SUEK

Building competitive advantage

Integrated Report • 2019

SUEK[1] is one of the world's leading energy companies

All of our activities are aligned behind our corporate purpose: striving to meet the energy needs of communities across the world by producing heat, electricity and coal safely and sustainably.

Andrey Melnichenko,
SUEK's main beneficiary

The global energy markets are transforming, as both developed and developing markets adapt and evolve to support the move to a more sustainable planet. Those countries with the resources and infrastructure to transform their energy supply systems are developing renewable energy sources.

In developing countries across the world, where communities are still dependent on affordable and reliable coal-fired energy, new HELE coal-fired power plants are being built to address growing electricity demand while reducing environmental impact.

SUEK has a vital role to play within the evolution of this energy balance. Our high-CV coal and co-generation plants are critical to guaranteeing reliable and affordable heat and electricity supply to millions of people, many of whom live in extreme environments, and our commitment to these communities remains absolute.

Alongside this, we maintain a focus on operational excellence, which includes ensuring the highest standards of industrial safety across all of our businesses, supported by the introduction of new technologies and trainings as well as the increasing automation and digitalisation of processes.

The synergies and increased operating efficiencies we have achieved over the year have further strengthened our model to deliver a strong performance through the lows of the industry cycle and we are well-positioned for growth opportunities.

$7.5 bn
our revenue in 2019

$2.1 bn
our EBITDA in 2019

WHAT'S INSIDE

1. *In this Report, each of the terms 'SUEK', 'SUEK Group', 'the Group', 'the company', 'we' refer to all companies consolidated in the IFRS financial statements of JSC SUEK (Russia), including, inter alia, SUEK LTD, SUEK AG, Siberian Generating Company (SGC) and their subsidiaries. From October 2019, our operational and financial performance includes the results of acquired Reftinskaya GRES.*

This Integrated Report is also available online as an interactive document at ar2019.suek.com/en

Through vertical integration and cost efficiency…

106.2 Mt
coal mined

14.7 GW
power capacity

53,350
railcars

3 ports

…we maintain leading positions in premium coal and resilient energy markets…

113.7 Mt
coal sold

55.2 TWh
electricity sold

35.3 mGcal
of heat sold

…and deliver robust EBITDA, stable margins and cash flows...

$2,115m
EBITDA

28%
EBITDA margin

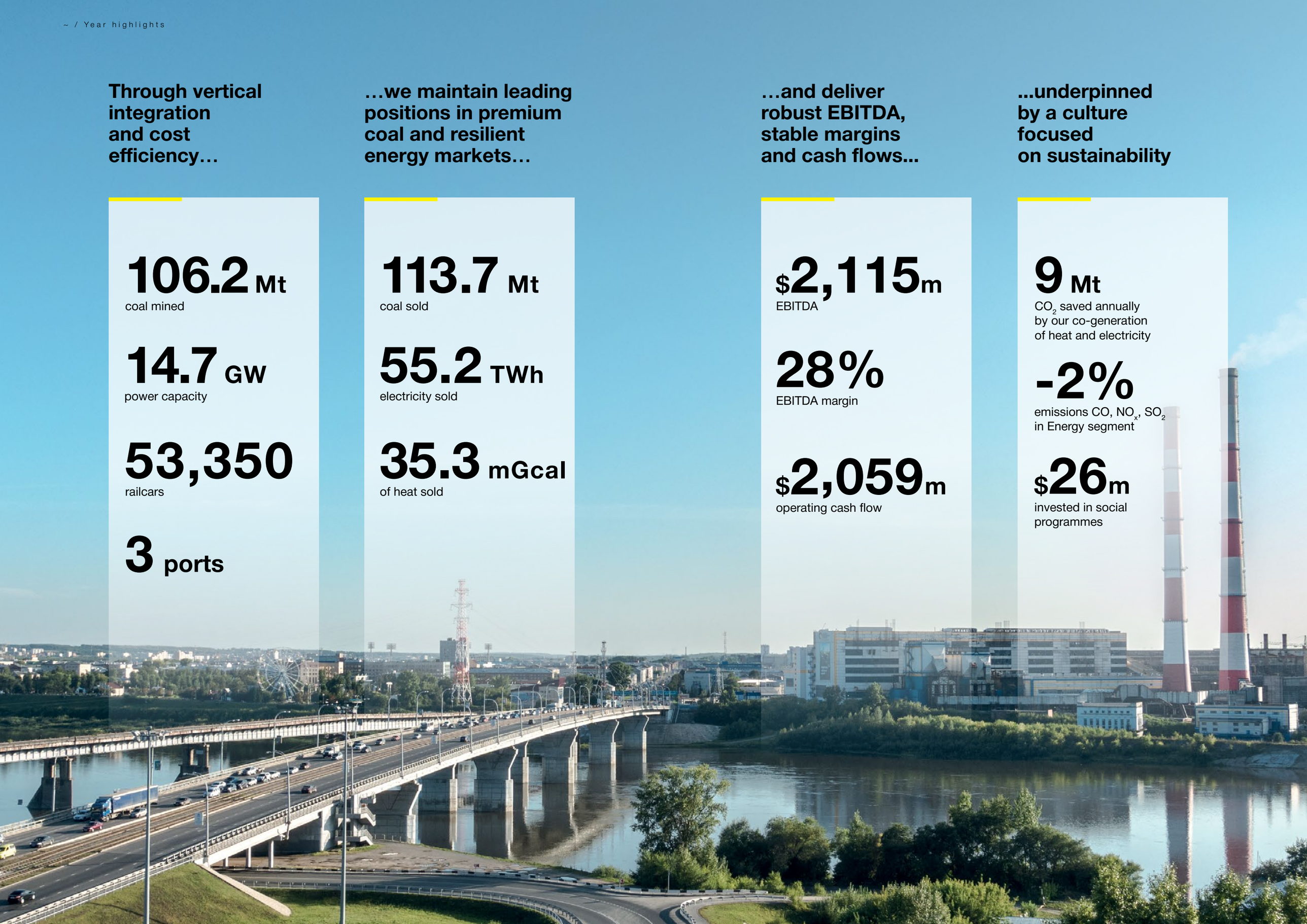
$2,059m
operating cash flow

...underpinned by a culture focused on sustainability

9 Mt
CO_2 saved annually by our co-generation of heat and electricity

-2%
emissions CO, NO_x, SO_2 in Energy segment

$26m
invested in social programmes



Advanced coal and energy company

Vertically integrated and cost-efficient

*For more details, see Business model on pages **12–13.***

Integration and control of the entire cycle, from production to customer delivery:

32%
of coal consumed by our own power plants

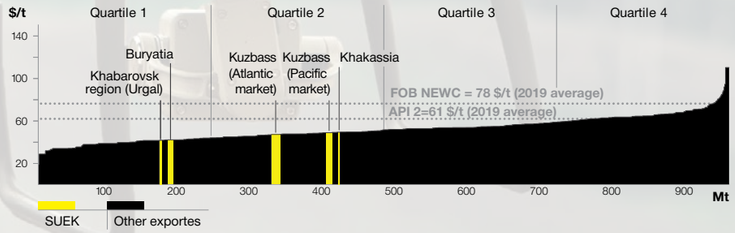
96%
of heat produced in the co-generation cycle

>80%
of coal delivered by managed railcars

80%
of coal transhipped through our own ports

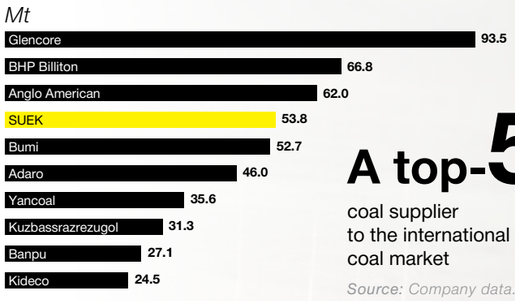
Our coal producing assets are positioned at the lower end of the global cost curve due to economies of scale, highly efficient production and a RUB denominated cost base.

Global cash cost curve FOB basis for 2019



Maintaining leading positions in premium coal and resilient energy market

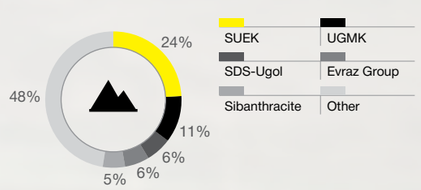
*For more details, see Market fundamentals and SUEK on pages **16–21.***



A top-5
coal supplier to the international coal market

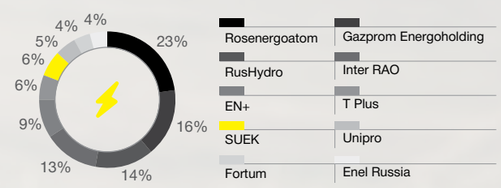
Source: Company data.

No. 1 coal producer in Russia



Source: Company data.

A top-10 electricity and heat producer in Russia

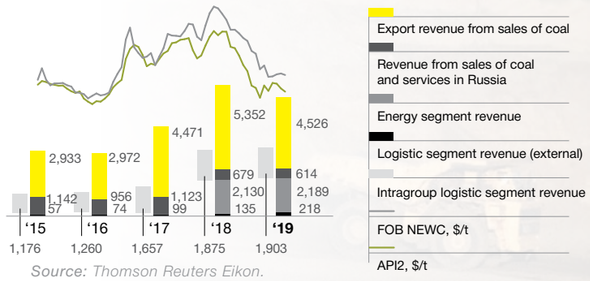


Source: Company data.

Delivering robust EBITDA, stable margins and cash flows

*For more details, see Financial review on pages **56–59.***

Increased share of low-volatile revenue, $m



Source: Thomson Reuters Eikon.

Synergy between coal, energy and logistics businesses ensures stability in market cycle

40%
of revenue generated from domestic sales with high price stability

36%
of revenue generated from sales to growing Asian market

Credit ratings

Moody's	Fitch Ratings	RAEX
Ba2 stable	BB stable	ruAA- stable

Underpinned by a culture focused on sustainability

*For more details, see Sustainability and Corporate governance on pages **76–121.***

Compliance with international environmental and health and safety standards

ISO 14001 · ISO 45001 · ISO 50001 · VISION ZERO Safety.Health.Wellbeing. · OHSAS 18001 · BETTER COAL

One of the lowest LTIFR in Russian and global coal mining[1]

1. *Peer group includes Evraz (coal), Glencore (coal), Rio Tinto, Severstal (coal).*

Efficient corporate governance system:

ISO 19600
Certified **compliance system**

KPI-based remuneration system taking into account CSR results

50%
Independent Directors

Our worldwide reach and distribution

Our co-generation power plants ensure reliable supplies of heat and electricity to millions of consumers in Russia. Our own logistics and trading networks bring our high-CV coal to power plants around the world.

ISO 19600:2014 compliance ISO 37001:2016 anti-corruption 1

The International Compliance Association (ICA) confirmed that SUEK's management systems comply with ISO compliance and anti-corruption requirements.

*For more details, see page **116.***

Reftinskaya GRES acquisition 2

In October 2019, the acquisition of the Reftinskaya GRES was completed. The acquisition of this power plant has enabled SUEK to **expand the supply westwards into the Urals** and consolidate its position as **one of the top power generators in Russia**.

*For more details, see page **29.***

Expansion of higher-capacity railcar fleet 3

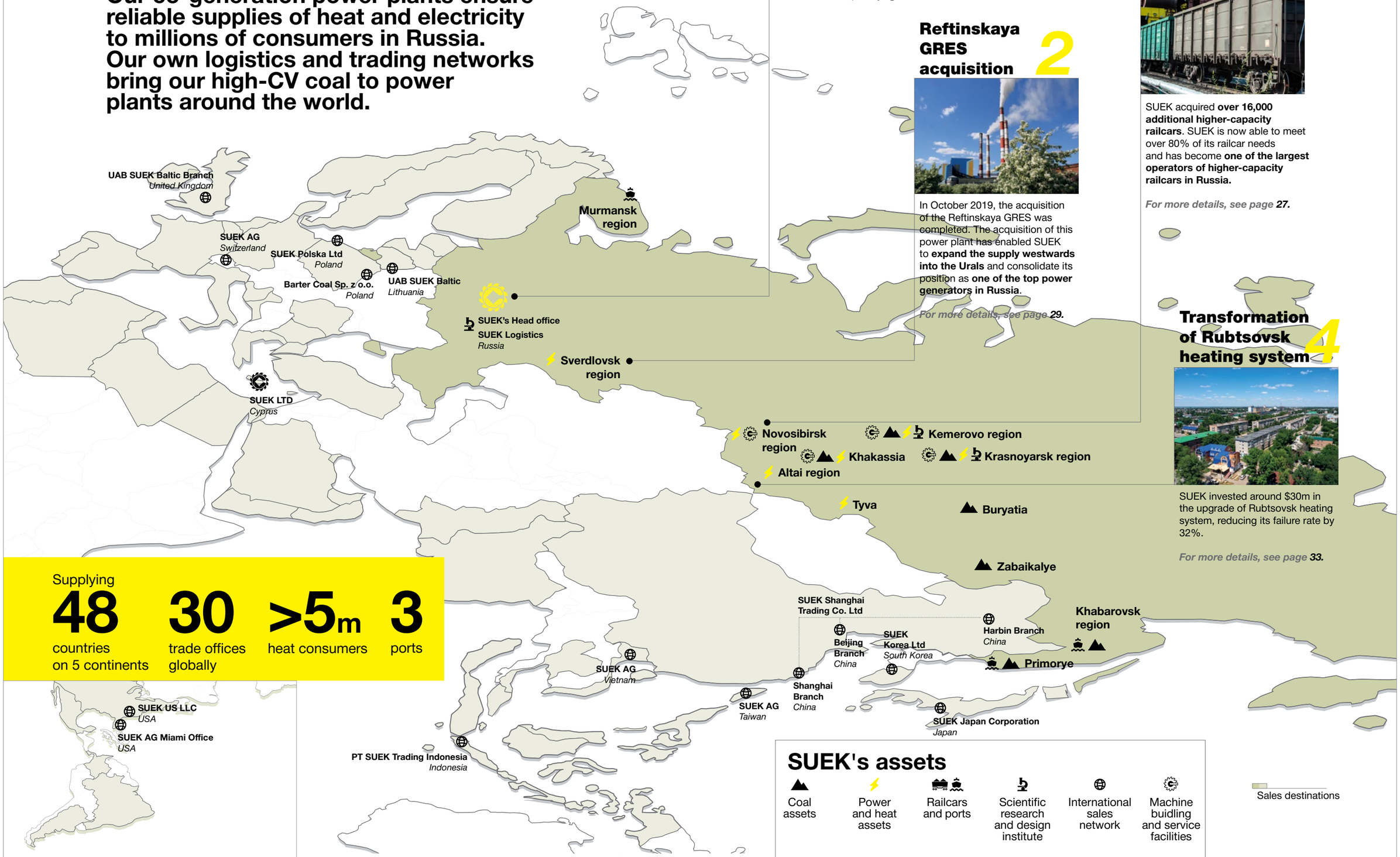
SUEK acquired **over 16,000 additional higher-capacity railcars**. SUEK is now able to meet over 80% of its railcar needs and has become **one of the largest operators of higher-capacity railcars in Russia.**

*For more details, see page **27.***

Transformation of Rubtsovsk heating system 4

SUEK invested around $30m in the upgrade of Rubtsovsk heating system, reducing its failure rate by 32%.

*For more details, see page **33.***



Supplying

48 countries on 5 continents

30 trade offices globally

>5m heat consumers

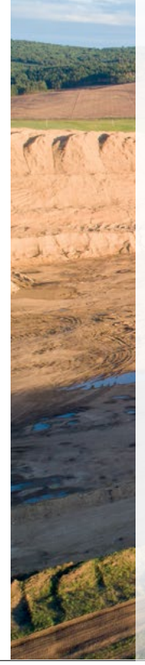
3 ports

SUEK's assets

- Coal assets
- Power and heat assets
- Railcars and ports
- Scientific research and design institute
- International sales network
- Machine buidling and service facilities

Building competitive advantage

Alexander Landia,
Chairman of the Board of Directors



$7,547 m
revenue

$2,115 m
EBITDA

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

SUEK began 2019 as a diversified company with consolidated coal, logistics and energy assets, an extensive distribution network and strong positions in energy markets. The consolidation of the energy business has ensured ***we are able to guarantee reliable and affordable supplies of electricity and heat to millions of people in Siberia, one of Russia's major industrial regions****.*

Faced with the challenging situation in the volatile coal markets, intense competition with natural gas producers and the backdrop of the international climate agenda, in 2019 the Board of Directors evolved the company's consolidated strategy to ensure SUEK remains on track to strengthen its market position in its core coal, energy and logistics segments and maximise the synergies available. Underpinning the strategy is SUEK's focus on maintaining its strong margins and robust balance sheet through the cycle whilst operating in a wholly responsible and ever increasingly sustainable manner for all stakeholders.

Calibrating the strategy

The updated macro forecast to 2028, reviewed by the Board, indicated an opportunity in the Asia-Pacific region for exporters of high quality coal, reflecting reduced supplies from Indonesia and other traditional regions, along with growing demand for coal in the Middle East and Africa. Meanwhile, it suggested stagnation and eventual decline in European coal market, though this would remain an important market for Russian exporters of quality products in the next decade.

In view of this, the Board of Directors adopted a new consolidated 2023 Strategy, setting operational strategies and goals for the coal, energy and logistics segments. In addition, we approved key development projects, prioritising those projects with a clear payback period and high margins.

Enhancing competitive advantage

In the Coal Segment, we focused on projects for the production of high-CV coals that meet the latest environmental standards which are demanded by consumers. We will intensify the development of high-quality coal deposits, building washing and logistics capacities to service high-potential export destinations.

In line with the approved plans, in 2019 the company invested in the development of infrastructure and coal mining in the Khabarovsk region, favourably located relative to priority export markets. New washing facilities in Buryatia have also brought us closer to our goal of washing all coal exported by SUEK.

In our logistics business, the company increased its fleet of gondola cars to over 53,000 units, enabling us to cover almost all of SUEK's transportation needs, better control transportation costs and delivery times. We also invested significantly in our port facilities, primarily in the east of the country. Once Russian Railways has completed expansion of the Eastern Polygon, Vanino Bulk Terminal will target a capacity of 40 Mt.

In the Energy Segment, the Board approved deals to acquire assets in strategic regions. Following the acquisition of the Reftinskaya GRES, the installed power capacity of the Group has reached almost 15 GW making it of significant social and economic importance in several industrial regions.

Consistent results

Electricity and capacity sales as well as heat became an important stabilising factor, improving our revenues while coal supplies to the Group's power plants helped balance domestic demand. As a result, the impact of coal market volatility on SUEK's financial performance was not as significant as for others in the sector.

In 2019, the Group's total revenue exceeded $7.5 billion, the EBITDA margin was 28% and net profit totalled $706m. The company's consistent financial performance and its highly efficient business model were recognised once again by international rating agencies, with Moody's confirming SUEK's credit rating at Ba2, and Fitch at BB, with a stable outlook.

Operating responsibly

In 2019, Russia ratified the Paris Agreement. As a responsible company, we support this step.

The Russian power industry has one of the lowest emissions levels in the world. Most electricity in the country is generated from nuclear, gas and hydro sources.

At the same time, across large parts of Russia, where remoteness makes it too challenging to lay gas pipelines, coal generation continues to play a critical role, especially in supplying local people with heat.

In those territories we are focused on maximising the cogeneration of heat and electricity from the same amount of fuel. SUEK replaces old boiler houses with the heat from higher-efficiency CHPPs. Cogeneration plants have a capacity utilisation ratio up to 85%, helping us cut about 9 Mt of CO_2 emissions a year, which is almost double the impact of the renewable projects planned in Russia. We will continue our efforts in this area.

Focus on health and safety

We were deeply saddened that eight fatalities occurred at our operations during the year. We have a stringent focus on ensuring a zero-harm workplace, and health, safety and employee well-being are the cornerstone of our culture, so these occurrences were deeply distressing. Full investigations have taken place into each of these incidents, and we remain committed to maximum investment in health and safety measures and training to ensure the well-being of every employee is maintained.

We recognise that it is only by operating responsibly and in the interest of all stakeholders that we will continue to build a successful, sustainable business. First of all, this means looking after our employees by supporting their professional development and improving working and living conditions. Striking examples are the construction of a new administrative complex at Taldinskaya-Zapadnaya 1 and a swimming pool in Leninsk-Kuznetsky.

As an energy and mining company, we also understand that our operations have an impact on the natural environment and can affect communities around us. In 2019, we continued to introduce the latest technologies to ensure highest industrial safety standards and minimise our impact on the environment, and we invested considerably in social programmes that address the issues that our stakeholders tell us are important to them.

COVID-19

At the time of publication of this Report, the COVID-19 outbreak continues to evolve quickly. As always, our first concern is the wellbeing of our colleagues, partners and our customers. We continue to follow all appropriate recommendations issued by the Government of Russia and the regional health authorities. We have already taken actions to protect our colleagues and continue to prioritise their safety. At this time the long-term full impact of COVID-19 is difficult to assess. Our resilient vertically integrated business model and market leading positions ensure that SUEK manages the volatility caused by this global health crisis.

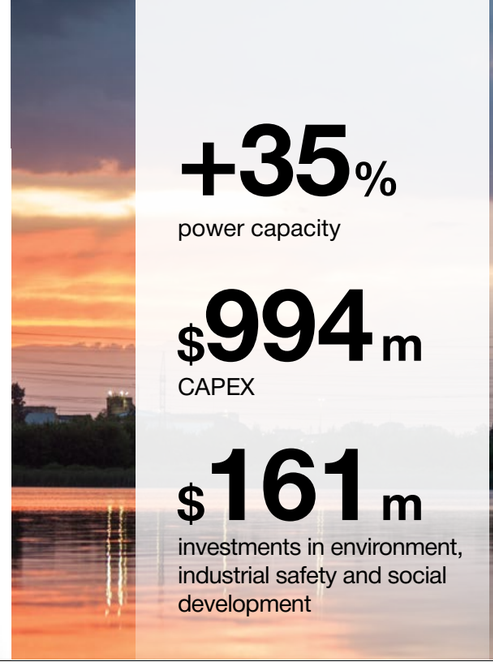
Looking to the future with confidence

Improving SUEK's competitive advantage and strengthening its business model through diversification and integration have given us the confidence to be optimistic for the long-term future, despite a challenging market environment amidst the gas market in surplus and COVID-19 crisis. The sustainability of our business is underpinned by our responsible approach and the significant role the business plays in the regions where we operate. The skills of our dedicated teams drive our performance as we unlock value from our high-quality assets. We look forward to capitalising on the growing demand for high-quality Russian coal in Asia and domestic economic activity in Russia.

Driving operational excellence

for sustainable growth

Vladimir Rashevsky,
Chief Executive Officer



+35%
power capacity

$994 m
CAPEX

$161 m
investments in environment, industrial safety and social development

In 2019, as part of SUEK's strategy to further strengthen its competitive advantages, we continued the consolidation of our coal and energy businesses, initiated in 2018. Our objective is to ensure the combined company benefits from the inherent synergies and strongest competencies of both SUEK and SGC, through exchanging best practices between the businesses. Today, the consolidation is either complete or at the final stage across all functions. This has enabled us to reduce operating costs within the Group and optimise the debt portfolio and our investment process.

Enhancing heat and electricity supplies

Following the acquisition of the Reftinskaya GRES, a key asset strategically located in higher price Zone 1 in the Urals, the company's installed power capacity increased by 35%, to almost 15 GW. This drove growth of 10% in SUEK's electricity sales in 2019, which had a positive impact on revenue. In 2020, another 1.3 GW will be added to our power capacity through the acquisition of the Krasnoyarskaya GRES-2.

The consolidation of SUEK's mining and energy assets has secured reliable and affordable electricity and heat supply to industrial and residential customers in a region with projected economic growth, whilst also enhancing the vertical integration of the Group – ensuring guaranteed demand and supply of SUEK's products between our divisions.

The consolidation of energy assets has also made it easier to raise finances to upgrade energy facilities and, accordingly, improve the environmental impact. Investment in the new stage of the DPM programme and the transition to long-term tariff setting in the heat market will also open up opportunities for the Group to grow in a more predictable regulatory environment.

The Krasnoyarskaya CHPP 1, 2 and 3 modernisation projects have been selected for inclusion in the competitive capacity take-off programme under DPM-2, allowing us to launch a comprehensive modernisation of the Krasnoyarsk power and heat systems. The substitution of inefficient units with modern ones, the installation of new treatment facilities and the transfer from environmentally damaging boilers to the heat supplied by co-generation power plants will make a significant contribution to improving the environmental situation in the city. Power-related emissions in Krasnoyarsk will drop by 37% compared to 2018.

In 2020, the city of Barnaul will switch to the 'alternative boiler' tariff. This allows us to invest substantial funds in a comprehensive upgrade of the city's heat supply system. For consumers, the tariff will remain broadly the same, but the service quality will be improved significantly. Our activity will also create new jobs and opportunities in the region, as we will work with local contractors, equipment suppliers and builders. I should emphasise that our modernisation projects are subject to environmental review by experts and the local communities.

Improving coal supplies

Within SUEK's Coal Segment, we have solved various issues relating to equipment wear. Our investments in the development of the Nikolsky mine in Buryatia and Pravoberezhny mine in the Khabarovsk region enabled us to more than double production in these open-pit mines in 2019. A large-scale update of the equipment took place at the Kharanorsky open-pit mine in Zabaikalye region, which celebrates its 50th anniversary in 2020.

As well as large-scale investment for improving the efficiency of open-pit mining, we invested significantly in equipment for our underground mines which also contributes to industrial and environmental safety. This included the upgrade of roadway development machines and the development of a promising site in the Ruban mine, which will enable us to increase our high-CV coal production, the construction of new water treatment facilities for the Kirov mine.

Our logistics facilities play a key role in ensuring the stability of SUEK's supplies. After acquiring more than 16,000 high-capacity gondola cars and bringing our railcar fleet to over 53,000 units, we are now almost completely self-sufficient in terms of railway transportation.

In November, port workers at SUEK's Vanino Bulk Terminal set a new record for coal unloading: over 2 Mt a month. The ongoing expansion of access roads and the development of the port is expected to double these volumes again. The progress of our work here is directly linked to the Russian Railways investment programme to develop the Eastern Polygon.

All of this helped us increase coal supplies to Asia by 4% in 2019.

Digitalisation and operational efficiency

Digitalising the mining industry from pit to port can have a significant impact on operational efficiency. SUEK is embracing the digital revolution and actively investing in innovation, digitalisation and process automation, introducing advanced technologies at all stages of production and marketing to further enhance our competitive advantage. The company's divisions have already piloted state-of-the-art technology such as autonomous mining and driverless dump trucks and predictive analytics repair technologies utilising big data. We also use digital platforms to improve the transparency of communications with customers and suppliers.

