.

In 2015 we plan to load 18 million tonnes of coal at Vanino Bulk Terminal for the Asia-Pacific markets as a result of our investments to increase the port's productivity. The amount of coal loaded at Maly Port should reach 2.7 million tonnes, with 14 million tonnes loaded at Murmansk Commercial Seaport for supplies to Europe.

In 2015, the Group will continue to implement its investment programme. Approximately half of the planned investment will be aimed at development projects, while the remainder will be channelled into maintenance projects.



Read more about capital expenditure on page 77.

Open-pit mining

The Group operates 14 open pits, comprising eight hard coal and six brown coal deposits. We mine two thirds of our coal by open pits.

Open-pit mining is the most efficient method of production in shallow deposits. It can extract all the coal within an area and fully recover very thick seams. Some of our open pits extract seams of 30 metres or more.

Many of our open pits have been improved in recent years to increase output and efficiency. This has included maximising the length of the working fronts and staggering the faces to separate operations and reduce interaction between areas and activities. Haul roads have been widened to enable much larger trucks to be used. Increased working space has made it possible to use large excavators for mining and loading. This improved space has also decreased coal losses and reduced contamination of coal with rock.

The change to fewer but larger working areas has made it possible to extract all seams within a zone and then to dump overburden from the next area back into the extracted void. This greatly reduces mining costs and the environmental impact of external dumps. Introduction of GPS positioning on some blast-hole drills has improved efficiency of blasting, which in turn has improved fragmentation, excavation and loading of overburden.

Improved training, communications, control and supervision of open-pit operations have resulted in fewer lost time injuries. The lost time injury frequency rate for the Group's open-pit mines has decreased in the five years from 2011 to 2014 from 1.14 to 0.44. As a result, many of the open pits now compare favourably with class-leading operations in other countries in terms of safety, security of operations, ecological compliance, work standards and productivity.



14

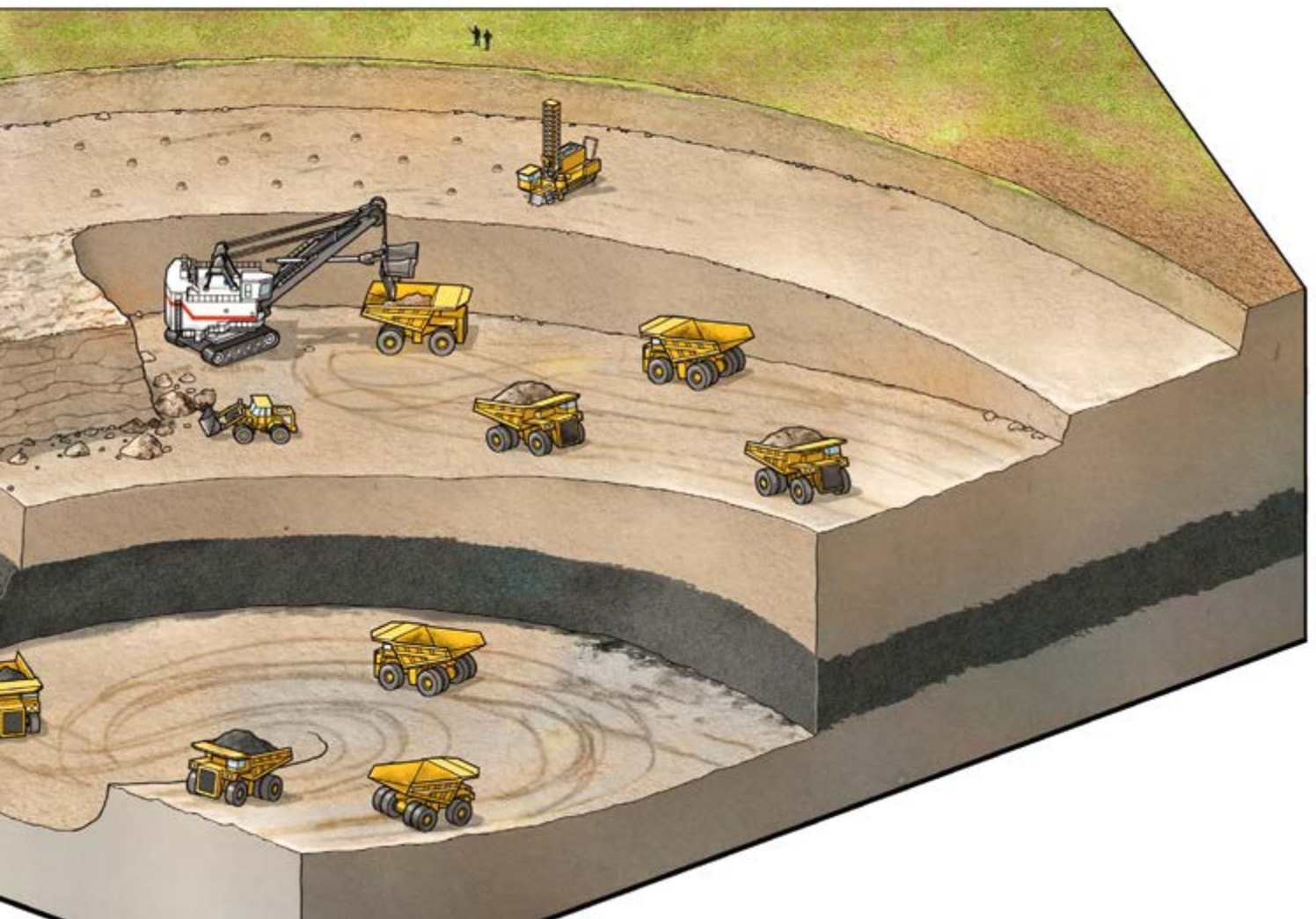
OPEN-PIT
MINES

2/3

OF OUR COAL MINED
BY OPEN PITS



 More information about our open-pit mining processes can be found on our website www.suek.com



Chernogorsky open pit

Chernogorsky is one of the Group's largest open pits extracting hard coal. Located in Khakasia, this open pit exports 65% of its prime, low ash coal to Asia-Pacific and Europe. The rest of the coal with lower calorific value is supplied to Russian power companies and other local users.

In the last few years the pit has been modernised through the purchase of higher-rated mining equipment, including hydraulic excavators and haul trucks. All drilling, excavation and transport operations are now monitored using an automated system. Purchase of this improved excavation and transport equipment has improved efficiency and also enabled us to eliminate expensive railway transportation of overburden.

All coal from the open pit is processed at Chernogorsky washing plant in order to improve quality. A technical upgrade of the plant was implemented five years ago, which increased its annual capacity to 6.0 million tonnes. In 2012, a new fine coal washing module was commissioned, allowing all sizes of feed to be washed rather than bypassing and blending unwashed fine coal, and the capacity increased to 8.6 million tonnes. Today, the washing plant can process all coal produced by the Chernogorsky open pit.

A major step forward in the development of the open pit has been the \$16m expansion of Karasuk railway station. This has increased the throughput of the station by 60% and removed logistical constraints in transporting coal to the national rail network.

These improvements have allowed the open pit to increase coal production from 5.2 million tonnes in 2010 to 6.8 million tonnes in 2014. Investment in the period, including purchase of equipment, renovation of the washing plant and development of the infrastructure, has totalled more than \$200m.

Underground mining

The Group operates 12 underground mines, in Siberia and far-eastern Russia.

Most of the Group's underground mines extract seams of two to five metre thickness and all are accessed via inclines driven from the surface. Most mines transport coal from the working areas to the surface by belt conveyor and only one mine uses a shaft winder. Modern, fully mechanised longwall methods are used throughout.

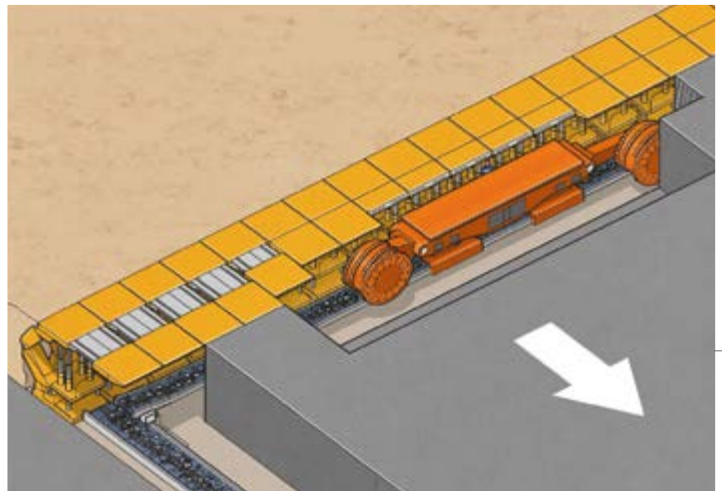
Increased production from longwall faces has required improved roadheaders and bolter miners to speed up development. Roof and side support has also increased as the workings get deeper. In 2014, 11 additional modern bolter miners were introduced at seven mines.

Almost all roadways are supported by roofbolts, with additional cable bolts near the longwall faces. Traditional steel arch supports are only used in main roadways driven in rock. To minimise development and reduce the frequency of longwall transfers, the width of most faces has been increased to 300 metres, and the panel lengths have been extended up to 4 km where possible.

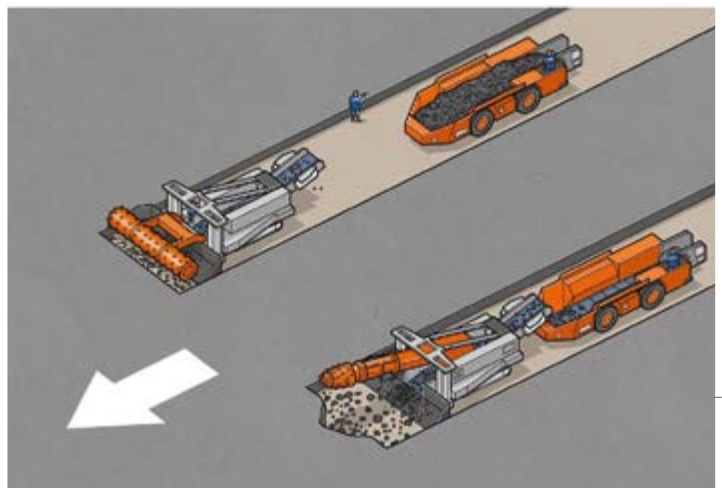
Work is underway to increase productivity and operational efficiency at all our underground mines. More advanced, high-powered shearers and face conveyors were introduced in 2014 following initial trials in 2013. Belt conveyors have continued to be upgraded to capacities of up to 3,500 tonnes per hour.

Greater output and increased depth results in higher emissions of methane. We have invested in advanced extraction systems to capture gas before it enters working areas. Gas extraction and coal production systems are continuously monitored to ensure gas is present in safe concentrations. Electricity is automatically cut if gas exceeds permitted levels. Replacement of older types of electrical switchgear with modern 'smart' systems has been a further improvement.

Mining process (longwall mining)



Development process (continuous and selective mining)



12

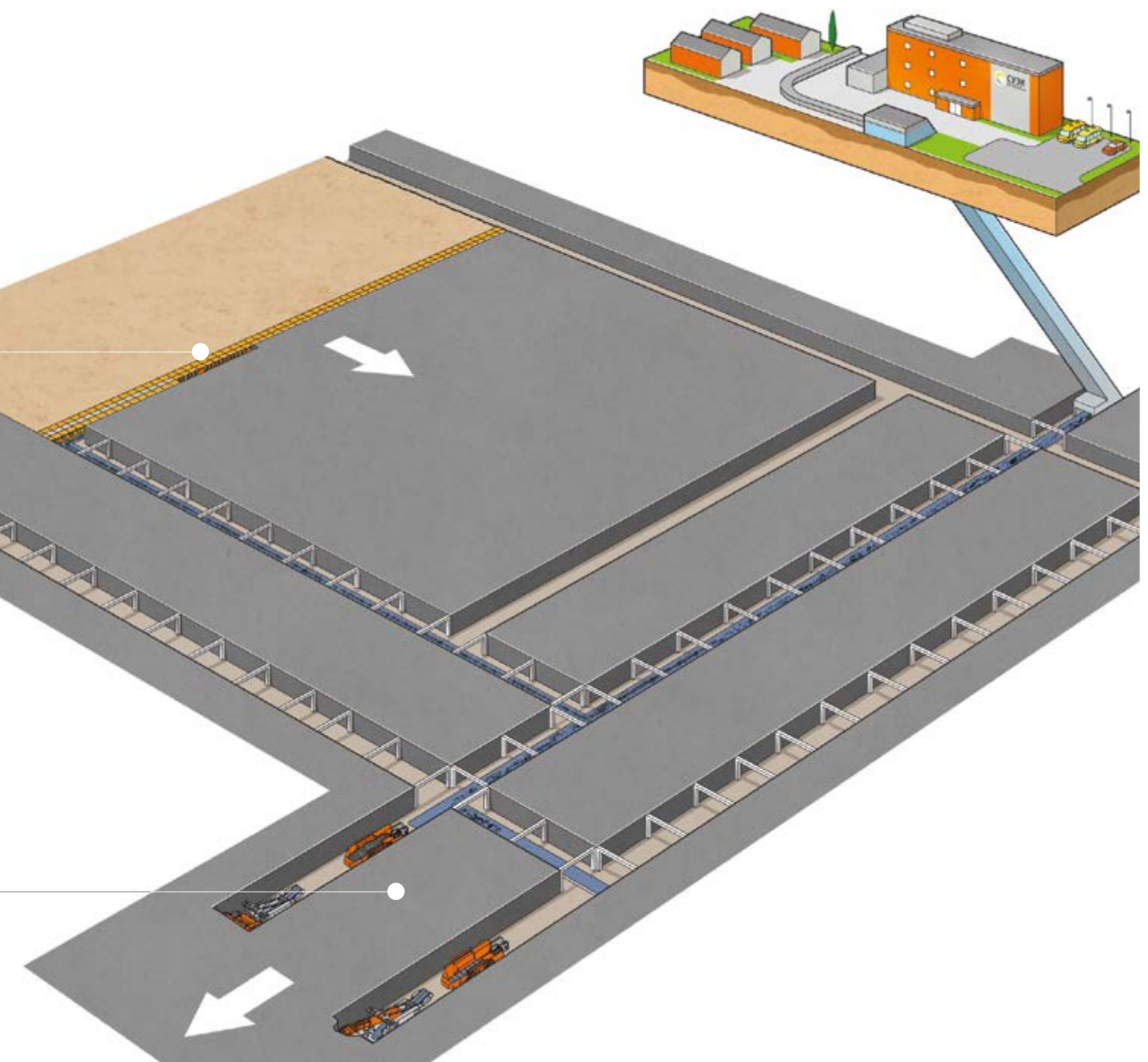
UNDERGROUND MINES

1/3

OF OUR COAL MINED BY UNDERGROUND MINES

More information about our underground mining processes can be found on our website www.suek.com





Kotinskaya mine

Kotinskaya mine, located in Kemerovo, is amongst the top underground coal mines in Russia that utilise a single longwall face.

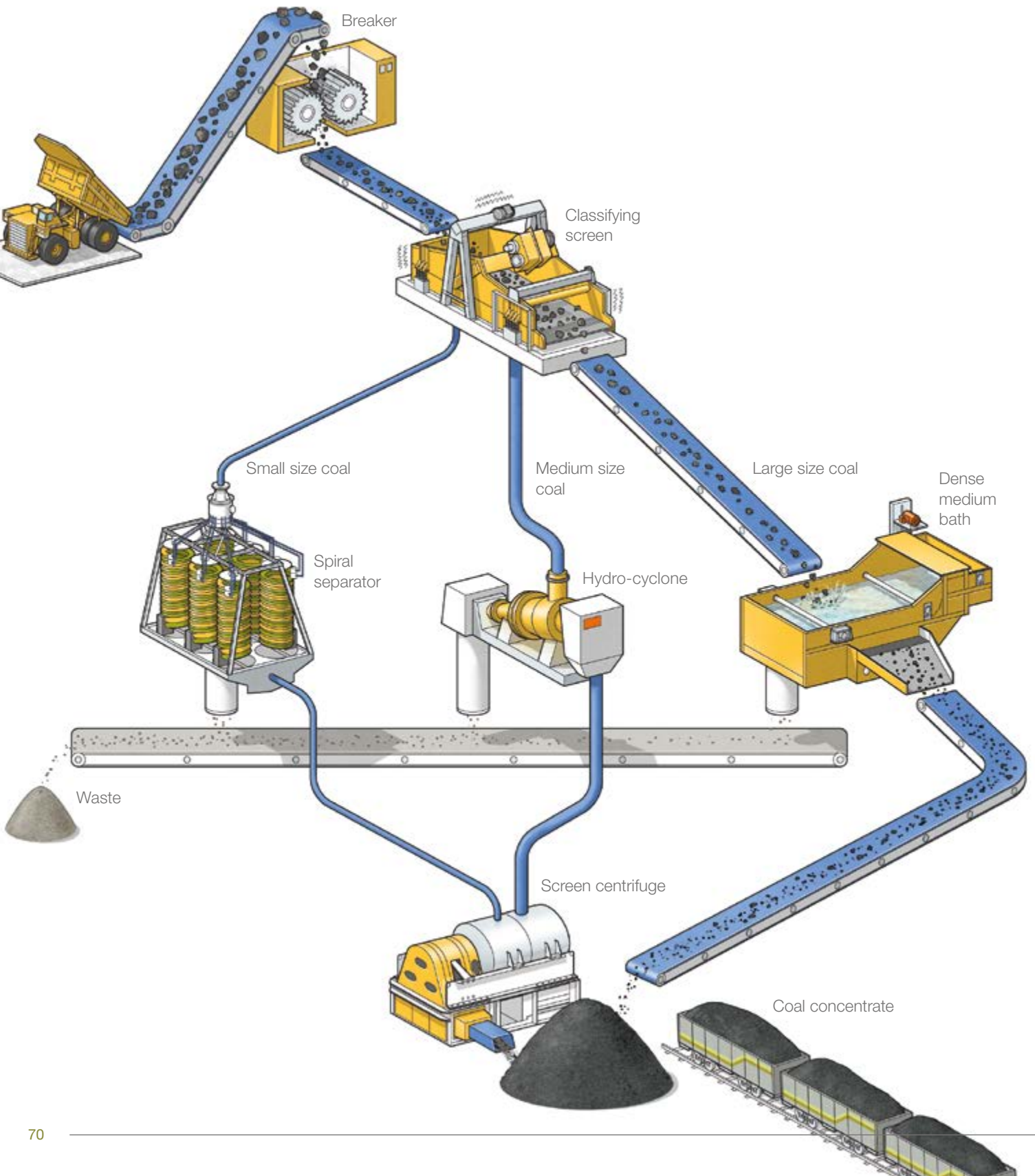
The high operating efficiency of Kotinskaya mine has been achieved using modern equipment and advanced mining layouts. The longwall face in the mine is operated with 2.2/4.8 metre-high powered roof supports, an Eichhoff shearer and a 1,132 mm-wide armoured face conveyor. The main conveyors have variable speed drives and use 1,600 mm-wide belting.

The mining layout has been changed to increase the length of longwall panels from 2.5 km to 3.8-4 km, and the width of the longwall faces have been extended from 230 metres to 280 metres. These changes ensure higher productivity of the longwall and 20-30% fewer face moves.

The mine operates a gas drainage system from the extracted area behind the longwall face, which enables high outputs from the longwall face without exceeding permissible methane concentrations in working areas. The use of modern stone dusting machines also reduces the risk of coal dust explosion and compensates for the increased deposition of fine coal dust as a result of intensive mining.

The team at Kotinskaya, headed by Vladimir Melnik, has set three Russian records for monthly longwall production: the most recent in March 2010 – 707,000 tonnes. In 2013, Melnik was the first coal miner to receive the award of Hero of Labour of the Russian Federation.

Washing



To increase the quality of coal supplied, we wash it at seven dedicated washing plants.

By washing coal we reduce ash and increase heat content, thereby boosting market value and improving our margins. During washing, coal is also crushed and screened to produce sized fractions of coal that precisely meet customers' specifications.

In the past, washing plants generally treated only larger sized coal. Unwashed fines were blended with washed coal to make export quality coal, or sold to the Russian market. Water containing suspended fine coal was sent to settling ponds and this resulted in the loss of potentially valuable coal. By contrast, all new washing plants are designed to wash all size fractions, and constructed with closed cycles so water is cleaned and re-circulated. Clean fine coal is sold and fine rejects are dewatered and placed into dumps.

All older washing plants have also been re-engineered to include fine coal treatment processes to maximise recovery of coal. Some washing plants use vibrating jigs and gravity to separate light, low-ash coal from heavy rock and shale. Other plants use dense medium baths where coal particles float and are recovered, but heavier rock sinks and is rejected. Smaller coal is washed using dense medium cyclones. Centrifugal forces move the denser rock to the outside, leaving the lighter coal on the inside. This is separated and dewatered to produce valuable fine, low-ash coal. To close the water loop and eliminate settling ponds, process water containing fine rejects is cleaned using radial thickeners to settle out the solids. The resultant sludge is dewatered using belt filter presses and the solid rejects are placed into dumps.

All plants and mines operate under strict quality assurance systems. Internationally recognised, independent monitoring companies work alongside SUEK's quality assurance experts to verify that product specifications are always met.



Chegdomyn washing plant

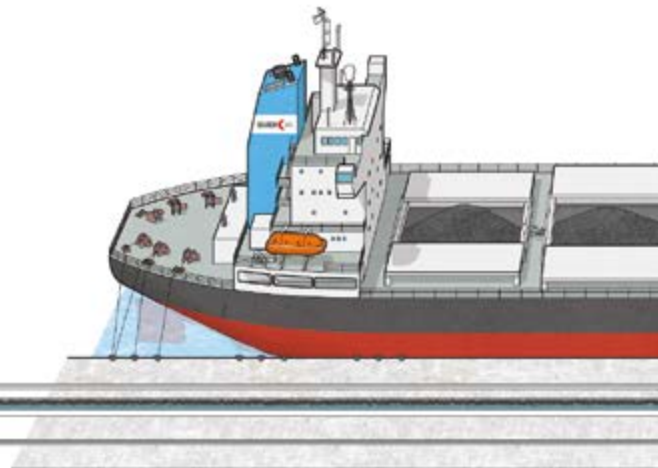
Chegdomyn is our most modern coal washing plant, with high capacity and reliable equipment.