In 2019 we launched our Remote Industrial Safety Control platform in Kuzbass based on our centralised Control and Analysis Centre which is unparalleled globally. The system gives SUEK full control over the entire coal mining process enabling us to predict and prevent process failures and safety hazards.

Responsible approach

Our unremitting focus on industrial safety led to an improved LTIFR of 0.72 in the Coal Segment in 2019, and 0.24 in the Energy Segment, which is one of the best performances in the world.

However, we were deeply saddened by eight fatal accidents that occurred in the company during the year. We have thoroughly investigated each accident and identified the human factor as having been the cause for the majority of these, and are reviewing personnel information and our control system to ensure these kinds of accidents are prevented in the future.

We also realise that crucial to the successful long-term development of the company is an effective social policy that aims to improve living conditions in the regions where SUEK operates and establish a stable labour market. Our priority is sustainable development projects that aim to enhance and develop local infrastructure, education, sports, healthcare and the environment.

In 2019 the Group invested $161m in ecology, industrial safety and social development.

*****

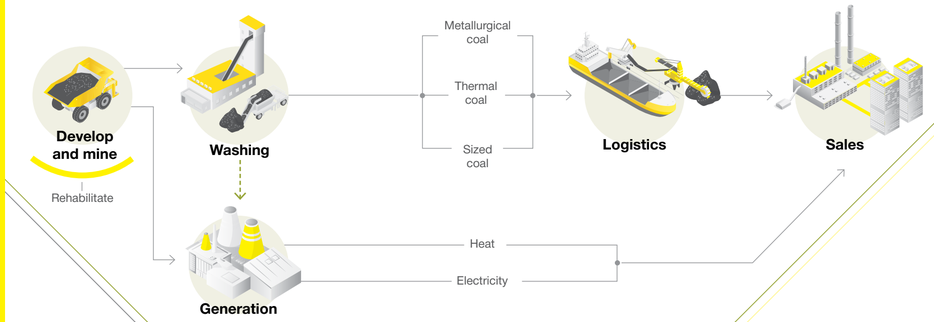
In 2020, we will focus on further improving operational efficiency to maintain the sustainable long-term growth of the company, whilst strengthening our position in the high-CV coal and energy markets. Meanwhile, we continue to make timely investments in industrial safety, and environmental and social development projects to support the welfare of our employees and local residents in the regions where we operate.

Creating value throughout the cycle

Our multi-product, vertically integrated model ensures stable cash flows at all stages of the market cycle, enhanced revenues as a result of operational synergies, and the ability to control both costs and environmental and industrial safety performance throughout the chain.

Our main differentiators:

1. In-demand high-calorific coals with low sulphur and nitrogen content → able to sell premium coal
2. Co-generation of heat and electricity fuelled by local coal → high energy and cost efficiency
3. Economies of scale and operational efficiency → competitive advantage in cost and knowhow management
4. Excellent logistical infrastructure supporting assets and end markets → maximum control of route to market
5. Owned fleet of high-capacity railcars and high-tech port infrastructure → cost and environmentally efficient route to market
6. One of the largest coal sales networks with direct shipments to customers → always able to find the regional market that offers the highest net-back price



Our operating chain

Well-invested assets and vast reserves

- Global sales network
- Scientific research institute
- Service facilities

7.6 Bt coal reserves with **>30 years** life of mine

25 TPPs

27 mines

53,350 railcars under management

10 coal WPs

3 ports

Skills and experience

>66,000 employees

14 training centres

Regular investment

$3.5bn
capital expenditure over **5 years**

Stakeholder engagement

- Equipment suppliers from **10** countries
- Partnership with federal and regional authorities and NGOs

2,600 coal customers

Our inputs

$2.1 bn
total economic contribution to local communities

(paid in taxes, to employees and local suppliers, and invested in local communities)

Our value

>5 million

heat consumers in 6 Russian regions

Our products help support economic growth and improve living standards for millions of people. We are constantly improving to be a responsible company and an excellent employer. We also aim to minimise our environmental footprint at every stage of the operating chain.

Consumers

- Coal shipments to **48** countries
- Status of single heat supply organisation in **86%** territories of operation

Employees

- **>66,000** jobs
- **$1,030m** paid in wages and salaries
- **35%** employees received professional training and courses
- **9%** of CAPEX invested in health and safety

Local suppliers

- **$577m** spent on utilities, goods and services
- Joint R&D projects to enhance efficiency

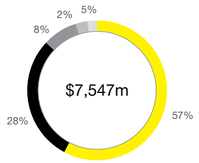
Government and communities

- **$541m** paid in taxes in Russia
- **>65 cities** and towns supported through social investment
- **$26m** invested in social infrastructure
- **5%** reduction in water consumption
- **2%** reduction in CO, NO_x, SO_2 emissions

Our products and output

$706m
net profit

Revenue



International coal sales | Sales of heat, electricity and capacity | Domestic coal sales | Logistics (external revenue) | Sales of petroleum coke and other products

Our products meet the growing need and evolving requirements of consumers in both developing and developed countries. Major consumers include:

- Public utility companies
- Fuel and energy sector
- Metallurgy
- Chemical production
- Cement industry

Factors determining our ability to deliver long-term growth

Focus on health, safety and environment
*See more on pages **80–94.***

Quality improvement and product development
*See more on pages **66, 69.***

Better operational efficiency to cut rising production costs
*See more on pages **26–27.***

Proactive risk management
*See more on pages **34–43.***

Commitment to advanced corporate governance standards
*See more on pages **104–121.***

Established corporate culture of responsibility and engagement
*See more on pages **48–49, 78–79.***

Continuous professional training
*See more on pages **98–99.***

Technology enhancing our business across the value chain

The automation and digitalisation technologies we are deploying at key operations enable us to make on-time production and marketing decisions using data analytics, improve operational efficiency and industrial safety, and control and reduce costs and the environmental impact.

Development 1

The integration of advanced exploration systems and 3D modelling enable us to develop and promptly adjust cost-efficient mining plans

EFFECT

- Shorter preparation period
- Lower risk of modelling errors or industrial safety violations
- Minimising impact on local communities and the environment

Coal mining 2

Dispatch control of the entire mining process makes it possible to quickly eliminate bottlenecks and potential emergencies

EFFECT

- Productivity increase
- Enhanced industrial safety

Coal washing 3

Automatic systems control the washing process and product quality at our washing plants and processing facilities, and are able to quickly make adjustments when necessary

EFFECT

- Plant throughput increase
- Higher quality of finished products

Transportation 4

Dispatch control of the entire logistics cycle enables us to optimise transportation and logistics

EFFECT

- Meeting delivery deadlines
- Coal quality control during transportation

Electricity and heat generation 5

Dispatch control of CHPP processes makes it possible to optimise power plant operations and efficiently and quickly schedule repair works

EFFECT

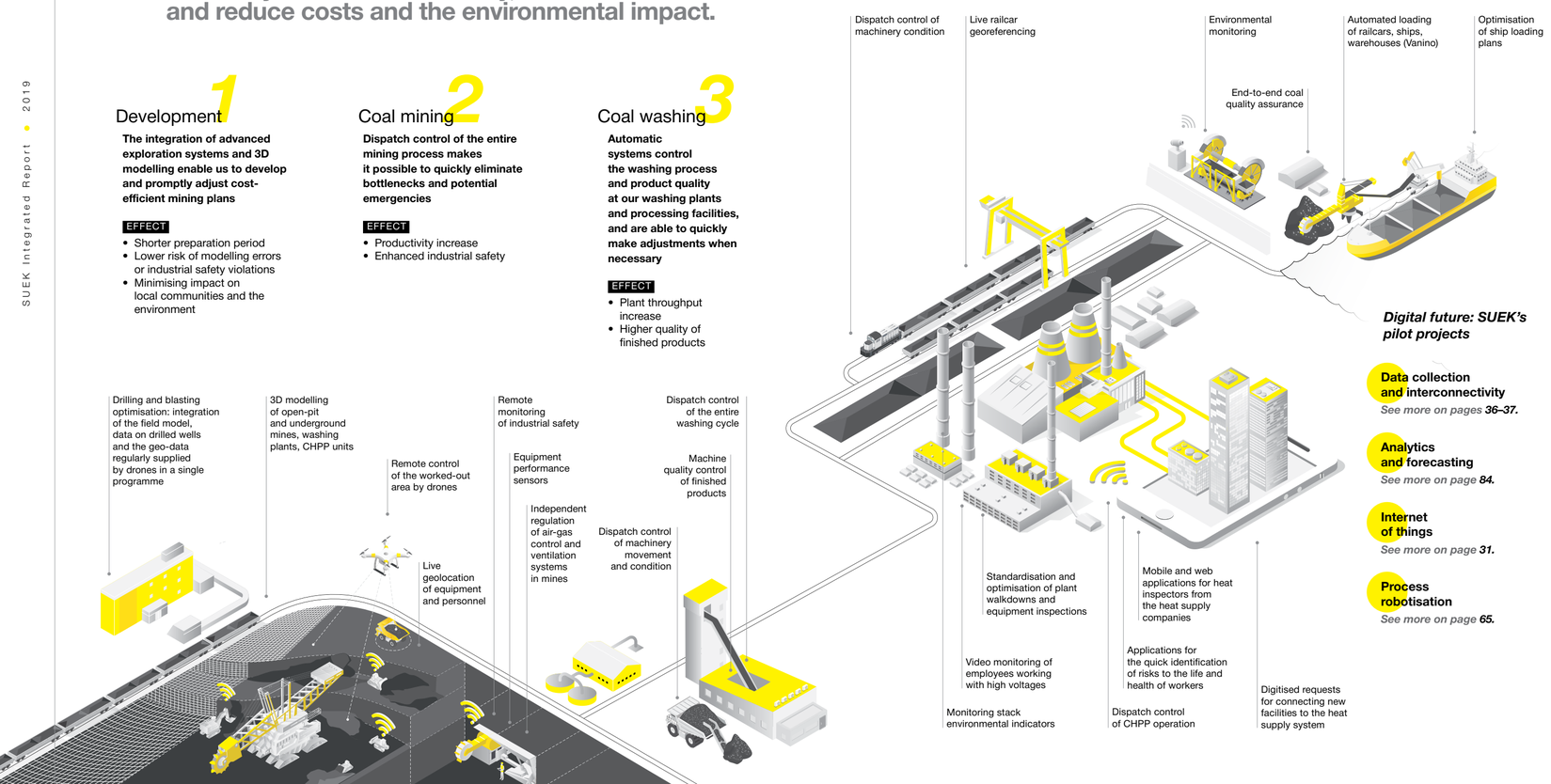
- Improved heat supplies to the local population
- Enhanced customer engagement
- Optimisation of employee work
- Enhanced industrial safety
- Improving environmental control

Accounting 6

The data from our production sites and sales offices around the world is promptly uploaded to the ERP system for quick adjustments to production plans, shipment routes and volumes in order to meet consumer requirements

EFFECT

- Faster decision making
- Improved cost control



Digital future: SUEK's pilot projects

Data collection and interconnectivity
See more on pages ***36–37.***

Analytics and forecasting
See more on page ***84.***

Internet of things
See more on page ***31.***

Process robotisation
See more on page ***65.***

Using automation and digitalisation to unlock value

Cost-efficient use of resources

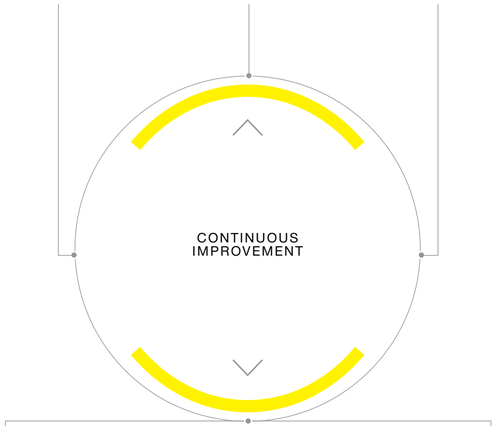
- Integrated mining and operational data
- Drilling and blasting optimisation

Equipment use optimisation

- Process automation
- Dispatch control of all operational processes
- Spare parts accounting

Failure and accident forecasting

- Predictive repairs
- Remote monitoring of industrial safety



For over a decade, SUEK has been introducing the most advanced global digital technologies and the latest innovations from Russian scientists across our facilities.

Digital technology is currently enhancing all key areas of the company's operations. Labour productivity has grown almost twofold since 2009 largely driven by digital innovation.

Vladimir Rashevsky,
CEO of SUEK

99%
of the Group's revenue is registered in the ERP

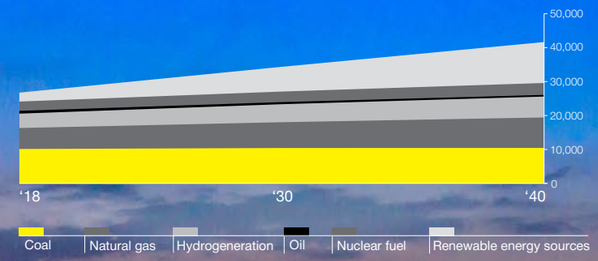
24/7
monitoring of industrial safety in mines

24/7
environmental monitoring in ports

Stable prospects for SUEK's high-CV products

Demand for SUEK's coal is driven by growing electricity consumption in Asia and the necessity to provide heat to millions of people in Russia.

Coal remains one of the key electricity sources, *TWh*



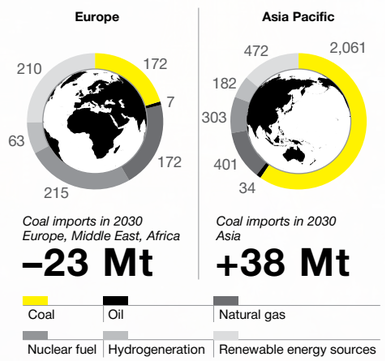
Source: International Energy Agency, World Energy Outlook 2019.

Demand

Mid-term

- The commissioning of new coal-fired energy facilities in Asia, the Middle East and Africa will offset the decline in demand in Europe.
- Excess supply in the natural gas market, primarily in Europe, will restrain gas and coal prices until the balance in the gas market is restored.
- By 2022, India will overtake China as the leading coal importer. China may limit coal imports and support domestic producers.

Energy sources by 2030, *Mtoe*



Coal imports in 2030 Europe, Middle East, Africa

–23 Mt

Coal imports in 2030 Asia

+38 Mt

Source: International Energy Agency, World Energy Outlook 2019.

Long-term

- Electricity consumption rise globally

+58% *CAGR +2.1%*

by 2040 due to growing population, urbanisation and industrialisation

- Higher efficiency of power plants stimulates demand for high-CV coal.
- The share of HELE power plants will increase to almost

80%[1]

by 2040

- Global carbon regulation will be tightened in accordance with the Paris Agreement.

[1] *Not including co-generation (heat and electricity) plants.*

Supply

Mid-term

- Decline in exports

–63 Mt

by 2030 from

Indonesia

- Rising costs of licensing, building and maintaining new facilities in

Australia, USA, Colombia

Long-term

- Deliveries

–166 Mt

by 2040 from

Indonesia, USA, Colombia

- Deliveries

+79 Mt

by 2040 from

Russia, Australia, South Africa

SUEK's response

Mid-term

+20 Mt

of washing capacity

+20 Mt

of transshipment to Asian markets through own ports

Long-term

The development of high-CV deposits, washing facilities and owned ports, along with the railway infrastructure expansion towards the East, **will support increased supplies to target high netback markets.**

Global trends

The global power industry is facing serious challenges. While the global community has promised full access to electricity for all, 850 million people still live without this basic necessity. Population growth, urbanisation, industrialisation and a gradual transition from gasoline to electric vehicles will drive **growth in electricity demand of 2% annually**. To meet this growing demand, affordable, versatile and reliable energy sources are needed. At the same time, a heightened focus on climate change and environmental issues are forcing producers to operate responsibly and minimise their environmental footprint.

Developing economies will account for the greatest proportion of electricity demand growth (3% per year), especially in Asia, where higher industrial output and household incomes, and the development of the services sector, will demand more electricity. China will account for around one third of the global increase in electricity demand. India and Southeast Asia will account for approximately another third. As a result, Asia's electricity consumption will grow by 7 p. p., to 54% of global consumption in 2040.

In advanced economies demand growth will be only 0.7% per year, with efficiency improvements restraining the growth of electricity consumption to support ongoing digitisation and electrification. The biggest driver of the demand increase will be a transition to heating using electric heat pumps rather than gas heating.

When it comes to supply, the largest area of growth will come from **solar and wind generation, the share of which will grow from 7% to 24% by 2040**[2], according to the International Energy Association. Nevertheless, **coal will remain the largest source of electricity with a share of 25%**, with its consumption remaining stable.

[2] *Source: International Energy Agency, World Energy Outlook 2019.*

Coal industry developments

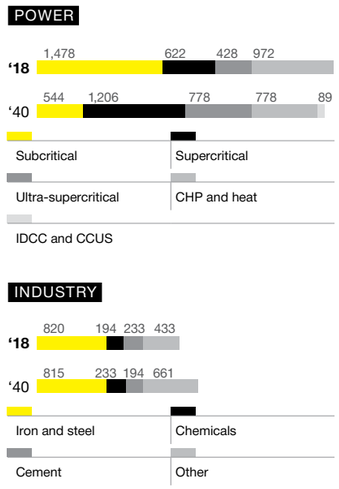
The main trends in coal-fired generation include:

- Improving power plant efficiency consuming coal with higher specific calorific value (high-CV coal)
- Tighter restrictions on SO_x and NO_x emissions
- Consumption growth in India and Southeast Asia to offset lower demand in Europe, the USA and potentially China

In addition to the power industry, other sectors will increase their consumption of coal. By 2040, the use of coal in the metallurgical, cement and chemical industries will increase by 225 Mt.

Coal will remain the primary fuel in Asia's energy system, where demand will grow by an average of 0.4% annually over the next 10 years.

More efficient technologies change coal demand, *Mtce*



Sources: International Energy Agency, World Energy Outlook 2019.

India — +26 Mt

India, which became the world's second largest coal consumer in 2018, will be the main driver of growth in global coal demand. Whilst India is planning to increase the share of renewable energy generated, strong demand for electricity is expected to boost coal generation by 38% by 2030. Although the country has set ambitious goals for growing its domestic coal production, thermal coal imports will continue to grow by 1.2% a year, increasing by 26 Mt, to reach 205 Mt, in 10 years. High-CV coal will be especially demanded by the Indian cement industry. As electrification of mobility increases, demand for electricity will increase and currently underutilised coal-fired power stations (current average utilisation rate around 61%) are the cheapest means to produce more electricity.

Southeast Asia — +90 Mt

Southeast Asia, i.e. countries such as Vietnam, Malaysia and the Philippines, will be active drivers of coal demand growth in Asia in the coming decade due to their energy generation development and intense industrialisation. Total imports to Southeast Asia are expected to increase by 90 Mt, to 220 Mt, in 2030.

Japan — –11 Mt

In July 2018, the Japanese government approved the 5th Strategic Energy Plan, which focuses on energy security, safety and better economic efficiency. Under the plan, by 2030 CO_2 emissions will be reduced by 26% compared with 2013 levels due to the development of renewable energy. Thus, coal consumption volumes are expected to decrease by 11 Mt to 114 Mt in 2030.

South Korea — –7 Mt

In accordance with the 8th Basic Plan issued in December 2017, 7.3 GW of new coal-fired power capacities will be built by 2022. In addition, by 2022 7 old coal-fired power plants will be shut down. However, after 2022, the country does not plan to launch new coal stations. Also, several stations with a total capacity of 2.1 GW will be transferred from coal to gas. At the same time, old facilities (>30 years) will stop from March to June to reduce air pollution. South Korea's imports of thermal coal are expected to decline to 100 Mt by 2030 from 107 Mt in 2019, due to government policies to decarbonize and combat air pollution, replace old capacities with new ones with more efficient ones, and reduce coal consumption by industry.

China — –76 Mt

China remains one of the largest importers of coal. Electricity generation in China will gradually shift from coal to gas, nuclear and renewable energy sources. The Chinese government has already taken steps to reduce excess coal-fired capacities and optimise the construction of new facilities. The combination of the Chinese authorities' attempts to limit coal imports, with slower growth in coal generation, will result in demand for imported coal falling by 76 Mt to 144 Mt in 2030. As a result, India will replace China as the No. 1 coal importer. However, the current average utilisation rate of coal-fired power plants of around 50% is low and as demand for electricity will increase also through e-mobility, coal-fired power plant utilisation could increase.

Currently, supply and demand tend to converge and remain in a fundamental balance. The surplus of coal capacities makes up only 3% of the global market (approximately 30 Mt). If we compare this to similar basic industries, **the capacity utilisation rate in the coal industry is around 97%**, while the utilisation rate in other sectors such as non-ferrous metallurgy, fertiliser or steel production does not exceed 80%.

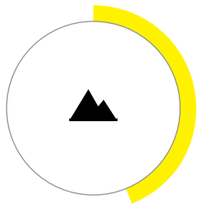
Given excess capacity, today's low prices could lead to eventual decline for those producers that have high production costs. Even so, global capacities that are currently planned for commissioning are likely to be positioned on the right side of the global cost curve, mainly due to greater production challenges (stripping ratios and transportation distances).

Indonesia, currently the largest coal exporter, will decrease international supplies due to rising domestic consumption.

In 2017, China introduced a regulation scheme for domestic spot prices, a 'corridor mechanism', to reduce price volatility and ensure sustainable relationships between coal and power companies. This mechanism stipulated a cap of 600 CNY/t (equivalent to $86.5/t[1] FOB NEWC) for domestic contractual prices, with higher prices triggering regulatory intervention. Similarly, the floor figure is 470 CNY/t ($68/t[1] FOB NEWC), the breaching of which can also trigger regulatory action. Most market players believe that the scheme will remain in effect and will continue to influence the global coal market.

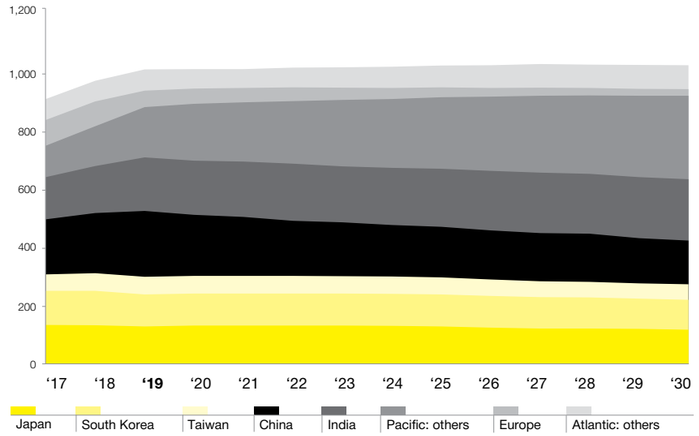
Another factor that is beginning to exert an increasing influence on coal prices, especially in Europe, is gas prices. Natural gas generation, which is one of the primary alternatives to coal generation in the regions with the appropriate gas infrastructure, will develop at a faster pace (CAGR 2018-2040 1.7% versus 0.1% for coal generation). Despite this, the share of gas power generation will remain at approximately the current level of 22–23% until 2040. The availability of large, inexpensive gas resources in the United States has a significant impact on the global markets. In addition, gas generation produces lower CO_2 emissions compared to other fossil fuels, making it more attractive to consumers as a basic energy source given stricter carbon regulation.

In general, **over the next 20 years, coal generation will remain the main source of reliable, affordable energy for rapidly developing countries, where people urgently need uninterrupted access to safe electricity.** In other parts of the world, the future of coal generation will depend on producers' ability to adapt cost-effectively to increasingly flexible energy systems and to more stringent environmental and climate regulations.



43%
of thermal coal trade is high-CV coal

Demand for thermal coal[2], *Mt*



Source: Wood Mackenzie, SUEK estimations.

1. *At Central bank of Russia CBR rate average for 2019.*
2. *Sea deliveries.*

Russian coal and energy market

Coal is one of Russia's most important energy resources. Annual Russian consumption of thermal coal has remained stable at an average of 155 Mt for the past five years.

In 2014, the Russian government launched its coal industry development programme to 2030, focused on:

- A responsible approach to developing resources both at currently operating and new deposits
- Stimulating the development of state-of-the-art technology for coal mining, processing and washing, to increase the value of products, and consequently improve business profitability and create new jobs
- Investment in personnel development and R&D to meet the best international standards (in quality and health & safety)
- Removing infrastructure restrictions on the development of the coal industry and, above all, reducing bottlenecks at railways and ports

*See **https://www.rosugol.ru/programme/index_1.php***

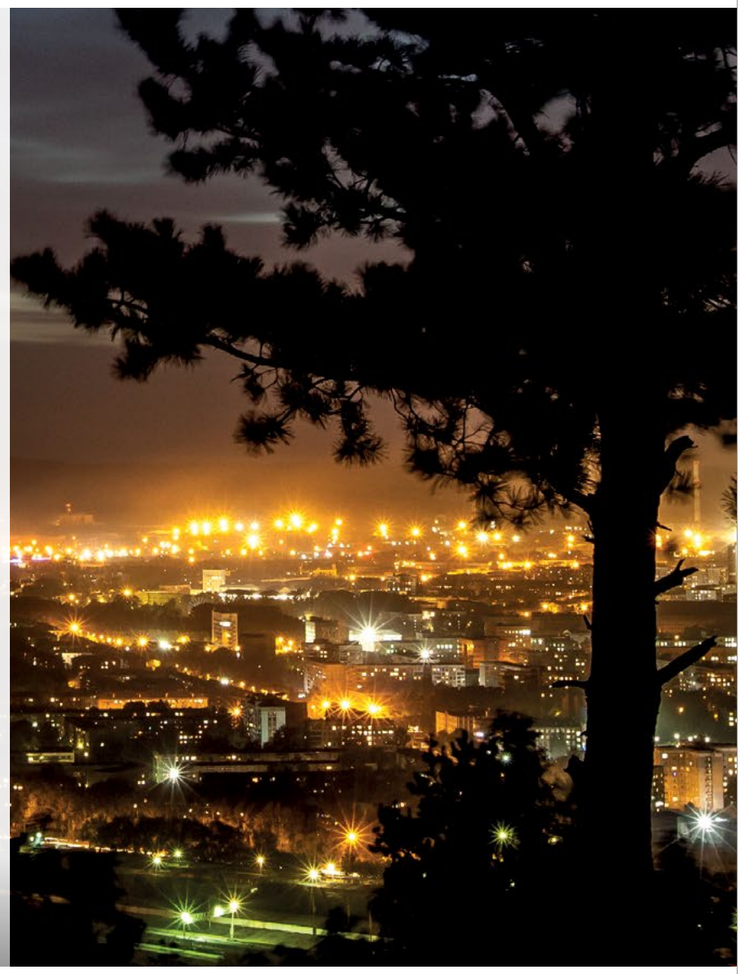
45%

of electricity in Siberia is generated from coal

95%

of heat in Siberia is generated from coal

In addition, thermal coal is used in the metallurgical, cement and other industries in Russia.



Coal-fired power plants generate 17% of all electricity in Russia. This share rises to 45% in Siberia, where most of SUEK's energy assets are located, a major industrial region with a relatively small number of people who delay utilities payments and close to the main coal producing regions. Coal demand in Siberia and the Far East, and capacity utilisation at coal-fired thermal power plants in those regions, is influenced by hydroelectric output, which accounts for approximately 50% of electricity generation. In low-water years, hydropower plants produce less electricity, which has to be compensated for by coal-fired generation, while in years with high water levels, the opposite is true.

Coal-fired power generation is the most efficient source of energy in Siberia as it consumes local coals and can combine electricity generation with heat generation.

The aluminium industry is the major consumer of electricity in Siberia, accounting for 30% of demand. Changes in aluminium output therefore significantly influence the energy balance of the region. New aluminium capacities planned for launch by 2025 (Boguchansky and Taishet aluminium smelters) may increase Siberian electricity demand by 9%. There are a number of other industrial and infrastructure projects that may increase the demand for coal-fired power, given the absence of hydropower-generation expansion projects.

In 2007–2016, Russia ran a state programme to support the upgrade and construction of new power capacities under capacity delivery agreements (DPM-1). In 2019, the Russian government adopted a new state support programme (DPM-2), which will enable power producers to upgrade 40 GW of capacity by 2030.

Depending on the weather, approximately 16% of coal consumption is used to heat homes and social and industrial facilities.

Coal generation accounts for 95% of heat production in Siberia.

The major driver of heat consumption is rising urbanisation. According to a state programme, the construction of new houses will increase to 120 million m^2 by 2025. On the supply side, capacity development is restricted by the current tariff system based on actual costs, which makes long-term investment planning impossible. The planned transition to the 'alternative boiler' method will enable the government to increase tariffs above the rate of inflation to justify the costs of capacity upgrades and favour the co-generation of heat and power. Therefore, the transfer to this tariff allows long-term investment for the upgrade of heat networks. Of the cities supplied by SUEK, Rubtsovsk has been the first to trial a transfer to the 'alternative boiler' method.

Major suppliers of thermal coal to the Russian market include SUEK, EN+ Group, Russian Coal, Kuzbassrazrezugol and Luchegorsky open pit. Products supplied by these five companies cover approximately 57% of the total demand for thermal coal in Russia. 15% of Russian thermal coal demand is also covered by imports, mainly from Kazakhstan.

'Alternative boiler' tariff is a method introduced in Russia in 2017 to calculate heating prices, when only the maximum long-term level is set. It is calculated based on the cost of constructing and operating a new alternative boiler house. The final heating price is determined by agreement of the parties.

Delivering high-quality energy

Focusing on efficient growth

2023 targets

70%
of total production to be hard coal

>65%
of hard coal to be washed

100%
heat from co-generating power plants

Improving operational efficiency and productivity

2023 targets

Improving labour productivity

>80%
coverage of own transportation needs

80%
transhipment of own coal exports through SUEK's ports

Maintaining a robust balance sheet

2023 targets

Net debt / EBITDA ratio at an average of

2.5x
throughout the market cycle

Achieving high safety standards

2023 targets

Zero
industrial accidents

Zero
fatalities

Progressive decline in LTIFR aiming to reach zero

Committed to sustainable development

2023 targets

24/7
control of CHPP emissions

0%
of water outflow to be untreated

Vision

Already the largest coal producer in Russia and one of the key heat and electricity suppliers, our aim is to be one of the world's leading energy companies. We will achieve this by expanding our existing mining, processing and power generating assets, investing in new technologies and continuing to develop our logistics and distribution systems. We also aim to reduce our environmental impact and enhance our positive contribution to the social and economic development of the regions where we operate.

SUEK's SWOT analysis

Strengths

- **Position in the lower end of the global coal cost curve** due to vertical integration and large-scale investments
- **Diversified coal portfolio** for all key markets, including high-CV coals
- **30+ years** of high-quality low-sulphur coal reserves, efficient mining and washing capacities
- **One of the largest** global coal sales networks
- **Efficient co-generation heat and power generating facilities** fuelled by local coal
- **Access to funding and prudent financial policy** ensuring financial stability
- **Effective** and transparent ESG programmes

Weaknesses

- **Sensitivity of earnings** to global coal prices and RUB exchange rate
- **Cap on electricity generation output** at several assets due to restricted power grids in several regions
- **Energy CAPEX dependence** on state regulations

Opportunities

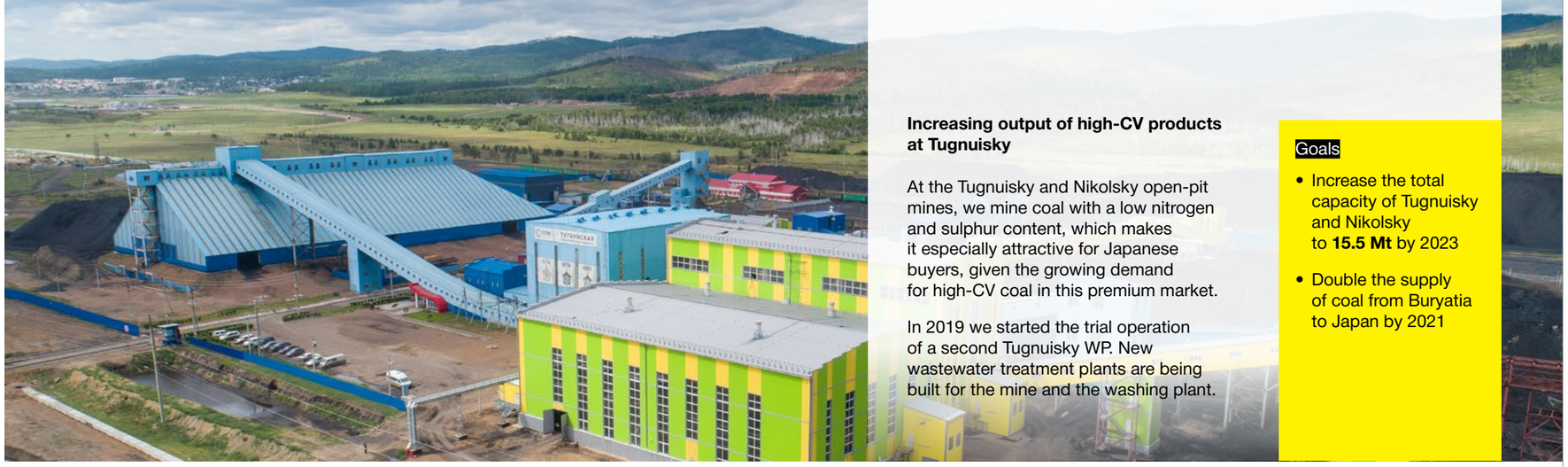
- **Stable demand** for high-CV coals
- **New coal** applications
- **Development** of railways to Eastern ports
- **New housing** and energy-intensive industrial facilities in the regions where we operate
- Transfer to the **'alternative boiler' tariff**
- **New financing opportunities** (project and equipment supplier (export) finance)

Threats

- **International** coal price volatility
- **Decrease in output or suspension** of energy-intensive industries due to macroeconomic factors
- **More stringent CO_2 regulations** for power stations
- **More stringent ESG requirements** from the financial community
- Russian railway **infrastructure restrictions**

Focusing on efficient growth

Strengthening our presence in resilient, high-margin international coal markets will help ensure the long-term sustainability of our business. In Russia, we are focused on unlocking synergies between our coal and energy businesses and the co-generation of heat and electricity in order to remain a cost-efficient and responsible energy producer.



Increasing output of high-CV products at Tugnuisky

At the Tugnuisky and Nikolsky open-pit mines, we mine coal with a low nitrogen and sulphur content, which makes it especially attractive for Japanese buyers, given the growing demand for high-CV coal in this premium market.

In 2019 we started the trial operation of a second Tugnuisky WP. New wastewater treatment plants are being built for the mine and the washing plant.

Goals

- Increase the total capacity of Tugnuisky and Nikolsky to **15.5 Mt** by 2023
- Double the supply of coal from Buryatia to Japan by 2021

2019 plans

Increasing production of high-quality and high-demand coal products

Expanding mines in Buryatia, Khakassia and the Khabarovsk region.

Building a new washing plant at Tugnuisky, increasing the throughput of the Chegdomyn WP.

Strengthening our presence in premium coal markets

Strengthening our market presence in Japan, South Korea and Southeast Asia's premium markets.

Growth in the share of direct sales by developing distribution networks in key sales countries.

Consolidating our position in the Russian thermal coal market

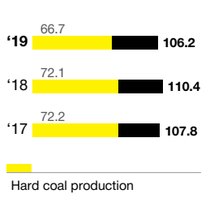
Increasing coal production at Borodinsky in the Krasnoyarsk region to meet growing demand from our power plants.

Consolidating our position in the Russian heat and electricity markets

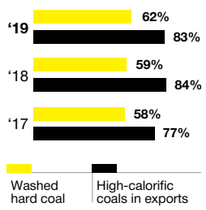
Consolidating our share in the Siberian heat and electricity market through capacity upgrade and potential M&As.

KPIs

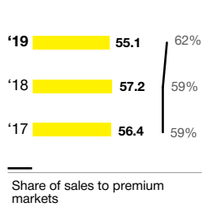
Coal production, *Mt*



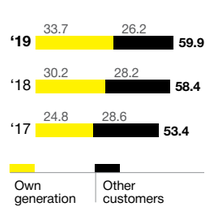
Share of washed hard coal and high-calorific coals in exports



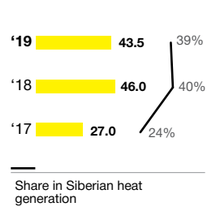
Total international sales, *Mt*



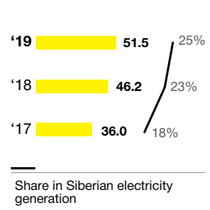
Coal sales to Russian market, *Mt*



Heat generation, *million Gcal*



Electricity generation, *TWh*



2019 results

We continued to develop our assets in Khakassia (Chernogorsky), Buryatia (Tugnuisky and Nikolsky), Khabarovsk region (Pravoberezhny), which led to a 5% year-on-year increase in production at these open-pit mines. Meanwhile, we used the market downturn to upgrade underground mining equipment, which led to a decrease in underground production, leading to a total 7% hard coal production decrease year-on-year.

SUEK launched a second washing plant at Tugnuisky, bringing the share of washed hard coal to 62%.

Sales Southeast Asia increased by 4%, driven mainly by growing exports to Vietnam and Hong Kong.

SUEK stepped up sales to other premium markets, including 1.2 Mt supplied to Mexico.

In the Atlantic, despite a general market decline, shipments to the countries of the Mediterranean basin increased by 1% to 6.5 Mt, mainly due to an increase in shipments to Morocco.

Domestic coal sales grew by 3% thanks to growth in supplies to SGC's plants.

To meet this rising demand from our CHPPs, we increased production at Borodinsky by 4% to 22.3 Mt.

SUEK acquired Reftinskaya GRES and agreed on the purchase of the Krasnoyarskaya GRES-2. This will boost SUEK's total power generating capacity by 46% to 16 GW, which makes us No. 5 electricity producer in Russia.

The transition of Barnaul to the 'alternative boiler' tariff was implemented.

2023 plans

Increasing hard coal to **70%** of total production

Raising the share of washed hard coal to **>65%**

Bringing hard coal production to **>90 Mt** by developing Pravoberezhny, Chernogorsky, Nikolsky, improving mine efficiency in Kuzbass

Supplying more coal to Japan and South Korea through the promotion of products with a low ash content and higher calorific value.

Increasing deliveries to core markets (Taiwan, Malaysia, Hong Kong, Mexico).

Increasing supplies to new markets (Vietnam, Thailand, Pakistan, the Philippines, Sri Lanka and others) to **10%** of Asian sales

Increasing sales to Mediterranean countries from 45% to **55%** of sales in the Atlantic region

Increasing Russian sales to **>65 Mt**

Maximising the share of SUEK's coal supply to our plants

Consolidating Reftinskaya GRES and Krasnoyarskaya GRES-2.

Switching to the 'alternative boiler' tariff in and other cities.

Improving operational efficiency and productivity

We always strive to improve operational efficiency and productivity in order to remain competitive in any macroeconomic environment.

Developing SUEK's railcar fleet

In April 2019, SUEK acquired

16,025

higher-capacity railcars

- **5 years old** or younger
- **32-year** service life and a capacity of **up to 77 t**
- Lower environmental impact per tonne compared to conventional railcars

This increased SUEK's fleet under management to **53,350 units. Higher-capacity railcars** make up **65%** of our managed railcar fleet.

As a result, SUEK has ensured that **more than 80%** of its railcar needs are covered by its own fleet. The company can minimise its use of third-party railcars and improve the reliability of on-time deliveries to key Asian markets, as well as optimising transportation costs.

2019 plans

Improving the operational efficiency of our coal assets

Continuing to introduce advanced underground mine layouts, increasing the length of longwalls to 350-400 metres.

Optimising the combined operation of excavators and dump trucks to ensure growth in production volumes and investment cost savings.

Improving the operational efficiency of our energy assets

Optimising the operation of power plants to achieve growth in output and save on investment costs.

Increasing the share of co-generation of heat and electricity to optimise the use of production capacities and fuel consumption.

Developing our railcar fleet

Maintaining the share of railcars under management to cover our needs by 80% or more.

Cooperating with Russian Railways to accelerate the turnover of cars on SUEK routes and increase investment in priority coal transportation areas.

Expanding our transhipment capacities

Further developing Vanino Terminal.

Developing Murmansk Commercial Seaport to meet our coal transhipment target of 15.5 Mt and attract third-party cargo, including for the development of the Arctic.

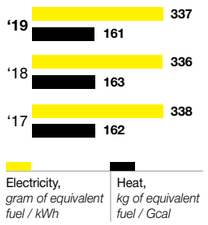
Completing the upgrade of Maly Port to boost its capacity to 4 Mt a year.

KPIs

Productivity of mining unit production personnel, *t per man-month*

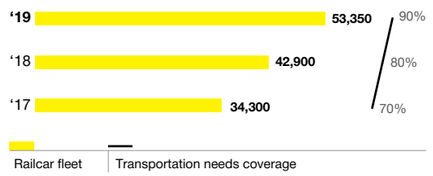
Energy consumption per coal production, *kWh/m³ of rock mass*

Specific fuel consumption, *per unit of energy*

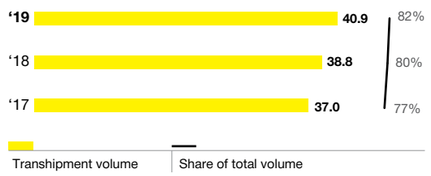


Share of heat output in co-generation cycle of the total heat output

Railcar fleet under management, *units,* ***and coverage of transportation needs***



Transhipment through dedicated ports, *Mt* ***and share of volume***



2019 results

Productivity of mining personnel decreased in line with lower production. But we upgraded equipment to improve efficiency in future. At the Kirov mine, we commissioned a 350 metres longwall, while another one will be launched in 2020. At the Yalevsky mine, we launched a second longwall 400 metres long.

After optimising loads for our excavator and truck units, we reduced the per 1 m³ energy consumption by 4%.

SUEK was recertified for its compliance with the ISO 50001 Energy Management Systems standards.

We continued the replacement of inefficient old boiler houses and simultaneous reconstruction of 114 km of heat networks in Krasnoyarsk, Kemerovo, Barnaul and Novosibirsk.

Projects to upgrade the Tom-Usinskaya GRES, Biyskaya CHPP and Krasnoyarskaya CHPPs 1, 2 and 3 were included in the state DPM-2 programme. This will enable us to replace inefficient boiler houses, increase the share of heat generated in co-generation mode and reduce fuel consumption per unit of energy, as well as supply new customers.

SUEK purchased more than 16,000 high-capacity railcars bringing the fleet under management to 53,350 units and covering over 80% of the company's transportation needs.

SUEK increased coal transhipment through its own ports to 82%, thereby minimising the use of third-party ports.

Coal shipment through the Vanino Bulk Terminal reached a record 20.5 Mt, benefiting from the completed upgrade of the port.

Murmansk Commercial Seaport transshipped 16.3 Mt of coal and 1.3 Mt of non-coal products.

In Maly Port to increase transhipment capacity up to 4 Mt of coal a year, we completed dredging of the operational waters and approach canal and restored railways.

2023 plans

Improving labour productivity by refining our incentivisation and training systems, introducing more productive equipment and digital technologies.

Improving the efficiency of thermal power plants through capacity upgrades.

100%

of heat from co-generation through further replacement of outdated boiler houses in Belovo, Chernogorsk, Krasnoyarsk, Novosibirsk

Covering

over 80%

of our own transportation needs using railcars under management

Covering

over 80%

transhipment of our coal exports with own ports

Maintaining a robust balance sheet

SUEK's goal is to maintain profitability by controlling costs, diversifying cash flows and focusing on premium markets.

Project financing development

In June 2019, SUEK signed an agreement with the Japan Bank for International Cooperation (JBIC) to open an export credit line for the purchase of Japanese mining equipment. A loan of up to $50m has been financed by JBIC and commercial banks. The Japanese state export credit agency, NEXI, provides credit insurance to the extent financed by commercial banks. Project financing enables SUEK to diversify borrowed capital sources and cut rates across the Group's loan portfolio.

2019 plans

Sustaining profits despite the cyclical nature of the business

Maintaining profitability through cost control and a focus on premium markets.

Maintaining a conservative financial policy

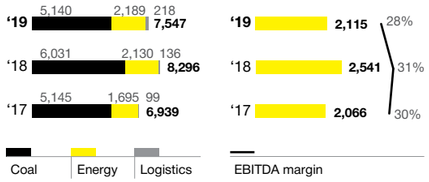
Keeping an optimal Net debt / bank EBITDA ratio within the approved KPI.

Optimising borrowing costs

Developing a portfolio of financial instruments.

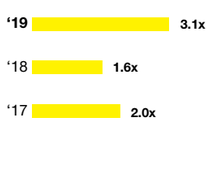
KPIs

Revenue, *$m*

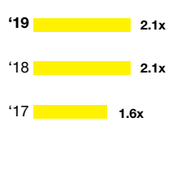


EBITDA, *$m*

Net debt / EBITDA, *ratio*



Operational cash flow / cash CAPEX, *ratio*



Credit ratings

Moody's **Ba2**

Fitch Ratings **BB**

RAEX **ruAA-**

2019 results

Thanks to the contribution from the energy business, SUEK was able to partially offset the impact of a significant decrease in global coal prices on the Group's revenue.

Cost control and the synergistic effect following the consolidation of the coal and energy businesses helped the company maintain EBITDA at over $2 billion and EBITDA margin at 28%.

A year-on-year decrease in EBITDA and a temporary increase in debt as a result of major strategic acquisitions in the non-coal mining sectors (rail cars, power stations) pushed the Net debt / EBITDA ratio up to 3.1x.

The investments planned for 2019 were limited to key projects and the maintenance of our capacities. SUEK's operating cash flow grew by 7% thanks to our focus on working capital management, which enabled us to maintain our operating cash flow to CAPEX ratio at 2.1x.

We continued to diversify our loan portfolio, in particular involving a large number of international banks in our syndicated loan, enabling us to optimise the rate on this instrument.

In light of the favourable domestic market environment, SUEK placed rouble-denominated bonds and reduced the average funding rate of our overall portfolio.

We also expanded our project financing, and in particular entered into transactions with Japanese state export agencies to finance the acquisition of Japanese mining equipment.

Our credit ratings were confirmed with a stable outlook.

2023 plans

Ensuring a stable positive cash flow.

Maintaining Net debt / EBITDA ratio at an average of

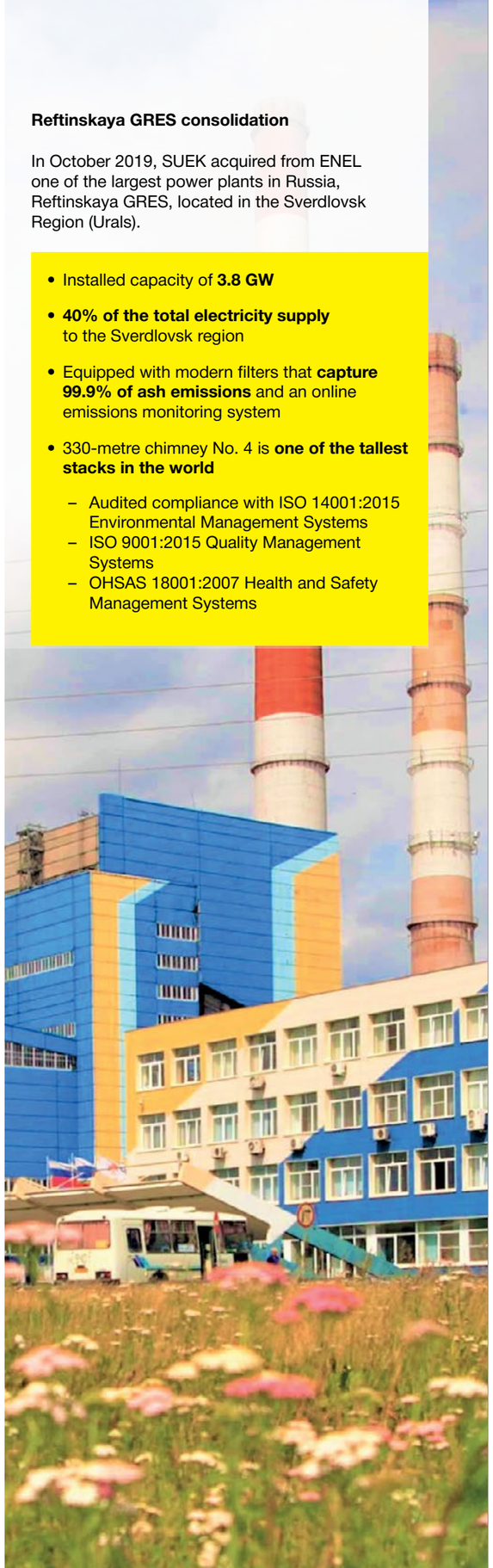
2.5x throughout the cycle

Optimal finance costs

Reftinskaya GRES consolidation

In October 2019, SUEK acquired from ENEL one of the largest power plants in Russia, Reftinskaya GRES, located in the Sverdlovsk Region (Urals).

- Installed capacity of **3.8 GW**
- **40% of the total electricity supply** to the Sverdlovsk region
- Equipped with modern filters that **capture 99.9% of ash emissions** and an online emissions monitoring system
- 330-metre chimney No. 4 is **one of the tallest stacks in the world**
  - Audited compliance with ISO 14001:2015 Environmental Management Systems
  - ISO 9001:2015 Quality Management Systems
  - OHSAS 18001:2007 Health and Safety Management Systems



Achieving high safety standards

All of SUEK's facilities comply with advanced international health and industrial safety standards. Our main goals are to reduce injuries and prevent fatalities.

2019 plans

Preventing accidents and fatalities

Promoting a culture of health and safety, including zero tolerance for accidents at all of SUEK's assets.

Investing in the development of monitoring and warning systems.

Reducing occupational injuries

Progressive development of monitoring and safety systems at particularly hazardous facilities.

Implementing training programmes for personnel to reduce occupational injuries.

KPIs

0
collective fatalities

LTIFR, *ratio*

2019 results

There were no collective fatalities in 2019. However, despite our efforts, eight individual fatalities occurred in the company.

Based on a detailed analysis of each case, we identified the root causes of these accidents related to the organisation of work processes, the adequacy of the protective equipment and locks.

The company developed comprehensive measures aimed at preventing similar cases in the future.

A complex of operational remote monitoring and control of the safety of production processes was launched, in which information from all subsystems is consolidated and analyzed using special mathematical algorithms in real time.

We continued the development of monitoring and warning systems at our facilities, in particular, designed a remote control system for ensuring industrial safety at open-pit mines and washing plants for subsequent integration with systems in use at our underground mines.

We began the transition of our coal, logistics and energy assets to the new international ISO 45000 Occupational Health and Safety standard.

The Industrial Safety Committee under SUEK's Management Board, as part of the upgrade of the company's training base, approved:

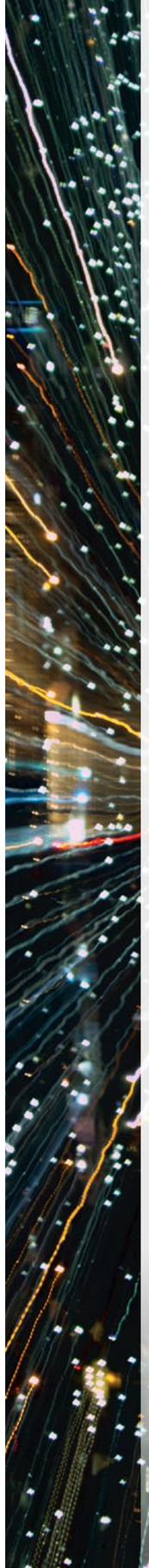
- The upgrade of our training centre at Urgal
- Further development of the Virtual Mine, with computer simulation of the mining process and equipment

2023 plans

0 industrial accidents

0 fatalities

Progressive decline in LTIFR aiming for **0** injuries



Digital technology enhances industrial safety

In the reporting year, SUEK carried out pilot tests of a number of digital safety control solutions at its mining, energy and logistics facilities facilities.

'Smart helmet'

Equipping a worker's helmet with digital tools to analyse the location of equipment and people relative to each other, prevent collisions through warning signals, and to urgently call the dispatcher.

'Smart bracelet'

With similar functions also monitors human health status and vital signs.

'Video analytics'

At our power plants we have launched video control systems for employees working with high voltage, which allow both remote monitoring of employees' actions and advice from a supervisor. This allows to reduces the possibility of emergency situations.

'Georeferencing'

Helps determine the location and control of employees in mines. In 2019, this system was introduced in the logistics segment, which helps determine the location of trackwalkers in remote areas, control their route, call the dispatcher in case of emergency.

Committed to sustainable development

Our goal is to contribute to global energy security through the safe production of coal, heat and electricity, for the benefit of all stakeholders.

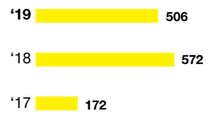
Better supplies of heat to the regions where we operate

2019 plans

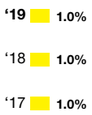
Reducing accidents and minimising interruptions in case of emergencies on heat networks, connecting new facilities to the company's heat supply system.

KPIs

New facilities connected to SUEK's heat networks, *units*



Accident rate across heat networks



2019 results

In 2019, we reconstructed **114 km** of heat networks

and built **55 km** of new pipelines in the cities of operation

In Novosibirsk, where the heat networks were especially outdated, our investment in the upgrade of heat networks rose by **2.1** times

506 residential, industrial and social facilities were connected to our heat networks, increasing our heat consumers number by **2%**

2023 plans

The progressive replacement and upgrade of heat networks and ensuring their trouble-free operation.