Construction of the plant started in 2011 and it has been one of the Group's largest investment projects. Total investment in the project has amounted to \$270m. Erection works were carried out at a record pace, so in December 2013 we started commissioning and testing the equipment in Unit 1. In July 2014, we started installing the processing equipment in Unit 2. By the end of 2014, the plant washed almost 1.4 million tonnes. The plant should be fully operational by 2015, with a maximum capacity of 6 million tonnes per annum.

The plant processes hard coal mined by underground and open-pit mines located at Urgal (Khabarovsk). After washing, the calorific value of Urgal coal increases from 4,600 kcal/kg to 5,850 kcal/kg, while ash content reduces from 35% to 17%. The lower calorific value middlings are supplied to Russian users, while the higher-quality washed products are supplied to the Asia-Pacific region.

Coal in the plant is washed using dense medium separators, dense medium cyclones and gravity spiral separators. The washing plant uses a closed fines circuit which eliminates discharge of slimes to settling ponds. Water supply is unusual in that it is entirely from six boreholes. The ground water is purified and stored before usage and the process water system is a closed loop, so it is highly efficient with minimal losses. Therefore the plant minimises environmental impacts.

Shipment

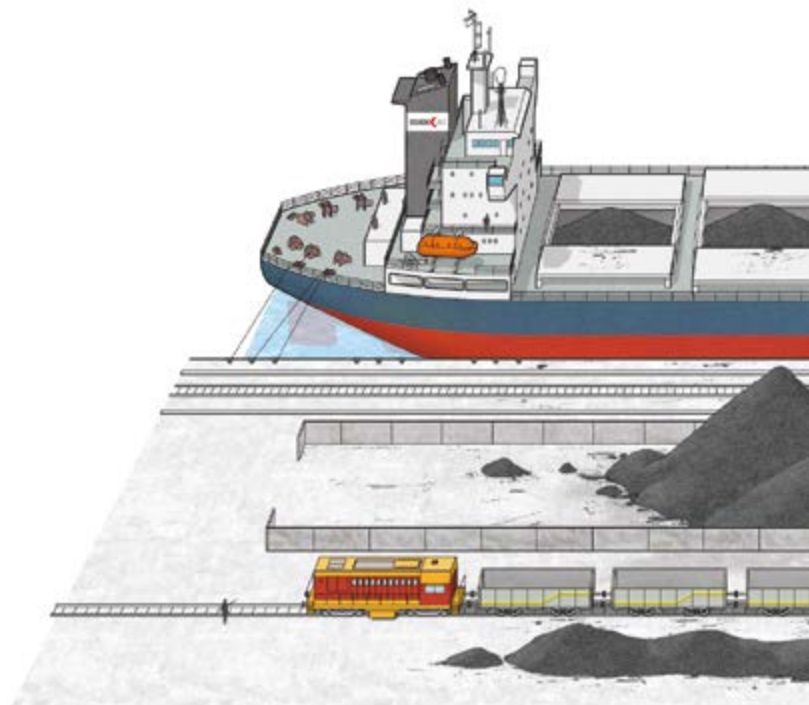



The Group ships coal through ports which use two different methods: the stacker-reclaimer method and coal loading with cranes and grabs.

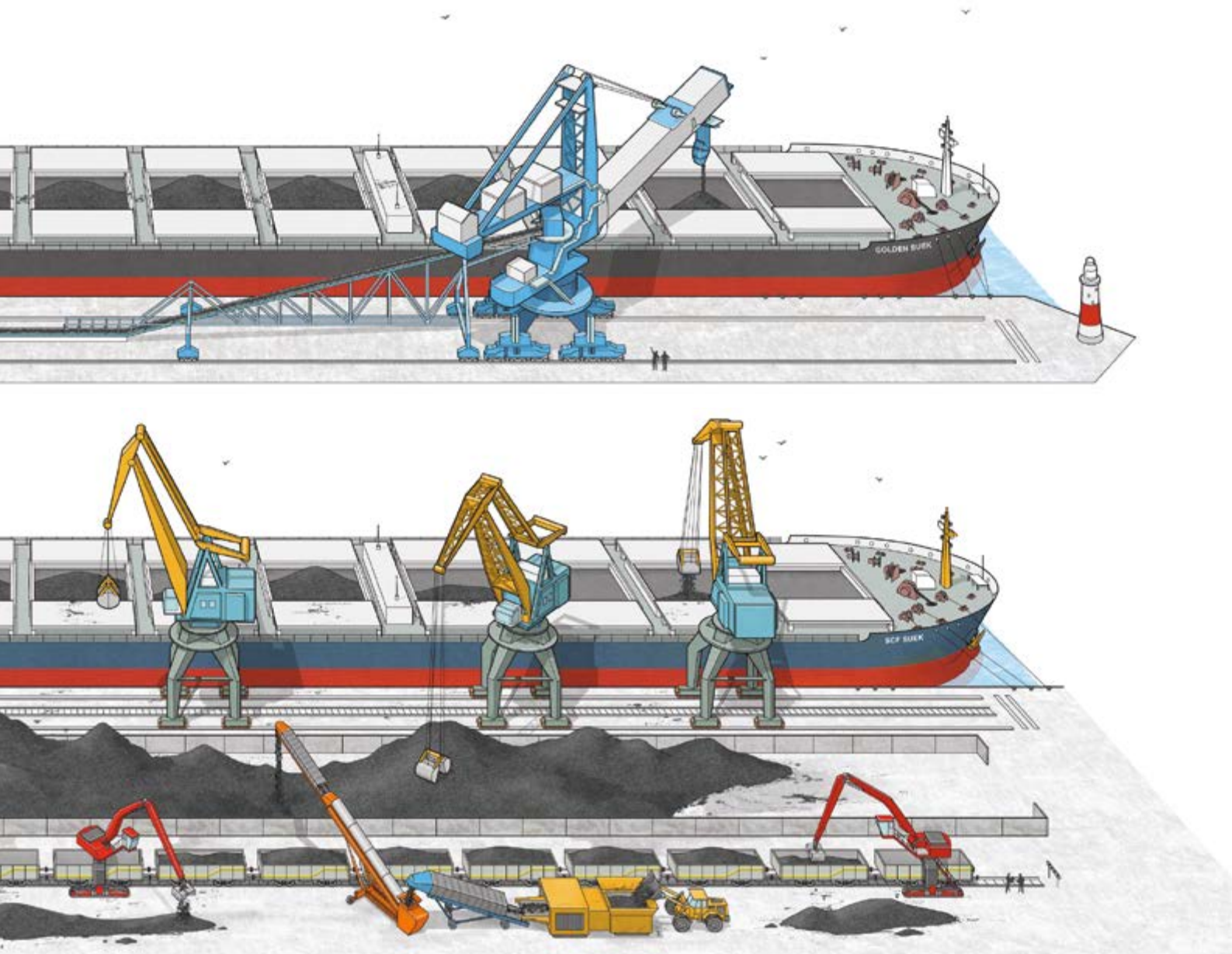
The Vanino Bulk Terminal, constructed by the Group in 2008, was designed as a coal-handling complex with stacker-reclaimers in large stockpile areas and conveyor ship loaders in the cargo loading zone. Coal is discharged out of rail cars by a rotary wagon tipper onto a belt conveyor which carries the coal to a travelling stacker, which forms high stockpiles.

To load the ships, a rotary-wheel reclaimer picks up the coal and loads it onto a belt conveyor. A travelling, adjustable ship-loading conveyor then discharges directly into the ship's hold. This increases the efficiency of loading operations and is especially suitable for larger ships. Rotary tipping of rail wagons is faster and less likely to damage rail cars than grabs. The terminal is equipped with devices to heat rail wagons in order to thaw the coal after its journey from the mines, and thus ensure full and quick discharge in winter.

The grab loading process uses cranes to remove coal from the rail cars and transfer it directly into a ship. Alternatively, coal can be loaded from stockpiles immediately adjacent to the berths. The Group also ships coal through Maly Port, located on the east coast of Russia, and Murmansk Commercial Seaport in the north west of Russia, where the Group is one of the major shareholders. These ports were designed as multi-purpose facilities for loading general cargo by cranes. These ports use grabs with overhead gantry cranes rated for up to 100 tonnes.



 More information about our loading processes can be found on our website www.suek.com



Vanino Bulk Terminal

With strong demand for thermal coal in the Asia-Pacific region, we are strategically investing in Vanino Bulk Terminal, the Group's key export hub. By doing so, we reduce the risk of shipment bottlenecks and make SUEK Group more independent from other ports in far-east Russia.

Vanino Bulk Terminal is a highly automated commercial seaport in the far east of Russia. Built by the Group in 2008, the port provides the most efficient solution for the shipment of coal from our mines to Asian markets.

With the latest equipment and established infrastructure in place, the terminal offers remarkable speed and quality in coal shipment. The berthing facilities feature an 87-metre approach jetty, a gantry carrying a belt conveyor, and a 365 metre-long pier designed for bulk carriers with DWT up to 200,000 tonnes, such as Panamax and Capesize.

The terminal includes a modern pre-port railway station, a looped rail system, an automated unloading facility with two independent rotary rail car tippers, coal thawing and crushing units, and a long-term storage facility. Combined, all these contribute to the port's greater operating effectiveness. In 2014, the terminal handled 17 million tonnes of coal, an all-time record for the terminal.

Last year, SUEK Group continued its project to build a bypass road and railway station, which will include a rail yard with eight railway lines and engineering infrastructure that meets the latest industry standards. On completion, the terminal will see its capacity boosted to 24 million tonnes a year.

The port also has an environmental protection programme in place aimed at reducing coal dust emissions in coal transportation and storage. In 2014, SUEK invested \$416,000 in upgrading its vacuum cleaning systems and successfully launched new dust suppression solutions. Vanino Bulk Terminal is the only port in Russia to feature this equipment.

Financial management discussion and analysis

Financial highlights

\$ million	2014	2013	Change, %
Revenue	5,053	5,381	(6%)
Revenue from international sales (including purchased coal)	3,605	3,648	(1%)
Revenue from sales in Russia	1,315	1,580	(17%)
Other revenue	133	153	(13%)
Cost of sales	(4,455)	(4,812)	(7%)
Cash cost of coal sold	(1,532)	(1,730)	(11%)
Transportation	(1,902)	(2,077)	(8%)
Depreciation	(554)	(592)	(6%)
Purchased coal (including transportation)	(347)	(294)	18%
Other	(120)	(119)	1%
Gross profit	598	569	5%
Gross profit margin, %	12%	11%	
Selling, general and administrative expenses	(115)	(128)	(10%)
EBITDA	1,044	1,037	1%
EBITDA margin, %	21%	19%	
Income tax	164	28	486%
Net (loss)/profit	(807)	133	(709%)
Net margin, %	(16%)	2%	
Capital expenditure	496	797	(38%)
Net debt	3,342	3,444	(3%)
Debt	3,693	3,713	(1%)
Cash and cash equivalents	351	269	30%
Net debt/adjusted EBITDA ¹ ratio	2.99x	3.05x	(2%)
Adjusted EBITDA/interest expense ratio	9.31x	8.88x	5%

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

Exchange rates

RUB/US\$	2014	2013	Change, %
Average for the year	38.4217	31.8480	21%
At the year end	56.2584	32.7292	72%

Source: Central Bank of Russia

Overview

SUEK Group is the largest thermal coal exporter from Russia – over 45% of the Group's production is supplied from Russia to the Atlantic and Asian markets. Consequently, changes in world macroeconomics, including Russia, have a major effect on our operational and financial performance.

The Group's presentation currency in financial statements is the US Dollar. As an exporter from Russia most of our revenue (over 70%) is received in US Dollars while most expenditure is nominated in Russian Roubles because our production units are located in Russia.

In 2014, the exchange rate of the Russian Rouble relative to the US Dollar dropped significantly in response to the geopolitical crisis and a fall in oil prices. The Rouble saw its value fall 72% during 2014. Rouble devaluation had a positive effect on the Group's operational performance by significantly reducing the production cost in US Dollar terms.

For the coal mining industry 2014 was yet another difficult year. In the international market we saw a significant decrease in coal prices – the global coal price index dropped by 20% on average from 1 January to 31 December 2014. Coal supplies to the Russian market were reduced due to a slump in demand from energy companies caused by extremely high water levels in Siberia and the Russian far east in the first half of 2014 (making hydro-electric power plentiful) as well as reduced demand due to the mild winter of 2013-2014.

 See more details in Market review on pages 32-35.

Despite the adverse macroeconomics, we maintained leadership in the Russian market as well as our competitive position in the international market. In 2014, the Group maintained consistent coal sales within Russia – its share of the Russian market was 38%, an increase of 2% compared to the previous year. The Group's international sales also increased by 8% and amounted to 45.6 million tonnes, ensuring the company remained one of the top ten global coal suppliers.

Sales highlights

Million tonnes	2014	2013	Change, %
International sales¹	45.6	42.4	8%
Asia-Pacific region	23.5	22.9	3%
Atlantic region	16.9	15.8	7%
Purchased coal	5.2	3.7	41%
Russian sales	49.7	50.2	(1%)
Brown coal	33.4	34.2	(2%)
Hard coal	16.3	16.0	2%
Total sales	95.3	92.6	3%

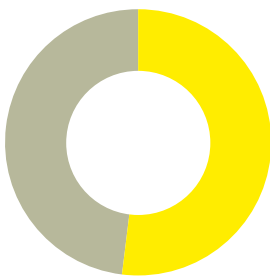
¹ Only hard coal is supplied to international markets.

Revenue

In 2014, coal sales revenue decreased by 6% or \$308m. Revenue from international sales reduced only by 1% or \$43m although coal price dropped by 11% on average. This decline was compensated by an increase in international sales.

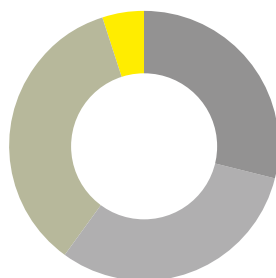
Reduction of revenue in the Russian market by 17% or \$265m was due to weakening of the Rouble exchange rate while sales reduced insignificantly compared to the previous year (-1%) and amounted to 49.7 million tonnes. At the same time, prices nominated in Roubles in the Russian market increased by 2% on average.

Sales structure by markets (million tonnes)



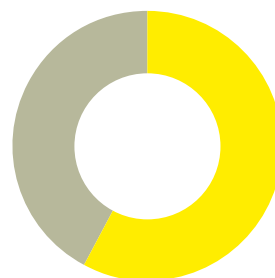
- Russian sales 52%
- International sales (including purchased coal) 48%

Sales structure by coal types (million tonnes)



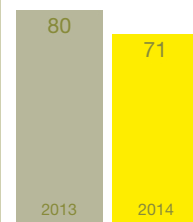
- Hard coal (undeground mining) 29%
- Hard coal (open-pit mining) 31%
- Brown coal (open-pit mining) 35%
- Purchased coal 5%

International sales structure (million tonnes)



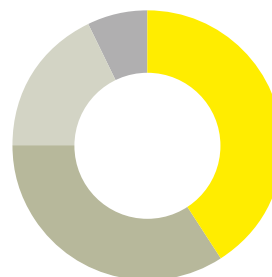
- Asia-Pacific region (including purchased coal) 58%
- Atlantic region (including purchased coal) 42%

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



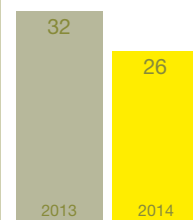
-11%

Russian sales structure (million tonnes)



- SGK 41%
- Other power plants 34%
- Public utilities 18%
- Other 7%

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



-19%

Transportation costs

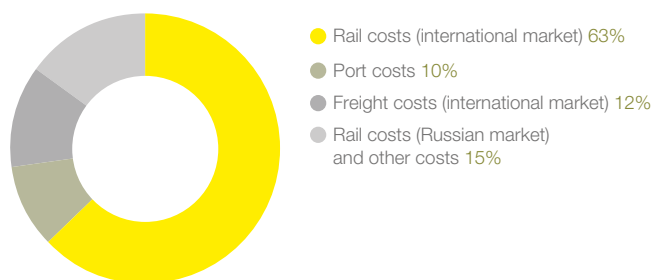
\$ million	2014	2013	Change, %
Rail costs	1,468	1,646	(11%)
Freight costs	228	212	8%
Port costs:	190	192	(1%)
• The Group's port facilities	89	94	(5%)
• Third-party ports	101	98	3%
Other	16	27	(41%)
Total transportation costs	1,902	2,077	(8%)

Almost all coal mining companies with assets in Russia have a high proportion of transportation costs within their expenditure because most coal comes from Kuzbass, which is equidistant from both western and eastern ports – about 5,000-6,000 km. The Group's distinct competitive advantage is the fact that some of our mining units are located 2,500-5,000 km closer to the Asian markets, which provides significant savings on railway transportation costs.

In 2014, the Group continued to increase its railway transportation volume, remaining one of the largest railway consignors in Russia. In 2014, railway transportation cost reduced by 11% or \$177m compared to the previous year due to devaluation of the Rouble. This was balanced by a 6% increase in shipment volume as well as more expensive transportation of coal from Tugnuisky open pit to China due to changes in the shipment route.

We are also implementing a number of initiatives to reduce our transportation costs. These include rental of new rail cars, which have a higher carrying capacity of 75 tonnes compared to 69 tonnes of conventional cars, and the conclusion of long-term rail car rental agreements at current low rental rates – although with potential for minor price adjustments in the future.

Transportation cost structure



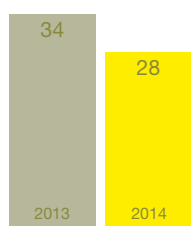
SUEK Group is one of the few coal mining companies in the world which is a major shareholder in its coal ports. In 2014, 76% of export coal shipments went through port facilities where the Group is one of the major shareholders (70% in 2013), which provided additional savings. As a result, the Group's port costs remained the same as the previous year even though coal shipments through ports increased by 6.4 million tonnes (+18%). During the year, Vanino Bulk Terminal handled 17 million tonnes and we shipped a record 13.9 million tonnes through Murmansk Commercial Seaport.

See more details in Operating review on pages 62-65.

In 2014, the 8% increase in freight costs for transporting coal by sea compared to 2013 was mainly due to a rise in sea transportation volumes.

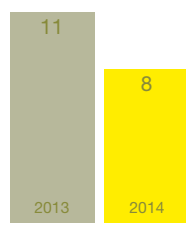
Other transportation costs, which mostly include costs of trucking and conveying coal to the Berezovsky power plant, also reduced in 2014 relative to the previous year due to devaluation of the Rouble and reduction in coal trucking volumes.

Rail costs (international market) (\$ per tonne)



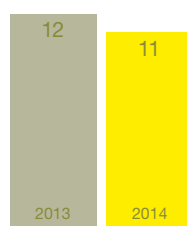
-18%

Rail costs (Russian market) (\$ per tonne)



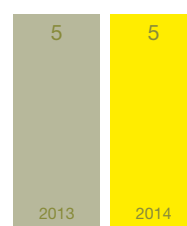
-27%

Freight costs (international market) (\$ per tonne)



-8%

Port costs (international market) (\$ per tonne)



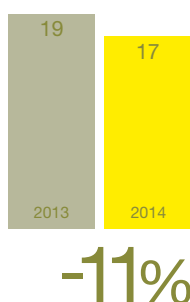
0%

Cash cost of coal sold

In 2014, the cash cost of coal sold per tonne in US Dollar terms reduced by 11%. The major factor which affected the decrease in production cost was devaluation of the Rouble.

We continue to pay close attention to production cost control as well as improving operational efficiency by implementing strategic initiatives. These include programmes for improving development rates and reducing longwall transfer times, increasing efficiency of the major mining equipment and designing optimal mine layouts.

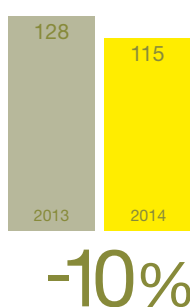
Average cash cost of coal sold (\$ per tonne)



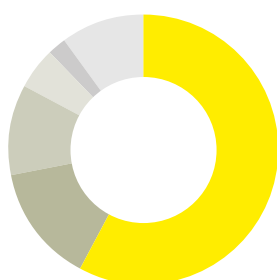
Selling, general and administrative expenses

In 2014, selling, general and administrative expenses reduced by 10% largely as a result of devaluation of the Rouble. The effect of the devaluation was partly offset by an increase in salaries and travel expenses due to the establishment of new sales offices in China and South Korea.

Selling, general and administrative expenses (\$m)



Selling, general and administrative expenses structure



EBITDA

An increase in coal international sales and a decrease in the cost of sales in US Dollar terms due to Rouble devaluation in 2014 compensated for the adverse effect of international coal price decreases on the Group's financial performance. As a result, in 2014 our EBITDA remained similar to the previous year and amounted to \$1,044m, while EBITDA margin increased from 19% to 21%.

Net loss

Adjustment of valuation loans nominated in foreign currencies resulted in a non-cash loss of \$1,332m at year end due to devaluation of the Rouble. As a result, SUEK PLC made a net loss of \$807m.

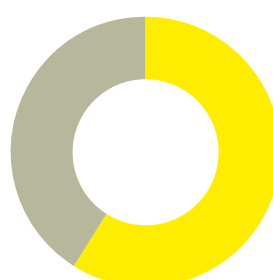
Capital expenditure

The Group remains one of the major investors in coal mining in Russia. In 2014, capital expenditure was \$496m, which is 38% lower than the previous year. The reduction in capital expenditure relative to the previous year was due to the weakening of the Russian Rouble exchange rate and a tighter focus on the most efficient and strategically important projects for expanding production and processing capacity.

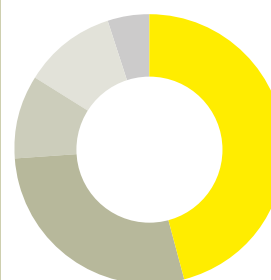
Major capital expenditure for expansion projects included the following areas:

- Increasing production of thermal coal at the mines relatively close to the target Asia-Pacific markets – Khabarovsk region, increasing productivity of Tugnuisky washing plant and the construction of Chegdomyn washing plant;
- Increasing production of export-quality coal at mines in Kuzbass by using higher capacity longwall mining equipment and belt conveyors;
- Increasing coal capacity of Vanino Bulk Terminal to 24 million tonnes per year.

Capital expenditure by type



Expansion capital expenditure by projects



Operating cash flow and net debt

In 2014, net cash generated from the Group’s operating activities reduced by 61% compared to 2013 and amounted to \$552m. The main reason behind this trend was an increase in working capital, which is mainly due to sales growth at the end of 2014 compared to the previous year as well as a reduced number of advance payments for coal supplies. However, from a historical perspective we continued to generate positive free cash flow owing to efficient management of our current assets.