Committed to sustainable development

(continued)

Transformation of Rubtsovsk heating system

Following the transition of the town of Rubtsovsk to the 'alternative boiler' method, SUEK invested about

$30m

in upgrading local heating system.

Results

- Secure heat supply to **>140,000 people**
- **32% fewer** breakdowns of heating systems
- **Over 9 km** of pipelines upgraded

2019 plans

Reducing adverse environmental impacts

Implementing environmental programmes, including projects to reduce air and water pollution and enhance waste recycling.

Constructing taller stacks and installing filters to reduce emissions at power plants.

Replacing inefficient boiler facilities with CHPPs.

Dust reduction in ports.

Increasing the share of washed coal to minimise emissions during transportation, transhipment and use of coal.

Ensuring the sustainability of communities in the regions where we operate

Guaranteeing the development and well-being of our employees.

Delivering a long-term programme for social infrastructure development and support for local communities.

Cooperating with regional and municipal authorities on projects to develop social infrastructure and support educational institutions.

Improving corporate procedures

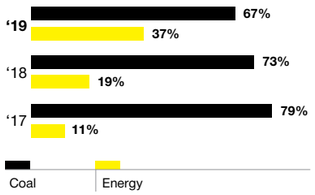
Introducing best practices in the corporate culture.

KPIs

Air emissions from power facilities (CO, NO_x, SO_2), kg/kWh

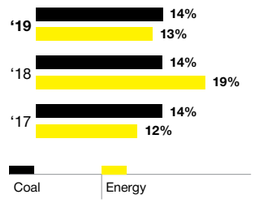
Suspended and dissolved solids in wastewater, kg per tonne of coal

Used and recycled waste of total generated waste



Growth points[1]

Employee turnover



International certificates

ISO 37001

ISO 19600

2019 results

A new 275-metre-tall stack construction was completed at Krasnoyarskaya CHPP-1. In 2020, we plan to reconnect boilers to it and demolish another chimney, which will improve the environmental situation in Krasnoyarsk.

Our CHPPs replaced 3 inefficient old boiler houses.

In the Coal Segment we used less overburden for backfilling in 2019 due to smaller worked out areas for reclamation. Our Novosibirskaya CHPP-1 passed all necessary examinations to use ash and slag materials for the restoration of disturbed land. We expect positive outcome for similar requests from Novosibirsk CHPP-2 and CHPP-3, as well as Biyskaya CHPP in 2020.

We continue to process organic waste, rubber products, polymers, rubbers, oil sludge, bitumen, roofing materials, electronic equipment, used oils, medical, wood and other carbon-containing waste.

At the Murmansk Commercial Seaport, SUEK completed the introduction of a state-of-the art stationary spraying system and installed Phase 2 dust shields. Besides, the port launched an environmental dispatcher's office.

The company implemented over 250 social and charitable programmes, with investment amounting to $26m.

They resulted in 84 growth points in regions where SUEK operates.

We were able to keep staff turnover at 14% in the Coal Segment and decrease it by 6 p.p. in the Energy Segment, due to the implementation of an effective personnel strategy.

50 employees in the Kuzbass region improved their housing thanks to SUEK's housing assistance programme.

As part of the company's staff development, 34% employees received training / retraining / professional development.

The compliance of our corporate practices with international standards was confirmed by the following certificates received:

- ISO 19600:2014 Compliance Management
- ISO 37001:2016 Anti-Corruption Management

Vladimir Hlavinka and Michael Baumgärtner joined the Board of Directors, after which the share of independent directors reached 50%.

2023 plans

100%
share of co-generation in heat production

24/7
monitoring of CHPP emissions

0%
untreated water outflow

Qualitative growth of the social component, taking into account the created growth points in regions where we operate.

Providing sufficient qualified personnel to implement strategic goals.

Further introduction of best practices to SUEK's corporate system

[1] *Growth points are organisations set up as a result of social projects aimed at enhancing living standards in a particular district or town (maternity support centre, music workshop, mini-cinema etc.).*

Proactive risk management

Effective risk management is essential to achieving our strategic goals and sustainable development. We are committed to continually improving our risk management system in order to identify external and internal risks and develop effective mitigation processes.

Q:

How does integrated risk management help SUEK to achieve cost-efficiency?

A:

As part of our risk management process, we review the cost-efficiency of our business decisions and investment opportunities, while taking into account the regulatory environment, the availability of necessary resources and the liquidity of assets. This approach ensures the sustainability of our growth, increases the efficiency of resource use and prevents or minimises the risks of financial losses.

Q:

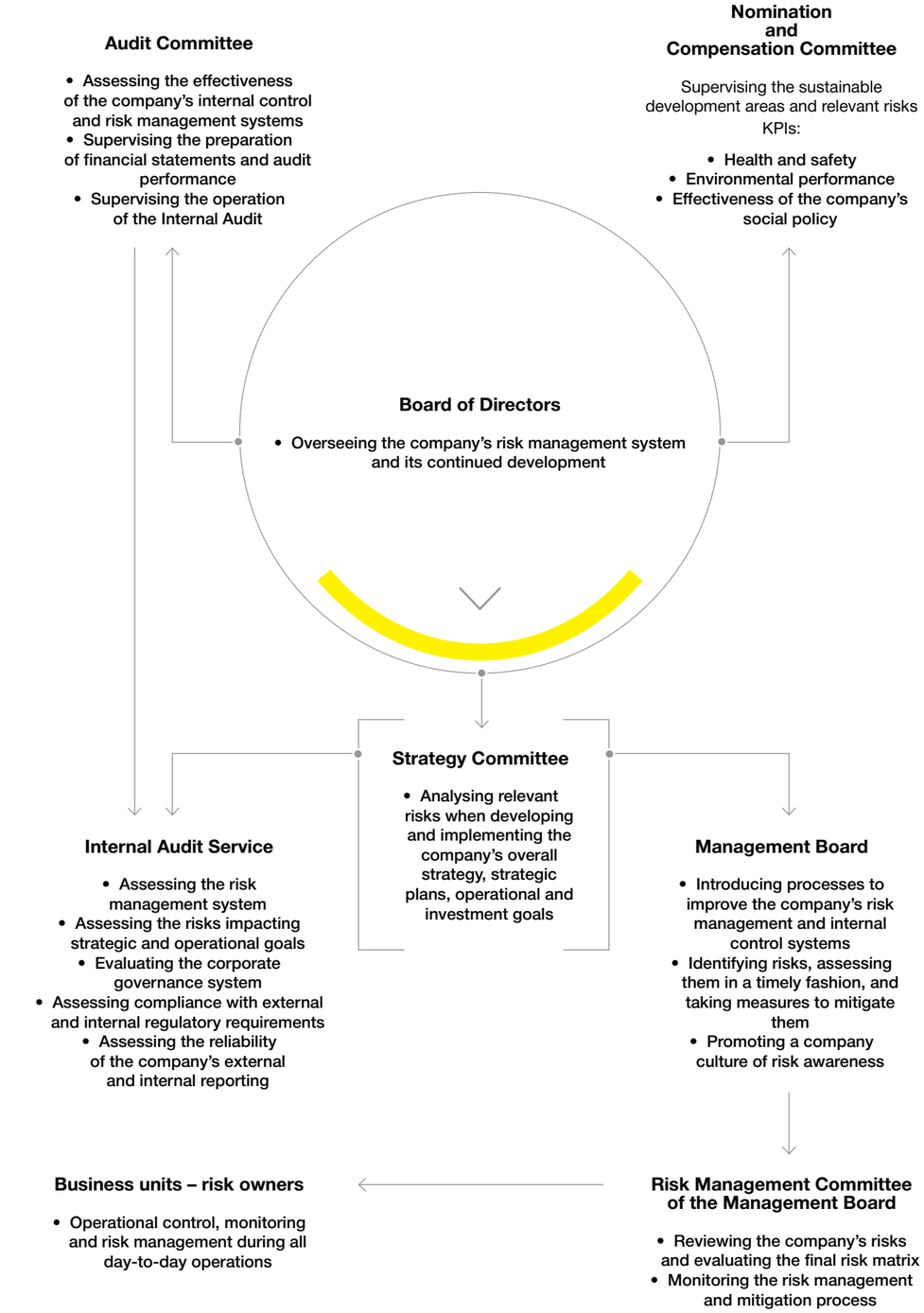
What changes to risks in 2019 will have the most impact on the company's strategy?

A:

In 2019, we saw a significant change in the coal market environment and rising pressure from the gas market. In connection with Europe's planned transition to renewable energy sources and a decrease in coal demand in the Atlantic region, we focused on mitigating market risks. To minimise the impact of declining coal demand in Europe and relative higher price pressure, SUEK's management updated the consolidated strategic model taking into account new macro parameters by summarising the target parameters of the strategies for divisions, business segments and supporting functions. In particular, we reviewed and adjusted the strategic goals for the next five years in sales and logistics.

Valery Dmitriev,
Director for taxes, risk management and insurance

Risk management organisational structure



Our approach

SUEK has a corporate risk management system, which is continually enhanced through the development of new measures to minimise risks across the company. Risk management issues and processes are closely related to strategic planning and influence operational decisions. The company's management is fully informed on all significant risks and approves all key parameters for the risk management system.

Management and control

Our Management Board, including the Risk Management Committee, controls and monitors the company's risk management system, working closely with the Board of Directors' Audit Committee. SUEK also has an Internal Audit Service, which provides independent assessment and prepares recommendations for improving the risk management system.

Risk management relies on a common architecture that combines all aspects of SUEK's businesses. Risk monitoring is exercised as part of the daily work routine of the company's risk owning and monitoring units that are owners and/or co-owners of risks. The Directorate for Taxes, Risk Management and Insurance in charge of the corporate risk management system coordinates the activities of various divisions in terms of risk management and shapes a risk management reporting system, which is reviewed by the Risk Management Committee of the Management Board.

The Risk Management Committee holds meetings at least once a quarter, in which it considers any changes within the area of controlled risks. Where appropriate, adjustments are made to the risk management action plan and the risk management system. The Risk Management Committee also ensures cross-functional interaction between senior managers and internal operational experts. Employees responsible for managing certain types of risks devise appropriate responses to emerging issues, and inform the Risk Management Committee of all measures taken to mitigate the risks in question.

Methodology

The process of risk management is carried out in accordance with the procedure developed and approved by SUEK's Risk Management Committee. It factors in both the specifics of the Group and recommendations of Russian and international risk management standards and best practice. This procedure includes the main objectives and principles of risk management, and methods for identifying, assessing and mitigating the risks we face.

Risk management process

Identification

A comprehensive risk identification process is run once a year. Responsible division employees indicate the sources of risks and the potential measures to minimise them. Based on expert assessment, a risk register for the future period is compiled.

Assessment

In order to achieve independence and compliance with SUEK's approved strategy, a comprehensive risk assessment takes place once a year by assigning categories to risks. For each risk identified, the probability of its materialising and potential impact is rated. The adequacy of action plans to address any remaining control gaps is then assessed. The existing approach to maintaining a risk register allows us to analyse identified risks and determine the most significant risks in each area of the company's operations.

Response

Responsibility for managing specific risks, including for taking actions to mitigate them, is delegated to the employees of relevant departments. The Directorate for Taxes, Risk Management and Insurance supports and updates the plans of these actions with their current status.

Monitoring and control

In order to ensure we are prepared to respond quickly to any adverse developments, we continuously monitor and analyse trends in key markets and related industries. We also monitor the macroeconomic environment, both in Russia and in countries that import SUEK's products. Based upon this analysis, we can further adjust the company's production, sales and financial policies.

Also, during the year, heads of business segments nominated as risk owners, when identifying new risks, report them to the Directorate for Taxes, Risk Management and Insurance. After that, the Directorate considers the initiated risk for inclusion in the year's risk register in compliance with the overall risk identification procedure.

Reporting

A summary report prepared by the Directorate for Taxes, Risk Management and Insurance is considered by the Risk Management Committee and then by the Audit Committee. It covers a final risk register, information on the actions taken to mitigate risks and the materialisation of risks during the year.

Results

At the beginning of 2019, the Risk Management Committee analysed the 2018 risk matrix and submitted a report on the risk management structure and process, for consideration by the Audit Committee of the Board of Directors. The Audit Committee took note of the report on the Risk Management Committee's work in 2018 and approved crucial activities for 2019.

The key area of work during the reporting year was the introduction of risk management in a wider range of risk-based decisions to support SUEK's activities. Special care was given to integrating the risk management process and culture into the energy business. One of the main outputs has been the updated risk map including risks of our acquired energy business.

Q: How does SUEK control reporting with the growing scale of operations?

A: We aim to implement unified procedures and principles of recording commercial and logistic operations in the target corporate system across all companies of the group, regardless of their location. Almost all Russian units already work in SAP ERP, therefore, over the past two years, we have adopted the system extensively in our foreign divisions. As of 31 December 2019, 99% of the group's revenue was recorded in the ERP system (or 98% of foreign companies' revenue). This enables SUEK to improve the quality of control and management decisions by promptly receiving the most detailed information from the system, as well as to develop acomplete distribution chain to the final customer and assess the end-to-end transaction economics.

By the end of the next year, we plan to complete the implementation of the ERP in all group companies.

Q: How do SUEK's units benefit from the unified ERP system?

A: Automation and unification of processes in a corporate ERP system reduce the risk of potential errors, improve the overall working environment through broader involvement of employees in business processes, sharing their expertise and optimisation of role distribution in the company. Moreover, the use of automated algorithms and a common set of group system requirements allows for faster data consolidation and preparation of financial statements.

Ekaterina Paramonova
ERP methodology integration project manager

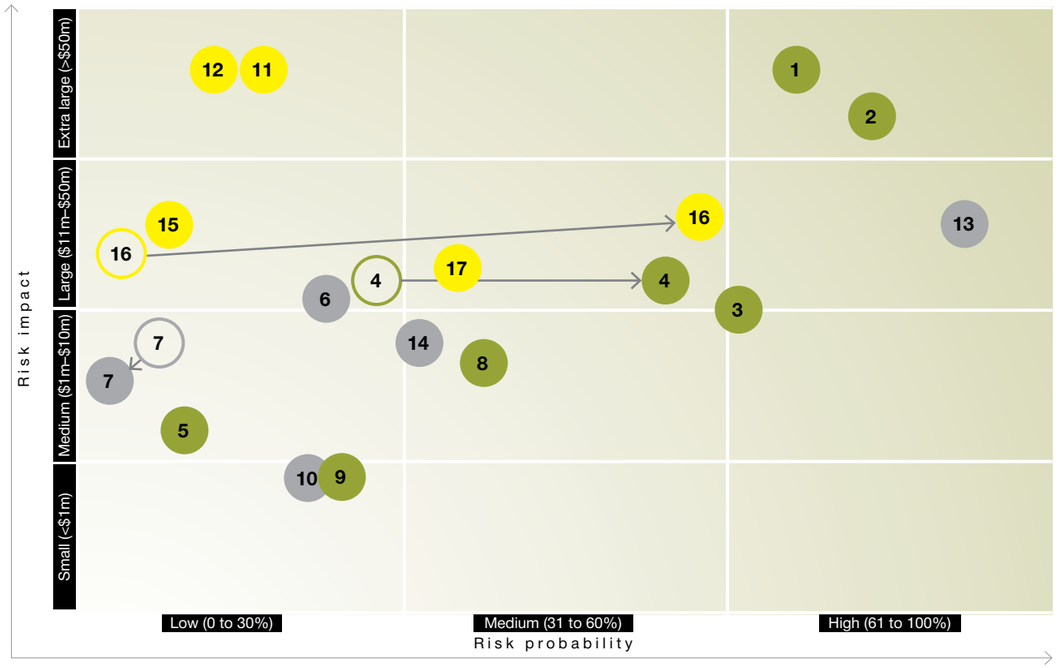
Review of key risks

Below we set out a list of the major potential risks to SUEK's operational and financial performance and activities. Whilst this report highlights the key risks, there are other less major inherent risks, not listed below, that may have an adverse impact on SUEK's performance.

The following changes have been made to the risk map posted in the current Annual Report:

- Excluding anti-monopoly risk, since SUEK has built a strong system of compliance procedures, which reduces the probability of this risk to the minimum
- Combining coal demand and price risks because they have interrelated reasons and similar dynamics
- Combining production and emergency risks because they have interrelated reasons

Risk map in 2019



Regulatory and legal risks

1 Risk of changes in current legislation

2 Regulatory risk

3 Risk of changes in electricity tariffs for residential customers and heat tariffs

Market risks

4 Risk of reduction in coal demand and prices

5 Risk of reduction in power plant load and electricity prices in the wholesale market

6 Risk of reduction in demand and prices in the capacity market

Financial risks

7 Foreign exchange and interest rate risks

8 Inflation risk

9 Credit risk

10 Liquidity risk

Operational risks

11 Production risk (mining)

12 Production risk (energy generation)

13 Risk of restricted infrastructure availability

14 Cyber risk

Sustainability risks

15 Health and safety risk

16 Environmental risk

17 Human resource risk

Company ability to influence the risk: No influence · Partial influence · Significant influence · → Change in 2019 vs 2018

REGULATORY AND LEGAL RISKS

1. Risk of changes in current legislation

The company follows statutory regulations in the jurisdictions where it produces and sells its products. We also abide by the regulations of the countries and regions from which the Group imports goods and services.

In Russia, changes in legislation can relate to tax, customs and foreign exchange regulations, securities market law, anti-monopoly and corporate law, licensing and mineral resources law, heat and power industry law and judicial practices. Changes can also arise through the tightening of environmental protection requirements. SUEK's business can be significantly affected by decisions made by Russian governmental agencies to impose tariffs, quotas, trade restrictions, restrictions on the ownership rights of non-residents, subsidies, licensing and anti-monopoly policies, and refinancing rates.

In foreign jurisdictions, changes can involve additional controls on selling and using coal. Changes can also result in special conditions for importing goods and services to Russia.

International sanctions against Russian individuals and legal entities, as well as industry sanctions, can also restrict certain sectors of the Russian economy.

The sanctions currently in place do not directly target Russia's coal and energy industry or SUEK. However, a number of economic limitations do currently affect our business and necessitate special control in the selection of counterparties. They also affect the availability of financial resources across the Russian market in general, and make it difficult for companies operating in Russia to import certain types of equipment.

STRATEGIC PRIORITIES

MATERIAL MATTERS[1]

M1 M6

Changes over the year

↔

Actions to mitigate the risk

We constantly monitor proposed projects to amend legislation in Russia and other countries of operation, and review law enforcement practices, taking into consideration the company's activities. This enables us to quickly adapt our business processes and organisational structure to any changes in the legislative environment, and to operate in full compliance with the current regulatory and legal framework.

SUEK's senior managers and experts are actively involved in governmental policy panels for the coal, power and other related industries.

SUEK's compliance system allows us to quickly detect and mitigate any compliance risks in the field of corporate ethics, environmental management, anti-monopoly regulation and licensing.

We monitor the situation related to international sanctions in force and make sure our counterparties are not under sanctions.

2. Regulatory risk

Our operations are governed by numerous laws and regulations, covering natural resource management, mineral exploration and mining, healthcare, industrial safety and the power industry. Coal-mining licences can be suspended, terminated ahead of schedule or left unrenewed upon expiry. These risks are mostly dependent on the decisions made by regulating and supervisory agencies (Rosnedra, Rosprirodnadzor) holding scheduled and ad hoc inspections at the Group's sites.

Changes in national environmental and labour regulations may also influence coal-fired power generation.

STRATEGIC PRIORITIES

MATERIAL MATTERS

M1 M5

Changes over the year

↔

Actions to mitigate the risk

We make every effort to comply with current legislation and minimise the risk of operations at our production units being suspended. We rigorously monitor any changes in the legislative environment.

SUEK's companies have procedures in place to ensure compliance with licence requirements for timely renewal or new applications. If any discrepancies with licence requirements are detected, we strive to complete the instructions from the regulator as quickly as possible.

3. Risk of changes in electricity tariffs for residential customers and heat tariffs

The company's operations may be affected by heat and power tariffs set below our production costs and by non-fulfilment of obligations to raise heat tariffs as part of the 'alternative boiler' model.

STRATEGIC PRIORITIES

MATERIAL MATTER

M1

Changes over the year

New

Actions to mitigate the risk

We monitor the situation and cooperate with regulators regarding changes in tariff setting methods, with switching to long-term tariffs as top priority.

1. *Please see definitions of material matters in Materiality section on p. 45.*

MARKET RISKS

4. Risk of reduction in coal demand and prices

The company's business may be affected by a decline in demand for coal and a reduction in coal prices in the export market due to oversupply or a rise in demand for other types of fuel.
Tighter international environmental standards on coal quality and production conditions could also result in reduced demand for the coal we produce.

STRATEGIC PRIORITIES

MATERIAL MATTERS

M1 M3 M4

*For more details, see Market review on pages **50–55.***

Changes over the year

Risk increased due to lower coal prices in major markets because of weather conditions, and coal substitution with other fuels such as gas and renewables.

Risk materialised in 2019.

Actions to mitigate the risk
We continuously monitor and forecast the price behaviour of commodities in general and coal in particular. When necessary, we also adjust trade policies relating to long-term contracts. We constantly analyse the correlation between demand trends, coal mine closure, opening and expansion and the postponement of development projects.

Coal washing and our own logistics make it possible to consistently supply high-quality, demanded products to the international market. We regularly analyse the state of production in the industry and the situation in export markets and, accordingly, update production and marketing strategies.

We also expand our presence in coal emerging markets and participate in projects to develop new technologies for coal-fired power generation.

5. Risk of reduction in power plant load and electricity prices in the wholesale electricity market

SUEK's operations may be affected by a decrease in the load of thermal power plants and a drop in electricity prices in the wholesale market due to market (lower demand, excess supply), natural (high water level, average annual temperature) and regulatory factors.

STRATEGIC PRIORITIES

MATERIAL MATTER

M1

*For more details, see Market review on pages **50–55.***

Changes over the year

New

Actions to mitigate the risk
SUEK takes measures to raise the efficiency of participation in the electricity market by improving methods and technologies of operational planning and forecasting, and by increasing the loading efficiency of power plants.

We also cooperate with infrastructure organisations of the wholesale electricity and capacity market regarding changes in the regulatory documents affecting pricing and plant loading procedures.

6. Risk of reduction in demand and prices in the capacity market

SUEK's activities may be affected by lower than expected growth rates in capacity demand due to the failed commissioning of large industrial facilities in Siberia, alongside regulatory changest.

STRATEGIC PRIORITIES

MATERIAL MATTERS

M1 M3 M4

Changes over the year

New

Actions to mitigate the risk
The company monitors market demand, interacts with infrastructure organisations in the wholesale electricity market in terms of improving regulatory documents that affect the volume and cost parameters of the capacity market. SUEK fulfils all obligations to supply available and new capacity to the market, minimising the risk of being penalised for a failure to comply.

FINANCIAL RISKS

7. Foreign exchange and interest rate risks

Changes in market indicators, such as currency exchange and interest rates, can have an adverse effect on the SUEK's financial performance. They can also impact our debt burden and the value of the financial instruments on the company's balance sheet. Currency and interest rate risks need to be managed to mitigate unfavourable effects in these areas caused by currency fluctuations and rising interest rates.

STRATEGIC PRIORITIES

MATERIAL MATTER

M1

*For more details, see Financial review on pages **56–59,** and notes to the Consolidated financial statements on pages **129–161.***

Changes over the year

During the year, the LIBOR rate decreased by 0.7 p. p., which had a positive effect on the floating rate on PXF lines with a share of approximately 40% in our loan portfolio. Interest rates on RUB-denominated financing also went down, following a decrease in the key rate (from 7.75% to 6.25%).

Actions to mitigate the risk
SUEK analyses the risks relating to changes in currency exchange and interest rates on a regular basis. We strive to keep these risks within acceptable limits, and to achieve optimal profitability where possible.
We also make use of 'natural hedging' as a significant part of the company's revenue, and the majority of our loans are denominated in US Dollars or hedged.
We hedge risks using forward exchange transaction instruments as well.

8. Inflation risk

In Russia, growing inflation leads to higher costs related to procurement and payment to personnel, which can impact negatively EBITDA, as the company's revenue is nominated in US dollars.

STRATEGIC PRIORITIES

MATERIAL MATTER

M1

Changes over the year

Actions to mitigate the risk
We mitigate inflation risks by developing a balanced procurement strategy, using derivatives and investing available cash in a stable foreign currency.

Most export contracts for coal are concluded in US Dollars, which largely compensates for the effect of inflation in Russia on the Group's EBITDA.

9. Credit risk

Increase in overdue receivables under domestic coal, heat and power supply contracts, and the transition of overdue receivables to problematic or collectible accounts, can result in direct losses for the company and restricted access to debt capital markets.

STRATEGIC PRIORITIES

MATERIAL MATTER

M1

*For more details, see Financial review on pages **56–59.***

Changes over the year

Actions to mitigate the risk
We focus on liaising with the financial departments of regional governments where we supply coal. The aim here is to improve or establish a mechanism which ensures timely payments by housing and public utility companies, as well as upfront payment clauses in supply contracts.

In each company's branch, there is a department that monitors heat payment arrears and provides information support to heat buyers. SUEK's priority is pre-judicial recovery, the company always negotiates with its customers, enquires about the reasons for debt, offers options for milestone or instalment payments if some consumers are going through hard times.

10. Liquidity risk

Liquidity risk is directly related to cash turnover. It arises if the company cannot fulfil its payment obligations on time. It is often linked to the effects of inflation, foreign exchange and interest rate risk. The effective management of liquidity risk requires maintaining an adequate level of cash and cash equivalents while ensuring the prompt raising of funds using available lines of credit.

STRATEGIC PRIORITIES

MATERIAL MATTER

M1

Changes over the year

Actions to mitigate the risk
We continuously monitor loan covenants and use a comprehensive forecasting system to ensure we comply with them. At present, the amount of credit lines provided to SUEK fully covers its financing needs.

The adoption by European banks of coal policies reduces the amount of available borrowing in the pre-export lending market. At the same time, SUEK diversifies its funding sources. In particular, the company increased the share of financing from Asia-Pacific region banks and in 2019 implemented a large-scale borrowing program in the Russian bond market, thereby offsetting the indicated trend.

OPERATIONAL RISKS

11. Production risk (mining)

Various internal (downtime, adverse geology, low coal quality) or external factors (higher prices of materials and services, the failure of suppliers and contractors to fulfil their obligations, natural and other factors) can affect our activities. They can hinder the achievement of our production targets, which may require additional expenses, resulting in an increase in production costs, and cause accidents and emergencies at our production facilities.

STRATEGIC PRIORITIES

MATERIAL MATTERS

M1 M2 M4

Changes over the year

↔

Actions to mitigate the risk
At our coal production units, we use Life of Mine (LoM) deposit development models. They enable each production unit to check its annual budgeted and actual expenses with LoM on a regular basis. As part of this process, we pay special attention to operational efficiency projects. Moreover, we use monthly KPIs allowing management to assess the performance regularly and, if necessary, adjust the plans in time and ERP system as well.

As for emergencies, we continuously monitor hazardous situations at all stages of our operations, caring about compliance with safety requirements at our production sites and geological characteristics at all mining facilities. All emergencies and off-normal situations are thoroughly investigated with the involvement of sectoral experts making part of dedicated commissions.

12. Production risk (energy generation)

The main factors affecting the generation and sales of electricity and heat are the physical wear and obsolescence of equipment, including heat networks, its downtime, underestimation of the impact of possible failures, the absence of the required amount of primary materials, non-fulfilment by suppliers and contractors of their obligations, etc.

STRATEGIC PRIORITIES

MATERIAL MATTERS

M1 M2 M4

Changes over the year

New

Actions to mitigate the risk
We use a maintenance strategy and develop a programme for prioritising repairs and managing production risks. In addition, we employ a monthly reporting procedure based on KPIs, and ERP system, allowing management to promptly assess the performance of SUEK and its subsidiaries.

13. Risk of restricted infrastructure availability

Reduced access to railway and port infrastructure, electricity networks and water facilities can result in higher operational costs, and losses because of downtime at our production units. Certain infrastructure is operated by state-owned monopolies and is subject to tariff regulation, which can affect the availability and quality of their services. A number of SUEK's facilities operate in regions where extreme weather can influence power supply and transportation. Availability of infrastructure is also dependent, to a significant degree, on whether our service providers meet their obligations. Refusal to provide services can result in forced suspension of production and negatively impact our financial performance.

STRATEGIC PRIORITIES

MATERIAL MATTERS

M1 M4

*For more details, see logistics review on pages **56–59.***

Changes over the year

↔

Actions to mitigate the risk
We actively create long-term relations with infrastructure providers. When executing contracts, we pay special attention to the technical conditions and servicing of railway tracks at connecting stations, railway and port-loading facilities, electrical substations, power and heat networks.

We also invest heavily in developing our own infrastructure that is critical to our business, such as Vanino Bulk Terminal, Murmansk Commercial Seaport, railcar fleet.

14. Cyber risk

Effective management of risks related to cyber-attacks and employee errors helps us minimise and avoid the leakage of confidential information, network security breaches, problem notification costs, system recovery costs, cyber extortions, and protection costs associated with regulatory requirements.

STRATEGIC PRIORITY

MATERIAL MATTERS

M4 M6

Changes over the year

↔

Actions to mitigate the risk
We carefully monitor our compliance with IT security standards. SUEK is developing a system designed to limit access to IT systems, whilst upgrading its IT infrastructure, bringing it in line with best practice.

SUSTAINABILITY RISKS

15. Health and safety risk

SUEK's operations are associated with an elevated risk of accidents and emergencies, which can occur due to geological factors, technical conditions and the action or inaction of individuals.

Major accidents can lead to investigations from state watchdogs resulting in suspension of production, as well as a possible increase in reputational risk, the discontinuation of business partnerships or claims from the company's lenders for early loan repayments.

STRATEGIC PRIORITIES

MATERIAL MATTERS

M1 M3 M4

*For more details, see Health & safety section on pages **80–85.***

Changes over the year

↔

The risk materialised in 2019.

Actions to mitigate the risk
Every meeting of the Board of Directors and the Nomination and Compensation Committee starts with a review of health and safety issues. Our Industrial Safety Committee of the Management Board analyses every injury sustained at our sites by our employees or contractors and proposes actions to prevent similar accidents in the future.

As owners of dangerous industrial equipment, all the Group's facilities maintain general liability insurance against possible damage to life, health and the property of third parties. In addition, we insure our coal segment employees against permanent or temporary disability.

We also provide constant training for our personnel and regularly monitor the knowledge of our employees in industrial safety and protection.

16. Environmental risk

The environmental risks related to coal mining, washing, processing and coal-fired power generation supposes environmental damage including, contamination of soil and water, land disturbance by mining activities.

In the event of its occurrence, possible claims from supervisory bodies, may affect the operational and financial performance of the company.

STRATEGIC PRIORITIES

MATERIAL MATTERS

M1 M5

*For more details, see Environmental section on pages **86–94.***

Changes over the year

↗

The probability of risk has increased due to planned legislative changes, introducing additional and changing current environmental requirements regarding greenhouse gas emissions, obtaining permissions, and others.

Actions to mitigate the risk
SUEK carefully monitors compliance with all environmental norms and standards set by law in the countries where we operate and sell our products.
We take every effort to reduce environmental and ecosystem impacts and pollutant emissions, and to ensure the efficient disposal and recycling of waste.

We install electrostatic precipitators with 99.6% efficiency and tall stacks at our power plants, ensure safe ash and slag disposal, utilise mine methane and rehabilitate disturbed lands, employ state-of-the-art anti-dust measures at ports, and build closed water circulation systems at production facilities.

We also increase coal washing to reduce the environmental impact of our products during their transportation and use.

17. Human resource risk

Failure to recruit and retain qualified personnel can result in missed production targets and increased costs. A decline in birth rates and underdeveloped housing infrastructure in the regions where we operate, plus a shortage of vocational training institutions and low levels of professional skills among graduates, complicate recruitment.

STRATEGIC PRIORITIES

MATERIAL MATTERS

M2 M4

*For more details, see Our people and corporate culture section on pages **95–99.***

Changes over the year

↔

Actions to mitigate the risk
SUEK has a system of employee training and professional development.
We also work to improve motivation initiatives and enhance remuneration.
In terms of recruitment, we actively seek out and support talented vocational college and university students, providing them with employment opportunities at SUEK's facilities.

We also implement projects aimed at social development, including improving housing conditions in the regions where we operate.

Focusing on the issues that matter

In defining our strategic priorities and the content of our corporate reports, we analyse the matters that are most important to the company, our value-creation processes and our stakeholders.

By continuously monitoring our operational, financial and social activities, and working to identify any interrelated and significant material matters, we are able to better understand the impact that our business has on the world around us, and of how our future value creation may be impacted by our stakeholders.

To define materiality in 2019, we:

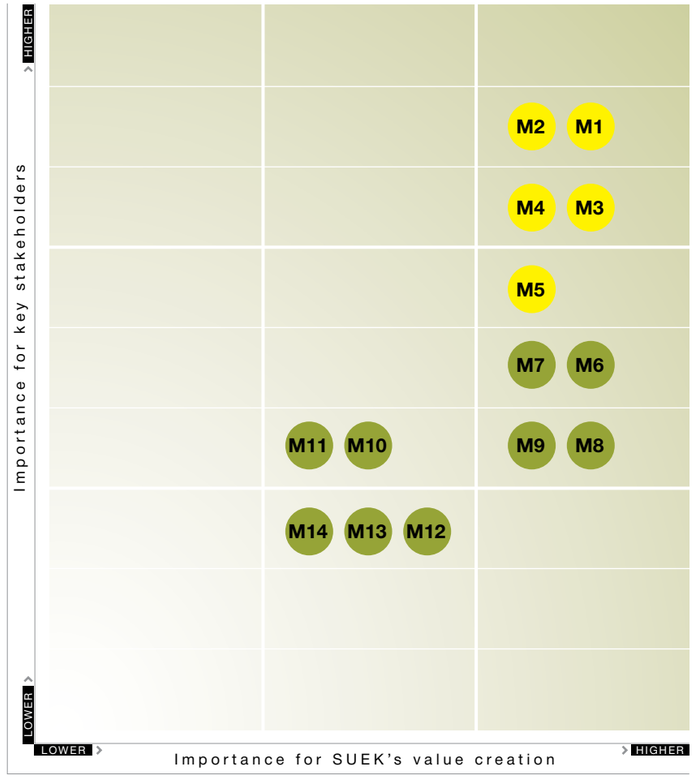
1 Surveyed our top managers to understand which of the matters defined in 2018 they considered a priority for the year 2019, and which other matters they considered should be added.

2 Surveyed external stakeholders regarding the importance and priority of these matters, and added other matters they considered significant.

3 Updated our Materiality Matrix based on these internal and external surveys.

4 Prioritised material matters.

Materiality matrix 2019



We define 'material matters' as those which could have a significant impact on the company's value creation potential, and those which are important to our key stakeholders.

In preparing our 2019 Annual Report and our Sustainable Development Report for 2018-2019, we conducted a thorough analysis of the external and internal environment and identified relevant matters which we believe are important for the growth, success and sustainability of our business, such as reputation, financial performance, and the delivery of our strategy in the reporting period.

The updated Materiality Matrix was used to set the company's long-term goals and strategic priorities, as well as for the development of this Report.

Key material matters

M1 Financial stability and development prospects

M2 Industrial safety and emergency preparedness

M3 Product quality and high-value products

M4 Operational efficiency

M5 Environmental impact of the company's operations

Other important matters

M6 Corporate governance and risk management

M7 Mutual adherence to business ethics

M8 Fair remuneration and social support for employees

M9 Human resources policy and labour relationships

M10 Staff training, including training for new jobs

M11 Contribution to urban infrastructure development

M12 Development of local communities

M13 Clear specifications and requirements for suppliers and support for local suppliers

M14 Company's role in regional social and economic development

Material issue	Context 2019	Potential impact on our value creation	How we responded
M1 Financial stability and development prospects	In 2019, the global coal market saw a significant decrease in key coal price indices under the pressure of lower gas prices, still Asian high-CV coal market demand remained steady due to limited supply of premium quality coal. Continued restrictions on the financing of coal projects, imposed by a number of banks following the Paris Climate Change Agreement.	A significant reduction in coal prices and limited financing available for core activities could adversely affect the company's financial stability and operations. Limited diversification of our international debt portfolio and the necessity to attract higher-cost financing from Russian banks instead of coal-exiting European banks could impact SUEK's financial results.	Consolidation of the energy business in 2018 diversified SUEK's cash flow, decreasing EBITDA dependence on volatile global coal prices, and ensured predictable and stable financial results amidst falling market prices, enabling the Group to maintain its credit rating. In the coal segment, operational efficiency and flexibility of our investment programme helped keep costs down and maintain profitability. In 2019, in addition to traditional financing instruments such as pre-export syndicated loans and loans related to the purchase of imported mining equipment backed by export agencies, SUEK took advantage of the local bond market, which became available due to a significant reduction in the Russian Central Bank key rate, and placed two offers of Russian bonds totalling RUB 41 bn ($633m).
M2 Industrial safety and emergency preparedness	Coal mining is associated with high production risks related to natural and man-made hazards, mining and geological factors, regularly changing working conditions and the human factor. Work at power plants and heat networks is also associated with high risks to human life and health. Despite all our efforts, in 2019 there were eight fatal accidents at the company's coal and energy facilities.	Industrial accidents and emergencies could potentially result in a number of tragic and adverse consequences: loss of life, direct property or environmental damage, temporary suspension of operations and, consequently, losses and fines, social unrest, or damage to business reputation. They could encourage partners to discontinue business relationships or lenders to demand early loan repayments.	We thoroughly investigated all accidents and incidents, took actions to prevent their re-occurrence in the future, and reiterated our commitment to zero tolerance for accidents and breaches of safety requirements. In early 2019, we started the transition to the new ISO 45001:2018 Standard across the Group. LTIFR dropped to 0.72 for our coal and to 0.24 for our energy facilities. These figures are among the lowest for the coal and energy industries in Russia and abroad.
M3 Product quality and high-value products	In 2019, despite international coal price volatility, the demand for high-CV coal remained at a consistently high level due to the growing number of new, high-efficiency coal-fired power plants consuming premium-quality coal, and reflecting tighter environmental standards. In Russia, the issue of heat energy supply quality is becoming increasingly important to consumers. The progressive deterioration of local heat networks is increasing the risk of supply disruptions.	Stricter requirements from new coal-fired power stations and tighter domestic and international environmental coal quality standards could lead to lower demand for lower-grade coal. This trend could influence the company's financial and operational performance. Incidents on heat networks and restrictions to heat supplies reduce customer satisfaction with the quality of services.	We invest in the development of high-grade coal deposits and continuously expand our washing capacities. In 2019, SUEK increased its share of washed hard coal to 62%. In June 2019, a second washing plant was piloted at Tugnuisky. Additional equipment was also installed at the first plant to boost the efficiency of coal processing. In the Energy Segment SUEK has developed, and proposed to local authorities, investment projects to modernise the heat supply systems in the cities where SUEK operates, which would significantly improve the quality of heat supply.
M4 Operational efficiency	In the coal segment, with prices falling to a level close to the margin of profitability in a number of key markets, operational efficiency was critical to optimising costs and maintaining profitability and competitiveness.	Inefficient production processes can increase costs and decrease product quality, consequently diminishing the company's competitive advantages.	Due to the high operational efficiency achieved through continuous improvements in operational processes and timely investments in equipment and staff training, SUEK continues to achieve a strong financial performance during lows in the market cycle. We also focused on the development of our logistics business, which represents one our key cost factors. We expanded our fleet of high-capacity railcars and optimised our routes, enabling us to contain the growth of rail transportation costs and ensure that we can meet our own railcar needs by more than 80%. The consolidation of the coal and energy businesses has made it possible to optimise utilisation rates at mining facilities and fuel supplies to generating companies and refine administrative functions within the consolidated company.
M5 Environmental impact of the company's operations	Environmental and climate issues are becoming increasingly important to SUEK's product consumers, financial institutions and residents of local communities. Ratification of the Paris Agreement by Russia in 2019 drew increased public attention to carbon regulation and the responsibility of business to protect the environment.	In the event of environmental damage or degradation, there could be claims from supervisory bodies, financial institutions or potential investors. These claims could, in turn, influence the company's production and financial performance; negatively affecting our ability to raise funds through the debt market.	In 2019, SUEK continued to implement its Environmental Policy 2023 and closely monitored national carbon regulation developments. We are updating our energy strategy to take into account our long-term sustainable development goals and the needs of society. Thus, we are implementing a Comprehensive Emission Reduction Plan in the cities of Krasnoyarsk and Novokuznetsk, including the construction of taller chimneys and the installation of new filters and substitution of inefficient standalone boilers with co-generation power plant heat. We also utilise mine methane, waste oil and other carbon-containing waste for heat generation and use solar panels for local power generation at coal production sites and social facilities. In 2019, SUEK received approval from the authorities for its projects on utilisation of ash and sludge waste from power generation as materials for land reclamation and construction.

Active engagement

Our stakeholder relationships are built on open dialogue and mutual trust. This enables us to accommodate their needs when making strategic and operational decisions.

We determine our key stakeholders by assessing the impact that different groups have, or might have, on our performance, as well as the impact that the company has on their well-being. When building stakeholder relationships we are committed to transparency of information, consideration for the interests of all stakeholders, receiving feedback, active cooperation with them and observing ethical business conduct.

We have a comprehensive communications system in place for sharing information with our stakeholders. This helps ensure the completeness, timeliness, reliability and consistency of information, and its availability to all. In addition, we involve stakeholders in the process of improving the business processes such as improving working conditions for our employees, expanding the territory of our operations and developing the regions where we operate.

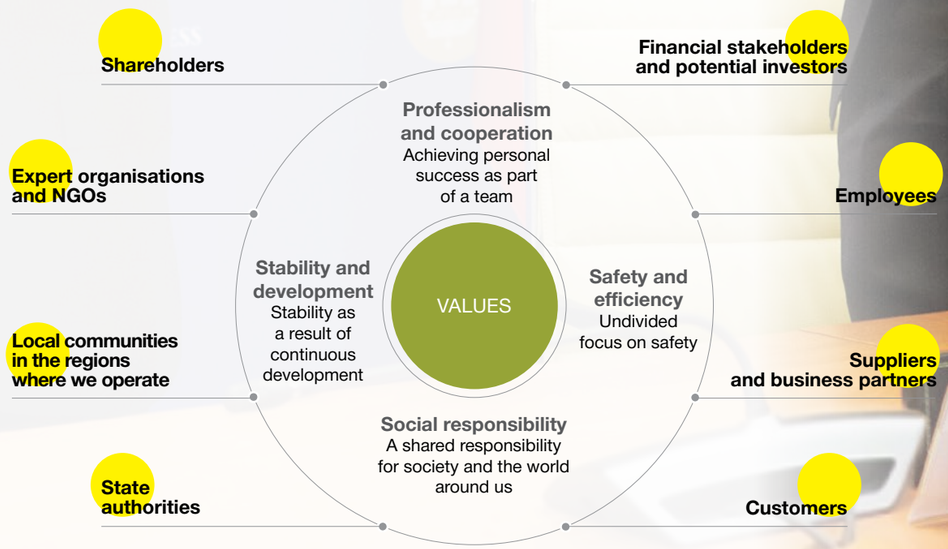
In 2019, SUEK expanded its hotline for internal and external stakeholders, enabling individual employees and external partners to raise issues or propose ideas, regarding the following areas:

- Personnel management and observance of the Code of Corporate Ethics
- Industrial Health and Safety
- Potential breaches of anti-corruption and anti-fraud policies

Key policies governing our stakeholder relationships

- Code of Corporate Ethics
- Compliance Policy
- Coal Quality Policy
- Corporate Social Policy
- Information Policy
- Environmental Policy
- Heat Consumer Relations Policy
- Energy Policy
- Occupational and Industrial Safety Policy

*For more details, see our website **http://www.suek.com***



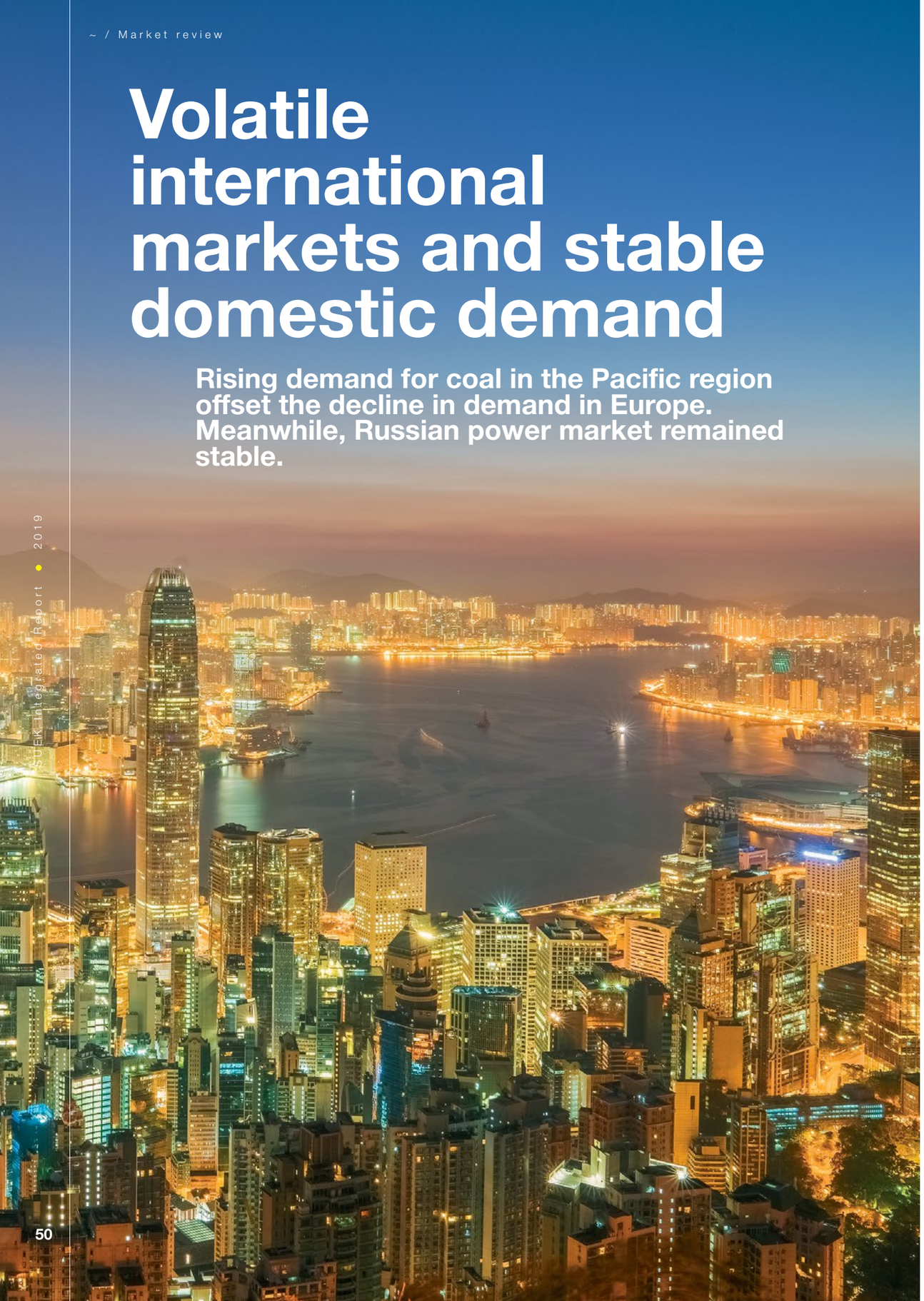
Main communication and feedback channels

- Corporate website, mass media and social networks
- Conferences and exhibitions
- General Meeting of Shareholders
- Corporate reporting
- Meetings with banks and potential investors
- Meetings with employees, customers, suppliers and contractors
- Stakeholders opinion surveys
- Customer claims resolution and accounting systems
- Personal account on the company's website and mobile application for heating customers
- Centres for heating customers
- Hotline for heat supply issues
- Agreements with trade unions and collective arrangements
- Hotline for compliance issues
- Participation in Russian and international professional unions and organisations
- Participation in committees, working groups, round tables and public hearings
- Site visits for local community representatives to the company's mining, washing and generating facilities

	Engaging employees in the improvement of work and leisure conditions	Involving consumers in improving the quality of heat supply services
OBJECTIVE	In 2019, SUEK ran an employee satisfaction survey of 4,000 employees in seven regions. The objective was to gain direct, anonymous feedback on employee conditions.	SUEK ran a survey of heat customers in its key consuming regions to evaluate their satisfaction with the quality of heat supply services as well as the heat business' environmental performance.
RESULTS	The results showed that SUEK is recognised by the vast majority of its employees as a prestigious and responsible employer. Approximately 80% of employees said they were satisfied with the level of occupational safety and social benefits, with the majority of respondents noting that over the past two years, working conditions have improved. The respondents voiced some concerns about the lack of proper social infrastructure in some cities and towns, including clean and tidy streets and courtyards, and limited playground areas for children.	Based on over 2500 respondents the results showed high satisfaction with the quality of heat supply and increased awareness of SUEK's environment-focused modernisation programmes, in particular in Krasnoyarsk. Whilst no major issues were identified by the survey, SUEK recognises the importance of constantly increasing direct communications with customers to improve sales efficiency and enhance customer service.
REPORTING	The results were reported to the Nomination and Compensation Committee of the Board of Directors.	The results were reported to the Management Board.
OUTCOME	Additional social investment projects were included in the 2020 budget. New plans were approved for the development of squares and parks in the cities where SUEK's operations are located.	Management have now decided to create a Unified Consumer Portal for launch in 2020 – a system of digital communication services between the company and its customers, including online contract management and renewal, online utilities.

Volatile international markets and stable domestic demand

Rising demand for coal in the Pacific region offset the decline in demand in Europe. Meanwhile, Russian power market remained stable.



International coal market

2019 was a year of significant volatility in the seaborne coal market. However, overall volumes remained broadly the same year on year, growing by less than 1%, to 975 Mt. The Atlantic market declined by approximately 30 Mt, mainly reflecting consumers switching from coal to gas and mild weather. Meanwhile, demand in the Pacific market rose by approximately 38 Mt driven by China, Vietnam and Indian imports. European coal prices touched lows that caused significant increases in flows from typically western supplies towards the East.

Asia Pacific Market

In 2019, demand from the Asia Pacific market for thermal coal imports rose 5% year-on-year, to 836 Mt.

China increased thermal (and lignite) coal imports by 5%, or 11 Mt, to 218 Mt, despite the impact of the US – China trade war on the Chinese economy. 2018 import backlogs led to weak imports at the beginning of the year. However, stricter domestic mining safety controls in Q2 tightened supply and boosted the import market. At the same time, reforms to the supply-side, which have driven the market since 2016, ended, and domestic output started to increase rapidly by the middle of the year. With market data signalling the coal import ceiling was set to breach, importers increased their intake during Q3, anticipating a potential import ban from the government. This ban 'unofficially' materialised at the end of the year. It should be noted that Chinese import control measures targeting Australian coal as a result of geopolitical issues boosted demand for Indonesian coal.

Indian imports increased by 12 Mt to 169 Mt during the year, reflecting subdued domestic production, with the uplift occurring largely in the first half of the year. Coal imports started the year strong as electricity generation grew by 5.5% during H1. However, the market dynamics changed during the second half of the year as electricity demand dropped by 3% year on year. On top of this, the prolonged Indian monsoon during Q3 increased hydro generation, which, coupled with slowing power demand, meant that coal-based electricity generation declined in the second half of the year. Electricity generation from thermal coal, which increased by 4% in H1, had declined by 7% by the end of H2. Market commentators believe that in the absence of structural reforms India will continue to underperform its economic potential and struggle to achieve GDP growth of 6% in the year ending March 2020, a drop from last year's 6.8%. If correct, this will impact Indian industry and power demand. However, in the mid-term, if reforms are achieved, the potential of the Indian market is significant.

Vietnam almost doubled its thermal coal imports to 31 Mt. A combination of factors drove this increase, including the commissioning of two new coal-fired power plants and a double-digit drop in hydro generation, also uncompetitive domestic coal production was constrained, all at a time of increased industrial demand.

Imports from **North-East Asia (Japan, South Korea and Taiwan)** reduced by 4% (or 11 Mt) to 282 Mt, with the biggest drop coming from South Korea (down by 7 Mt) which has started a campaign against fine dust pollution. About a quarter of South Korea's oldest coal capacity is earmarked for closure during winter while all other coal-fired plants will be capped at 80% utilisation, this follows restrictions enforced during spring and the April 2019 tax reforms, which raised the import duty on coal by 27% and reduced it on LNG by 74%. If blackouts are avoided at peak demand, seasonal coal curtailments may become a permanent feature. Meanwhile, by 2024 South Korea plans to add a net total of 4.7 GW to its coal-fired power capacity. In Taiwan, despite coal imports being relatively stable during 2019, the government has also triggered policies to counter air pollution that may translate in potentially lower demand in 2020 – by 2 Mt compared to 2019. In Japan, thermal power generation fell by 5% as a result of weaker demand, a sharp recovery in nuclear generation during H1 and steady growth in renewable output, this represented a 3% decrease (4 Mt) to 125 Mt in coal imports during 2019. For 2020 lower nuclear generation is expected as some plants are expected to shutdown, thus, imports are expected to increase.