As of 31 December 2014, net debt reduced by 3% relative to 2013 and amounted to \$3,342m. The key financial ratio net debt to adjusted EBITDA as of 31 December 2014 was 2.99x, which is still substantially below the maximum value of 4.0x provisioned by the current loan contracts.

In the first half of 2014, we managed to successfully refinance our debt by obtaining a new syndicated loan for \$1.5bn with a payment deadline of January 2019 – this allowed us to reduce the effective interest rate by 0.59% to 2.76%. The duration of debt at year end was nearly the same as the previous year – 719 days (+9 days relative to the previous year).

As of 31 December 2014 most bank loans (89%) were nominated in US Dollars and their effective interest rate was 2.8%. The rest of the debt is nominated in Euros with an effective interest rate of 1.3%, and in Roubles with an effective interest rate of 2.8%, allowing for the effect of using cross-currency interest rate swaps. Selection of the US Dollar as the main currency of the debt is due to the fact that the Group can use natural hedging (the debt is serviced by positive cash flow in US Dollars from international sales). In addition, loans nominated in US Dollars are provided at lower interest rates.

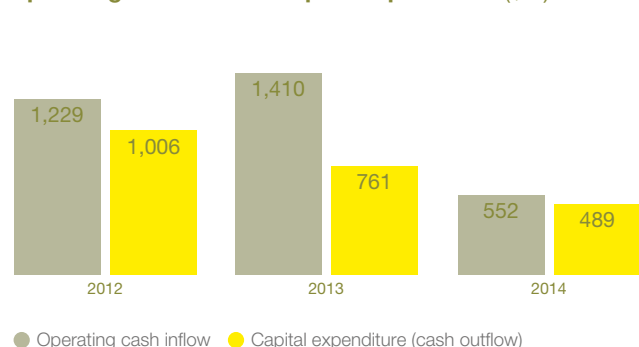
SUEK PLC’s main borrowing instrument is pre-export financing which is secured by international revenue. Together with ECA (export credit agencies), it accounts for more than 80% of the loan portfolio in 2014. We ensure flexible funding by means of availability of credit lines – the available balance as of 31 December 2014 was \$2,114m while as at 31 December 2013 it was \$2,831m.

Ba3 Stable outlook

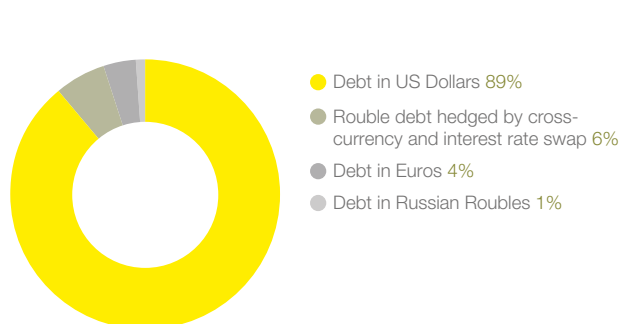
RATING OF SUEK PLC
CONFIRMED BY MOODY’S
IN OCTOBER 2014

At the end of October 2014 Moody’s confirmed SUEK PLC’s rating at Ba3 Stable. This assessment allows for low mining cost, substantial coal reserves, favourable geologic conditions of the deposits, control over much of the transportation infrastructure including availability of port facilities, and a consistent share of the Russian market.

Operating cash flow vs capital expenditure (\$m)



Debt structure as at 31 December 2014



Sustainability at the core of our operations

As one of the largest producers in Russia, we realise the important role we play in the lives of our employees and their families, in the regions where we operate and in society as a whole. We recognise the importance of establishing a favourable environment for our workforce. This means we support their professional advancement and aim

to improve their quality of life. We actively cooperate with government and local communities to support social stability in the regions where we operate, which in turn helps us to fulfil our strategic objectives. This is why social responsibility is a core element of our activities.

Strategic priorities in terms of sustainable development

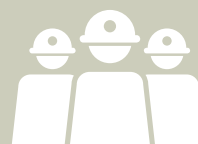


Health and safety

- Attaining the maximum level of industrial safety, occupational safety and health protection of our staff.



For more information refer to pages 82-85.



Our people

- Developing our employees and upgrading their professional skills;
- Improving programmes which motivate staff to improve operational efficiency and to ensure safe operations.



For more information refer to pages 86-88.



Environmental protection

- Employing technologies to reduce the adverse industrial impact on the environment by introducing innovations in coal mining and coal processing.



For more information refer to pages 89-91.



Communities

- Improving the quality of life of those living in the regions where we operate;
- Encouraging sustainable socio-economic development in these areas by participating in social projects;
- Developing open communication with stakeholders while meeting the challenges of sustainable development.



For more information refer to pages 92-93.

Our approach to sustainability

Our Corporate Social policy is based on current international principles and standards including the United Nations Global Compact, the Social Charter of Russian Business, the ISO 26000 Standard (Guidelines on Social Responsibility) and recommendations of the Global Reporting Initiative and defines integrated application of the principles, approaches and areas of the company's activities related to social responsibility.

The principles behind our sustainable development and corporate social responsibility strategy are also reflected in corporate regulatory documents covering:

- Environmental policy;
- Industrial and occupational safety policy;
- Quality policy for coal products;
- Information policy;
- Agreements defining social and economic relationships between employer and employees.

Relationships with stakeholders

We make decisions and take actions every day that affect our employees, their families, communities where we operate and other stakeholders and we strive to maintain our long-term ability to continue creating value for these stakeholders.

Our key groups of stakeholders:

- Shareholders;
- Financial stakeholders;
- Employees;
- Customers;
- Suppliers and business partners;
- Local communities in the regions where we operate;
- Expert and non-governmental organisations;
- State bodies.

The basic principles of our relationships with stakeholders are defined in JSC SUEK's Code of corporate conduct. They are to:

- Maintain relationships with stakeholders;
- Accommodate the interests of all parties via active cooperation based on fairness, openness and mutual respect;
- Ensure transparency of information and financial affairs;
- Observe ethical standards of business conduct;
- Comply with all relevant legislation and regulations.

We engage with stakeholders by ensuring regular and easy access to full, prompt and reliable information about the Group.

Internal communication channels include corporate media, intranet portal, website, telephone hotline and conferences for employees. Regular meetings between staff and managers to discuss topical issues are held at the Group's production units.

Our system of external communications includes corporate website, press releases, press tours and conferences, media interviews and production site visits. We also hold roundtable events, seminars, conferences and public hearings, where we disclose topical information to stakeholders.

Expert and non-governmental charitable organisations

We engage with expert and non-governmental organisations in Russia to evaluate the effectiveness of our social projects and our environmental safety programmes. Our cooperation with these organisations is based on transparency and equal partnership, the objective being sustainable growth of the company while ensuring a positive impact on society.

We have cooperated on social projects with organisations including the New Eurasia fund, the Managers' Association, Donors' Forum (a non-commercial partnership of grant-awarding organisations) as well as with charitable organisations such as Rusfond.

Local communities in the regions where we operate

Engagement between the company and local communities focuses on upgrading social infrastructure, developing local entrepreneurship and implementing environmental projects. We are trying to engage local communities in addressing topical social issues and challenges, which is one of the requirements for sustainable development in many regions where we operate.

We are implementing charity projects in healthcare and education, improving housing standards, promoting sports and supporting disadvantaged social groups. By cooperating with the local communities, we are able to build relationships and understand what people need. We organise local roundtable discussions, seminars and conferences on a regular basis to gather feedback and new ideas.

State bodies

Our engagement with the Russian government is based on strict compliance with current legislation and regulations. Our key objectives for engaging with government bodies include development of partnerships to improve the competitive position of the Russian national and regional economies, social development of the mining regions and addressing environmental issues.

Customers

Our priority when dealing with our customers is to provide the highest quality of service – this means shipments are on time and uninterrupted. We are consistently improving the quality of our products and are striving to develop a personal approach to every customer. We pay constant attention to the loyalty of our customers and what they expect from us. We have developed an information system for recording customers' complaints and responding to them.

Suppliers and business partners

By engaging with our suppliers and business partners, we are striving for development of long-term sustainable business relations and cooperation in value creation. Our main principles in this area are adherence to business ethics and fulfilment of our contract obligations. We engage with our suppliers by carrying out open tenders and business meetings, participating in Russian and international professional unions and organisations and through media publications.

Employees

When engaging with our employees, our priority is to provide fair remuneration, fulfil our social commitments and develop the professional and personal skills of staff. We also aim to improve labour productivity and safety, provide good healthcare and implement social programmes to improve the living standards of employees and their families.

Shareholders

The key areas for engaging with our shareholders include ensuring sustainable growth of the company and increasing its shareholder value. We respect all shareholders' rights and are striving to provide them with full and timely access to all necessary information.

Financial stakeholders

Our communications with these stakeholders are based on demonstrating investment potential by developing our corporate governance and operational efficiency. We are striving for full disclosure of information which is of interest to investors, including information about our strategy, our production and financial performance. The information is published in corporate annual reports, our website under the 'Investors' heading, as well as in the media.



Health and safety



Providing a safe working environment for employees and minimising risks associated with coal production are major priorities for the SUEK Group.

Work safety

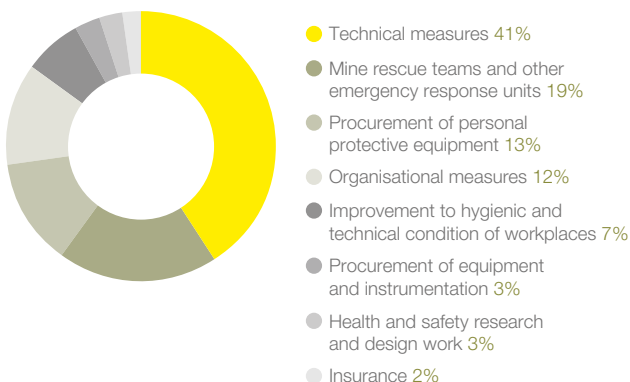
The system for managing safety at the Group's industrial facilities complies with the most advanced international standards and is designed to minimise injury rates and eliminate fatalities at our production units. Our corporate health and safety standards cover staff and all contractors working at the company's production sites.

We aim to reduce risks in the workplace by:

- Continually improving mechanisms to ensure occupational and workplace safety;
- Training to improve the skill levels of safety professionals, educating employees on safe working practices and improving workplace discipline;
- Addressing mine atmospheric safety issues to eliminate the risk of explosion and to minimise the risk of dust-related disease;
- Equipping mines with modern machinery and introducing modern safety systems and monitoring devices;
- Introducing a unified health and safety information system.

To minimise industrial risks, we now develop and implement a comprehensive health and safety action plan every year. In 2014, the Group allocated \$70m for this plan.

Allocation of funding for health and safety in 2014



\$70m

SPENT ON HEALTH AND SAFETY IN 2014

Measures to improve safety

Improving reliability of multifunctional safety and air and gas monitoring systems

The following multifunctional systems are used at the Group's production units: wi-fi personnel tracking and communication, personnel locator and gas monitoring, personnel tracking and underground radio communication, and atmospheric monitoring. These operate with the following objectives:

- Monitoring and tracking the workforce underground;
- Enabling emergency alert messages to be sent to the workforce at any location;
- Searching for and rescuing people trapped underground, including being able to track their location through 20 m thick layers of rock with accuracy.

In the head office of JSC SUEK we have established a situational control centre for online monitoring and analysis of production safety and for coordinating our activities with the regional offices and mining units in any emergency situation. A centralised mine production and safety control service was established in Kuzbass. Information on ventilation and gas levels at all of our mines is displayed on monitors in the central control room at the regional headquarters and production safety controllers check the mines round the clock both at mine and regional level.

Improving efficiency of coal dust safety

- Mechanical stonedusting equipment has been introduced at our underground mines to improve the quality of underground roadway stonedusting. We have improved automatization of stonedusting using machines designed to suit the conditions of production units;
- Systems for collection, transportation and discharge of fine coal dust have been introduced at the Vanino Bulk Terminal and the Tugnuisky and Chernogorsky washing plants;
- A dust suppression system which uses binding foam has been commissioned on belt conveyors at Vanino Bulk Terminal. A similar system is being tested at the Chegdomyn washing plant.

Improving underground mine ventilation systems

To improve ventilation systems, the amount of fresh air being supplied to high-capacity longwall sections has increased from 1,500 to 2,500 m³/min.

Improvements in gas drainage systems

New technology is enabling us to use a wide range of gas drainage techniques – from pre-drainage of gas from coal seams before commencement of mining operations, to gas drainage during mining.

We have developed gas management systems to remove methane using boreholes drilled from the surface in accessible locations. We are able to drain gas from underground roadways and from behind stoppings which are installed in roadways connected to the old workings.

For the first time in Russia, a technique for draining gas from adjacent seams using long directional boreholes was introduced by the Group.

Minimising the adverse impact of human factors

In roadway development operations we have introduced new electrical starters which eliminate the risk of accidental or unauthorised disconnection of tripping devices. We are gradually replacing existing starting equipment with this new type.

At Kotinskaya and Yalevskogo mines we are implementing a pilot project to install infrared surveillance cameras in the main conveyor roadways to improve safety. We have also purchased and are installing the required equipment at Kirova and Rubana mines.

Tighter controls on industrial safety

SUEK Group has introduced a zero-tolerance approach to violation of health and safety rules. An important aspect of minimising the risk of injury and disaster is preventing rule violations. We have developed software so all shift tasks are recorded in a database. This has already been introduced at mines in Khakasia and Kuzbass. We carry out weekly monitoring of the number of violations which have been recorded and dealt with.

Personnel training and development

Based on the results of a pilot project at Komsomolets mine, in 2014, all production units in Kuzbass now test the knowledge of the workforce before a shift.

All new equipment purchased by the Group is accompanied by special video instructions on safe implementation of assembly, operation and maintenance.

Promoting safe work

We have developed a set of video clips on occupational safety and safe working procedures. These clips are displayed on screens inside mine office buildings, in briefing rooms and on company buses. As part of the visual promotion of safety we have placed health and safety notice boards in all of our mines.

We are continuing efforts to engage the workforce into our system for managing occupational and industrial safety. We have introduced a system where an employee can record any noted hazards on an 'Alarm sheet'. At the end of a shift these 'Alarm sheets' are gathered and handed to the dedicated Production Safety Supervision department which considers them and initiates necessary corrective actions.

Provision of modern work clothes

Following resolutions of the Industrial Safety Committee of JSC SUEK's Management Board, we are imposing strict requirements for personal protective equipment. We have supplied modern comfortable work clothes and personal protective equipment to all our mines in order to improve safety.

Identifying employees taking undue risks

We have carried out tests to identify underground workers who, intentionally or not, take unnecessary risks in the workplace. The test included factors like appetite for risk, learning capability and ability to follow established rules. Employees were divided into groups based on the results and the findings were used to develop areas of knowledge relating to safety. Testing is carried out on an ongoing basis as part of the assessment of potential new workers and engineers – the testing results are taken into account in the recruitment process.

In the last four years, the key industrial safety index, LTIFR, at our production units has decreased from 2.02 to 1.57, and the general injury rate has decreased by almost two times. But despite the continuing focus on providing safe working conditions, we recorded 77 industrial accidents at our production units in 2014, while the number of lost working days due to industrial injuries amounted to 9,883 days.

Unfortunately, all of the implemented measures were still not enough to prevent fatal industrial incidents. In 2014, we suffered eight fatalities. We deeply regret this loss of life. The main causes of industrial injuries are organisational in nature and relate to both violations of health and safety rules and lack of skills and discipline of the workforce in terms of safety. Six of these fatal incidents occurred in Kuzbass, of which five occurred in underground mines and one in an open pit. The other two fatalities were in an open pit in Primorye and a railway accident in Buryatia.

The details and causes of all accidents, regardless of the severity of sustained injuries, have been examined by investigation panels and we have developed measures for prevention of similar accidents. The objective is to achieve zero fatal accidents throughout the company.

The Industrial Safety Committee under JSC SUEK's Management Board coordinates the work to improve occupational and industrial safety systems and ensures we are fully prepared to respond to emergencies at our production units. The committee reviews the details and causes of each accident which resulted in serious injury, and evaluates the adequacy of actions taken. It also assesses the procedures in place to prevent similar accidents occurring.

During the five meetings in 2014, the Industrial Safety Committee of JSC SUEK reviewed a number of important issues regarding industrial and occupational safety; analysed reports of regional managers on the results of their work; and approved action plans for establishing mine rescue teams. It also reviewed the results of special-purpose inspections of our production units and the findings of an independent external audit by RAG Mining Solutions GmbH of Kuzbass mines, and actions taken as a result of this. It reviewed a set of measures to improve safety of railway operations and the programme for managing the quality of personal protective equipment used by the workforce.

Since providing a safe working environment is a top priority, during each meeting of JSC SUEK's Board of Directors the industrial safety situation within the company is discussed in detail and in 2014 a separate item on the agenda was to review and approve the key approaches and measures for ensuring industrial safety.

Health protection

To minimise the risk of occupational diseases, we are making continuous efforts to reduce the adverse effect of the industrial environment on the health of our employees.

In 2014, we implemented pilot projects in Kuzbass, Khakasia and Krasnoyarsk regions, to evaluate working conditions and hazardous industrial factors and, most importantly, to develop technical and organisational mechanisms to reduce their effect on the health of the workforce. In 2015, these workplace assessments will cover all of the Group's production units.

In order to improve employee working conditions, we have developed a standard for work clothing and personal protective equipment used by our employees. It requires all personal protective equipment used by the company to be of a specified quality, and employees now have improved personal protective equipment – including special clothing, footwear, helmets, protective masks and safety goggles. We have also held training seminars on efficient use of personal protective equipment at our production units.

Since 2010, JSC SUEK has been implementing its 'Health' programme which includes measures for identifying industrial diseases at early stages, reduction of work time losses due to these diseases, management of systematic health protection of our employees and promotion of healthy lifestyles.

Realising the importance of employee health, we have established a special medical sub-division in the head office of JSC SUEK, which is staffed with highly proficient medical practitioners. Their main objectives are:

- Introduction of the 'Policy for health protection and medical support at SUEK's industrial facilities';
- Medical support as part of production safety processes;
- Setting up an efficient management system for the company's medical services;
- Organisation, planning and supervision of mandatory medical campaigns within the Group;
- Development of local regulations, instructions and guidelines under SUEK's policy for health protection and occupational medicine.

In 2014, our 'Health' programme managed to:

- Establish corporate standards for preliminary and pre-shift medical examinations;
- Introduce drug testing as part of pre-shift medical examinations for locomotive crews;
- Set up a specialised medical unit in Kuzbass;
- Purchase and install additional physiotherapeutic equipment for medical rooms at the mines and ultrasonic diagnostic devices for regional medical units;
- Carry out vaccinations against flu, which covered 90% of the workforce, and pneumococcal disease, which covered 18,856 workers;
- Start work on designing special meal services for the workforce;
- Set up an anti-smoking campaign.

Our goal is to make all our employees aware of the importance of individual health protection and techniques for safer working. Our objective is to introduce effective health protection measures in relation to both industrial and individual risk factors. All our employees have access to comprehensive medical services including information support, medical advice/diagnosis and treatment.

In addition to improving the quality of life of our employees, our 'Health' programme has economic benefits for the company by reducing work time lost due to disease and injury. At the start of the programme in 2010, lost work time amounted to 12.4 calendar days per employee per year. In 2014 this was reduced to 7.2, which is 7% lower than in 2013.

Introduction of on-site test centres in Kuzbass



All the Group's mining facilities in the Kuzbass region have introduced on-site touch-screen centres to test the safety skills of their employees. The tests cover occupational risks inherent in specific mining jobs and functions. Employees must pass these health and safety tests before they can access the workplace.

With the touch-screen centres in place, the company can effectively identify employees with a poor understanding of occupational health and safety. The company will suspend work permits for employees deemed to be below par while at the same time continually working to improve the corporate health and safety culture across the business in general.

A total of 96 knowledge test centres costing \$225,000 were introduced across the Kuzbass region in 2014. In 2015, the project is likely to be extended to cover all mining facilities in all regions.

Our people



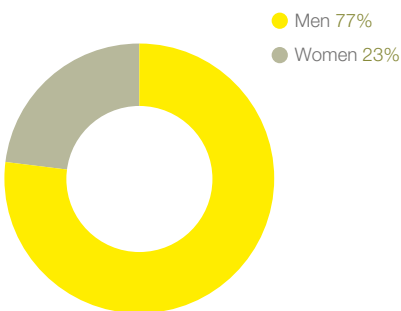
The main objective of our HR Strategy is to ensure we have sufficient people with the necessary skills to meet our operational requirements.

SUEK Group is a major employer in the regional labour markets in Russia. Our average headcount is 31,400 people, 74% of whom are production workers, and 26% are managers, specialists or administration staff. The social and demographic characteristics of the company's staff are consistent with previous years. The average employee age is 40.8 years and the ratio of males to females among SUEK Group employees remains at 77% male to 23% female.

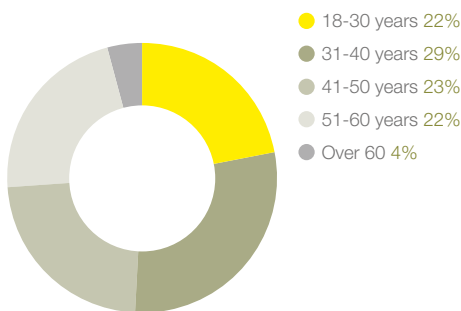
31,400

EMPLOYEES AT SUEK GROUP

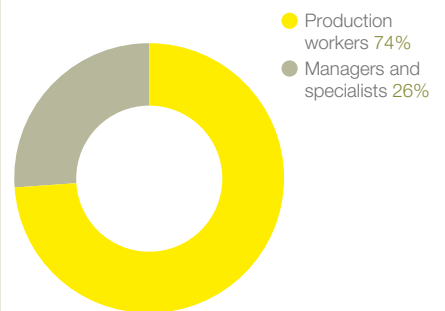
Gender diversity of employees



Composition of employees by age



Composition of employees by type





“Despite many challenges in 2014 due to the economic situation, our main priorities in terms of personnel management remain the same – providing a safe working environment, enabling professional development and career progression and motivating staff to improve production efficiency.”