On the supply side, despite the drop in US exports to the Pacific by 30% from 27 to 19 Mt, another 14 Mt was diverted from western ports towards Asia (9 Mt from Colombia and 5 Mt from Russia) that follows the increased exports from Far East Russian ports, Australia, Indonesia and South Africa.

Atlantic Market

In 2019, demand for imported coal in the Atlantic market dropped by 30 Mt (down 18% year on year) to 137 Mt. However, all of this reduction reflected lower European imports, with demand from North African and American countries remaining roughly stable.

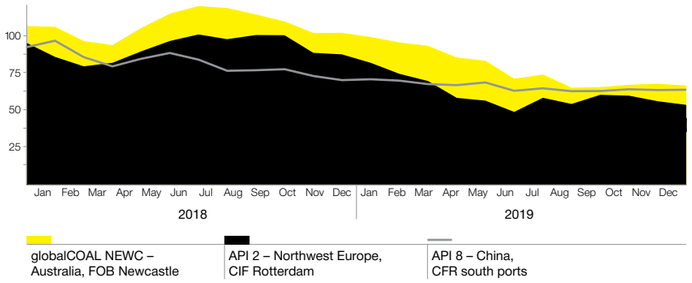
European coal demand declined by 32% to 66 Mt. The long-awaited LNG supply excess became a reality and the Asian LNG demand, historically present, was not there to absorb supply. European LNG demand slowed due to a combination of weather, the economy and increasing supplies of other energy sources including nuclear. In the absence of significant growth in gas demand to support supply, LNG vessels flooded Europe, which was already coping with record-high volumes of gas piped from Russia and Norway. In addition, carbon emissions pricing trended upwards during the first half of the year, stabilising at around €25/t during the second half of the year.

All in all, very low gas prices and high emissions prices created the perfect storm for aggressive coal-to-gas switching. Prolonged mild and windy winters, which play well to renewable power generation, could see a prolonged and accelerated shift away from thermal power generation. Spain, Portugal and Germany have made aggressive moves to advance their switch from coal to gas power. Furthermore, UK coal imports continue to decrease, with current demand restricted purely to industrial use.

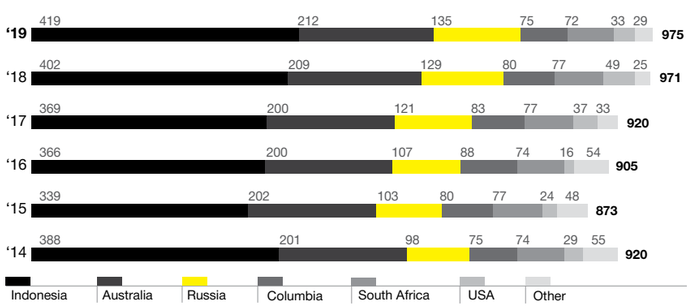
On the supply side, Colombia and the USA reduced exports to the Atlantic market by 8 and 7 Mt respectively. South African supply to the Atlantic contracted by 7.5 Mt, and its exports to Europe are now minimal.

The US has reduced thermal coal exports by 15 Mt and, given current trends, the decline should continue during 2020. US coal producers operate with very challenging market dynamics. The domestic market is witnessing significant coal displacement due to an abundance of low-cost gas and a depressed international gas market.

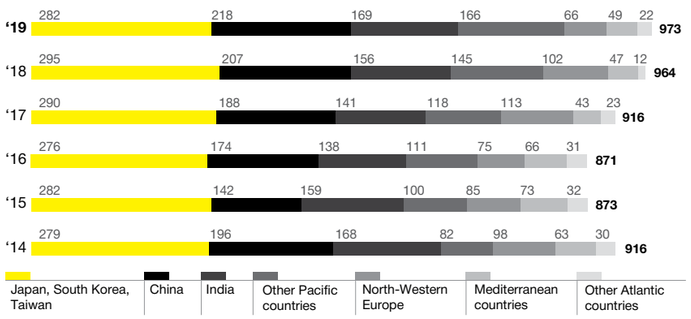
Thermal coal price indices, *$ per tonne*



Thermal coal seaborne exports, *Mt*



Thermal coal seaborne imports, *Mt*



Source: SUEK estimates.

Russian coal market

In 2019, domestic deliveries of Russian thermal coal decreased, while high-quality Russian coal remained competitive and exports to key markets increased.

Production

In 2019, Russian thermal coal production remained stable at 342.5 Mt[1]. The share of hard thermal coal amounted to 76% (260.3 Mt) of total production volumes. A large proportion of high-quality Russian coal is supplied to the international market.

Brown coal production increased by 1% compared to 2018, to 82 Mt. Brown coal is mainly supplied to the Russian market, in particular to power plants and public utilities.

Russian market supplies

In 2019, thermal coal supplies to the domestic market fell by 5% to 127 Mt. Power generating companies received 84 Mt of coal, including 54 Mt of brown coal and 30 Mt of hard coal, a 2% below 2019. Demand for coal from generating companies was impacted due to record electricity generation at Siberian hydroelectric power plants, relating to high river water levels. Thermal coal supplies to public utilities fell by 6% year-on-year, to 21 Mt, reflecting the relatively warm 2018–2019 winter and the late start to the 2019–2020 heating season.

Thermal coal imports decreased by 4% compared to 2018, to 23 Mt, due to lower demand from Russian thermal power plants and public utilities. Kazakhstan remained the largest supplier of thermal coal to Russia.

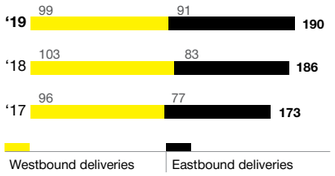
Export supplies

In 2019, Russian companies ramped up thermal coal exports by 2% to 190 Mt. An increase in shipments to the East by 8 Mt to 91 Mt offset the drop in shipments to the West by 4 Mt[2].

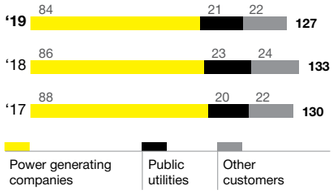
The key driver behind the decline in thermal coal exports to the West was weaker Polish demand for coal due to warm weather; therefore, shipments through rail border crossings fell by 5 Mt to 20 Mt. At the same time, deliveries to western seaports grew by 1 Mt, reaching 79 Mt. In 2019, the main destinations for Russian seaborne thermal coal exports to the Atlantic market were the Netherlands, Turkey, Germany, Morocco and Italy. In addition, coal shipments from western ports to Asian markets, to India, South Korea, Malaysia and Vietnam, almost doubled.

Eastbound deliveries in 2019 were again hindered by railway infrastructure constraints and intensive development of the Eastern Polygon. Nevertheless, shipments of thermal coal to ports in the East of the country increased by 7 Mt to 82 Mt, which boosted seaborne exports of Russian coal to China, Vietnam, India and Japan. Supplies of thermal coal to China through rail border crossings increased significantly, by 1 Mt to 9.4 Mt.

Russian thermal coal supplies to the international market, *Mt*



Thermal coal supplies to the Russian market, *Mt*



Sources: Statistical data from Russian government agencies, SUEK estimates.

1. *Sources: Statistical data from Russian government agencies, SUEK estimates.*
2. *Including PCI coal.*

⚡ Russian energy market

Electricity market

According to the System Operator of Russia's Unified Energy System, in 2019 electricity generation in Russia increased by 0.9% year-on-year to 1,080 TWh. This was due to higher electricity consumption in some months, with lower temperatures compared to 2018, and increased export of electricity from Russia.

In Siberia's Consolidated Energy System (Price Zone 2), demand for electricity rose by 0.5% from the previous year, to 211.0 TWh, due to more intense electricity consumption by aluminium smelters and lower air temperatures in some months. In the European part of Russia and the Urals (Price Zone 1) energy consumption decreased by 0.5% year-on-year to 807.6 TWh due to a cool summer and warm start of winter.

Electricity generation by Siberian thermal power plants decreased by 3% year-on-year, to 100.4 TWh, mainly in view of higher electricity generation at Siberian hydroelectric power plants (up 6.3% from 2018). In the Irkutsk region, high river water levels led to record levels in the reservoirs of the Angarsk hydroelectric power plants. Water reserves in the reservoirs of the Yenisei hydroelectric power plants were minimal in 1H 2019 due to a light spring flood in the Krasnoyarsk region and a lack of precipitation, but recovered to average multi-year levels by mid-July. Despite the decline in power generation by hydropower plants in 1H 2019, these factors increased their load for the full year.

The market price on electricity (day-ahead market, DAM) in Siberia remained flat year-on-year. This was because a price increase in the European part of Russia and the Urals compensated for a drop in price due to higher hydrogeneration, especially during network restriction periods.

The DAM electricity price in the European part of Russia and the Urals increased by 3% year-on-year. The key factors that influenced the change included:

- An increase in electricity exports from the European part and the Urals (by more than twice, or on average by 1 GWh) in the first five months of 2019, mainly to the energy systems of the Baltic countries (Estonia, Lithuania, Latvia), Ukraine, Belarus and to Finland's energy system (because of a significant reduction in Scandinavian water resources, a cut in the cross-border tariff duty by the Finnish electricity transmission operator, Fingrid, and growth in CO_2 emission quota prices)
- Rising prices in suppliers' orders in connection with a higher minimum level of wholesale gas tariffs (+3.4%) year-on-year
- A decrease in hydrogeneration following a decline in reserves of the Volga-Kama region.

In turn, changes in the planned output of nuclear power plants in January-August 2019, which exceeded 2018 values, including due to commissioning of a new power unit at the Rostov NPP, limited further price growth.

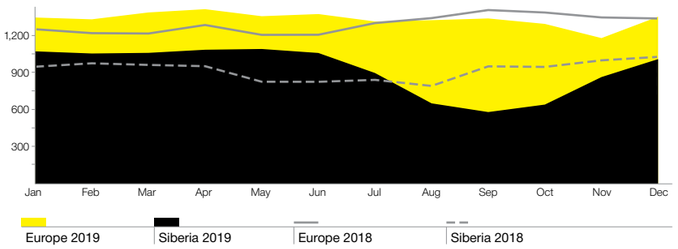
211 TWh

electricity consumption in Siberia in 2019

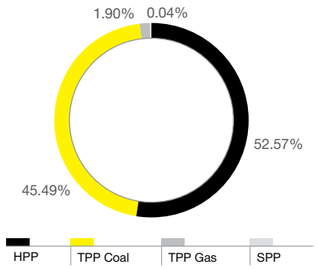
45%

of electricity in Siberia is generated from coal

Russian electricity market prices 2019/2018, *RUB/MWh*



Siberia's electricity generation by plant and fuel types



Sources: Statistical data from Russian government agencies, SUEK estimates.

Power capacity market

In 2019, power capacity sales in Siberia rose 0.5% year-on-year, to 42.9 GW. The competitive price for capacity sales in Siberia in the reporting period was 213,705 roubles/MW/month, which is 7% higher than in 2018. This was driven by:

- Higher demand for capacity in 2019 year-on-year during the competitive capacity take-off (CCT)
- Factoring indexing the price based on CCT outcome

In 2019, power capacity sales in the European part of Russia and the Urals amounted to 146 GW, a 1.7% increase year-on-year. The competitive price for capacity sales in the reporting year increased by 4% to 124,048 roubles/MW/month.

In 2019, projects were selected to modernise the generating facilities of thermal power plants in 2022-2025 ('DPM-2').

The programme, launched by the Russian government in February 2019 as a continuation of DPM-1 programme, guarantees a return on investment in heat and power capacity development for participating projects up until 2030.

'DPM-2' is part of increased investment to modernise obsolete capital equipment at power plant generating facilities, to extend the life of the upgraded power plants by 15-20 years.

About 40 GW of old heat capacities will be upgraded in the upcoming 10 years, including a number of SUEK's generating facilities.

Installed capacity structure by plant types in Siberia, *MW*

Power plants	2019	2018
Thermal	26,578	26,521
Hydro	25,301	25,291
Nuclear	–	–
Renewables	225	55
Total	**52,104**	**51,867**

Sources: Statistical data from Russian government agencies, SUEK estimates.

Installed capacity structure by plant types in the European part of Russia and the Urals, *MW*

Power plants	2019	2018
Thermal	131,535	132,091
Hydro	19,960	19,555
Nuclear	30,313	29,132
Renewables	1,321	963
Total	**183,129**	**181,741**

Sources: Statistical data from Russian government agencies, SUEK estimates.

+7%

the competitive price for power capacity sales in Siberia compared to 2018

Investing in the future and delivering consistent results

The consolidated SUEK Group has once again demonstrated its ability to generate stable cash flow, supporting our annual large-scale capacity development and health, safety and environmental programme whilst enabling us to finance strategic acquisitions and confidently service our debt.

Deeper vertical integration with our resilient energy business and the logistics chain helps us reduce fluctuations in our revenue triggered by volatility in global coal prices.

While consistently implementing our strategy, we continue to deliver our investment programme. In 2019, SUEK's total capital expenditure reached another record level of $994m, with our main investments focused on expanding our production of high-CV coal, improving environmental and industrial safety, upgrading the efficiency and environmental performance of our energy facilities and securing self-sufficiency in logistics.

A number of strategic acquisitions in 2019 led to a temporary increase in net debt, and the net debt to bank EBITDA ratio rising to 3.1x at the year-end. However, we reaffirm our goal of maintaining this indicator at an average level of 2.5x throughout the market cycle.

The Group's **revenue** decreased by 9% year-on-year due to a decline in coal export revenue, reflecting a significant drop in global coal prices and a slight decrease in sales. At the same time, this impact was partially offset by growth in revenue from electricity and capacity sales.

EBITDA in 2019 fell by 17% to $2,115m following a decrease in coal revenue, which was partially offset by lower transportation expenses.

The Group's net profit decreased by $458m year-on-year to $706m due to reduced EBITDA by $426m.

SUEK's total CAPEX reached a record level of

$994m[1]

Financial highlights

$m	2019	2018	Change
Revenue	7,547	8,296	(9%)
Cost of sales	(3,481)	(3,483)	0%
Transportation costs	(1,719)	(2,005)	(14%)
Administrative and other expenses	(232)	(267)	(13%)
EBITDA	**2,115**	**2,541**	**(17%)**
EBITDA margin, %	28%	31%	(3 p. p.)
Net profit	**706**	**1,164**	**(39%)**
Net margin, %	9%	14%	(5 p. p.)
Capital expenditure	**994**[1]	**903**	**10%**
Net debt	**6,562**	**4,187**	**57%**
Net debt / bank EBITDA ratio[2]	3.1x	1.6x	1.5x
Bank EBITDA/interest expense ratio	5.5x	9.1x	3.6x

From EBITDA to net profit

$m	2019	2018	Change
EBITDA	2,115	2,541	(17%)
Depreciation	(1,053)	(669)	57%
Income tax	(134)	(314)	(57%)
Financial expenses	(422)	(311)	36%
Foreign exchange profit / loss	200	(83)	341%
Net profit	706	1,164	(39%)

From EBITDA to operating cash flow

$m	2019	2018	Change
EBITDA	2,115	2,541	(17%)
Changes in working capital	111	(373)	(130%)
Income tax paid	(178)	(288)	(38%)
Other	11	21	(48%)
Operating cash flow	2,059	1,901	8%

Mergers, acquisitions and capital expenditure

SUEK's CAPEX reached $994m.

In addition, in April 2019, the Group acquired 16,025 higher-capacity railcars for $327m to improve the efficiency of logistics for priority routes to the east.

In October 2019, the Group purchased the Reftinskaya GRES for $345m. The expansion of the Energy Segment reduces the dependence of the Group's financial performance on volatile global coal prices.

1. *Excluding the purchase of 16,025 railcars and Reftinskaya GRES.*
2. *Calculated in accordance with SUEK loan agreements.*

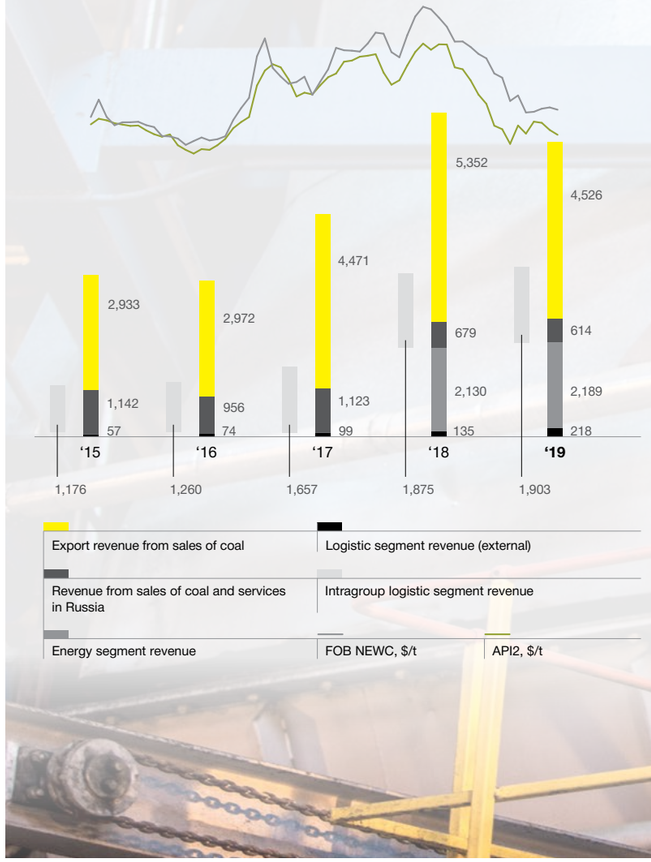
Net debt

As at 31 December 2019, the net debt amounted to $6,562m.

As at 31 December 2019, most of our debt is denominated in US Dollars (71%), 26% is denominated in roubles and the remaining part in Euros.

The effective cost of borrowing, normalised to the rate in US Dollars, was 4.5%. The company's main debt instrument remains dollar-nominated pre-export financing secured by international sales revenue. Additionally, in 2019 SUEK arranged a significant rouble bond programme raising RUB 41bn ($633m).

Higher share of low-volatility revenue, *$m*



Credit ratings

In 2019, SUEK's credit ratings were confirmed by rating agencies, with a 'stable' outlook: Moody's confirmed its rating at Ba2, Fitch Ratings at BB and Expert RA at ruAA-.

Moody's	Ba2
FitchRatings	BB
RAEX	ruAA-

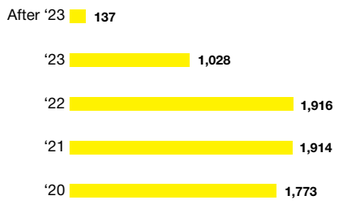
"The company remains competitive thanks to economies of scale, vast coal reserves, operational diversification and low production costs, along with an integrated business model that includes thermal coal production and electricity generation businesses."

Moody's

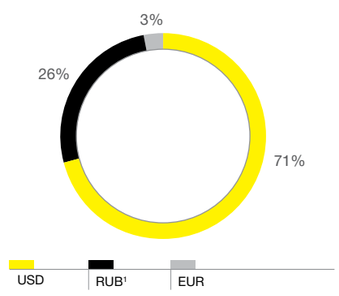
"We view SUEK as a fundamentally FCF-positive business with high single-digit FCF margin through the cycle, as seen historically. The company has not paid dividends since 2011 and has demonstrated capex flexibility during coal market downturns. …Hence, we expect that SUEK will continue generating positive FCF over the rating horizon, allowing it to deleverage … by 2021 and 2022 from the 2019 peak."

Fitch

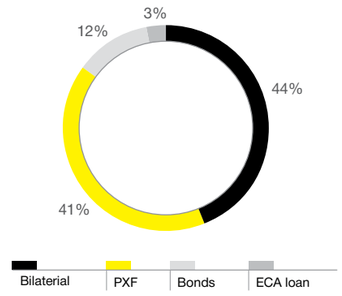
Loan maturity, *$m*



Currency debt structure, 31 December 2019



Instrument debt structure, 31 December 2019



1. *100% of RUB debt has been hedged.*

Coal | Energy | Logistics | Procurement

Focusing on operational excellence

SUEK is constantly adopting and implementing best-in-class technologies across all of its operations. These ensure optimum operational efficiency, a high level of industrial and environmental safety and help generate strong cash flow and stable EBITDA, enabling SUEK to constantly reinvest in its business and the communities in which it operates.

Enhancing washing efficiency in Kuzbass

See more on page ***67.***

Robotising drilling

See more on page ***65.***

Mobile heat inspector

See more on page ***70.***

24/7 environmental control at Murmansk Commercial Seaport

See more on page ***73.***

>80%
of export is high-CV coal

+72‘000
heat customers

>80%
self-sufficiency in railcars and ports

Coal

Strategic priorities

Safe and efficient production

Increase in high-CV coal production

Expanded presence in Asian markets

Products

High-CV coal

Strategic priority:

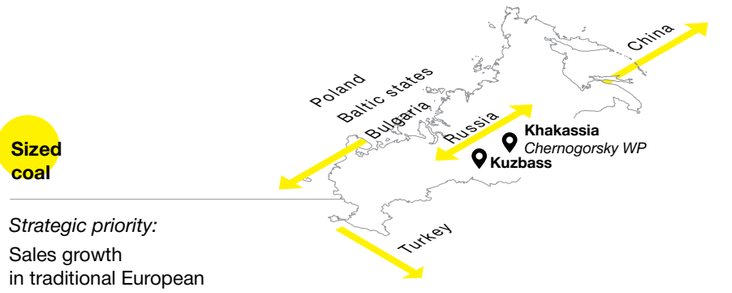
Increased production and exports with a focus on premium markets

Metallurgical coal

Strategic priority:

Increased production and presence in all key markets with a focus on Asia and Russia

Sized coal



Strategic priority:

Sales growth in traditional European and new markets

Low-CV fines

Strategic priority:

Increase processing

$5,140m
revenue

0.72[1]
LTIFR

$818m
CAPEX

[1] *Calculated together with logistics.*

With 7.6 billion tonnes of coal reserves, SUEK currently has over 30 years' worth of high-quality raw materials for development.

Our coal is low in nitrogen and low in sulphur, and by washing it we significantly reduce the ash content and increase the calorific value and reduce the environmental impact of our products. This ensures they meet the most stringent requirements of our consumers, in particular from Japan, South Korea and Taiwan.

The close proximity of our hard coal assets in Kuzbass, Khakassia and Buryatia to the railways and also to ports in the west and east of Russia allows us to easily adjust our supply schedule depending on demand and maintain our position as Russia's largest coal exporter.

Our hard coal assets in the Khabarovsk region and Primorye have a competitive advantage, due to their location close to ports that give them access to the Asian markets.

Our brown coal assets in the Krasnoyarsk region, Zabaikalye and Primorye, are located close to coal-consuming energy companies, including those that are part of the SUEK Group.

We also produce metallurgical coal at the Kirov WP in Kuzbass and the Apsatsky open-pit mine in Zabaikalye. Chernogorsky WP in Khakassia produces sized coal, used in households in Poland, Turkey and other countries.

By using our own logistics channels, including our own railcars and ports, we can ensure we deliver our products to consumers efficiently and on-time.

Our largest service facilities Sib-Damel in Kuzbass, Borodinsky repair and mechanical plant in Krasnoyarsk and Chernogorsky repair and mechanical plant in Khakassia provide a full range of services for the repair and production of mechanisms for mining equipment, reducing our dependence on third-party suppliers.

Through our well-developed distribution network, we supply coal to consumers in 48 countries.

In the Russian market, the Group delivers coal to large industrial and energy companies, as well as medium-sized consumers, through its sales unit.

SUEK AG sells coal in the international markets via a network of representative offices and subsidiaries in countries of strategic importance for the Group, including Poland, China, Taiwan, South Korea, Indonesia, Lithuania, Vietnam, Japan, Switzerland, the UK and the USA. This way SUEK can take payment for its products in local currencies and offer additional services to local customers.

Operational highlights

Mt	2019	2018	Change
Mining	**106.2**	**110.4**	**(4%)**
By product type			
hard coal	66.7	72.1	(7%)
brown coal	39.5	38.3	3%
By mining method			
open-pit	81.1	77.9	4%
underground	25.1	32.5	(23%)
Washing	**41.3**	**42.2**	**(2%)**
Sales	**115.1**	**115.6**	**0%**
International sales	**55.2**	**57.2**	**(3%)**
Asia-Pacific market	34.3	33.1	4%
Atlantic market	20.9	24.1	(13%)
Including:			
third-party coal	14.5	11.5	44%
petroleum coke and other sales	1.4	1.8	(24%)
Domestic sales	**59.9**	**58.4**	**3%**
To own generating facilities	33.7	30.2	12%
To other consumers	26.2	28.2	(7%)

106,2 Mt
coal mined

113,7 Mt
coal sold

Sales

In 2019 our sales volumes were 115.1 Mt, remaining almost unchanged compared to 2018.

Our international sales volumes decreased by 3% to 55.2 Mt (including 1.4 Mt of petroleum coke and other products sales) due to lower supplies to the Atlantic region, the effect of which was partially offset by an increase in shipments to Asian markets. Our main international sales destinations in 2019 were China, South Korea, Japan, the Netherlands, Germany, Vietnam, Morocco, Taiwan, Poland and India.

SUEK's supplies to the Asia-Pacific region accounted for 60% of the company's international sales and grew by 1.2 Mt to 34.3 Mt due to increased exports to Vietnam, China, India and Hong Kong. Deliveries to the Atlantic region decreased by 3.2 Mt to 20.9 Mt, reflecting more significant decreases in supplies to the UK, Spain and Turkey. At the same time, we increased our supplies to Germany, Morocco, Croatia and the Netherlands.

Sized coal sales, including through our own distribution networks in Russia, Poland, the Baltic states and Turkey, contracted by 13% to 4 Mt due to weather conditions, which resulted in lower coal consumption in the public utilities sector, and a difficult economic situation in Turkey. Metallurgical coal sales fell to 3 Mt, mainly reflecting a decrease in domestic deliveries due to excess supply of highly volatile semi-coking coal in the Russian market.

SUEK's coal deliveries to our own power plants grew by 12% to 33.7 Mt as we replaced coal from third-party producers with our own coal. Sales to other Russian consumers decreased slightly, as we increased supplies to our own power plants.

Our sales of petroleum coke and other non-coal products in 2019 fell by 24%, to 1.4 Mt, amidst a general decline in the production of petroleum coke in Russia.

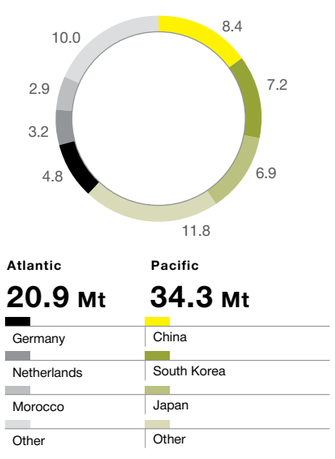
Export revenue from coal sales decreased by 11% to $4,295m, primarily due to a lower average selling price amidst a general decline in coal market prices in Europe and Asia, and weaker coal sales.