DMITRY SYROMYATNIKOV,
DIRECTOR OF HR AND ADMINISTRATION, JSC SUEK

Employee remuneration

The objective of our remuneration system is to ensure employees receive competitive and fair salaries and are motivated to work efficiently and productively. We regularly monitor changes in the labour market and closely review compensation and benefits across the industry to ensure we are offering attractive remuneration.

We have successfully implemented motivation programmes in areas of particular importance for the company and bonuses for meeting predefined targets. There are also annual financial incentives for managers based on meeting key annual performance indicators.

We combine financial and non-financial incentives to motivate employees. We regularly hold professional skills competitions to promote achievements and best practice and to help raise the status of blue-collar occupations. As well as acknowledgment from managers and recognition from colleagues, winners of these competitions receive valuable gifts and cash bonuses. Employee and divisional achievements are regularly publicised in our corporate newspaper and on the intranet.

Social support

The social package for our employees is based on current legislation, industry agreements with trade unions and collective arrangements at individual enterprises.

The package includes payment for travel to holiday resorts for employees and their families; payment upon retirement of 15% of the average salary for each year of employment in the industry; financial aid; voluntary medical insurance; and supply of coal for heating to some miners. In 2014, the total expenditure associated with social benefits amounted to \$29m.

In 2014, all of our production units signed voluntary medical insurance contracts ensuring every employee of the company can now receive medical care as and when required. According to recent staff polls, voluntary medical insurance is one of the most valuable employee benefits and helps promote loyalty to the company.

Training and staff development

Last year, the Group implemented a number of important measures to improve its employee training programme. The measures covered employees at all levels from production workers right up to senior managers. We continue to expand our internal skill pool and support continual transfer of knowledge within the company.

In the reporting year we established a system for training and building up the succession pool from frontline production supervisors to top regional management. In addition to our existing programmes – ‘Top List’, ‘Locomotive’, ‘Director’, and ‘Section Head’ – we introduced a programme called ‘School of Overmen’ to improve skills and build up the middle management pool. During the year, 100 employees participated in the programme, and 75 successfully graduated.

As part of efforts to improve the quality of worker training, we made structural changes to our training centres and schools in several regions, including:

- Upgrading a training point in Buryatia to a training centre and purchasing training simulators for a Belaz truck and a Komatsu PC excavator;
- Establishing a professional development centre in Khakasia; purchasing training simulators for a bulldozer, a dump truck, a front-end loader and an excavator;
- Developing a draft design for a training centre for underground mining in the Kemerovo region and considering options to attract co-funding for construction from the government.

Recruitment of staff

The deteriorating demographic situation in several of the regions where we operate is a concern. It has forced us to develop measures to minimise the risk of core skilled worker shortages and to identify new potential sources of recruitment.

- We have compiled a list of key roles in underground mining, open-pit mining, washing plants and ports and we regularly monitor shortage of personnel in these areas;
- We have significantly expanded the geography of personnel recruitment. We have held meetings with workers from rival companies who are working at mines due to be closed – these meetings have been held in Kuzbass, Rostov, Krasnoyarsk, Irkutsk, Yakutia and other Russian regions;
- Because of the difficult situation in the mining region of Donbass in Ukraine, there is significant migration to Russia. We are actively hiring Ukrainian citizens to work in our mines and supporting them in terms of processing documents to obtain temporary Russian resident permits. We are also helping them find and rent apartments, providing travel expenses and paying workers and each member of their family lump sum relocation allowances;
- We have increased the rotation of our engineers, supervisors and workers between different regions to promote interchange of knowledge.

In 2014, we particularly focused on recruiting and retaining younger employees:

- We established Youth Councils in all the regions where we operate and at all our production units. There are currently over 800 people signed up;
- SUEK mines run continuous work placement programmes for youth employees and special-purpose training programmes to retain and develop younger workers;
- 180 young professionals participated in a research and practice youth conference ‘Mining School’ in the Krasnoyarsk region. Members of the team from Krasnoyarsk which came first in this event subsequently took part in a presidential training programme in Russia and Germany.

- We sponsored academic competitions ('Olympiads') for schoolchildren in all the regions where the Group operates, with a total of 400 participants;
- We held competitions at higher educational institutions where over 200 mining students were required to solve theoretical mining problems;
- In December 2014, JSC SUEK organised a youth conference at the Siberian Federal University in Krasnoyarsk, which involved mining students and young employees of the company.

Communications within the company

During the year, research studies were conducted and measures were taken to improve communications with our workforce:

- A study enabled us to identify the major motivational drivers of our employees, both financial and non-financial. We evaluated our existing incentive system and the social benefits currently available to our employees;
- Based on results of a diagnostic study, we compiled a report and submitted suggestions on how to develop our internal communications system;
- Questionnaires for employees who voluntarily leave were introduced and analysed to identify reasons for staff turnover and personnel shortages. The surveys established that one of the main reasons people leave some of our Kuzbass mines is 'remoteness from home'. In response to this, we decided to improve employee transportation arrangements from residential areas to production units, purchasing additional modern, comfortable buses. These vehicles are decorated with SUEK logos and contact details of HR departments for recruitment purposes.

- To improve the level of feedback in relation to health and safety – an 'Alarm Sheet' has been developed and introduced. It includes a list of mandatory questions – a health and safety checklist for particular types of work, required tools, personal protective equipment etc. Once the sheet is filled out, it is dropped into a special collection box and then processed by health and safety officials, who then fill out the back of the sheet outlining what actions have been taken to remove identified hazards.

Safety related measures

In 2014, SUEK Group was among the first coal mining companies in Russia to introduce a personal approach to identifying behavioural factors contributing to violation of industrial safety rules. We began to test our employees' attitude to risk. All of our staff, from workers, heads of technical and production departments at the mines as well as regional health and safety departments, took the tests – in total, about 24,000 people.

The test results have helped our employees to recognise their personal responsibility for safety at work. All employees who took the tests received individual feedback based on the results. Each evaluation sheet contained a recommendation of how that employee could promote safer behaviour.

We also sent instructions to mine managers on ways of applying the test results. We suggested they refer to the results when making new appointments, for building teams (to balance the number of 'cautious' workers and those who have a 'propensity for unsafe behaviour') and for additional supervision in areas where employees were identified as taking undue risks.



'Mining Olympics 2014' professional skills competition

In 2014, JSC SUEK held a professional skills competition among its production units called 'Mining Olympics 2014'.

The main objectives of the competition were:

- Developing and maintaining mining traditions;
- Encouraging enthusiasm and creative initiative among employees;
- Incentivising workers to improve their productivity;
- Assessing professional qualification of young workers and recognising their skills;
- Promoting blue-collar jobs among the younger generation;
- Sharing experience and advanced operational skills between mines.

The final stage of the competition was held in four regions – Kuzbass, Khakasia, Krasnoyarsk and Buryatia. Approximately 150 workers won prizes in 27 various professional categories. They received commemorative medals, cups and cash bonuses. The Mining Olympics received extensive coverage in the mass media and attracted significant attention in the hosting regions.

Environmental protection



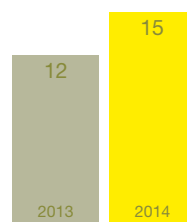
We strive to develop our business in a sustainable manner, ensuring favourable conditions for future generations. This is why our activities and investment decisions consistently take account of environmental concerns.

Our approach

SUEK Group is highly aware of the environmental impact of its operations and the risks inherent in coal mining. Consequently, we view environmental protection as an integral part of our business. We invested \$15m in environmental activities in 2014.

Committed to the concept of sustainable development, we are implementing a full range of projects to mitigate our negative impact on the environment. These include the reduction of hazardous emissions, improvements in the treatment of wastewater, waste disposal and processing, land reclamation and energy efficiency. We are also improving our environmental training programme and participating in global initiatives aimed at averting climate change and preserving biodiversity.

Expenditure on environmental activities
(\$m)



+25%

Air, water and soil

Comprehensive gas drainage is applied in all mining areas where methane content exceeds 10 m³/tonne of coal. This drainage includes preliminary removal of gas from working coal seams, and extraction of gas from mined-out areas with the help of holes drilled in the surface and also from mine openings.

Our Kirova and Komsomolets facilities in Kuzbass are equipped with gas recovery and gas engine plants capturing gas and using it for heat and electricity generation. In 2014, we utilised almost 5.7 million cubic metres of methane at these facilities, generating 9,300 MWh of electricity and 17,000 MWh (14,651 Gcal) of heat, and recovering 10,700 Gcal through methane combustion. As a result, electricity savings amounted to 15% of the total energy consumption at Kirova mine and heat savings amounted to 10% of the total heat supplied at Komsomolets mine. The total value of electricity and heat savings in Kuzbass in 2014 reached \$1.2m.

In 2014, we developed an innovative investment project to build a facility for mine gas processing and production of liquefied natural gas (LNG) in Kuzbass. The newly produced LNG will be used as motor fuel at our facilities and made available to third parties. This project will reduce open-pit coal mining costs as LNG is cheaper than petrol but performance is comparable to petrol and diesel fuel. Moreover, the use of LNG will result in lower greenhouse gas emissions – compared to petrol, LNG produces 50% less carbon dioxide, 40% less hydrocarbons, 35% less nitrogen oxides and 50% less ozone.

The Group’s production sites are equipped with industrial wastewater and sewage treatment facilities. Most of our wastewater is natural water taken in during mining operations, with characteristics typical of local groundwater. Through our continuous pollution control and resource conservation efforts, in 2014 our wastewater pollution level decreased to 0.3 kg per tonne of production, or by 25% year-on-year.

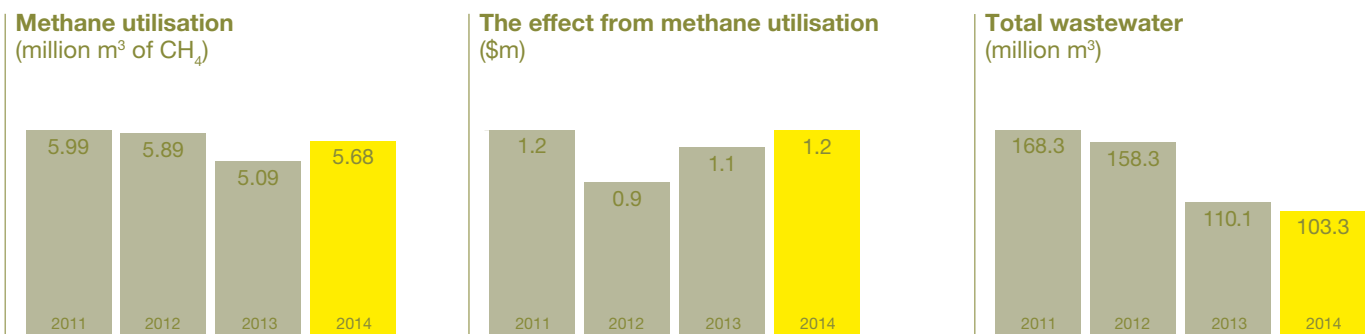
Design and construction of advanced treatment facilities for mine, quarry and household wastewater, and an overhaul of the existing water supply and sewage system, are works in progress and should further reduce pollutant concentration in wastewater. In 2014, as part of the wastewater pollution control initiative, the Group invested in:

- Construction of a modular mine water treatment plant at our Kotinskaya mine;
- Overhaul of the existing water supply and sewage system at our Berezovsky open pit (design stage);
- Design of a treatment facility for mine and household wastewater at our Taldinskaya-Zapadnaya 1 mine;
- Design of a mine water treatment facility at our Severnaya mine at Urgal.

Most of the waste generated from coal mining consists of non-hazardous overburden stored in internal and external dumps. It is used for filling sinkholes, backfilling, and reclamation of land disturbed by mining operations, in accordance with duly approved programmes.

We run extensive land reclamation projects, including surface restoration, rock dump levelling, soil remediation, tree planting and landscaping.

Together with the Research Institute of Agrarian Problems of Khakasia, we run a unique project on land reclamation and research into biological restoration of forestry. Biological restoration includes an experimental technique of planting fruit and berry crops and conifers in waste dumps. Research suggests that thanks to biological restoration, the humus layer in coal dumps can be restored 2.5 times faster. The key point is that instead of being levelled, dumps are left with ridges and hollows, providing a perfect place for plants to grow. In terms of efficiency, this technique requires less work and has lower associated reclamation costs.



SUEK Group participates in international environmental projects, achieving and demonstrating its environmental expertise. For example, it is taking part in the Mainstreaming Biodiversity Conservation into Russia's Energy Sector Policies and Operations (2012-2016) project run by the United Nations Development Programme, Global Environment Fund, the Ministry of Natural Resources and Environment of the Russian Federation in the Kemerovo and Khakassia regions. The project aims to develop innovative biodiversity solutions for the oil, coal and hydroelectricity sectors. The Chernogorsky open pit was chosen as the pilot site within the 'Reclamation of Land Disturbed by Coal Mining in the Natural and Climatic Conditions of Khakassia' focus area.

Although there are no landscape protection areas where we operate, we are committed to mitigating our impact on the biodiversity in these regions. We monitor areas of water, including their biological make-up and shoreline buffer zones, on a regular basis, and carry out environmental checks on the borders of sanitary protection zones at our facilities.

Energy efficiency

With our coal production steadily growing over recent years, the company is facing higher energy consumption. Consequently we are implementing our 'Energy Saving and Energy Efficiency Programme' designed to reduce both energy consumption and production and thus minimise our environmental impact.

Over the past three years, electricity consumption rate in overburden removal decreased by 4%, and the diesel fuel consumed by mining trucks and railway locomotives fell 11% and 10%, respectively. This strong decline in energy consumption was driven by the commissioning of modern, high-performance, energy-efficient equipment: excavators, mining trucks, etc. In addition, we have focused on the upgrade of existing equipment to cut down energy consumption. In 2014,

we completed the main phase of excavator upgrades at Borodinsky, Berezovsky, Nazarovsky, Chernogorsky and Vostochno-Beisky open pits. The annual electricity savings are approximately 6 million kWh or \$440,000 per year.

We have made considerable efforts to improve the reliability of metering data for energy consumption. Many of the Group's facilities have an automated measuring system with fiscal accounting of electric power in place. The system is used for settlements with electricity suppliers to all high-consuming facilities.

We have equipped all major diesel machines with automated control systems, including a performance monitoring system for mine trucks and other transport. This has enabled us to develop an effective fuel consumption management system based on reliable instrumental measurements.

The approved targets and standards serve as the basis for an energy-saving incentive programme for our staff, which was initiated across our facilities in 2014. We also have ambitious plans for energy efficiency for 2015-2017, when the consumption of key energy resources is expected to be reduced by an average of 4-5% per tonne.

By implementing this project, we intend to:

- Continue to commission modern, highly efficient equipment;
- Upgrade existing equipment;
- Equip new machines with fuel consumption metering and performance monitoring systems;
- Adopt incentive programmes designed to reduce energy consumption through promoting best practices and ensuring the staff are engaged and interested;
- Optimise production processes to boost operating efficiency of the energy-consuming equipment through idle time reduction, route optimisation etc.

Communities



We believe our social activities play an important role in meeting our strategic objectives. That is why, independently and in cooperation with regional governments, non-profit and non-governmental organisations, we are implementing a range of socio-economic and charitable programmes.

Our approach and our priorities

Sustainable development is important to SUEK and we are implementing programmes to create favourable social environments in the regions where we operate, improving the quality of life of our employees and their families.

In the areas where we have a presence, we are developing constructive relationships with the regional and municipal authorities, non-governmental organisations and the public. Our social programmes cover 48 cities and towns in regions of Russia where we operate. In 2014, social investment was \$16m.

Our social priorities within the regions where we operate include:

- Establishing a favourable social climate for efficient development of the Group;

- Providing a stable social environment and improving the quality of life for inhabitants of mining cities and towns;
- Working alongside regional authorities to improve housing standards and develop education, sports and medical care;
- Making regions where the Group operates more attractive to the younger generation, thereby helping to recruit young people to work in the coal mining industry;
- Improving efficiency of social investment in the regions and encouraging greater engagement with non-governmental organisations and the business community.

SUEK Group implements and upgrades its social programmes in response to the rate of development in the territories where it operates. Data from sociological studies and surveys allow us to assess performance of the programmes and to develop new areas for social investment.

Main projects

In 2014, we introduced 24 social projects; completed 50 school programmes which engaged more than 80 students; held 31 training seminars attended by more than 500 people; organised two inter-regional competitions for social projects; and held various competitions and festivals.



“ In 2014 we remained committed to social and charitable programmes despite the tough economic environment. We firmly believe that regardless of the crisis, we need to build on what we have achieved so far, to establish a solid foundation for the future and to look after our people. Our social programmes are an important element of our long-term development strategy and for the regions where the Group operates. ”

SERGEI GRIGORIEV,

PRESIDENT OF THE 'SUEK TO THE REGIONS' CHARITY FUND
PUBLIC RELATIONS AND COMMUNICATIONS DIRECTOR, JSC SUEK

Our main social projects in 2014:

- Creating new social infrastructure facilities in education, youth development and medical care. For example, in Khakasia we established a vision correction room, a children's development centre and a kids swimming club; while in Krasnoyarsk region we set up a music club for teenagers and a museum of astronomy;
- Encouraging teenagers to consider a career in mining and electricity generation through various festivals and competitions. For example, in 2014 we held a festival of science, education and entrepreneurship in Kemerovo region, which was attended by more than 350 senior high school students. We organised an inter-regional competition for undergraduate students with the best work selected and shown as 'SUEK's golden candidates pool No.3'. We also introduced an entrepreneurial marathon in schools of Khabarovsk, Krasnoyarsk, Khakasia and Primorye regions;
- Expanding the range of pre-school educational services. We established early development clubs for children and clubs for expectant mothers in Krasnoyarsk and Kemerovo regions;
- Introducing social projects in the towns where the Group operates, aimed at improving the service industry and living conditions. We held several inter-regional competitions for social projects aimed at improving the living environment.

Our projects in collaboration with the federal authorities:

- Health improvement programmes in Siberia and far eastern Russia. For example, a joint project of children's medical treatment and health improvement has been running for four years between the Department of Presidential Affairs and the 'SUEK to the Regions' charity fund. During this period, more than 700 children have been successfully treated. We also provide assistance to mining veterans, with over 200 retired miners receiving high-quality medical treatment in 2014.

The main areas of our charitable activities in 2014:

- Supporting veterans, the disabled, pensioners and families with multiple children and low incomes;
- Giving financial support for medical institutions, purchasing modern medical equipment, promoting healthy lifestyles, funding and implementing health improvement programmes;
- Providing funding to cultural and educational establishments;
- Funding renovation and construction projects of youth sports facilities, purchasing sporting equipment, organising competitions among young people, the disabled and other groups;
- Helping to fund the construction and renovation of ethno cultural and religious facilities and supporting initiatives to preserve regional culture.



Public and professional recognition of SUEK Group's social activities in 2014

- Winner of the 'Leaders of Russian business: trends and responsibility for 2013' competition in the main 'high social responsibility of company' category. The competition is held by Russian Union of Industrialists and Entrepreneurs;
- Winner of the 'Leaders of corporate charity' competition;
- Winner of the 'Impulse of kindness' competition in the 'best corporate programme for developing social entrepreneurship' category;
- Prize winner in the 'Art workshop' category of the First All-Russian competition for the best practices of an employer when working with children and young people and in the competition titled 'Creating the future'. These were held by the Russian Ministry of Education and Science;
- Prize winner at the Third All-Russian Competition 'Eventiade Awards 2014', honouring excellence in communications, in the 'Best project for young people' category;
- Prize winner in the 'Basis of growth' competition for supporting small and medium-sized business in the 'Regional programme of the year' category. The competition is held annually by the Russian Ministry of Economic Development and Trade and the Russian Union of Industrialists and Entrepreneurs;
- The social programmes operated by the 'SUEK to the Regions' fund have been included in the Donors' Forum collection of best projects under the 'Company practices in charity and social investment' category as well as being in the listing of the best corporate practices of the Russian Union of Industrialists and Entrepreneurs'.

The 'SUEK's Little Stars' project was a runner-up in the First All-Russian Competition 'Creating the future', organised by the Ministry of Education and Science of the Russian Federation; as well as in the 'Eventiade Awards 2014' for excellence in communications.

In 2014, we held the Second Children's Art Festival 'SUEK's Little Stars' in Krasnoyarsk region. Major partners of the project included local authorities, departments of culture and educational institutions. The key objective is to help children's spiritual development by familiarising them with national and regional traditions and customs, from folklore, dance and singing, to music and art. Ideas and learning are shared between children from mining towns within a region, creating a sense of community amongst the children of SUEK's employees. 'Little Stars' also identifies any gifted children, helping them to make the most of their creative potential through our funding for youth arts.

The festival first took place in 2013. More than 1,200 children from mining communities and regions submitted their applications for the first stage. They had a chance to show off their talents in the following categories: 'Vocal performance', 'Choreography', and 'Instrumental performance'.

In 2014, more than 1,500 children attended the festival. Elimination rounds took place in October-November and the finalists represented their communities at a gala concert in Krasnoyarsk in December 2014. Winners were announced in three age groups: 6-10 years (junior), 11-14 years (middle) and 15-18 (senior).

SUEK PLC's Corporate Governance

Company overview

SUEK PLC is the holding company for the SUEK Group, a vertically integrated coal business headquartered in Cyprus, with mining and logistics assets in Russia and a distribution network throughout the world.

SUEK PLC's main functions include:

- Operating as an investment holding company by managing its shareholdings in subsidiaries;
- Overseeing the activity of JSC SUEK and SUEK AG;
- Acting as the decision-making authority on large-scale investment projects;
- Managing the treasury activities of the Group;
- Setting long-term strategic and business targets;
- Preparing consolidated financial reports of SUEK PLC and its subsidiaries in line with International Financial Reporting Standards (IFRS).

Board structure

As of 31 December 2014, the Board of Directors comprised five members:

- Vera Bulenkova;
- George Cardona;
- Alina Constantinou;
- Alexander Lavrov;
- Maxim Streknev.

The composition of the Board changed during the year. On 18 August 2014, Kuzma Marchuk, Vladimir Rashevsky and Kirill Shein resigned from the Board, while Alexander Lavrov was appointed as a director.

At meetings of the Board of Directors, one member is elected to chair the meeting.

In the event that a Board meeting cannot be held due to time constraints, decisions may be made by the Standing Committee of the Board. In addition to its Chairperson (the position held by Vera Bulenkova in 2014), it comprises at least two other directors. The Committee is authorised to make decisions on most topics which come within the remit of the Board of Directors subject to limits on its authority, notably concerning the value of transactions which it may approve.