The average annual coal price index in the Atlantic region in 2019 was 34% lower year-on-year and reached $61 per tonne. A drop in gas prices at the beginning of the year, along with a warmer winter, put significant pressure on the coal price. Prices rose slightly in the second half of the year but did not reach the level of 2018. Restrictions on the purchase of Australian coal in China and sluggish demand in other Pacific markets triggered a decline in prices in the Pacific. The average annual FOB NEWC index fell by 28% year-on-year to $77 per tonne.

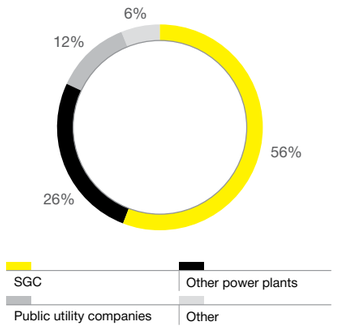
Russian market revenue remained unchanged at $1,224m (including intragroup revenue). The decrease in coal sales to third parties reflected growing supply to the Group's Energy Segment.

In US Dollar terms, **the unit cost of the Group's coal sold** rose by 7% compared to 2018 following a decrease in underground coal mining to accommodate scheduled longwall face moves in a number of Kuzbass mines.

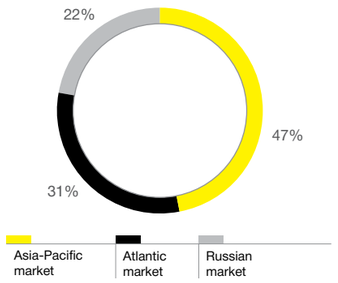
International sales structure in 2019 by markets, *Mt*



Domestic coal sales structure in 2019

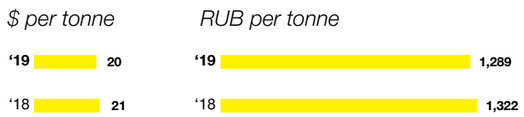


Coal sales revenue by market

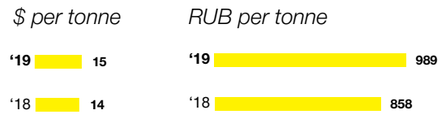


Average price of coal sold on international markets[1]***,*** *FOB basis, $ per tonne*

Average price of coal sold in Russia



Cash cost of coal sold



Revenue

$m	2019	2018	Change
International	**4,526**	**5,352**	**(15%)**
International coal sales	4,295	5,051	(15%)
Pacific coal sales	2,599	2,894	(10%)
Atlantic coal sales	1,696	2,157	(21%)
Petroleum coke sales	153	250	(39%)
Other	78	51	53%
Domestic	**614**	**679**	**(10%)**
Domestic coal sales	582	655	(11%)
Other	32	24	33%
Inter-segment sales	**664**	**568**	**17%**

1. *The price is adjusted to the FOB basis for Vanino, Maly Port and the eastern borders of China for shipments to Asia, and FOB Murmansk for sales to Europe. For shipments on other terms, we exclude the costs of freight, railway transit and cross-charged warehousing costs in foreign ports.*

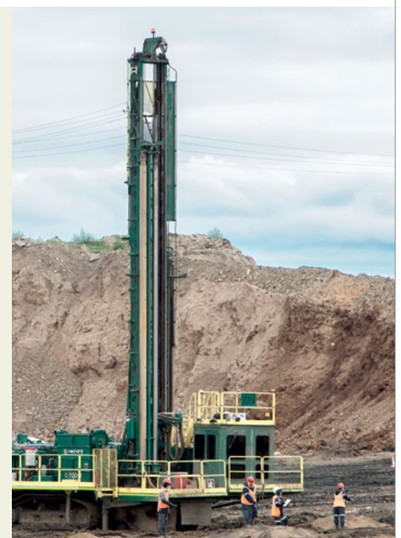
Autonomous drilling rig

In 2019, we began the process of automating blast hole drilling. The first autonomous robot-assisted drilling rig was tested at the Tugnuisky open-pit mine.

It is equipped with onboard independent control equipment enabling key operations to be performed without operator assistance or via remote control:

- Moving between holes in accordance with the drilling design
- Levelling the machine platform
- Drilling boreholes in accordance with the design
- Measuring parameters of drilled wells
- Ceasing movement when encountering obstacles.

Process automation will replace human involvement in potentially hazardous areas and will improve the speed and accuracy of work. The review of the results of the pilot project and further decisions are scheduled for summer 2020.



Mining

SUEK produced 106.2 Mt of coal in 2019, representing a 4% decline on the previous year and leading to a decline in productivity of mining personnel. We increased our open-pit coal production by 4% to 81.1 Mt driven by Nikolsky, Pravoberezhny, Chernogorsky, Zarechny, Borodinsky, and Abakansky expansion. Our underground mining decreased by 23% to 25.1 Mt due to large-scale scheduled upgrades in Kuzbass, at the Kirov, Yalevsky and Polysaevskaya mines, and partly in Urgal, at the Severnaya mine.

Hard coal production, almost half of which was mined in Kuzbass, decreased by 7% for the following reasons:

- Difficult geological conditions for preparing reserves and mining coal at the Kuzbass and Urgal mines
- Unfavourable market environment and limited
- Limited capacity of the Krasnoyarsk and West Siberian railways
- Lower demand for coal from Kamyshansky due to unfavourable market conditions

Brown coal production, the bulk of which is mined at open-pit mines in the Krasnoyarsk region, grew by 3% to meet robust coal demand from SUEK's own generating plants.

Coal washing and product quality

The main way to improve the quality of coal is to increase the volume and depth of its processing. In line with our strategic priority to expand the production of high-quality coal, the following projects were delivered in 2019:

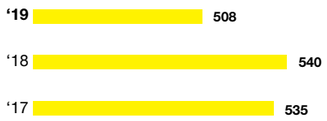
- Commissioning a new washing plant at Tugnuisky for washing 0–25 mm coal, with an output of 6 Mt a year
- Completing the reconstruction of the Chernogorsky WP with an increase in its production capacity up to 9 Mt a year

In 2019, washed coal as a share of hard coal produced, rose by 3 p. p., despite the 2% decrease in the volume of coal washed to 41.3 Mt due to lower volumes of hard coal mined.

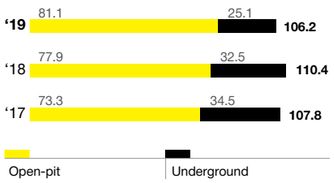
As a reliable supplier, we strive to meet the requirements of consumers for the quality of our products and ensure strict compliance with contractual obligations. We constantly improve our quality control system and introduce new methods to determine the ash content in coal, the moisture content in our extracted, produced and shipped products, and improved mechanised methods of selecting and preparing product samples.

The company has a Quality Policy and runs a quality management system in accordance with the ISO 9001:2008 International Standards and the ISO 55001:2014 Asset Management Standard.

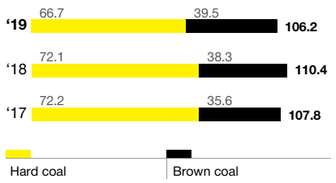
Productivity of mining unit production personnel, *tonnes per man-month*



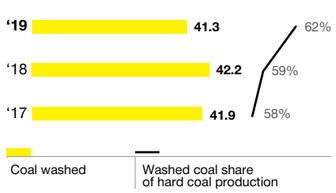
Production by mining method, *Mt*



Production by type of coal, *Mt*



Washed coal, *Mt,* ***and washed coal share***



Investment projects

In 2019, due to a decrease in international coal prices, we focused our coal capacity development programme on improving competitiveness and operational efficiency, while postponing a number of expansion projects that were not critical to the company. The rest of the investment programme was aimed at maintenance and environmental and safety projects.

Building a second washing plant at Tugnuisky

In mid-2019, six months ahead of schedule, SUEK put into pilot operation a new fine-size coal washing plant at Tugnuisky with a capacity of 6 Mt per year. The washed volume in 2019 exceeded 1 Mt.

Completing a flotation unit at the Kirov WP and a filter press unit at the Polysaevskaya WP

In 2019, we completed the construction of a flotation unit at the Kirov WP and a filter press unit at the Polysaevskaya WP. The flotation unit will increase the concentrate yield by 2–3% due to deeper 0–0.35 mm slimes processing, while the filter press unit at the Polysaevskaya WP will close the process water circuit, thereby reducing the environmental load after eliminating slurry discharge into external sumps.

Capacity increase at Pravoberezhny

In 2016, we began the development of the Pravoberezhny open-pit mine with a design capacity of 3 Mt by 2021. The key advantages of this asset are high-CV, low-nitrogen and low-sulphur coal, its close proximity to the Vanino Bulk Terminal (less than 1,000 km) and a relatively low overburden ratio. In 2019, a decision was made to further expand the mine capacity to 6 Mt by 2024 with a simultaneous increase in the capacity of Chegdomyn WP up to 9–10 Mt. Actual production in 2019 amounted to 2 Mt.

Enhancing work safety

In 2019, at SUEK's Kuzbass assets acquired a multifunctional slant drilling rig PRAKLA RB-T135 able to drill wells with an initial diameter of up to 2 metres, as well as equipment to support early degassing of coal seams.

Raising mine development efficiency

In 2019, we further raised the efficiency of mine development by the introduction of bolter miner machines to replace old-style roadheaders in order to ensure the timely preparation of longwall faces at our mines.

Construction of the November 7th Novaya mine[1]

In 2019, SUEK continued its active investment phase related to the construction of the November 7th Novaya mine at the Sychevsky site to boost underground mining from thick seams). In 2019, we purchased the Aleksievsky site reserves (the deeper seams of the Sychevsky site) with an estimated extractable volume of 190 Mt (in addition to the extractable reserves of the previously licensed upper seams exceeding 50 Mt). The acquisition of these reserves in underlying seams will prolong the life of the infrastructure currently under construction. The decision to slow down the construction of the mine was made in 2020 due to the deteriorating market conditions, the launch of the mine will be postponed until a later date, when the market conditions recover.

1. *Project to replace an old mine that was closed.*

Our priorities for 2020

We intend to increase sales of high-CV thermal coal with a calorific value of more than 5,800 kcal/kg. Increasing coal washing at the Chegdomyn and Chernogorsky WPs and further developing our coal quality management systems at Tugnuisky and Kuzbass will help us achieve the product quality required by our demanding customers.

We aim to keep our level of domestic deliveries stable.

Improving production safety will remain our priority. We will continue our absolute focus on eliminating accidents and fatalities and reducing occupational injuries. We will continue the deployment of the geolocation system for workers in our mines.

We plan to continue the development of our mining assets, including Pravoberezhny and Nekkovy in the Russian Far East, and the Magistralny site at Ruban mine in Kuzbass. At Tugnuisky we plan to further to optimise blasting technology that will increase the efficiency of the blasting process as well as decrease its environmental impact.

Energy

Strategic priorities

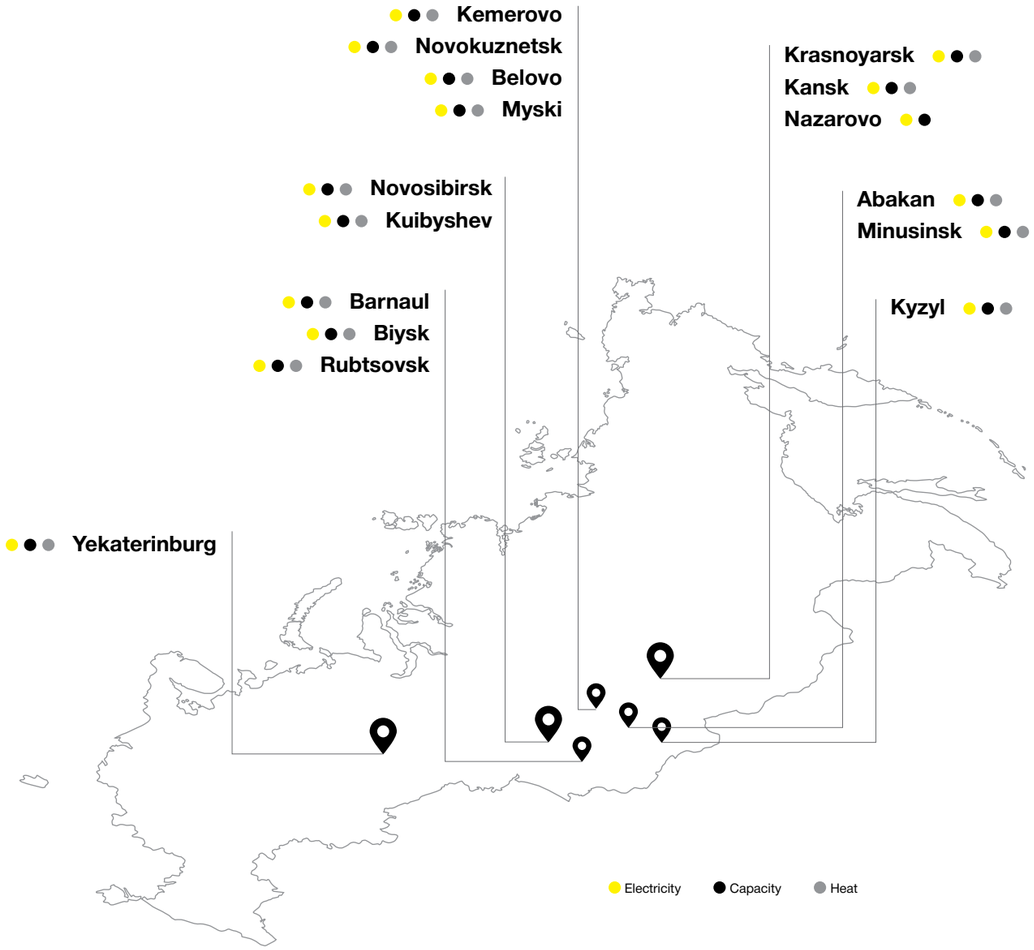
ELECTRICITY

CAPACITY

Expanding our presence, improving the efficiency and safety of power plants, increasing co-generation volumes

HEAT

Expanding our geography, improving the state of heat pipelines, reducing losses, increasing co-generation volumes



$2,189m
revenue

0.24
LTIFR

$107m
CAPEX

SUEK is one of the largest producers of electricity and heat in Siberia, with a share of 45% of the electricity market. The company supplies heat and electricity to more than 5 million people in the Altai, Krasnoyarsk, Kemerovo, Novosibirsk and Sverdlovsk regions, Khakassia and Tyva.

The group includes five TPPs, one GTPP and 19 CHPPs. In 2019, SUEK acquired the Reftinskaya GRES located in the Sverdlovsk region, which is temporarily operated by Enel Russia during the transitional period. Including this new plant, the company's total electrical capacity is 14.7 GW and its heat capacity is 24.9 thousand Gcal/h.

At the end 2019, SUEK also agreed on the purchase of the Krasnoyarskaya GRES-2 from Gazpromenergoholding in 2020, to be operated by the seller for the transition period.

Most of the company's plants are co-generation, i.e. generating heat and electricity at the same time, and they consume coal mined from nearby deposits.

Our own ELSIB plant produces a full cycle of work on the development, manufacture, commissioning of generators, electric motors for power plants.

Other operational elements at the company's assets include various advanced solutions such as dispatch control of CHPP operations, digitised requests for connecting new facilities to the heat supply system, mobile and web applications for heat inspectors from heat supply companies and heat consumers, and video monitoring of employees dealing with high voltage. Heat networks are monitored using drones.

+35%
installed capacity

Revenue

$m	2019	2018	Change
Capacity sales	732	720	2%
Heat sales	707	734	(4%)
Electricity sales	693	588	18%
Other	57	88	(35%)

Sales

SGC's total electricity sales in 2019 amounted to 55.2 TWh, representing a 10% increase on the prior year. Capacity sales totalled 10 GW, which is 9% higher than in 2018. This growth mainly reflected new sales to the Ural region. Heat sales decreased by 5% to 35.3 million Gcal because of higher outdoor temperatures in the winter and spring, the early end of the heating season in May and the late start of the heating season in September. In 2019, the company expanded its activities in Khakassia, Novosibirsk and Barnaul, where new consumers were connected after outdated and polluting boiler houses were replaced by heat produced at our combined heat and power plants from Novosibirsk and Barnaul. This partially compensated for the decrease in heat sales due to weather conditions.

The Energy Segment expanded its geographic footprint with the acquisition of Reftinskaya GRES, giving it access to the more attractive Price Zone 1 (European Russia and the Urals).

Capacity sales revenue rose by $12m following the consolidation of Reftinskaya GRES.

Electricity sales revenue increased by 18% as the expansion of assets led to higher sales, the effect of which was partially offset by the weaker rouble.

Heat sales revenue fell by 4% compared to 2018, as warmer weather in the regions of operations led to lower heat sales.

Cash cost of energy sold totalled $1,462m, in line with 2018.

Generation

Electricity generation in 2019 amounted to 51.5 TWh, an 11% year-on-year increase, following the acquisition of the Reftinskaya GRES in October 2019.

Heat supply from all plants and boiler houses in 2019 decreased by 5% to 43.5 million Gcal.

We maintained the same level of co-generation, which enables us to optimise fuel consumption and emissions per unit of energy. Today, 96% of heat and 38% of electricity are generated in a combined cycle.

We continued to expand our operations, with 246,000 Gcal added due to new customers in Chernogorsk, Podsinee, Barnaul, and through co-generation (the replacement of boiler houses in Barnaul, Novosibirsk, and Krasnoyarsk) allowing us to reduce fuel consumption and emissions per unit of energy.

Service quality

In 2019, we increased investments in the upgrade and repair of heat networks by 56% year-on-year to reduce heat losses and improve the reliability of heat supply. In Novosibirsk, investments in the upgrade and repair of heat networks rose by 2.1 times. We introduced mobile applications for heat consumers in order to remotely transmit meter readings, obtain information on verification deadlines, register consumer complaints and view bills.

In 2019, the Russian Government decided to transfer Barnaul to the 'alternative boiler' heat tariff starting from 2020, which enables SUEK to make long-term investments in the modernisation and development of the city's heat supply systems.

Investment projects

In 2019, the company delivered the following main investment projects aimed at increasing the share of co-generation and improving its environmental performance:

- Replacing outdated standalone boiler houses in Kemerovo and Krasnoyarsk with heat produced at our CHPPs, including the upgrade and construction of heat pipelines
- The construction of a new stack at the Krasnoyarskaya CHPP-1
- Upgrading power unit No. 7 of the Tom-Usinskaya GRES (under the DPM-2 programme)
- Technical re-equipment of the boiler plant at the Nazarovskaya GRES
- Completing the reconstruction of the Southern Thermal Plant in Rubtsovsk to increase the installed heat capacity by 50–70 Gcal/h.

Mobile heat inspector

In 2019, SUEK introduced electronic tablets to replace paper reports, and this has helped the company's inspectors to make heat supply adjustments more quickly.

An eight-inch tablet with an impressive range of functions is connected to the internet and the server, which hosts all the information that inspectors enter into their devices.

After inspectors register testing results with special devices, the software automatically analyses these figures, compares them with the standards set out in the heat supplier contracts and generates a report in the form of an electronic certificate. All relevant consumer data is stored on the server where it can be used at any time.

The innovation has brought the following improvements:

- Optimisation of travel routes for inspectors
- Increasing the rate of inspections
- Better control of heat consumption
- Timely adjustment of heat supply

As a result of the 2019 pilot, our 'Mobile heat inspector' project was awarded at the 'New Idea' competition organised by the Russian Ministry of Energy.

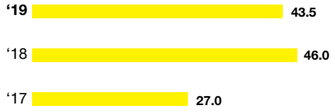
Our priorities for 2020

The Energy Segment will focus on the following targets and projects:

- Uninterrupted and high-quality power supply to consumers of electricity and heat in the company's area of responsibility
- Decreasing pollutant emissions by upgrading the equipment, and further increasing the share of combined electricity and heat generation, as the most climate-friendly method to supply our customers with electricity and heat
- Expanding presence in heat markets: replacing outdated and polluting boiler houses in Krasnoyarsk, Novosibirsk and taking technical and organisational actions to enter the Chernogorsk and Belovo heat markets
- Coordination with authorities and implementation of large-scale modernisation programmes for heat supply in the cities of SUEK's presence, using long-term investment mechanisms provided for by the 'alternative boiler' pricing method
- Upgrades to capital equipment, including as part of the DPM-2 programme
- Consolidation of new assets (Reftinskaya GRES, Krasnoyarskaya GRES-2)

Electricity generation,
TWh

Heat generation,
million Gcal



Installed power capacity utilisation rate

+11%
electricity generation

Operational highlights

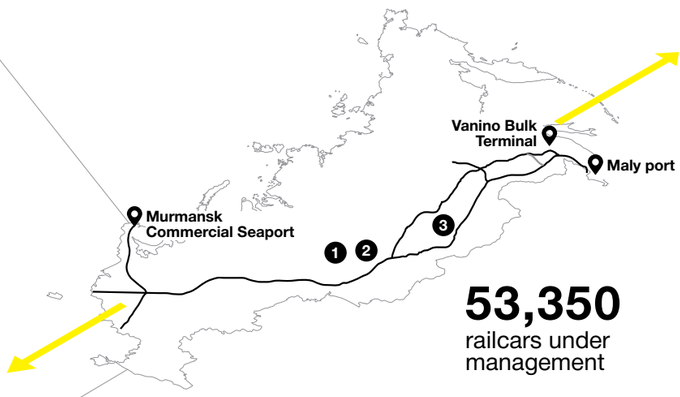
	2019	2018	%
Generation			
Electricity, TWh	**51.5**	**46.2**	**11%**
Heat, million Gcal	**43.5**	**46.0**	**(5%)**
Sales			
Electricity, TWh	**55.2**	**50.0**	**10%**
Competitive market	45.2	40.9	11%
Regulated market	10.0	9.1	10%
Capacity, GW	**10.0**	**9.2**	**9%**
Competitive market	8.0	7.5	7%
Regulated market	2.0	1.7	18%
Heat, million Gcal	**35.3**	**37.2**	**(5%)**

Logistics

Vanino Bulk Terminal, Maly Port, Murmansk Commercial Seaport

Strategic priorities:

- The shortest route to end users
- Fast shipments to end users



53,350
railcars under management

Railcars

Strategic priority:
Increased railcar turnover

$218m
external revenue

0.72[1]
LTIFR

$69m
CAPEX[2]

Thanks to access to key transport infrastructure, SUEK is able to make coal deliveries to the largest international markets, to our power plants and Russian customers, efficiently and on-time, while also utilising the logistic assets for third-party bulk commodity transport, including back-haul where possible.

SUEK is the fourth largest operator of gondola cars in Russia in terms of fleet size (53,350) units as of the end of 2019. This fleet covers over 80% of the company's transportation needs. Given the uneven traffic and demand for railcars in specific parts of the rail network and during specific times of the year, maintaining agreements with railcar operators, and also with third-party railcar consumers, is essential. This makes it possible to optimise empty mileage and smooth out fluctuations in our ability to supply the required railcars for SUEK's coal.

65% of our railcar fleet were designed to meet SUEK's specifications: higher-capacity cars with 75- and 77-tonne capacity and a useful life of up to 32 years. In 2019, SUEK enhanced its fleet with the acquisition of a further 16,025 high-capacity railcars.

1. *Calculated together with coal LTIFR.*
2. *Excluding the purchase of 16,025 higher-capacity railcars.*

These high-capacity railcars decrease – all else being equal – the specific transport cost and also the specific diesel consumption per tonne, thus generating economic benefit and reducing environmental footprint.

SUEK's own railway infrastructure gives us one of the best loading and unloading speeds in Russia. This infrastructure includes 746 km of railway track, 16 internal loading stations and approximately 190 locomotives, providing access to the national railway network. We continue to work on increasing the throughput of our loading stations and tracks in order to support our developing mining units in Kuzbass, Khakassia and Buryatia.

SUEK supplies coal to the international market through its own, modern Vanino Bulk Terminal in the east and Murmansk Commercial Seaport in the west, in addition to Maly Port, in which the company is one of the main shareholders.

Rail transportation

In 2019, SUEK transported 85.7 Mt of its coal via the Russian Railways network, which represented 17.4% of total coal tonnage transported on the network during the year.

As part of our programme to optimise empty mileage, SUEK also transported 21.1 Mt of third-party loads during the year.

We are running joint projects with Russian Railways to increase the capacity and efficiency of the railways and railcars. Of particular importance to the company is the completion of the first stage of the Eastern Polygon by 2020 and the start of the design and construction of the second stage, which is scheduled for completion by 2025. The key activities of the second stage include electrifying the Volochaevka-Komsomolsk-Vanino section, laying the second continuous track and constructing new junctions with the BAM. These programmes will increase the volume of coal that is transported towards Far Eastern ports to 195 Mt.

By eliminating infrastructural constraints along our cargo transportation routes, we will be able to increase our coal export shipments, including those that pass through Vanino Bulk Terminal, to 40 Mt.

Specific coal transportation costs in roubles rose amidst the continued growth in operator rates, which was due to a shortage of railcars caused by operational issues in the Russian railway system and railway restrictions towards the east.

Operational highlights

Mt	2019	2018	Change
Rail shipments on public tracks	**85.7**	**87.3**	**(2%)**
Shipment by sea	**49.1**	**48.1**	**2%**
Vanino Bulk Terminal	20.5	20.0	3%
Murmansk Commercial Seaport[1]	17.6	16.2	9%
Maly Port	2.8	2.5	12%
Other ports	8.2	9.4	(13%)

Rail costs (Russian market)

$ per tonne

RUB per tonne

Rail costs (international market)

$ per tonne

RUB per tonne

[1] *Including transhipment of third-party coals and non-coal products (1.3 Mt in 2019 and 0.8 Mt in 2018).*

Port transhipment

In 2019, we transhipped 49.1 Mt of coal and other loads, with our own ports covering over 80% of our exported coal transhipment needs.