Board meeting attendance

In 2014, the Board of Directors held nine meetings while the Standing Committee held 11 meetings. The Board made 15 decisions in writing (in absentia). The average Board meeting attendance was four to five members while meetings of the Standing Committee were normally attended by three to four directors.

Director	Board of Directors	Standing Committee
Total number of meetings	9	11
Vera Bulenkova	9	11
George Cardona	5	–
Alina Constantinou	9	10
Alexander Lavrov ¹	1	–
Kuzma Marchuk ²	–	–
Vladimir Rashevsky ³	–	–
Kirill Shein ⁴	8	9
Maxim Streknev	9	11

¹ Alexander Lavrov joined the Board on 18 August 2014.

² Kuzma Marchuk resigned from the Board on 18 August 2014.

³ Vladimir Rashevsky resigned from the Board on 18 August 2014.

⁴ Kirill Shein resigned from the Board on 18 August 2014.

The Board's activity during the year

During 2014, the Board continued to oversee the strategic financing and structuring of the Group and its subsidiaries.

The Board is responsible for ensuring the Group's financing needs are appropriately met and that the legal structuring and governance of its subsidiaries is in line with shareholder interests.

Over the year this included:

- Overseeing the Group's restructuring programme, including liquidations, buy-outs and legal restructuring of several Group entities;
- Acting as the core financing centre for the Group through review and approval of bank credit facilities and the allocation of this financing through intragroup loan agreements structured to ensure the Group's overall debt portfolio remained manageable;
- Exercising control over subsidiaries through the review and approval of related-party and material transactions as well as of other matters requiring shareholder approval;
- Considering and approving senior appointments in Group companies, for example, confirming the appointment of General Managers at subsidiaries.

SUEK PLC's Board of Directors as at 31 December 2014

GEORGE CARDONA, 63

Appointment to the Board

George was elected to SUEK PLC's Board in October 2011.

Skills and experience

George was previously Head of Strategy at HSBC Group, and then subsequently appointed General Manager of International Banking. He has sat on the Board of a number of banks and financial companies in Europe and the US. In 1979, he was appointed Special Adviser to the UK Treasury during Margaret Thatcher's administration.

George was formerly a Board member of EuroChem, Russia's largest mineral fertiliser producer, where he served as Chairman of its Strategy Committee, and he was also formerly a Board member of JSC SUEK.

Education and qualifications

George graduated from Trinity College, Oxford, with honours in Philosophy, Political Science and Economics.

MAXIM STREKNEV, 38

Appointment to the Board

Maxim was elected to the Board in November 2012.

Skills and experience

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

Education and qualifications

Maxim is a graduate of Saratov State University, where he studied English Language, and the Diplomatic Academy of the Russian Ministry of Foreign Affairs, where he studied International Economic Relations.

VERA BULENKOVA, 42

Appointment to the Board

Vera was elected to SUEK PLC's Board in October 2011.

Skills and experience

Vera previously worked for Interfax, Deloitte (Cyprus) and Broker Credit Service (Cyprus). She joined the SUEK Group in 2007.

Education and qualifications

Vera graduated from Lomonosov Moscow State University and is a Fellow of the Association of Chartered Certified Accountants.

ALINA CONSTANTINOU, 36

Appointment to the Board

Alina was elected to SUEK PLC's Board in October 2011.

Skills and experience

Alina previously worked for Deloitte (Cyprus) where she audited and acted as a consultant, providing accounting advice to investment firms based in EU and Russia as well as a large, multi-sector, Cyprus-based holding company.

She has been a director of a number of private companies in Cyprus and is presently director of two Cyprus-based investment holding companies.

Education and qualifications

Alina graduated from Intercollege Cyprus with a diploma (with distinction) in Business Administration. She is a Fellow of the Association of Chartered Certified Accountants.

ALEXANDER LAVROV, 40

Appointment to the Board

Alexander was elected to SUEK PLC's Board in August 2014.

Skills and experience

Alexander joined the Group in 2001. From 2008 to 2014, he headed JSC SUEK's treasury. At present, he is in charge of corporate finance and treasury.

Education and qualifications

Alexander graduated with honours from the Moscow State University of Economics, Statistics and Informatics where he studied Information Systems in Economics (specialisation 'Banking').

JSC SUEK's Corporate Governance

Overview

JSC SUEK is the main asset of SUEK PLC and has a well-established corporate governance system. The main functions of JSC SUEK are:

- Day-to-day management of JSC SUEK's subsidiaries;
- Provision of transportation and freight forwarding services to JSC SUEK's subsidiaries;
- Provision of services in various areas to SUEK PLC and some of JSC SUEK's subsidiaries;
- Management of supplies to the Group's subsidiaries where there is benefit from centralised purchasing.

The system of corporate governance of JSC SUEK is based on the following principles:

- Fair treatment of the shareholder; legal recognition and protection of their rights;
- Maintaining an efficient system of internal control and audit;
- Ensuring financial reporting is full and transparent by providing stakeholders with the information they need and in accurate and understandable format;
- Adhering to ethical standards in how business is conducted;
- Providing a proper working environment for employees and addressing their social issues.

Statutory regulation

In following good corporate governance practice, JSC SUEK has adopted the Code of Corporate Governance recommended by the Bank of Russia as well as standards set out in the UK Corporate Governance Code, including:

- The positions of Chairman of the Board and CEO have been split;
- Members of the Board of Directors are re-elected and their performance assessed on an annual basis;
- Five out of nine Board members are independent non-executive directors (as confirmed by the Board);
- The Nomination and Compensation Committee is made up of three independent non-executive directors;
- The Audit Committee is comprised of two independent non-executive directors with relevant financial background;
- When making decisions, members of the Board avoid potential conflicts of interest.

Board of Directors of JSC SUEK as at 31 December 2014



ANDREY MELNICHENKO, 43
CHAIRMAN
NON-EXECUTIVE DIRECTOR (NON-INDEPENDENT)

Appointment to the Board and committee memberships

Andrey was appointed to the Board in March 2004 and is Chairman of the Strategy Committee.

Skills and experience

Over a 21-year career, Andrey has helped build some of Russia's most successful corporations. In 1993 he co-founded MDM Bank, one of Russia's largest private banks. During his time at MDM, he chaired its Management Board from 1997 to 2001 and was Chairman of the Board of Directors from 2001 until 2005. Over a number of years he has also held directorships at Russian energy company RAO UES and steel pipe manufacturer TMK.

Throughout 2014 Andrey was Chairman of the Board of Directors of EuroChem, stepping down in April 2015. He is also Chairman of the Siberian Generating Company and sits on the Management Board of the Russian Union of Industrialists and Entrepreneurs.

Education and qualifications

Andrey studied Physics at Lomonosov Moscow State University and graduated from Plekhanov Russian University of Economics, majoring in Finance and Credit.



VLADIMIR RASHEVSKY, 41
CHIEF EXECUTIVE OFFICER

Appointment to the Board and committee memberships

Vladimir was appointed to the Board in June 2011 and is a member of the Strategy Committee.

Skills and experience

He began his career in 1992, holding various positions in banking, including Vice-Chairman of the Management Board of Avtobank. In 2000, he joined MDM Bank where he was appointed Deputy Chairman of the Management Board. In December 2001, he became Chairman of the Management Board. In 2004, he became President of JSC SUEK, and was appointed CEO of the company at the end of that year.

Vladimir is a member of the Board of Directors of Interregional Distributive Grid Company of Siberia.

Education and qualifications

Vladimir graduated from the Moscow Financial Academy of the Government of the Russian Federation, majoring in Global Economics. He holds a degree in Economic Science.



ALEXANDER LANDIA, 52
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointment to the Board and committee memberships

Alexander was appointed to the Board in December 2006 and is Chairman of the Nomination and Compensation Committee and a member of the Strategy Committee.

Skills and experience

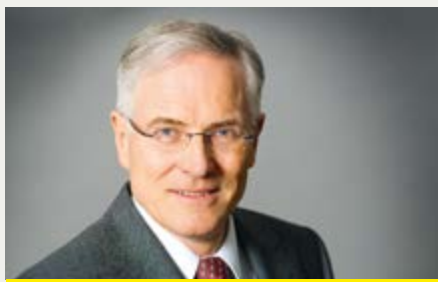
Between 1993 and 2001 he was employed by Dresdner Bank in Frankfurt, the last position he held there being First Vice President Oil & Gas Global Debt. Until 2004, he was General Director, Accenture Russia and was subsequently appointed Global Gas Lead Partner. Between 2006 and 2010 he chaired the Board of Directors and in 2007 received the 'Chairman of the Year' award from the Russian Association of Independent Directors.

Alexander is an Independent Director and member of the Strategy Committee of the Board of Directors of EuroChem. He is a member of the Board of Directors of Lambert Energy Advisory (UK) and Barloworld (South Africa). Alexander is a co-founder and Director of MFEP Acquisitions I Limited (UK) and co-founder and Managing Director of Bernotat & Cie (Germany). He is also a member of the Supervisory Board of The Mobility House AG (Switzerland).

Education and qualifications

Alexander graduated from Tbilisi State University with honours, and has a Candidate's Degree (PhD) in Mathematics from the Minsk Institute of Mathematics of the National Academy of Science (Belarus).

Board of Directors of JSC SUEK as at 31 December 2014



KLAUS-DIETER BECK, 60
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointment to the Board and committee memberships

Klaus-Dieter was appointed to the Board in June 2012 and is a member of the Strategy Committee and the Nomination and Compensation Committee.

Skills and experience

Klaus-Dieter joined RAG (Germany) 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 then joined RAG's Riverton Coal subsidiary in the US, and between 2004 and 2007 served as Senior Vice President Planning, Engineering & General Equipment Management at Foundation Coal Holdings (formerly RAG's US coal business).

Klaus-Dieter 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 served a member of the Supervisory Board of TUEV-Nord/Hannover in Germany since 2008.

Education and qualifications

Klaus-Dieter holds a PhD and an MSc in Mining Engineering from Rheinisch-Westfälische Technische Hochschule in Aachen.



JAROSLAV MIL, 56
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointment to the Board and committee memberships

Jaroslav was appointed to the Board in June 2013 and is a member of the Nomination and Compensation Committee.

Skills and experience

Jaroslav was previously CEO and Chairman of Czech energy group CEZ, leading the company through an organisational restructuring and international expansion programme. He was formerly President of the Confederation of Industry of the Czech Republic, Vice President of BUSINESSEUROPE, and served on the Board of EURELECTRIC.

Jaroslav was a member of the Board of Slovenske elektrarne, part of the ENEL group, and was CEO and Chairman of Elektrarny Opatovice, the largest independent power generator in the Czech Republic. He is a member of the Czech Government Council for Energy and Mineral Resources Strategy and advises the energy regulatory body of the Czech Republic. Jaroslav is a Managing Director of Augustin IDC and a member of the senior expert group of European Capital Partners Investments (ECPI). He is also Vice President of the Board of Trustees of the Czech Technical University in Prague.

Education and qualifications

Jaroslav holds an MSc in Economics and Management from the Czech Technical University in Prague and an MBA from Sheffield Business School.



KENT POTTER, 68
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointment to the Board and committee memberships

Kent was appointed to the Board in September 2013 and is a member of the Audit Committee.

Skills and experience

A former US Army officer, Kent joined Chevron in 1974 and in a 27-year career with the company he has held financial management positions, including CFO of Chevron's North Sea operations, CFO of Tengizchevroil in Kazakhstan and CFO of Chevron Overseas Petroleum. He was appointed Senior Vice President and CFO of Chevron Phillips Chemical Company (CPCChem) and, whilst serving as a member of CPCChem's Board, he helped direct the merger and integration of Chevron and Phillips' worldwide chemical operations.

In 2003, Kent was appointed CFO of TNK-BP. Most recently, he served as executive Vice President and CFO of Lyondell Basell. He has previously held directorships at Black Beauty Coal Company and Texas Petrochemical Company. Kent is an Independent Director of the Board of Directors of EuroChem where he chairs the Audit Committee.

Education and qualifications

Kent holds a BS in Engineering and an MBA from the University of California, Berkeley.



RICHARD SHEATH, 52
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointment to the Board and committee memberships

Richard was appointed to the Board in June 2012 and is Chairman of the Audit Committee.

Skills and experience

Richard 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. He was formerly a Partner in the risk management consulting practice of PwC and spent six years with the firm in Russia. He began his career with the Bank of England and HM Treasury.

Education and qualifications

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



DMITRY STREZHNEV, 47
NON-EXECUTIVE DIRECTOR (NON-INDEPENDENT)

Appointment to the Board and committee memberships

Dmitry was appointed to the Board in June 2011 and is a member of the Strategy Committee.

Skills and experience

Dmitry was formerly Head of Agrodortekhsnab and Tekhsnab-2000 (road and construction machinery trading companies providing maintenance and repair services). He is a former Deputy Director of Dorstroykomplekt, a company specialising in highway engineering, and was subsequently Head of the Likino Bus Manufacturing Plant. For several years he held executive positions in RusPromAvto – a holding company which includes car, truck, bus, road and construction equipment manufacturing – and in GAZ, an automobile manufacturer.

Dmitry has served as CEO of EuroChem since 2003 and been a member of its Board since 2007. He is a Board member of Industrial Venture Company and a member of the Supervisory Board of EuroChem-Karatau. He is also Chairman of the Management Board of EuroChem Group AG.

Education and qualifications

Dmitry has an honours degree in Physics from Lomonosov Moscow State University. He also holds an MBA from the Academy of National Economy of the Government of the Russian Federation.



NICHOLAS PAGE, 47
NON-EXECUTIVE DIRECTOR (NON-INDEPENDENT)

Appointment to the Board and committee memberships

Nicholas was appointed to the Board in September 2014.

Skills and experience

His career includes nearly 25 years working for PricewaterhouseCoopers (PwC) in the UK and Russia. He was a Partner in the UK firm from 2003 to 2014, and from 2013 to 2014 was a member of the PwC Central and Eastern European (CEE) Management Board and the CEE-UK Development Committee. At PwC, Nicholas specialised in advice to financial institutions, financial sponsors and multi-national companies in relation to domestic and cross-border M&As, IPOs and restructuring.

Nicholas is a member of the non-executive Strategic Advisory Board of the School of Business & Economics at Loughborough University in the UK.

Education and qualifications

Nicholas holds a BEng (Hons) from Loughborough University and has been awarded FCA status by the Institute of Chartered Accountants of England and Wales (ICAEW).

Governing bodies

The governing bodies of JSC SUEK are the General Meeting of Shareholders, the Board of Directors, the Management Board and the CEO.

General Meeting of Shareholders

The General Meeting of Shareholders is the highest governing body of JSC SUEK. It makes decisions on the most important issues regarding the business, including amendments to the Charter, reorganisation and liquidation, increasing or decreasing the authorised capital, distribution of profit, selection of members of the Board and the appointment of the external auditor.

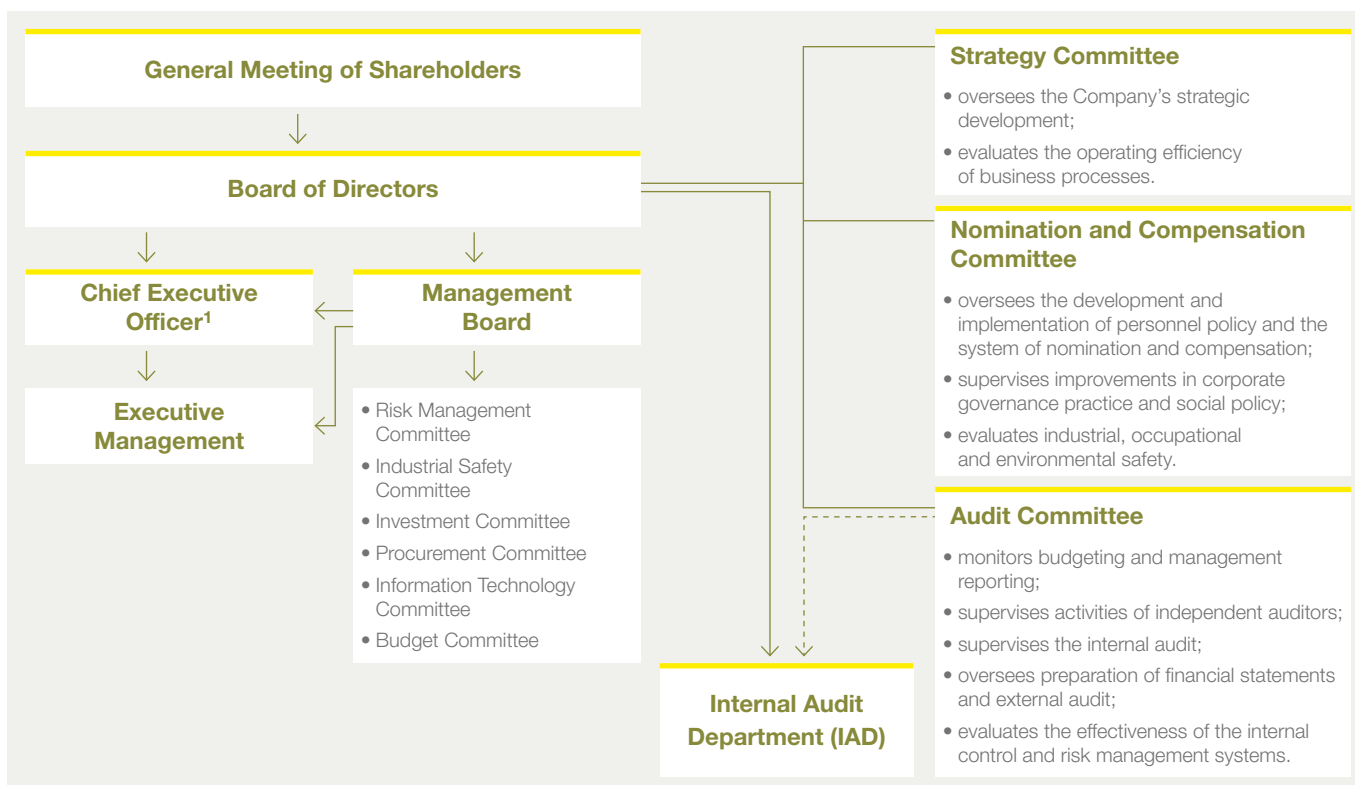
In 2014, JSC SUEK had a sole shareholder, SUEK PLC, which made decisions on the scope of the meeting. During the reporting year, major decisions included approval of a new version of the Charter, changes to the composition of the Board and approval of major deals. As part of the Annual General Meeting, the sole shareholder approved the 2013 Annual Report and financial statements, elected members of the Board of Directors, and re-appointed CJSC KPMG as the external auditor for 2014.

Board of Directors

The Board of Directors is responsible for making sure the strategy agreed between the shareholders, board and management is implemented. Its main objective is to ensure effective governance, to utilise strategic capabilities, to foster sustainable development for the long term and to increase the value of the Group's assets. It also protects the interests of shareholders and ensures disclosure of accurate information about JSC SUEK.

Since 2005, independent directors have sat on the Board of Directors of JSC SUEK. As of the end of December 2014, five out of nine Board directors, excluding the Chairman, were independent. The criteria that independent directors must satisfy are defined in the Regulation on the Board of Directors and comply with the recommendations of the Russian Code of Corporate Governance and the UK Corporate Governance Code.

Members of the Board are re-elected on an annual basis according to Russian legal requirements. The Nomination and Compensation Committee and the Audit Committee include only independent directors with relevant backgrounds.



¹ The CEO also served as a member of the Board of Directors and the Chairman of the Management Board.

The Board of Directors is made up of highly experienced professionals. Their in-depth knowledge of the industry and expertise ensures high-quality, strategic governance. In 2014, Nicholas Page joined the Board, who has acted as an expert consultant on mergers and acquisitions, IPOs and restructuring to a host of major international companies across various industries.

The non-executive Board members maintain regular contact with the management team and are well-informed about JSC SUEK, which allows them to make well-considered decisions. Between meetings, external directors receive monthly reports from the management, notifications about significant events and coal mining industry overviews.

Members of the Board consult industry experts and visit production units. During these visits directors can personally evaluate the state of our assets, communicate with production managers and assess our corporate culture first hand.



More details on Board members' visits to our production units are on page 103.

Members of the Board have access to information on the activities of all the Board committees and can attend any committee meetings. Directors use this right in practice so that typically reviews of complex and complicated issues are attended by most Board members and relevant members of the management team also take part.

The Board and committees are supported by the Corporate Secretary. Together with the CEO she helps ensure that the Board receives all necessary information for meetings in advance. Papers are prepared in two languages, Russian and English. Board members make use of mobile technology so they can access information remotely and conveniently – using an iPad, laptop or a web browser.

Composition of the Board and any changes

As of 31 December 2014 the following nine directors were members of the Board:

- Klaus-Dieter Beck;
- Alexander Landia;
- Jaroslav Mil;
- Andrey Melnichenko;
- Nicholas Page;
- Kent Potter;
- Vladimir Rashevsky;
- Dmitry Strezhnev;
- Richard Sheath.



See biographical details of the members of the Board of Directors on pages 97-99.

Throughout the year, Andrey Melnichenko served as the Chairman of the Board. Members of the Board did not own any shares of JSC SUEK during the reporting period.

Board meetings

The Board's schedule and work plan are approved for the following year with adjustments every six months. In 2014, the Board of Directors held seven in-person meetings including one meeting at a production site, and 12 in-absentia meetings. All in-person meetings benefitted from full attendance (and only one in-absentia meeting did not have 100% attendance).



See page 102 to review attendance at Board members.

Board effectiveness and evaluation

The Board's effectiveness is assessed on a regular basis. In 2014, the annual assessment was overseen by the Nomination and Compensation Committee and took the form of a questionnaire where each director assessed various aspects of the Board's activity.

The directors expressed their general approval regarding the effectiveness of the Board but also suggested specific improvements. Overall, there was satisfaction with the timing and submission of information and the way meetings were managed. However, it was proposed that in future the Board should increase the strategic focus of discussions, thereby making it easier to assess ways to enhance shareholder returns or establish the best use of capital.

Board report

Alongside regular issues (revision of strategy, budget and investment planning, setting objectives for the top managers and assessing their accomplishment), the Board's work included the review of strategic initiatives, approval of new nominations and major transactions and analysis of the short and long-term financing of the business.

During the reporting year and in light of the volatile market situation, the Board focused on maintaining the stability of the business and responding effectively to changes in the economic environment. JSC SUEK's management developed appropriate measures to reduce the impact of negative market conditions and the devaluation of the Russian Rouble. These measures included stringent investment discipline – only implementing projects which agreed with strategic priorities and provided high return on investment. A programme to improve operational efficiency and reduce production and general costs was continued.

Production safety issues were of top priority for the Board. Causes of incidents, production stoppages and accidents were reviewed in detail. The Board assessed safety performance and actions taken to prevent similar incidents in the future. The Board of Directors maintained an open and detailed dialogue with the management, helping to identify areas of strength and weaknesses on safety. This dialogue helped pinpoint the causes of incidents and develop measures to prevent reoccurrence.

The Board aims to review and to approve both the overall corporate strategy and also 'segmental strategies' covering the different aspects of its business, primarily production, logistics and sales. In 2014, the Board updated its consolidated ten-year strategy, confirmed targets by segment and programmes for brown coal and hard coal mines, and set performance targets tied into its strategic objectives. It also reviewed plans for low-margin mines and non-core activities.

A package of measures for improving the efficiency of mines and compensating for the negative situation in the coal market was implemented. Despite the economic pressures on the industry resulting from lower coal prices, the Board supported several management proposals to expand the resource base and to increase coal mining, processing and shipping capacities with a long-term market recovery in mind.

The Board reviewed the practicality of restructuring the management at a difficult time for the coal industry. So far we have completed preliminary changes in management systems and organisational structure and performance measurement in part, with the objective of ensuring that all middle managers understand the importance of generating acceptable return on equity in each segment or activity area. An action plan for meeting this objective has been developed.

The Board also helped assess whether top managers fulfilled their 2014 objectives linked to the strategic priorities.

Board remuneration

The remuneration paid to Board members is based on performance of their general functions as well as on membership and chairmanship of the Board Committees. Members of the Board of Directors also receive reimbursement of all reasonable expenses incurred in relation to their work as directors.

The total amount of remuneration paid to the Board members in 2014 was \$915,888. The total amount of expenses reimbursed to the Board members in 2014 was \$21,804.

Participation of directors in Board meetings in 2014

Director	Board meetings	Audit Committee	Nomination and Compensation Committee	Strategy Committee
Total number of meetings¹	7 (12)²	8³	6 (3)	6
Klaus-Dieter Beck	7 (12)	–	6 (3)	6
Alexander Landia	7 (12)	–	6 (3)	6
Jaroslav Mil	7 (11) ⁴	–	6 (3)	–
Andrey Melnichenko	7 (12)	–	–	6
Nicholas Page	3 (4) ⁵	–	–	–
Kent Potter	7 (12)	8	–	–
Vladimir Rashevsky	7 (12)	–	–	6
Dmitry Strezhnev	6 (12) ⁶	–	–	6
Richard Sheath	6 (12) ⁷	8	–	–

¹ Number of in-absentia meetings is provided in brackets.

² Including six in-person meetings and one meeting at a production site.

³ Including six in-person meetings and two meetings through conference calls.

⁴ Jaroslav Mil did not attend the Board meeting on 23 December 2014.

⁵ Nicholas Page became a member of the Board on 18 September 2014.

⁶ Dmitry Strezhnev did not attend the Board meeting on 19 June 2014.

⁷ Richard Sheath did not attend the Board meeting on 18 December 2014.



Board in action

Board members visited a number of production units to meet managers and to understand better the challenges these units face and the progress being made in introducing new production methods and safety standards.

In June 2014 a Board meeting took place when the directors visited Tugnuisky open pit. Directors saw how the unit's development strategy was being implemented and observed mining and blasting operations, machinery and equipment repairs, and visited the Tugnuisky washing plant and other facilities.

During the on-site meeting, members of the Board had an opportunity to talk with regional managers, to learn first-hand about operational issues affecting the mine and to congratulate them on achieving production records. They discussed plans for developing the mine and the infrastructure, including the railway loading facility and the maintenance shop. They focused on safety, working conditions and the environment and discussed the land rehabilitation issue. The Board learned about the HR policy and plans for social development of the nearest community, Sagan-Nur.

In order to personally oversee improvements in safety, members of the Nomination and Compensation Committee again visited mines in the Kuzbass region in April. They reported a satisfactory level of industrial safety in the mines and noted significant progress in the attitude of the workforce to safety as well as improved proficiency on the part of the mine managers.

During the visit to Kuzbass, members of the Board were able to consider ways to improve operational efficiency of the mines. They learned about improving underground development and reducing longwall transfer time.

Klaus-Dieter Beck, an independent director with extensive mining experience, visited Polysaevskaya, Komsomolets, and other mines located in Kemerovo in 4Q 2014. Following these visits, he presented his recommendations on improving mine safety and operational efficiency to the management. These recommendations are currently being implemented across the business.

These trips help the Board assess opportunities to implement advanced international technologies (including those used in US coal mines) and to get a feel for the differences arising from the regulatory environment in the coal industry in Russia.

Board Committees

Strategy Committee

Members of the Committee



ANDREY MELNICHENKO, CHAIRMAN



KLAUS-DIETER BECK




VLADIMIR RASHEVSKY



ALEXANDER LANDIA



DMITRY STREZHNEV

 See biographic details of Members of the Strategy Committee on pages 97-99.

Responsibilities

- Developing recommendations to the Board of Directors regarding JSC SUEK's long-term and medium-term development strategy and strategic plans of business segments;
- Reviewing investment initiatives of the management, assessing associated risks, and developing solutions which enable JSC SUEK to take advantage of and capitalise on new opportunities;
- Evaluating JSC SUEK's response to changes in the macroeconomic and market situation, reviewing its financial condition and implementing and monitoring major investment projects;
- Defining JSC SUEK's operating priorities and evaluating the operational efficiency of the management;
- Evaluating major investment projects;
- Processing of investment planning, project management and capital management.

Activity in 2014

- Review of the JSC SUEK's strategy for the next ten years as well as individual programmes by segment and area. Programmes considered included: brown coal and hard coal mines; the Kuzbass and Khakasia mines; and the development of the Tugnuisky open pit;
- Development of a comprehensive set of measures to improve the competitiveness of the business in an extremely difficult coal market. Members reviewed the situation and approved action plans regarding low-margin enterprises;
- Oversight of a number of management programmes for expanding the resource base in view of forecasts for long-term market recovery were approved. This included the review of investment projects for developing Apsatsky and Kabaktinskoe deposits and for mining in Magistralny area and assessment of projects to expand the design capacities of Zarechny and Kamyshansky open pits;
- Monitoring of work to increase the loading capacity at Vanino Bulk Terminal. The key investment projects for increasing the capacity of Yalevskogo and Kotinskaya mines were adjusted;
- Consideration of ways to improve economic performance. This included expansion of coal washing capacity and promotion of products in high-margin and high-potential Asian markets, specifically focusing on cooperation with local companies and assessment of opportunities for cost savings. In order to reduce production cost, it approved the programme for developing ancillary enterprises;
- As part of improving the investment planning processes, approval of a methodology for defining individual macroeconomic parameters for forecasting purposes as well as a methodology for transfer pricing.

6

IN PERSON MEETINGS
IN 2014

 See information on Strategy Committee meeting attendance on page 102.

Nomination and Compensation Committee

Members of the Committee




ALEXANDER LANDIA, CHAIRMAN



KLAUS-DIETER BECK



JAROSLAV MIL

 See biographic details of Members of Nomination and Compensation Committee on pages 97-99.

Responsibilities

- Supporting the management in HR strategy, nominations and compensations, corporate governance and social policy;
- Supervising compliance with the standards of industrial and environmental safety at production units and monitoring key performance indicators in this area;
- Ensuring continuity within senior management; establishing a succession pool;
- Designing development programmes for managers at various levels;
- Ensuring industrial safety procedures comply with regulatory and corporate requirements, assessing efficiency of controls in this area.

Activity in 2014

- The Committee reviewed management of human resources in 2013-2014;
- Taking into account the economic crisis, and the related cost-saving decisions, review of the economic impact of losses associated with unscheduled downtime and of the relation between cost of labour and productivity;
- Assessment of the results of a labour-rate-setting project, which has resulted in improved productivity and optimised the payroll budget, concluding that decisions on saving costs, including those involving the workforce, had been balanced and not affected operational effectiveness;
- Monitoring of steps taken to improve health and safety. Members of the Committee visited two mines in Kuzbass including Yalvskogo mine (which suffered from a major disaster the previous year), to check that production safety standards are satisfactory. Following a technical audit conducted by RAG in 2013, a programme to develop production safety functions further was defined;
- Review of staff resourcing of production units with appropriately skilled workers with a focus on the situation in mines located in remote areas with adverse climate conditions which normally find it hard to recruit – for example, the Urgal area;
- As part of the business process improvement programme, introduction of changes to the functional structure of the Production Department;
- Assessment of the performance of managers in 2013-2014 and approved new performance targets for 2014-2015;
- Review of the employee motivation programmes, particularly in relation to important projects – this included a longwall transfer strategy, an initiative for improving development rates and a programme for improving efficiency of opencast equipment;
- Supporting continuity of managers at various levels with discussion of plans for developing the required skill sets and assistance in hiring new executives, including nominations to the key executive positions in the HR and IT departments;
- Oversight of the annual assessment of the Board's work.

6

IN PERSON MEETINGS
IN 2014

3

IN-ABSENTIA MEETINGS
IN 2014

 See information on Nomination and Compensation Committee meeting attendance on page 102.

Audit Committee

Members of the Committee



RICHARD SHEATH, CHAIRMAN



KENT POTTER

 See biographic details of members of Audit Committee on pages 98-99.

Responsibilities

- Ensuring the accuracy of financial reporting;
- Supervising preparation of the management and annual financial statements; reviewing of reports of the external auditor and management letter;
- Evaluating performance of the external auditor;
- Assessing the effectiveness of the system of internal controls and risk management;
- Overseeing the work of the Internal Audit Department (IAD) including quarterly review of the results of the audits and annual review of overall auditing performance.

Activity in 2014

- Assessment of audit risks and the level of disclosure;
- Evaluation of the performance of the external auditor, audit fees, independence, and non-compliance with the policy for providing non-audit services, meetings with the auditor without management;
- Review of the strategic KPIs used for external reporting;
- Initiatives to improve the Annual Report and corporate social reports with a focus on assurance around non-financial information;
- Review of reports of the IAD on a quarterly basis, and approval of audit plans and budgets;
- Detailed evaluation of the effectiveness of the IAD including consideration of planning, report contents and presentation, audit scope, audit methodology, communication with management, reporting to the management and to the Committee, and staff management, training and professional development;
- Continuing oversight of work on improving the risk management system, mainly focused on approaches to managing key risks and IT risks;
- Review of the implementation of the anti-monopoly policy. The Committee expressed its satisfaction regarding the thorough cooperation with the Federal Anti-Monopoly Service;
- Consideration of the legal requirements in anti-corruption legislation with assessment of the status of relevant procedures and regular reviews of fraud reports to assess the trends in JSC SUEK's security level;
- Review of work on refining investment process control mechanisms; in particular, the improved investment project reporting system covering management of contents, timeline and cost;
- Review of the structure and contents of the Code of Corporate Conduct.

6

IN-PERSON MEETINGS
IN 2014

2

CONFERENCE CALLS
IN 2014

 See information on the Audit Committee meetings and attendance on page 102.

The Management Board

Overview

The activities of JSC SUEK are managed by the Chief Executive Officer (CEO) and the Management Board. The CEO is elected by the Board of Directors for an indefinite period. Vladimir Rashevsky has been the CEO since 2004 and Chairman of the JSC SUEK Management Board since 2005.

The Management Board reports to the general shareholders' meeting and to the Board of Directors. According to JSC SUEK's corporate Charter, committees and panels may be established under the Management Board. Members of the Management Board may not constitute more than a quarter of the membership of the Board of Directors.

The primary responsibilities of the CEO and the Management Board are to develop operational plans and improvement programmes and ensure they are implemented. They are also responsible for the timely and effective coordination of Board of Directors' resolutions on operational matters related to structural divisions of JSC SUEK.

Composition of the Management Board and its changes

In 2014, the composition of the Management Board of JSC SUEK did not change from the previous year.

As of 31 December 2014, the Management Board membership was:

- Vladimir Rashevsky – Chief Executive Officer;
- Vladimir Artemiev – Chief Operations Officer;
- Igor Gribanovsky – Chief Commercial Officer;
- Kuzma Marchuk – Chief Financial Officer.



For biographies of the members of the Management Board please see page 109.

Nine senior managers of JSC SUEK who were not members of the Management Board attended in-person meetings of the Management Board on a permanent basis:

- Alexander Dolgoplov – Head of IAD (Member of Risk Management Committee, Information Technology Committee, Industrial Safety Committee, Procurement Committee, Budget Committee);
- Sergei Grigoriev – Public Relations and Communications Director (Member of Industrial Safety Committee);
- Denis Ilatovsky – Director of Logistics (Member of Risk Management Committee, Information Technology Committee);
- Andrei Mironov – General Affairs Director (Member of Risk Management Committee, Industrial Safety Committee, Procurement Committee);
- Alexander Redkin – General Counsel;
- Dmitry Sizemov – IT Director (Member of Information Technology Committee);

- Sergei Tverdokhlebov – Head of Corporate Policy and Special Projects Department (Member of Risk Management Committee, Investment Committee, Budget Committee);
- Irina Zaytseva – Procurement Director (Member of Risk Management Committee, Information Technology Committee, Investment Committee, Procurement Committee, Budget Committee);
- Akhmed Bedredinov (until 7 April 2014) – Director of HR;
- Dmitry Syromyatnikov (from 8 September 2014) – Director of HR and Administration (Member of Information Technology Committee, Industrial Safety Committee, Budget Committee).

Meetings of the Management Board

In 2014, the main areas of focus were:

- Development and implementation of programmes to improve logistics, personnel management, IT management and production processes;
- Achievement of the approved budget and operational targets, taking into account the general economic recession, negative market situation and persistent decline in coal prices;
- Systematic monitoring of key actions designed to manage major risks;
- Maximising productivity across the business;
- Supporting efforts to reduce production-related injury rates and improve the 'safety in the workplace' culture;
- Improving management, operational and legal structures;
- Managing implementation of the investment programme, improving the investment process and introducing effective standards of project management;
- Improving JSC SUEK's social policy.

Management Board committees

In 2014, there were six specialised Management Board committees, which ensured interaction of the key managers and experts on core activities:

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

All of the committees are headed by the Chairman of the Management Board – Vladimir Rashevsky, the CEO of JSC SUEK.

Risk Management Committee

In 2014, the committee focused on analysing, monitoring and mitigating the key risks for JSC SUEK. Following the resolutions and recommendations of the Audit Committee, the committee also reviewed end-of-year reports of the other Management Board committees related to managing risks.

Industrial Safety Committee

In 2014, the Industrial Safety Committee held five meetings. As a result, resolutions in a number of production safety areas were passed which included the following:

- Supporting efforts to prevent injuries, reducing production-related injury rates and improving the 'safety in the workplace' culture;
- Outcome of the 'Comprehensive action plan for ensuring the rated level of industrial safety to prevent disasters and injuries of employees at production units';
- Results of the corporate safety inspections in the regional production enterprises and practical implementation of recommendations of external auditors following industrial safety audits of Kuzbass mines.

Investment Committee

In 2014, the Investment Committee considered the development and execution of JSC SUEK's investment budget.

The committee focused on:

- Methodology of the investment process;
- Review of the Life of Mine (LoM) models of production units;
- Review and approval of investment projects;
- Monitoring and summarising the outcome of investment projects.

Procurement Committee

In 2014, the Procurement Committee approved procurement of materials and services for an approximate total of \$260m.

The major resolutions of the committee in 2014 included:

- Approval of the programme and methodology for procuring certain types of materials and services, common rules and procedures for procuring activities, criteria for selecting suppliers and contractors and regulation of activities of JSC SUEK's units;
- Approval of documentation for multi-stage tenders for procuring materials, centralised tenders for consolidated procurement of haulage services for coal and overburden, specialised equipment, drilling gas drainage boreholes and coal processing;
- Approval of projects for optimising various business processes and cost savings, including long-term fixing of prices for key suppliers, dispatching of transportation services and maximising storage facilities;

- Developing solutions to rectify deficiencies in the procurement processes at JSC SUEK's units which had been identified by the IAD.

Information Technology Committee

In 2014, the operation of the Information Technology Committee was enhanced to ensure implementation of the approved IT strategy. The committee held five meetings, as well as establishing workgroups for monitoring the automation of sales and logistics. Among other things, the committee approved the criteria for successful implementation of JSC SUEK's IT strategy and the results of IT risk monitoring.

Budget Committee

In 2014, the Budget Committee reviewed and approved:

- Key objectives for developing the budgetary process methodology, new budgeting principles and new formats of financial reporting;
- Macro variables for the budget and the schedule for preparing the budget;
- Review progress in the preparation of production and financial budgets in 2014, and target production and economic indicators for 2015;
- Budget targets for the major structural subdivisions.

Management Board remuneration

The remuneration of members of the Management Board and the CEO of JSC SUEK consists of fixed basic salary and variable bonus elements, as well as long-term incentives for completion of specific strategic projects. The fixed element is based on the official duties of the relevant manager, while the variable part of the salary is aimed at providing an incentive to accomplish strategic objectives as well as attracting and retaining key managers.

The amount of annual bonus paid is based on the achievement of KPIs, which are set annually for each member of the Management Board and the CEO on an individual basis. The KPIs are based on a detailed analysis of JSC SUEK's strategic objectives. The total remuneration paid out to the members of the Management Board and the CEO of JSC SUEK based on their performance in 2014 was \$6.5m.

Management Board of JSC SUEK



VLADIMIR RASHEVSKY, 41
CHAIRMAN OF THE MANAGEMENT BOARD

CHIEF EXECUTIVE OFFICER

Appointment to the Management Board

Vladimir was appointed in August 2005.



See page 97 for biography.



VLADIMIR ARTEMIYEV, 49
CHIEF OPERATIONS OFFICER

Appointment to the Management Board

Vladimir was appointed in January 2007.

Skills and experience

Vladimir worked for Gukovugol Industrial Association for over 15 years, beginning his career as an Overman at the Zapadnaya underground mine. In 1998, he was appointed General Director of Gukovugol, a position which 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 (Rostekhnadzor). In 2006, he became JSC SUEK's Chief Operations Officer.

Vladimir has been awarded the Order of Courage for a mine rescue operation, and holds all three degrees of the Miner's Glory medal.

Education and qualifications

Vladimir graduated from Novocherkassk Polytechnic Institute as a mining engineer and has a PhD in Engineering Science.



IGOR GRIBANOVSKY, 42
CHIEF COMMERCIAL OFFICER

Appointment to the Management Board

Igor was appointed in January 2007.

Skills and experience

Between 1996 and 2001 Igor 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. In 2007, Igor was appointed Chief Commercial Officer of JSC SUEK.

Education and qualifications

Igor graduated from the Moscow State Institute of Steel and Alloys, where he studied Metal Forming. His postgraduate studies were at the Faculty of Economics of Lomonosov Moscow State University, where he majored in Public-sector Economics.



KUZMA MARCHUK, 41
CHIEF FINANCIAL OFFICER

Appointment to the Management Board

Kuzma was appointed in December 2011.

Skills and experience

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

Between 2004 and 2010, Kuzma 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 JSC SUEK as Chief Financial Officer in 2011.

Education and qualifications

Kuzma graduated in 1995 from Plekhanov Russian Academy of Economics, where he studied Foreign Affairs of Enterprises and Organisations. The following year he graduated from Lomonosov Moscow State University's Department of Physics.

Executive Management of JSC SUEK



DENIS ILATOVSKY, 43
DIRECTOR OF LOGISTICS

Appointment to position

Denis joined JSC SUEK in 2012 as Director of Logistics.

Skills and experience

In 1994, Denis began working for the MAIR Industrial Group and in 1996 was appointed Export Director. In 2000, he worked as General Director of Saratov Metalware factory. In 2002, he was appointed Vice President of the Group, where he was responsible for investments, IT and logistics. From 2008, he worked for United Metallurgical Company (OMK), where he was simultaneously General Director of the Baltic Metallurgical Terminal (Ust-Luga) and Director of Logistics of OMK.

Education and qualifications

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



DMITRY SYROMYATNIKOV, 48
DIRECTOR OF HR AND ADMINISTRATION

Appointment to position

Dmitry joined JSC SUEK in September 2014 as Director of HR and Administration.

Skills and experience

In his early career Dmitry spent more than six years working as a doctor. Between 1997 and 2004 he worked for Bristol-Myers Squibb, a US pharmaceutical company, where he started as a Medical Representative and then held the positions of Regional Manager, Training Manager and Sales Efficiency Manager.

In 2004 Dmitry joined the Russian Aluminium and Magnesium Institute as HR Director. In 2005, he was transferred to RUSAL Management Company, where he worked as Head of Recruitment Department, Director of Compensations, Planning and Recruitment Department. In 2007-2008 and 2012-2014 he was an HR and PR Director at Kirovsky Zavod. From April 2008 to February 2012 he was Director of HR and Administration at JSC SUEK, a role he returned to in 2014.

Education and qualifications

Dmitry graduated from Saint Petersburg State Pediatric Medical University. In 2005, he attended an MCE Human Resources Management course in Belgium.



SERGEI GRIGORIEV, 58
PUBLIC RELATIONS AND COMMUNICATIONS DIRECTOR

Appointment to position

Sergei was appointed Public Relations and Communications Director in February 2007.

Skills and experience

Sergei'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 Department of Presidential Affairs of the Russian Federation in 2001.

From 2004 to 2006 Sergei was Vice President of the National Reserve Bank. He was then appointed Deputy General Director of the National Reserve Corporation. In 2014, Sergei was elected to the Civic Chamber of the Russian Federation and then appointed Chairman of the Commission on Development of the Real Sector of the Economy of the Civic Chamber of the Russian Federation.

Education and qualifications

Sergei is a graduate of 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, 53
GENERAL COUNSEL

Appointment to position

Alexander was appointed General Counsel in January 2008.

Skills and experience

Between 1986 and 2001, Alexander worked in the Public Prosecution Department. He subsequently joined SIDANCO – TNK-BP Management, where he held several positions including General Counsel of SIDANCO's branch in Saratov and Head of Legal Department. He joined JSC SUEK in 2005, initially as Deputy General Counsel, and then was appointed General Counsel.

Education and qualifications

Alexander graduated from the Saratov Law Institute in 1986.



IRINA ZAYTSEVA, 38
PROCUREMENT DIRECTOR

Appointment to position

Irina was appointed Procurement Director in May 2011.

Skills and experience

From 2002 to 2011, Irina worked at Uralkali, a potash mining company, where she held a number of senior positions including Director of Inventory and Logistics.

Education and qualifications

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



ALEXANDER DOLGOPOLOV, 35
CHIEF AUDIT EXECUTIVE

Appointment to position

Alexander was appointed Chief Audit Executive in May 2011.

Skills and experience

From 2000 to 2005, Alexander worked as Assistant Manager in the Energy and Mining Department at PricewaterhouseCoopers. In 2005, he joined JSC SUEK as Head of the Audit Department and was subsequently appointed Chief Audit Executive in 2011.

Education and qualifications

Alexander is a graduate of the Moscow State Institute of International Relations (MGIMO), where he studied International Economic Relations, and a member of the Institute of Internal Auditors (IIA, USA).



ANDREY MIRONOV, 49
GENERAL AFFAIRS DIRECTOR

Appointment to position

Andrey was appointed General Affairs Director in July 2012.

Skills and experience

Andrey 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 began his career at JSC SUEK in 2011 when he was appointed General Affairs Deputy Director and was promoted to General Affairs Director in 2012.

Education and qualifications

Andrey is a graduate of the Leningrad Higher Military Commanders' Training School, the Academy of Federal Security Service and the Academy of National Economy.

Information on the Company

SUEK PLC was established in the Republic of Cyprus with head office in Limassol on 13 April 2011. SUEK PLC 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 Andrey Melnichenko. MADAKE ENTERPRISES COMPANY LIMITED is the immediate parent company of SUEK PLC.

The main assets of SUEK PLC are Joint Stock Company 'Siberian Coal Energy Company' (JSC SUEK) and its subsidiaries and individual Group entities. SUEK PLC also owns the sales company SUEK AG, which sells coal to international markets.

Corporate structure of SUEK PLC

Significant entities by country of incorporation	Principal activity	2014
Russian Federation		
JSC SUEK	Operational headquarters	100% of SUEK PLC
Murmansk		
OJSC Murmanskyy Morskoy Torgovy Port ¹	Port facilities	37.6% of JSC SUEK
Kemerovo		
OJSC SUEK-Kuzbass	Hard coal extraction	100% of JSC SUEK
Krasnoyarsk		
JSC SUEK-Krasnoyarsk	Brown coal extraction	100% of SUEK PLC
CJSC Berezovsky open pit	Brown coal extraction	100% of SUEK PLC
CJSC Nazarovskyy open pit	Brown coal extraction	100% of SUEK PLC
Khakasia		
LLC SUEK-Khakasia	Hard coal extraction	100% of JSC SUEK
LLC Vostochno-Beiskyy open pit	Hard coal extraction	50% of JSC SUEK
OJSC Izykhskyy open pit	Hard coal extraction	100% of JSC SUEK
Buryatia		
OJSC Tugnuiskyy open pit	Hard coal extraction	100% of JSC SUEK
Zabaikalye		
OJSC Kharanorskyy open pit	Brown coal extraction	100% of SUEK PLC
LLC Chitaugol	Brown coal extraction	100% of SUEK PLC
LLC Arcticheskie razrabotki ²	Coking coal extraction	100% of JSC SUEK
Khabarovsk		
OJSC Urgalugol	Hard coal extraction	100% of JSC SUEK
CJSC Daltransugol ³	Port facilities	100% of JSC SUEK
Primorye		
OJSC Primorskugol	Brown coal extraction	85% of SUEK PLC
CJSC ShU Vostochnoe	Hard coal extraction	100% of JSC SUEK
LLC Stivornaya kompaniya 'Maly port' ⁴	Port facilities	49.9% of JSC SUEK
Switzerland		
SUEK AG	Export sales of coal	100% of SUEK PLC

¹ OJSC Murmanskyy Morskoy Torgovy Port 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 Stivornaya kompaniya 'Maly port' is the legal name of Maly Port.

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 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2014, 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 judgement, 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 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

Romanenko A.M.

Director, (power of attorney dated 1 October 2013 No. 84/13)
ZAO KPMG
28 January 2015
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.

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Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014

Millions of US Dollars

	Notes	2014	2013
Revenue	6	5,053	5,381
Cost of sales	7	(2,433)	(2,620)
Distribution costs	3.21,8	(2,022)	(2,192)
General and administrative expenses	9	(115)	(128)
Other income, net		7	4
Operating profit		490	445
Finance costs, net	10	(133)	(142)
Gain/(loss) from disposal of investments		4	(1)
Foreign exchange loss		(1,332)	(197)
(Loss)/profit before tax		(971)	105
Income tax benefit	23	164	28
Net (loss)/profit for the year		(807)	133
Net (loss)/profit attributable to:			
Ordinary shareholders of the parent		(842)	100
Non-controlling interests		35	33
Net (loss)/profit for the year		(807)	133
Basic and diluted (loss)/earnings per share (in US Dollars)	18	(2.05)	0.24

The accompanying notes on pages 119-143 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014

Millions of US Dollars

	Notes	2014	2013
Net (loss)/profit for the year		(807)	133
Other comprehensive income			
Items which may be reclassified to profit or loss in the future:			
Translation difference		(1,319)	(272)
Transfer of changes in fair value of cash flow hedges to profit or loss, net of deferred tax	15	131	(18)
Effective portion of changes in fair value of cash flow hedges, net of deferred tax	15	(79)	(16)
Total items which may be reclassified to profit or loss in the future		(1,267)	(306)
Items which may not be reclassified to profit or loss in the future:			
Revaluation surplus	4	3,077	2,756
Tax effect of revaluation surplus	4	(615)	(551)
Actuarial gains/(losses)		19	(6)
Total items which may not be reclassified to profit or loss in the future		2,481	2,199
Total other comprehensive income for the year		1,214	1,893
Total other comprehensive income attributable to:			
Ordinary shareholders of the parent		1,274	1,806
Non-controlling interests		(60)	87
Total other comprehensive income for the year		1,214	1,893
Total comprehensive income attributable to:			
Ordinary shareholders of the parent		432	1,906
Non-controlling interests		(25)	120
Total comprehensive income for the year		407	2,026

The accompanying notes on pages 119-143 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 December 2014

Millions of US Dollars

	Notes	2014	2013
Assets			
Non-current assets		7,269	6,904
Property, plant and equipment	11	6,731	6,348
Long-term receivables	24	300	300
Goodwill		83	142
Deferred tax assets	23	137	84
Other assets		18	30
Current assets		1,288	1,301
Inventories	12	343	455
Trade accounts and other receivables	13	477	400
Prepaid and recoverable taxes	14	93	164
Derivative financial assets	15	24	13
Cash and cash equivalents	16	351	269
Total assets		8,557	8,205
Equity and liabilities			
Equity		3,045	2,645
Share capital	17	–	–
Share premium		6,251	6,251
Other equity		(8,145)	(8,145)
Revaluation reserve		3,453	1,982
Hedging reserve		11	(41)
Translation reserve		(544)	(218)
Retained earnings		1,801	2,566
Attributable to ordinary shareholders of the parent		2,827	2,395
Non-controlling interests		218	250
Non-current liabilities		3,979	3,802
Long-term borrowings	19	2,946	2,928
Deferred tax liabilities	23	943	691
Other liabilities	20	90	183
Current liabilities		1,533	1,758
Short-term borrowings	19	747	785
Trade accounts and other payables	21	571	851
Derivative financial liabilities	15	161	49
Taxes payable	22	54	73
Total shareholders' equity and liabilities		8,557	8,205

The accompanying notes on pages 119-143 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2014

Millions of US Dollars

	Notes	2014	2013
(Loss)/profit before tax		(971)	105
Adjustments to (loss)/profit before tax:			
Foreign exchange loss		1,332	197
Depreciation and amortisation	7,8	554	592
Finance costs, net	10	133	142
Bad debt expense		3	4
(Gain)/loss from disposal of investments		(4)	1
Loss from disposal of property, plant and equipment		–	10
Other, net		(3)	(1)
Changes in working capital items:			
Increase in inventories		(114)	(23)
(Increase)/decrease in trade accounts and other receivables		(261)	154
Decrease in prepaid and recoverable taxes (other than income tax)		5	38
(Decrease)/increase in trade accounts and other payables		(57)	273
Increase in taxes payable (other than income tax)		22	9
Net cash inflow from operations		639	1,501
Income tax paid		(87)	(91)
Net cash inflow from operating activities		552	1,410
Investing activities			
Purchase of property, plant and equipment		(489)	(761)
Purchase of non-current investments		(16)	–
Interest received		25	42
Loans repaid		–	256
Proceeds from disposal of non-current investments		4	27
Proceeds from disposal of property, plant and equipment		6	33
Net cash outflow used in investing activities		(470)	(403)
Financing activities			
Proceeds from long-term borrowings		1,444	1,605
Repayments of long-term borrowings		(1,372)	(1,090)
Repayments of short-term borrowings, net		(4)	(99)
Interest and commissions paid	3,22	(139)	(150)
Dividends paid to non-controlling interests		(7)	(11)
Share premium return to shareholders	17	–	(900)
Execution of option agreements for shares of power companies		–	(207)
Purchase of additional interest in subsidiaries		–	(13)
Net cash outflow used in financing activities		(78)	(865)
Foreign exchange effect on cash and cash equivalents		78	(32)
Net increase in cash and cash equivalents		82	110
Cash and cash equivalents at the beginning of the year	16	269	159
Cash and cash equivalents at the end of the year	16	351	269

The accompanying notes on pages 119-143 are an integral part of these consolidated financial statements.

Consolidated statement of changes in shareholders' equity for year ended 31 December 2014

Millions of US Dollars

	Share capital	Share premium	Other equity	Revaluation reserve	Hedging reserve	Translation reserve	Retained earnings	Attributable to ordinary shareholders of the parent	Non-controlling interests	Total
Balance at 1 January 2013	-	7,151	(8,145)	-	(7)	11	2,367	1,377	164	1,541
Net profit for the year	-	-	-	-	-	-	100	100	33	133
Other comprehensive income	-	-	-	2,083	(34)	(229)	(6)	1,814	79	1,893
Transfer to retained earnings	-	-	-	(101)	-	-	93	(8)	8	-
Total comprehensive income for the period	-	-	-	1,982	(34)	(229)	187	1,906	120	2,026
Transactions with owners:										
Purchase of additional interest in subsidiaries, net	-	-	-	-	-	-	12	12	(23)	(11)
Share premium return to shareholders (see note 17)	-	(900)	-	-	-	-	-	(900)	-	(900)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	(11)	(11)
Total transactions with owners	-	(900)	-	-	-	-	12	(888)	(34)	(922)
Balance at 31 December 2013	-	6,251	(8,145)	1,982	(41)	(218)	2,566	2,395	250	2,645
Net loss for the year	-	-	-	-	-	-	(842)	(842)	35	(807)
Other comprehensive income	-	-	-	1,533	52	(326)	19	1,278	(64)	1,214
Transfer to retained earnings	-	-	-	(62)	-	-	58	(4)	4	-
Total comprehensive income for the period	-	-	-	1,471	52	(326)	(765)	432	(25)	407
Transactions with owners:										
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	(7)	(7)
Total transactions with owners	-	-	-	-	-	-	-	-	(7)	(7)
Balance at 31 December 2014	-	6,251	(8,145)	3,453	11	(544)	1,801	2,827	218	3,045

The accompanying notes on pages 119-143 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2014

Millions of US Dollars, unless otherwise stated

1. General information

Organisation and principal activities. SUEK PLC, the 'company', was established in the Republic of Cyprus ('Cyprus') on 13 April 2011. The address of the registered office is 3, Georgiou Katsounotou, Kitallides building, 3036, Limassol, Cyprus. 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.

These consolidated financial statements were approved for issue by the Board of Directors of SUEK PLC on 28 January 2015.

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

Functional currency. The functional currency of the Russian subsidiaries of the Group is the Russian Rouble ('RUB'), which is the currency of the 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 the USD. The translation of the consolidated financial statements into the presentation currency was performed in accordance with the requirements of IAS 21 'The Effects of Changes in Foreign Exchange Rates'.

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

	2014	2013
Year end	56.2584	32.7292
Average rate	38.4217	31.8480

Adoption of new and revised standards and interpretations.

The following amendments to standards became effective for the Group from 1 January 2014:

- Amended IAS 32 'Offsetting Financial Assets and Financial Liabilities' clarified the meaning of 'currently has a legally enforceable right of set-off'.
- Amended IAS 36 'Impairment of assets' removed 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.
- Amended IAS 39 'Financial Instruments: Recognition and Measurement' provided 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.
- Amended IAS 19 'Employee Benefits' provided additional guidance on the accounting for contributions from employees or third parties set out in the formal terms of a defined benefit plan.
- Annual improvements to International Financial Reporting Standards (effective for annual periods beginning on or after 1 July 2014, with earlier application permitted), which consist of improvements to a number of standards.

The adoption of the amendments to existing standards did not have significant impact on these consolidated financial statements.

A number of new standards and amendments to standards are not yet effective at 31 December 2014, and have not been early adopted:

- 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 2018, with earlier application permitted) relates to the classification and measurement of financial assets.
- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning after 1 January 2017 with earlier application permitted) outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers.

Notes to the consolidated financial statements for the year ended 31 December 2014 Continued

Millions of US Dollars, unless otherwise stated

2. Basis of presentation Continued

- Amended IFRS 10 '*Consolidated financial statements*' and IAS 28 '*Investments in associates and joint ventures*' (effective for annual periods beginning on or after 1 January 2016 with earlier application permitted) address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture.
- Amended IAS 16 '*Property, plant and equipment*' and IAS 38 '*Intangibles assets*' (effective for annual periods beginning on or after 1 January 2016 with earlier application permitted) clarifies the use of a revenue-based depreciation or amortisation method.
- *Annual improvements to International Financial Reporting Standards 2012-2014* (effective for annual periods beginning on or after 1 January 2016, with earlier application permitted), which consist of improvements to a number of standards.

The Group is currently assessing the impact of these new standards and amendments 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 a loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the

date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

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 and 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 and carried at fair value starting from 1 January 2013.

The fair value is determined by discounting future cash flows which can be obtained from operations of the mines based on the life-of-mine plans and deducting the fair value of the operating tangible fixed assets.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the mineral rights asset and the net amount is restated to the revalued amount of the asset. Revaluations are performed on an annual basis.

A revaluation increase is recognised in other comprehensive income and accumulated in equity except to the extent it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease is recognised in profit or loss except to the extent that it reverses a revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

At the year end a portion of the revaluation reserve, which is equal to the difference between depreciation based on the revalued carrying amount of the mineral rights asset

and depreciation based on the asset's historical cost, is transferred from the revaluation reserve to retained earnings.

Depreciation. Mining assets are depreciated using the unit-of-production method, based on the estimated proven and probable coal reserves to which they relate, or are written off if the mine is abandoned or where there is an impairment in value. The impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. Estimated proven and probable coal reserves determined in accordance with internationally recognised standards for reporting coal reserves reflect the economically recoverable coal reserves which can be legally recovered in the future from coal deposits.

Tangible assets, other than mining assets, are depreciated using the straight-line method based on estimated useful lives. For each item the estimated useful life has due regard to both its own physical life limitations and, if applicable, the present assessment of the economically recoverable reserves of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives are made on a regular basis for all tangible assets, with annual reassessments for major items.

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

- mineral rights average of 41 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.

Notes to the consolidated financial statements

for the year ended 31 December 2014 Continued

Millions of US Dollars, unless otherwise stated

3. Significant accounting policies Continued

3.5. Impairment

The Group reviews the carrying amounts of its tangible and intangible assets regularly to determine whether there are indicators of impairment. If any such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs.

A recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or CGU is estimated to be less than the carrying amount, the carrying amount is reduced to the recoverable amount and the impairment losses are recognised in profit or loss for the year. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the 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 a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period in which the hedged item affects profit or loss.

When a hedging instrument no longer meets the criteria for hedge accounting, 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.

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.

Notes to the consolidated financial statements

for the year ended 31 December 2014 Continued

Millions of US Dollars, unless otherwise stated

3. Significant accounting policies Continued

3.8. Financial instruments continued

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 through 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

Leases 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.

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 the 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 the 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.

Notes to the consolidated financial statements for the year ended 31 December 2014 Continued

Millions of US Dollars, unless otherwise stated

3. Significant accounting policies Continued

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 the 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.

3.21. Change in presentation of distribution costs in the consolidated statement of profit and loss and other comprehensive income

Effective from 1 January 2014 the Group has presented distribution costs (the costs of bringing the coal from the mine to the point of sale) separately in its consolidated statement of profit or loss and other comprehensive income. The comparative information has been prepared in line with the current year presentation. The Group believes this change results in information that is more relevant to the economic decision-making needs of users of the financial statements as it better reflects the functional classification of costs.

Consistent with prior year accounting policy, costs of distribution to the point of sale are included in the cost of coal stock.

The following table presents the impact of the change in the presentation of distribution costs on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013:

	As previously reported	Change in presentation of distribution costs	As restated
Cost of sales			
Transportation	2,126	(2,027)	99
Labour	681	(48)	633
Depreciation and amortisation	592	(40)	552
Consumables and spares	516	(18)	498
Coal purchased from third parties	266	–	266
Repair and maintenance services	156	(33)	123
Purchased power	93	(7)	86
Other	382	(19)	363
Total	4,812	(2,192)	2,620
Distribution costs	–	2,192	2,192

3.22. Change in classification of interest and commissions paid in the consolidated statement of cash flows

Effective from 1 January 2014 the Group classified cash outflow arising from interest and commissions paid as financing activities in the consolidated statement of cash flows. The comparative information has been prepared in line with the current year presentation. The Group believes that this classification better reflects the nature of the cash flows.

4. Critical accounting judgements and estimates

In the process of applying the Group's accounting policies management has made the following principal judgements and estimates that have a significant effect on the amounts recognised in the consolidated financial statements. Actual results may differ from these estimates.

Coal reserve estimates. Coal reserve estimates are used as the basis for future cash flows, which enter into the valuation of mineral rights, the determination of provision for environmental obligations, calculations of amortisation and depreciation of mining assets, the unwinding of discount on environmental obligations and the related deferred taxes.

The coal reserve estimates represent the quantity of coal expected to be mined, processed and sold at prices at least sufficient to recover the estimated total costs, the carrying value of the investment and anticipated additional expenditures ('proven and probable coal reserves' in international mining terminology). The estimates are based on several assumptions about the physical existence of coal reserves, future mining and recovery factors, production costs and coal prices and have been calculated using the assessment of available exploration and other data. The Group undertakes regular revisions of the

coal reserve estimates, which 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 coal extraction are stated at their fair value based on reports prepared by internal specialists of the Group at each year end.

Since there is no active market for mineral rights, the fair value is determined by discounting future cash flows, which can be obtained from the operations of the mines based on the life-of-mine plans, and deducting the fair value of the operating tangible fixed assets. The Group did not identify any material intangible assets which could be deducted in arriving at the fair value of the mineral rights.

Since the operating tangible fixed assets are carried at historical cost, for the purposes of regular revaluation of mineral rights their fair value is determined either based on market prices for similar items of 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 31 December 2014 the Group remeasured mineral rights based on a 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 each cash-generating mining unit and based on an assessment of proven and probable reserves performed by a 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 4% per annum in 2015-2019, 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 Asian and European markets were projected to fall at an average of 8% in 2015 based on a consensus forecast of investment banks and to grow at an average of 2% per annum in line with expected long-term USD inflation thereafter;
- domestic coal sales volumes were estimated to grow at an average rate of 1% per annum in 2015-2019, and remain stable thereafter;
- domestic coal prices for 2015-2018 were projected to grow in line with RUB inflation and at 5% per annum from 2019 in line with expected long-term RUB inflation;
- regulated railroad tariffs were estimated to grow at 10% in 2015 for domestic shipments and at 25% for export shipments and at 5% per annum from 2019 in line with expected long-term Russian CPI inflation;
- RUB/USD exchange rate was estimated in 2015-2016 at the level of 60 RUB/USD based on RUB/USD forward rate and a consensus forecast of investment banks; and was indexed by the ratio between the expected RUB inflation of the corresponding year and the long-term USD inflation thereafter;
- cash flow forecasts were discounted to their present value at the nominal weighted average cost of capital of 17% for mining units, in Russian Rouble terms.

At 31 December 2014 the total effect of the revaluation of the mineral rights was an increase of 3,077 million USD (31 December 2013 – 2,756 million USD); the after-tax effect on equity was an increase of 2,462 million USD (31 December 2013 – 2,205 million USD).

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

	Increase/(decrease) of the fair value
Increase in RUB/USD exchange rate of 5%	924
Increase in weighted average cost of capital of 1%	(470)
Increase in export coal prices of 1%	118
Increase in export coal sales volumes of 1%	89
Increase in regulated railroad tariffs growth of 1%	(85)
Increase in domestic coal prices of 1%	56
Increase in domestic coal sales volumes of 1%	42

Determination of recoverable amount of property, plant and equipment of the coal segment (other than mineral rights).

The recoverable amount of the property, plant and equipment of the coal segment (other than mineral rights) as at 31 December 2014 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.

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.

Notes to the consolidated financial statements

for the year ended 31 December 2014 Continued

Millions of US Dollars, unless otherwise stated

4. Critical accounting judgements and estimates

Continued

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

- cash flow projections were based on the business model for 2015-2019;
- coal transshipment volumes were projected to accommodate own sales requirements;
- port tariffs for European shipments were projected to grow at 2% per annum from 2015, in line with expected long-term USD inflation;
- port tariffs for Far-Eastern shipments were projected to fall at an average rate of 3.9% per annum from 2015 due to estimated increase of port capacities and to grow at 2% per annum from 2021 in line with expected long-term USD inflation;
- cash flow projections were discounted to their present value at the nominal weighted average cost of capital of 14% for port units in RUB terms.

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

The model applied for impairment testing is not sensitive to assumptions used by management because value in use is significantly greater than carrying values of cash-generating unit assets.

5. Segmental information

The Group evaluates performance and makes investment and strategic decisions based on 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. The 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 and the power segment assets consist of a long-term receivable relating to the power business (see note 24).

Operating segment information for the Group at 31 December 2014 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	4,405	559	27	62	–	–	5,053
Inter-segment revenues	302	181	42	312	–	(837)	–
Segment expenses	(4,564)	(533)	(79)	(224)	–	837	(4,563)
Operating profit/(loss)	143	207	(10)	150	–	–	490
Depreciation and amortisation	(442)	(55)	(11)	(46)	–	–	(554)
Interest expense	(127)	(39)	(4)	(21)	–	71	(120)
Interest income	61	11	–	9	15	(71)	25
(Loss)/profit before tax	(793)	(201)	(13)	21	15	–	(971)
Income tax benefit/(expense)	171	12	2	(18)	(3)	–	164
Net (loss)/profit for the year	(622)	(189)	(11)	3	12	–	(807)
Capital expenditures incurred during the year	407	31	5	53	–	–	496
Segment assets and liabilities							
Total segment assets	6,479	2,174	240	640	300	(1,276)	8,557
Total segment liabilities	5,486	978	57	267	–	(1,276)	5,512

Operating segment information for 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	(4,854)	(662)	(56)	(240)	–	876	(4,936)
Operating profit/(loss)	122	189	(4)	138	–	–	445
Depreciation and amortisation	(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	(172)	160	(9)	110	16	–	105
Income tax benefit/(expense)	44	2	2	(17)	(3)	–	28
Net (loss)/profit for the year	(128)	162	(7)	93	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

6. Revenue

	2014	2013
Coal sales	4,920	5,228
Pacific region	1,964	2,136
Atlantic region	1,641	1,512
Russian Federation	1,315	1,580
Other	133	153
Total	5,053	5,381

Notes to the consolidated financial statements

for the year ended 31 December 2014 Continued

Millions of US Dollars, unless otherwise stated

7. Cost of sales	2014	2013
Labour	554	633
Depreciation and amortisation	512	552
Consumables and spares	467	498
Coal purchased from third parties	332	266
Repairs and maintenance services	104	123
Purchased power	88	86
Transportation services	71	99
Drilling and blasting services	44	54
Tax on mining	43	53
Personnel transportation services	38	47
Land rent	31	31
Fire and rescue brigade expenses	30	32
Property tax	21	27
Other	98	119
Total	2,433	2,620

8. Distribution costs	2014	2013
Railway services	1,330	1,475
Freight	267	256
Rent of rail cars	138	165
Stevedoring from third parties	118	101
Labour	50	48
Depreciation and amortisation	42	40
Repair and maintenance services	30	33
Consumables and spares	21	18
Property tax	5	6
Other	21	50
Total	2,022	2,192

9. General and administrative expenses	2014	2013
Salaries	67	72
Charitable donations	16	19
Consulting, legal, audit and other professional services	13	16
Office rent	6	11
Customs duties	2	2
Other	11	8
Total	115	128

10. Finance costs, net	2014	2013
Interest expense	120	127
Bank commissions and charges	30	40
Unwinding of discount on environmental obligation	6	8
Change in fair value of derivatives, other than hedging	2	(5)
Interest income	(25)	(28)
Total	133	142

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 2013	1,337	1,078	2,564	599	5,578
Revaluation of mineral rights	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
Revaluation of mineral rights	3,077	—	—	—	3,077
Additions	13	—	—	483	496
Transfers	—	162	434	(596)	—
Disposals	—	(17)	(31)	(11)	(59)
Effect of translation to presentation currency	(1,593)	(609)	(1,280)	(163)	(3,645)
Balance at 31 December 2014	5,316	880	1,867	179	8,242
Accumulated depreciation and amortisation					
Balance at 1 January 2013	247	225	1,184	5	1,661
Depreciation and amortisation	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
Depreciation and amortisation	99	100	342	—	541
Disposals	—	(15)	(30)	—	(45)
Effect of translation to presentation currency	(191)	(147)	(670)	(2)	(1,010)
Balance at 31 December 2014	290	224	995	2	1,511
Net book value at 31 December 2013	3,437	1,058	1,391	462	6,348
Net book value at 31 December 2014	5,026	656	872	177	6,731

During the year ended 31 December 2014 borrowing costs of 4 million USD were capitalised into Group assets (2013 – 8 million USD).

Group assets include advances issued for capital expenditures of 28 million USD (31 December 2013 – 43 million USD).

If mineral rights had been carried at the historical cost, the net book value of property, plant and equipment at 31 December 2014 would have been 2,280 million USD (31 December 2013 – 3,887 million USD).

Notes to the consolidated financial statements for the year ended 31 December 2014 Continued

Millions of US Dollars, unless otherwise stated

12. Inventories	2014	2013
Coal stock	226	278
Consumable stores and materials	127	188
Less: Allowance for obsolescence	10	11
Net consumable stores and materials	117	177
Total	343	455

13. Trade accounts and other receivables	2014	2013
Trade accounts receivable	385	306
Advances issued	81	86
Other receivables	20	21
Subtotal	486	413
Less: Allowance for doubtful debts	9	13
Total	477	400

14. Prepaid and recoverable taxes	2014	2013
Value-added tax recoverable	57	102
Income tax receivable	33	58
Prepaid other taxes	3	4
Total	93	164

15. Derivative financial instruments

	2014		2013	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Coal swaps	19	–	2	–
Cross-currency interest rate swap	–	161	–	49
Other derivatives	5	–	11	–
Total	24	161	13	49

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:

	2014		2013	
	Loss recognised in comprehensive income	Loss recycled from comprehensive income to the profit or loss	Loss 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	(77)	133	(20)	(20)
Deferred tax	(2)	(2)	4	2
Total	(79)	131	(16)	(18)

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:

	2014		2013	
	Volume ('000 tonne)	Derivative assets	Volume ('000 tonne)	Derivative assets
0 – 3 months	595	7	690	–
3 – 6 months	210	4	510	2
6 – 9 months	210	4	–	–
9 – 12 months	210	4	270	–
Total	1,225	19	1,470	2

At 31 December 2014 the average coal price under the coal swaps was 81 USD per tonne (31 December 2013 – 84 USD per tonne).

Cross-currency interest rate swaps. The Group has 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 2014, the outstanding balance of RUB-denominated bonds amounted to 214 million USD (31 December 2013 – 367 million USD).

16. Cash and cash equivalents

		2014	2013
Current accounts	• foreign currency	100	93
	• RUB	63	99
Other cash and cash equivalents	• foreign currency	144	36
	• RUB	44	41
Total		351	269

17. Share capital and reserves

	Number of shares, in thousands	
	2014	2013
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 USD. All issued shares were fully paid.

Share premium return to shareholders. In the third and fourth quarters of 2013, SUEK PLC reduced the share premium by a cash payment to the shareholders of the company to the amount of 900 million USD.

Notes to the consolidated financial statements for the year ended 31 December 2014 Continued

Millions of US Dollars, unless otherwise stated

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.

	2014	2013
Weighted average number of ordinary shares in issue (in thousands)	410,000	410,000
(Loss)/profit for the year attributable to ordinary shareholders of the parent	(842)	100
Basic and diluted (loss)/earnings per share (in USD)	(2.05)	0.24

19. Borrowings

	Effective interest rate	2014	2013
Long-term borrowings			
Variable rate borrowings		3,112	3,065
USD-denominated borrowings	6M LIBOR + 1.05% to 1M LIBOR + 3%	2,953	2,852
EUR-denominated borrowings	6M EURIBOR + 0.9% to 6M EURIBOR + 2.25%	159	213
Fixed rate borrowings		522	646
RUB-denominated bonds	8.25% to 8.7%	217	377
USD-denominated borrowings	1.35%	262	258
RUB-denominated borrowings	9.9% to 13.9%	43	11
Subtotal		3,634	3,711
Less: Current portion of long-term borrowings		688	783
Total long-term borrowings		2,946	2,928
Short-term borrowings			
Other borrowings — variable rate	3M LIBOR + 2.5%	53	2
Other borrowings — fixed rate		6	–
Subtotal		59	2
Current portion of long-term borrowings		688	783
Total short-term borrowings		747	785

The Group's long-term borrowings have restrictive covenants including, but not limited to, the requirement to maintain minimum ratios associated with:

- consolidated net indebtedness to earnings before interest, tax, depreciation and amortisation ('EBITDA'); and
- EBITDA to consolidated interest expense.

The covenants are calculated based on the IFRS financial statements of the Group on a semi-annual basis. The Group was in compliance with all such covenants.

20. Other long-term liabilities

	2014	2013
Provision for defined benefit obligation	35	79
Provision for environmental obligation	30	63
Other long-term liabilities	25	41
Total	90	183

Provision for defined benefit obligation. Actuarial assumptions used for the calculation of the defined benefit obligation were as follows:

Discount rate	14%	8%
Inflation rate	7%	5%
Future increases in salaries	7%	6%

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	13%	9%
Inflation rate	6%	5%

21. Trade accounts and other payables

	2014	2013
Trade accounts payable and accruals	199	229
Advances from customers	151	318
Promissory notes payable	67	104
Accrual for vacation payments	35	56
Wages and salaries	32	49
Other creditors	87	95
Total	571	851

22. Taxes payable

	2014	2013
Value-added tax	27	28
Income tax	8	19
Social security contributions	9	13
Other	10	13
Total	54	73

Notes to the consolidated financial statements

for the year ended 31 December 2014 Continued

Millions of US Dollars, unless otherwise stated

23. Taxation	2014	2013
Current income tax expense	76	95
Deferred income tax benefit	(240)	(123)
Income tax benefit	(164)	(28)

The reconciliation of theoretical income tax, calculated at the rate effective in 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:

	2014	2013
(Loss)/profit before tax	(971)	105
Theoretical income tax (benefit)/expense at 12.5%	(121)	13
Tax effect of sale of power companies' shares	24	(42)
Impact of specific tax rates in Russian Federation	(69)	(7)
Impact of specific tax rates in Switzerland	(3)	(5)
Tax effect of non-deductible expenses	5	13
Total income tax benefit	(164)	(28)

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
2014					
Deferred tax assets	192	(2)	212	(147)	255
Tax losses carried forward	129	-	230	(127)	232
Derivative financial liabilities	3	(2)	2	(1)	2
Prepaid expenses and accruals	25	-	(13)	(6)	6
Employee benefit obligations	16	-	(1)	(6)	9
Environmental and other provisions	16	-	(4)	(6)	6
Trade accounts and other receivables	3	-	(2)	(1)	-
Deferred tax liabilities	(799)	(615)	28	325	(1,061)
Property, plant and equipment	(771)	(615)	16	318	(1,052)
Inventory	(17)	-	13	3	(1)
Other	(11)	-	(1)	4	(8)
Net deferred tax liabilities	(607)	(617)	240	178	(806)

	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)

Unrecognised temporary differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and distribution of dividends on a tax-free basis when certain conditions are met and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to 3,478 million USD (31 December 2013 – 1,833 million USD).

Tax losses carried forward existing as at 31 December 2014 expire within ten years from the balance sheet date.

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

	2014	2013
Deferred tax assets	137	84
Deferred tax liabilities	(943)	(691)
Net deferred tax liabilities	(806)	(607)

24. Related party transactions

Related parties are considered to include the ultimate beneficiaries, affiliates and entities under common ownership and control within the Group as well as entities with the same principal ultimate beneficiaries. The company and its subsidiaries, in the ordinary course of their business, enter into various sales, purchases and service transactions with related parties. Transactions with related parties are not always performed under conditions that would be available for parties not related to the Group.

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

	2014	2013
Revenue from SIBERIAN ENERGY INVESTMENTS Group	577	657
Coal sales to DEC Group, an associate of a company with the same principal ultimate beneficiary	157	197
Other purchases	30	41
Interest income	15	15
Rent of railcars from a company with the same principal ultimate beneficiary	7	–
Gain from disposal of investments to companies with the same principal ultimate beneficiary	4	–
Remuneration of the Board of Directors and the Management Board members	7	7

The outstanding balances with related parties are as follows:

	2014	2013
Long-term receivables relating to power business	300	300
Trade accounts and other receivables from DEC Group	19	25
Trade accounts and other receivables from SIBERIAN ENERGY INVESTMENTS Group	58	3
Advances received from SIBERIAN ENERGY INVESTMENTS Group	–	17

Long-term receivables relating to power business. The long-term receivable is a part of consideration for the power business demerged from the coal business of SUEK in 2011. In April 2014, SIBERIAN ENERGY INVESTMENTS Group transferred the liability on the same terms to a company with the same principal ultimate beneficiary.

25. Commitments

Capital commitments. The following capital expenditures were approved:

	2014	2013
Contracted	58	125
Not yet contracted	332	325
Total	390	450

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.

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for the year ended 31 December 2014 Continued

Millions of US Dollars, unless otherwise stated

25. Commitments Continued

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:

	2014				2013			
	Railcars	Land	Other	Total	Railcars	Land	Other	Total
Due in one year	13	14	22	49	–	32	18	50
Due from two to five years	51	14	32	97	–	23	35	58
Due thereafter	51	29	7	87	–	29	–	29
Total	115	57	61	233	–	84	53	137

Lease of railcars. The Group has long-term operating lease contracts for railcars from a company with the same principal ultimate beneficiary. The operating lease agreements expire through to 2023.

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. Other leases mainly consist of long-term operating lease contracts for three ice-class vessels. The operating lease agreements 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.

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, the fair values of financial instruments carried at amortised cost, which are mainly loans and receivables, did not materially differ from the carrying values. At 31 December 2014, the fair values of financial instruments carried at amortised cost did not materially differ from the carrying values except for receivable for power business in the amount of 300 million USD and fixed rate borrowings in the amount of 522 million USD. Fair values of these assets and liabilities are lower by 13 million USD and 33 million USD, respectively. The fair values were determined based on the 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 fair values.

Mineral rights carried at fair value. The fair value of mineral rights was determined using discounted cash flow method corresponding to Level 3 of the hierarchy of fair values (see note 4).

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 a risk management committee of operational management and by the central treasury department. The Board of Directors of operating company OJSC SUEK approves principles for overall risk management. In addition, operational management have 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 holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risk management includes the analysis of foreign currency and interest rate risks.

Foreign currency risk. Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed.

A significant portion of the Group's revenues are denominated in USD, whereas the majority of the Group's expenditures are denominated in RUB. Accordingly, operating profits may be adversely impacted by the appreciation of the RUB against the USD. The risk of negative fluctuations in the USD/RUB exchange rate for future revenue streams is naturally hedged by the USD loan portfolio.

Notes to the consolidated financial statements

for the year ended 31 December 2014 Continued

Millions of US Dollars, unless otherwise stated

28. Financial risk management Continued

28.1. Market risk continued

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

	2014			2013		
	USD	EUR	Total	USD	EUR	Total
Long-term receivables	300	–	300	300	–	300
Intra-group receivables	327	–	327	35	–	35
Cash and cash equivalents	11	–	11	13	–	13
Intra-group borrowings	(2,406)	(147)	(2,553)	(2,445)	(1)	(2,446)
Borrowings	–	(23)	(23)	(18)	(212)	(230)
Derivative financial liabilities	(161)	–	(161)	(49)	–	(49)
Trade accounts payable and accruals	(10)	(9)	(19)	(26)	(22)	(48)
Other creditors	(27)	(52)	(79)	(2)	(53)	(55)
Total net liabilities	(1,966)	(231)	(2,197)	(2,192)	(288)	(2,480)

A 20% devaluation of RUB against foreign currencies at the reporting date would have decreased equity and profit for the year by the following:

	2014			2013		
	USD	Other	Total	USD	Other	Total
Equity	269	31	300	330	38	368
Profit for the year	241	31	272	286	38	324

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 interest rate risk amounts to 3,206 million USD (31 December 2013 – 3,380 million USD).

The Group's interest rate risk arises primarily from long-term borrowings. The Group's borrowings at variable interest rates are primarily denominated in USD. Borrowings at variable interest rates expose the Group to a cash flow interest rate risk. The Group monitors the risk and, if necessary, manages its exposure by entering into variable-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from variable interest rates to fixed interest rates.

An increase or decrease in the floating interest rate by 1%, provided that the amount of outstanding balance remained constant for the whole year, would have decreased or increased profit for the year by 32 million USD (2013 – 31 million USD).

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 2014, 7% of total trade receivables were due from the Group's largest customer and 42% of the total trade receivables were due from the Group's next 19 largest customers (31 December 2013 – 8% and 53%, respectively).

The table below analyses the Group's trade receivables into relevant groupings based on the year of them being considered past due.

	2014		2013	
	Gross	Allowance for doubtful debts	Gross	Allowance for doubtful debts
Not past due	380	–	302	–
Past due for less than 12 months	2	2	1	1
Past due for more than one year	3	3	3	3
Total	385	5	306	4

The movement in the allowance for doubtful debts in respect of trade receivables during the year was as follows:

	2014	2013
Opening balance	4	4
Additional doubtful debts	5	3
Bad debt written off (impairment loss recognised)	–	(1)
Bad debt recovered	(2)	(2)
Effect of translation to presentation currency	(2)	–
Closing balance	5	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.

Recently, global and Russian capital markets have experienced significant volatility, including a lack of available sources of financing and significant fluctuation of the 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 2015 and will be sufficient to cover the capital expenditure programme of the Group. In addition, management believes that the Company will be able to attract additional sources of financing in order to refinance existing short-term facilities.

The central treasury department of the Group maintains flexibility in funding by ensuring the availability of credit line facilities. The unused portion of these lines at 31 December 2014 totalled 2,114 million USD (31 December 2013 – 2,831 million USD).

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 2014					
Long-term borrowings	2,946	3,181	89	1,560	1,532
Short-term borrowings	747	747	747	–	–
Net-settled derivative liabilities	161	161	–	131	30
Trade accounts payable and accruals	199	199	199	–	–
Promissory notes payable	67	67	67	–	–
Other creditors	87	87	87	–	–
Total	4,207	4,442	1,189	1,691	1,562
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	104	104	104	–	–
Other creditors	95	95	95	–	–
Total	4,190	4,454	1,317	1,393	1,744

Notes to the consolidated financial statements

for the year ended 31 December 2014 Continued

Millions of US Dollars, unless otherwise stated

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	2014	2013
Russian Federation			
OJSC SUEK	Holding company	100%	100%
Murmansk			
OJSC Murmanskiiy Morskoi Torgovyi Port	Port facilities	37.6%	37.49%
Kemerovo			
OJSC SUEK-Kuzbass	Hard coal extraction	100%	100%
Krasnoyarsk			
JSC SUEK-Krasnoyarsk	Brown coal extraction	100%	100%
JSC Razrez Berezovskiy	Brown coal extraction	100%	100%
JSC Razrez Nazarovskiy	Brown coal extraction	100%	100%
Khakasia			
LLC SUEK-Khakasia	Hard coal extraction	100%	100%
LLC Vostochno-Beyskiy razrez	Hard coal extraction	50%	50%
OJSC Razrez Izyskhskiy	Hard coal extraction	100%	100%
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%	100%
CJSC Daltransugol	Port facilities	100%	100%
Primorye			
OJSC Primorskugol	Brown coal extraction	85%	85%
CJSC ShU Vostochnoe	Hard coal extraction	100%	100%
LLC Stividornaya kompaniya 'Maly port	Port facilities	49.9%	49.9%
Switzerland			
SUEK AG	Export sales of coal	100%	100%

Non-controlling interests. Information on the Group's subsidiaries that have significant non-controlling interests is as follows:

	2014		2013	
	LLC Vostochno- Beyskiy razrez	MMTP	LLC Vostochno- Beyskiy razrez	MMTP
Non-controlling interests	50%	62.40%	50%	62.51%
Non-current assets	288	78	294	156
Current assets	38	73	53	46
Non-current liabilities	(55)	(30)	(53)	(42)
Current liabilities	(10)	(9)	(17)	(11)
Net assets	261	112	277	149
Accumulated non-controlling interests	131	70	139	93
Revenue	129	122	175	144
Net profit for the year	10	40	11	43
Revaluation of mineral rights	102	–	226	–
Profit allocated to non-controlling interests	5	25	5	27
Share of non-controlling interests in revaluation of mineral rights	51	–	113	–
Dividends to non-controlling interests	7	–	11	–
Cash flows from operating activities	20	26	20	37
Cash flows from investment activities	(7)	(18)	(9)	(36)
Cash flows from financing activities	(13)	–	(11)	–

30. Events subsequent to the balance sheet date

The Group has evaluated subsequent events up to 28 January 2015, the date the consolidated financial statements were authorised for issue, and determined that no additional disclosures are required.

Glossary

Abbreviations and acronyms

kg	Kilogramme	Mt	Million tonnes
kcal	Kilocalorie	Bt	Billion tonnes
kcal/kg	Kilocalories per kilogramme	bn	Billion
Gcal	Gigacalories	Q	Quarter
kWh	Kilowatt hour (1000 watt-hours/ 3.6 megajoules)	DWT	Deadweight tonnage
TWh	Terawatt hours	HR	Human resources
GW	Gigawatt (one billion watts)	IFRS	International Financial Reporting Standards
m	Metre	JORC	Joint Ore Reserves Committee (standards for public reporting on mineral resources and mineral (ore) reserves, Australia)
km	Kilometre	PCC	Pulverised coal combustion
m ³	Cubic metre	LNG	Liquefied natural gas
\$	US Dollar	KPI	Key performance indicator
\$m	Million US Dollars	LTIFR	Lost-time injury frequency rate
RUB	Russian Rouble	IAD	Internal Audit Department
t	Tonne		

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.	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.
SGK	Siberian Generating Company, SUEK's related company, is one of the largest energy holdings in Russia which includes 17 power plants with generating capacity of 7,820 megawatt.	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.
SRK	SRK Consulting is an independent, international consulting practice that provides advice and solutions mainly in the earth and water resource industries.	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 NAR.
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.	API 8 Index	The CFR (cost and freight) price of coal delivered to south China with coal calorific value of 5,500 kcal/kg NAR.
High-volatile coal	Coal containing less than 69% fixed carbon and more than 31% volatile matter on a dry basis.	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 NAR.
Low-volatile coal	Coal containing 78-86% fixed carbon, and 9-20% volatile matter on a dry basis.	FOB	'Free On Board' means that the seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment. 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.
Low-ash coal	Coal containing less than 10% ash on a dry basis.	CIF	'Cost, Insurance and Freight' means that the seller delivers the goods on board the vessel or procures the goods already delivered. The risk of loss of or damage to the goods passes from seller to buyer when the goods are on board the vessel. The seller must pay the costs of freight necessary to bring the goods to the named port of destination.
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.		
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 blended 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.		

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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. SUEK PLC does not assume the obligation to update any forward-looking statements.

Any statements referring to the Group's competitive position are based on our understanding of the prevailing market environment. This derives from a range of sources including investment analysts' reports, independent market studies and SUEK's own assessments of market share, based on the publicly available information regarding the financial results and performance of market participants.



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