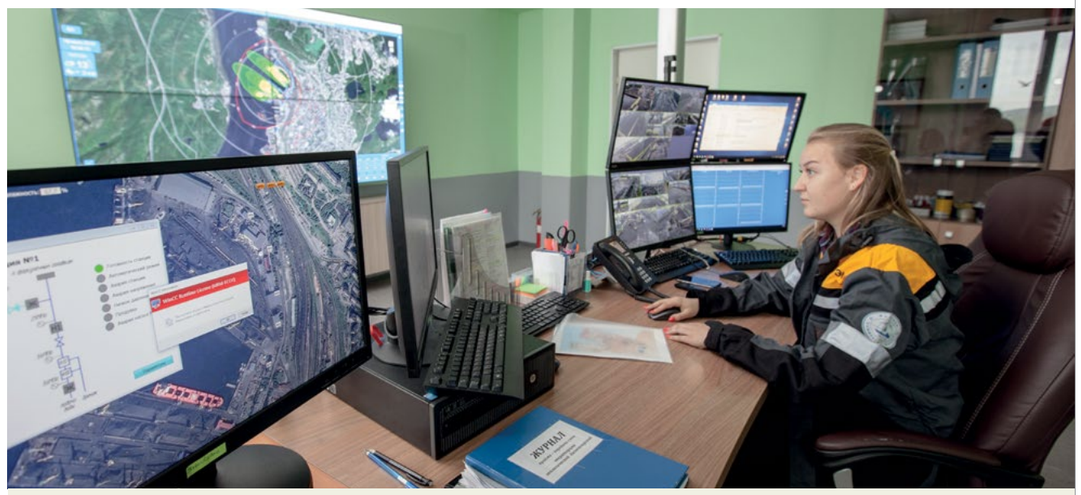
We increased our coal transhipments to Asia-Pacific customers via Vanino Bulk Terminal by 2.6%, to a record 20.5 Mt, as we benefited from completed upgrades to the port. We shipped 2.8 Mt through Maly Port, located in the Russian Far East, primarily to Japan and South Korea.

In 2019, Murmansk Commercial Seaport transhipped 16.3 Mt of coal and 1.3 Mt of other goods, representing a 9% year-on-year increase.

By increasing the capacity of our own ports we were able to reduce our transhipment volumes through third-party ports by 13%.

Port costs include the maintenance costs of our own ports and stevedore costs at third-party ports. Compared to 2018, our port costs did not change.

Ports costs (international market), *$ per tonne*



24/7 comprehensive environmental control at Murmansk Commercial Seaport

In 2019, SUEK opened an advanced environmental dispatcher office at the Murmansk Commercial Seaport. The dispatcher room includes an integrated hardware and software complex for monitoring the environmental situation in the port's territory and the boundaries of its sanitary protection zone.

The system enables a single dispatcher to carry out comprehensive and continuous monitoring of the environmental situation, in real time, in order to manage environmental risks and improve the efficiency of environmental activities. Using the spatial structure of the information and measuring system, all data is automatically displayed on the interactive port map. The dispersion area of pollutants is broadcast online.

The system records the following parameters:

- Dust concentration
- Concentration of gaseous pollutants
- Air temperature and humidity
- Surface humidity of bulk cargo piles
- Noise level
- Wind speed and direction

Depending on the wind and dust conditions the dispatcher can activate the necessary dust suppression equipment, such as stationary and mobile fog-generating units, vacuum cleaners, road spraying, and organisational and technical activities.

With the dispatcher's office up and running, the port is now able to predict meteorological conditions three days ahead.

Overall, the port is investing about $50m in a large-scale environmental programme. At the end of 2019, the Murmansk Port passed an inspection for compliance with the requirements of the international environmental standard and confirmed its compliance with international environmental certificate ISO 14001:2015. Following an audit by experts from the 'Clean Seas' International Environmental Foundation, the port received the Platinum Certificate of Compliance with the 'Clean Port' environmental standard.

Investment projects

Railway infrastructure development and capacity increase at Vanino Bulk Terminal

In August 2018, the Commission on the Fuel and Energy Sector Development Strategy and Environmental Safety, chaired by the President of Russia Vladimir Putin, approved the outline of the second project stage up until 2025 (ensuring the transportation of 195 Mt of coal a year towards Far Eastern ports, including 85 Mt a year at Vanino) and confirmed the importance of maintaining a long-term tariff system according to the 'inflation less than 0.1%' principle.

Following these decisions, in March 2019 the Russian government adopted the Long-Term Russian Railways Development Programme to 2025, which involves increasing the target throughput of the infrastructure at the Komsomolsk-Vanino section from 43–44 Mt in 2021[1] to at least 85 Mt with complete electrification of the Volochaevka-Vanino section by 2025. This creates an opportunity for SUEK to increase its long-term target of raising transhipment volumes through Vanino from 24 to 40 Mt or more.

In 2019, following the decision by its Board of Directors, SUEK began the design, preparatory work and supplier selection for capital equipment. In 2020, we plan to complete the design work, obtain a permit and begin construction, the progress of which will be linked to the actual Baikal-Amur Mainline development progress.

Capacity increase at Murmansk Commercial Seaport

SUEK is running a large-scale environmental programme, constructing shields to minimise the negative impact of coal dust.

In 2018–2019:

- The introduction of an advanced stationary spraying system was completed. This spraying system consists of 14 spraying units in the first and second cargo districts.
- The company opened an environmental dispatcher's office

The port has completed pre-design work for the development of railway infrastructure at the Murmansk station to construct a railcar unloading station. SUEK has proved the possibility of increasing the Murmansk station's capacity to 16 Mt, subject to completing a set of reconstruction activities. Work is currently underway to obtain technical specifications from Russian Railways.

We also completed delivery of gantry cranes and started design a dedicated complex for coal transhipment in the second cargo district and for the reconstruction of berths.

Capacity increase at Maly Port

In 2019, the following main activities were carried out to increase transhipment capacity to 4 Mt a year:

- Dredging the operational waters and approach canal
- Soil cementation (soil consolidation under berth foundations)
- Concreting make-fast blocks at berths 34 and 35
- Restoring crane and railway tracks

After launching the facilities into operation in 2020, Maly Port will be able to accommodate vessels with a carrying capacity of up to 40,000 tonnes (it currently handles vessels up to 17,000–24,000 tonnes). In addition, the ongoing dredging operations (from 8.5 to 11.1 metres) will make it possible to receive Panamax ships with a deadweight of up to 80,000 tonnes, with their additional loading at Vostochny port. Further prospects for increasing the capacity of Maly Port to 6 Mt will depend on the initiatives by Russian Railways to expand infrastructure towards Nakhodka.

[1] *Today, only 34 Mt per year, reaching 43–44 Mt after finishing the construction work in the Trans-Siberian Railway – BAM project.*

Our priorities for 2020

The main priority for 2020 is the first stage of the capacity increase at Vanino Bulk Terminal to 40 Mt (the development of railway infrastructure, a new triple car dumper with a defrosting station for gondola cars, a conveyor system, a fifth stacker reclaimer, etc.).

At the Murmansk and Maly Ports, we will continue the construction of dust shields, which will reduce coal dusting in nearby areas.

At Maly Port the company plans to remove railway infrastructure constraints as part of the final measures to reach capacity of 4 Mt per year.

We intend to maintain a railcar fleet under management of around 50,000 units and involve high-capacity cars in the regular turnover according to a cost-efficient scheme. One of our priorities continues to be the development of technology to accelerate the turnover of railcars along SUEK's routes and a routing programme in all directions, together with Russian Railways.

Procurement

Inventory management

In 2019, the procurement unit accelerated inventory turnover against the backdrop of an overall increase in inventory due to higher purchase volumes and rising prices.

To achieve the acceleration of turnover, the company introduced material procurement planning in ERP and SRM systems, taking into account the actual need for materials, their stock balance and emergency (reserve) stock, delivery time, transit rate and seasonality.

In 2019, the amount of materials purchased through automatic planning was 72% of the total procurement volume. We accelerated the turnover thanks to more efficient inventory management. As a result, the need for third-party purchases decreased by 13.4%.

Together with automation, we developed and introduced a unified inventory management methodology. We also created a technique for calculating reserve stock. Besides, SUEK developed and introduced an incentivisation system for key employees of the company's units based on the inventory turnover indicator. Currently, the customer services, the financial and economic unit and supply services are responsible for meeting the company's turnover targets.

In 2019-2020, a similar inventory management project will be implemented at SUEK's service companies. This will help us cover all structural divisions with a single inventory optimisation methodology to further increase the cumulative economic effect.

Consolidation of SUEK's and SGC's procurement functions

In March 2019, we developed a programme to consolidate the procurement processes at SUEK and SGC. The programme consists of a number of areas:

- SUEK and SGC jointly develop 27 categorical strategies for materials and services accounting for approximately 80% of the procurement volume
- SGC began the unification of the structure and functionality of its procurement service
- The companies created a single reference book of materials and services
- We updated regulatory documents on procurement activities in terms of bringing to the unified (SUEK's) standards and rules governing procurement procedures

Automation of procurement processes is developing in two directions. For purchases at SGC's units that are not subject to 223-FZ law "On Procurement of Goods, Works, Services by Certain Types of Legal Entities" dated 18 July 2011 (Law on Procurement), the processes are automated on the basis of a single SUEK's SRM trading platform. For procurement activities at SUEK and SGC under 223-FZ, we developed a project that involves a new functionality and integration with external resources, with consideration for the regulatory framework requirements. This law applies to SGC, as it covers various activities in the field of electricity and heat supply.

In 2020, the company plans to continue all previous initiatives and reap the first economic benefits from the above innovations.

Health & safety | Environment | Our people and corporate culture | Communities

Focusing on sustainable development

We aim to promote the sustainable, social and economic development of the regions where we operate, and to satisfy the demand for electricity and heat in a responsible way.

Rollout of our remote safety analysis and warning programme

*See more on page **84.***

Advanced environmental protection in Krasnoyarsk

*See more on pages **90–91.***

Operating our modern Staff Training and Development Centre in Leninsk-Kuznetsk

*See more on page **95.***

Programme run by SUEK to promote career in engineering to children

*See more on page **100.***

$2.1 bn
contribution to local communities in 2019 (paid in taxes, to employees and local suppliers, and invested in local communities)

0.50
LTIFR for SUEK Group

–14%
reduction in NO_x and SO_2 emissions in the Altai region due to the replacement of old electrostatic precipitators with new models in 2019

Sustainability is our absolute priority

SUEK strives to contribute to the sustainable social and economic development of the regions where we operate, satisfying the growing demand for electricity and heat in a responsible manner.

In 2017–18, Russia stood below 70% of the 1991 level in terms of greenhouse gas emissions, and at 50% of the 1991 level, if we take into account the absorbent function of forests.

Moody's

People are at the heart of our business. We are committed to creating excellent living and working conditions for our employees and the local residents in the regions where we operate, and also to bringing warmth and light into people's homes. SUEK's sustainable development strategy is continuously evolved to reflect the needs of all of the company's stakeholders, with whom we maintain open and constructive communications.

As an energy and mining company, we acknowledge that our operations can have an impact on the environment. In particular, coal mining and coal-fired generation use water resources and release emissions into the atmosphere. Therefore, an important part of our responsible approach is carefully controlling and minimising this impact as well as running proactive conservation programmes to ensure we preserve the natural environment for present and future generations.

We also believe that global sustainability issues need to be addressed through an integrated scientific approach, supported by cross-border partnerships. The sustainable development of the planet requires solutions to support continued economic development, improve the lives of billions of people in developing countries, conserve natural environments and combat climate change. The ratification of the Paris Agreement on climate change by Russia in 2019 was another positive step in the right direction.

By 2019 the Russian coal industry and coal-fired generation had reduced their GHG emissions by 50% compared to 1990, and we are confident the industry will continue to reduce this further.

SUEK's Corporate Social Policy commits to international principles and standards, including:

- the United Nations Global Compact
- the Social Charter of Russian Business
- ISO 26000 (Guidance on Social Responsibility)
- GRI Standards

We also work towards the United Nations Sustainable Development Goals (SDGs), aimed at protecting the environment and improving the well-being of everyone without exception. Within the framework of the UN SDGs, a number of benchmarks are particularly important for us, since they are most relevant to the strategy and direction of the company, as well as the interests of SUEK's stakeholders.

The Board of Directors and the company's management pay special attention to sustainable development issues, which they regularly discuss at Board meetings.

SUEK are systematically audited for compliance with the following international standards:

OHSAS 18001 — Occupational Health and Safety Management System

ISO 14001 — Environmental Management System

ISO 9001 — Quality Management System

ISO 50001 — Energy Management System

ISO 55001 — Asset Management System

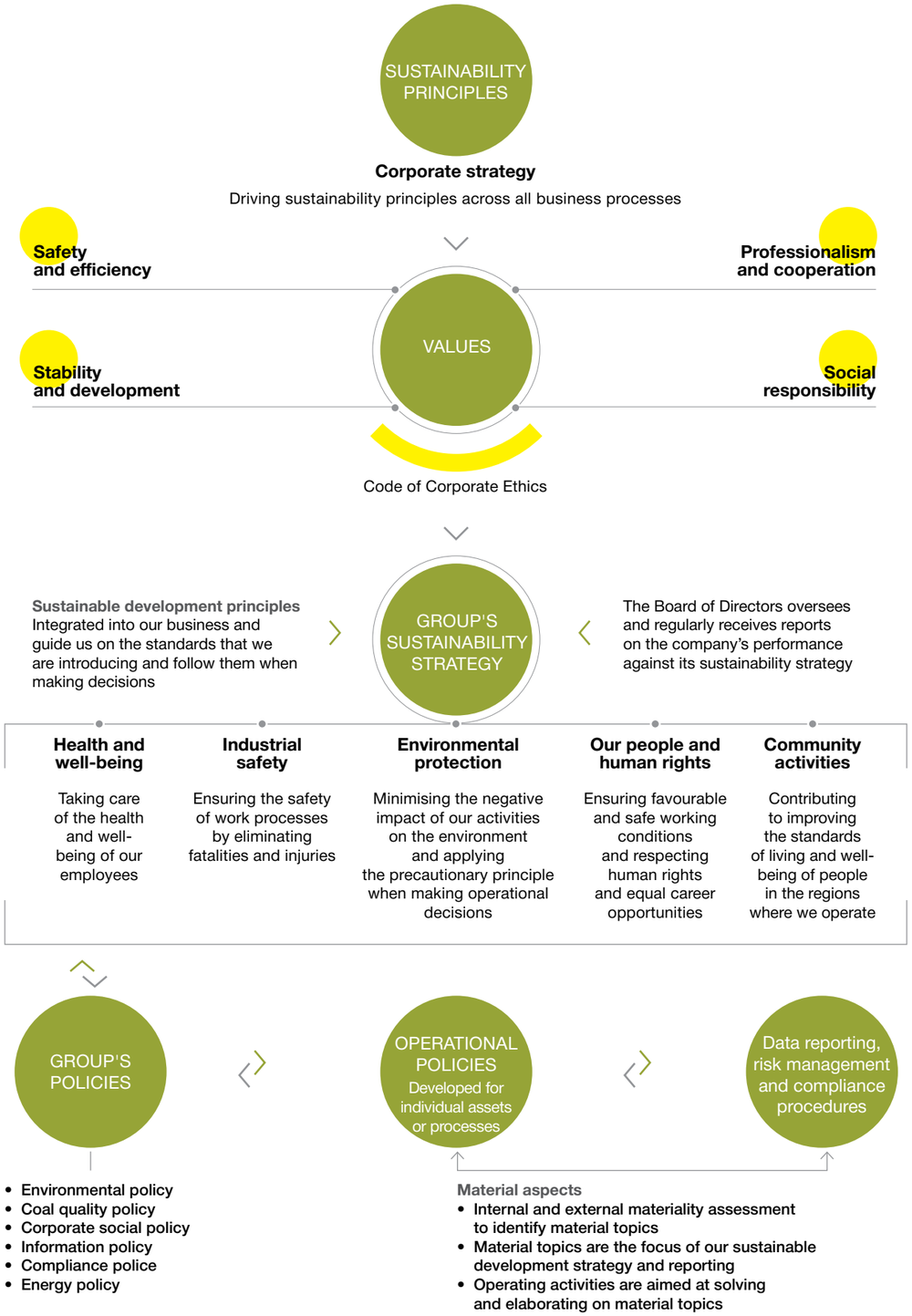
In 2019, we updated our anti-corruption policy, following which the company received international ISO 37001 certification and SUEK's compliance system received ISO 19600 'Compliance Management System' certification.

GRI

*Detailed information in accordance with GRI Standards is presented on pages **158–168.***

*Detailed information about the company's contribution to the achievement of the SDGs is given in the **Sustainable Development Report for 2018-2019.***

Sustainability management



Delivering our strategy, focusing on safety

The sustainability and continued success of our business is underpinned by our continuous work to enhance employee safety.

Q:

In 2018, there were several employee injuries relating to moving machinery. What measures have you taken to ensure similar incidents are prevented in the future?

A:

If any injuries happen at our operations, our first response is to double-check process safety and further enhance our employee training. We are constantly bringing in new technology to further reduce 'human risk' factors.

For example, at Murmansk Commercial Seaport we have equipped loaders with thermographic cameras to monitor any blind spots behind the loaders, in any weather or light conditions. A processor unit processes the video stream and displays the image on the screen, framing any human figure and giving a sound alert.

The unit is currently operating in test mode on Volvo and Liebherr loaders. In 2020, two more Liebherr loaders will be equipped with this recognition system.

Sergey Boyko,
Head of the Health and Safety Directorate, Logistics

Our priorities

- Continually improve equipment and production management to ensure workplace safety
- Ensure our production sites have the latest safety systems and monitoring
- Address safety issues related to air quality
- Introduce remote monitoring systems for industrial safety parameters
- Guarantee the safety of all power plants equipment from fire and explosion
- Improve the skills and capabilities of safety professionals
- Reduce the negative impacts of coal dust on employee health
- Develop a single health and safety information system
- Implement preventative medical programmes

Our regulatory framework

- Our occupational and Industrial Safety policy
- OHSAS 18001 standards
- ISO 45001 standards
- Bettercoal Code
- UN Global Compact
- UN SDG's

Our approach

At SUEK, our goal is to create a completely safe production environment and reduce injuries to zero. The company strives to promote a safety culture among all its employees. The LTIFR KPI, as well as the target of zero fatal group accidents, are bonus modifiers for top managers and other employees.

SUEK's system for managing health and safety across the company is regulated by our Occupational Health and Safety Policy, is aligned with OHSAS 18001 and conforms to the best international standards. In 2019, SUEK began certification according to the new ISO 45001 standard. Our coal-producing and washing facilities in Kuzbass, Krasnoyarsk and Khakassia undergo regular external audits to confirm their compliance with the requirements of OHSAS 18001.

In 2018, our coal facilities were evaluated for compliance with the requirements of the Code Bettercoal. In 2019, we continued to adhere to best practices noted by BetterCoal experts on our assets, we continued to equip our assets with modern security systems and continued to implement comprehensive programs aimed at reducing injuries.

In our efforts to ensure production safety, we adhere to the following main principles:

- **Zero tolerance to injuries and accidents**
  We treat any injury and accident as an emergency and make sure we get to the bottom of any underlying problems.
- **Safety priority**
  If the production task compromises safety, it should be reviewed or cancelled.
- **Professionalism and competence**
  We do not ask employees to carry out any tasks for which they do not have the necessary knowledge and skills.
- **Zero tolerance to dishonesty and concealment**
  Concealment of any information relating to occupational health and safety is unacceptable.

Health and safety management structure

BOARD OF DIRECTORS
Nomination and Compensation Committee

- **Overall control of strategic health and safety goals**

MANAGEMENT BOARD
Industrial Safety Committee

- **Monitoring progress against the safety programmes**
- **Coordinating safety activities**
- **Studying the causes of accidents and evaluating reactive and preventive measures**

DIRECTORATES
for industrial and occupational safety and environmental protection

- **Coordination and management of safety programmes**

PRODUCTION FACILITIES

- **Compliance with standards and procedures in industrial safety and labour protection**

Health and safety management, risk management and reporting system

A distinctive feature of SUEK is the rapid adoption of managerial decisions: all of our recommendations regarding additional security measures began to be implemented literally the next day. I believe that the main goal of protecting the labor rights of workers and improving the conditions in SUEK has been achieved.

Ivan Mokhnachuk
Chairman of the Russian independent coal industry workers union 'Rosugleprof'

$87.1m
invested in occupational health and safety in 2019

Risks associated with personnel, processes, working conditions and equipment are regularly assessed at all levels of management. This assessment is the basis for further strategic and operational steps to improve industrial and labour safety.

SUEK has a comprehensive industrial safety management system, which ensures the methodology, and control at all levels of Group management is centralised. SUEK's Industrial Safety Committee, chaired by the CEO, is the major body responsible for monitoring the implementation of the Group's health and safety policy. The Committee's ability to successfully address safety issues relies on setting strategic objectives, goals and areas of focus, and addressing material issues in industrial safety, labour safety and the environment. Each meeting of SUEK's Management Board and its Nomination and Compensation Committee begins with a discussion on production safety issues.

Workers unions are also involved in the process of assessing labour protection and industrial safety conditions; on a regular basis, trade union representatives visit SUEK assets and assess working conditions in the field of labor protection and industrial safety. The elimination of any violations discovered during these inspections is mandatory.

In 2019, SUEKs assets in Krasnoyarsk region underwent an unscheduled audit of compliance with the rules of occupational safety and health with the participation of the regional technical inspector of labor from Rosugleprof. During the audit, experts checked the documentation and equipment and interviewed all groups of employees, from workers to management personnel. Representatives of Rosugleprof commended the work of SUEK in creating conditions for the safe work of collectives.

In 2018, the decision was made to consolidate SUEK's energy units into the Group's overall health and safety management system. In 2019, SGC's CEO became a member of the Group's Industrial Safety Committee. An advisory body, the Production Safety Committee, was created at our energy facilities to set up an efficient production safety management system, address significant issues, and coordinate and control activities in this area.

Identifying employees who are prone to excessive risk-taking

We test all candidates applying for job vacancies and engineering positions on their risk appetite and their ability to learn and follow rules. We do not hire those who prove prone to excessive risk-taking.

Contractors health and safety assessment

SUEK's internal industrial and labour safety standards also apply to employees of contracting organisations working at the Group's assets. All contractors must meet our internal corporate requirements:

- Contractors are required to have permits to perform the work assigned to them
- Contractors must be staffed with the required number of qualified and trained personnel
- Contractors must have the necessary management structures and employees dealing with industrial safety
- Contractor personnel must be provided with the certified personal protective equipment, work clothing and safety shoes in accordance with SUEK's corporate requirements
- Contractor personnel must be equipped with a sufficient number of fault-free, certified, verified/tested tools and accessories

Our safety performance

In 2019, the Group's LTIFR decreased from 0.55 to 0.50 year-on-year, while the Coal Segment's LTIFR fell from 0.75 to 0.72, and from 0.29 to 0.24 in the Energy Segment.

Occupational injuries remained at the same level as last year. Of 57 accidents, 45 occurred at the coal production, processing, service and logistics operations, while 12 employees were injured at our energy facilities.

No collective group accidents with our employee were registered at SUEK's facilities in 2019[1]. However, despite all our efforts, eight individuals suffered fatal accidents across the Group. Four of these happened at our energy facilities: in Kemerovo (two), Novosibirsk and Kyzyl. Four fatalities occurred in the Coal Segment: two in Kuzbass and one each at a Khabarovsk underground mine, and in a Primorye open-pit mine.

Dedicated panels thoroughly investigated all of the accidents, which were also analysed by the Industrial Safety Committee, overseen by SUEK's Management Board. The root causes of these accidents were found to be related to employee training and discipline, the organisation of work processes, and the adequacy of the protective equipment and interlocks. The company has since developed comprehensive measures to address these causes and prevent similar incidents in the future.

In 2019, $87.1m was spent on occupational health and safety (9% of SUEK's total CAPEX), $60.6m of which was committed to the Coal and Logistics Segments and $26.5m to the Energy Segment.

GRI

*See detailed health and safety indicators in our **Sustainable Development Report** for 2018-2019 and in the GRI tables on pages **158–168**.*

Maintaining atmospheric safety at coal mines

The nature of the coal industry carries with it the risk of accidents and emergencies, due to natural factors and mining processes, which involve the regular movement of working and development faces in underground and open-pit mines.

The main risks in underground coal mining are from potentially explosive concentrations of methane, and the accumulation of fine, explosive coal dust deposits in working areas. Coal processing and washing, transportation and transshipment of coal in ports are also potentially dangerous and require close attention to ensure safety. The company is therefore particularly focused on management, monitoring and safe extraction of methane gas and preventing the possibility of dust-explosions, by stone-dusting using inert dust.

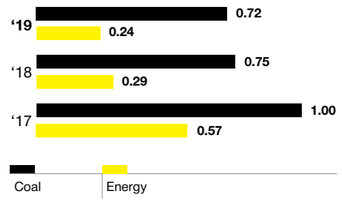
Monitoring air and gas underground

All of our mines are equipped with a multifunctional safety system. Information flows from the mines are consolidated, monitored and analysed at all levels of company management:

- At SUEK's head office, our Control Centre monitors industrial safety parameters remotely, in real time
- Our centralised Control and Analysis Centre in Kuzbass receives information on the atmospheric conditions and gas levels and production process safety parameters in underground and open-pit mines.

In 2019, the company began to develop a similar centre for SUEK's open-pit mines in Khakassia.

***LTIFR,** ratio*



Mine gas drainage and ventilation

To reduce the risk of explosive concentrations of methane forming in our mines, we carry out comprehensive gas drainage where methane content exceeds 10 m^3/tonne of coal. We remove methane from these mining areas via a system of gas-drainage wells drilled from both underground and the surface. The total drilling of degassing wells in 2019 amounted to 432 km.

We started to replicate an effective technology first adopted at the Kirov mine, which is based on hydraulic fracturing of the coal seam. This will now be introduced at the Yalevsky mine in Kuzbass. This method reduces the gas content of the longwall panel in the fractured area by 30%.

We also drill gas-drainage wells and ensure surface vacuum pump units have the most advanced equipment, and provide drilling rigs manufactured by international producers. The latest Prakla RB-T 135 drilling rig (Germany) has been put into operation in Kuzbass. It is capable of drilling wells up to 600 metres deep and up to 0.8 metres in diameter. At the mining allotment of the Kirova mine in 2019, work began on drilling the first well with this machine. In the same place, a new main ventilation unit of the CFT production (Germany) was put into operation, which will allow for further development of mining operations in accordance with the requirements of air and gas control in coal mines.

All mines must be well-ventilated. In 2019, we commissioned a new main ventilation and drainage fan unit produced by CFT (Germany) at the Kirov mine to make more efficient drainage at the mine.

1. *In August 2019, during the reconstruction of Pumping Station No. 2 of the Novosibirsk Heat Network Company, as a result of the collapse of a wall section, three contractor workers were killed and one sustained minor injuries.*

Stone-dusting

To reduce the risk of coal dust explosion, we apply inert dust to the roof and sides of our underground roadways. In 2019 SUEK used over 350 mechanical stone-dusting units at its operations, a third of which were manufactured at our mechanical and repair plants.

Ensuring air quality at above-ground operations

We also strive to reduce dust at open-pit mines, washing plants and ports to ensure favourable air conditions for our workers:

- We use aspiration and dust removal systems, vacuum collection, transportation and discharge of fine coal dust
- We equip production areas, warehouses, ports and adjacent territories adjacent with fog-generation units and foam generators

Rollout of our remote safety analysis and warning programme

In our Komsomolets mine (Kuzbass), we completed the development and introduction of a pilot project for Remote Industrial Safety Control (RISC). This analytical programme, based on information from the multifunctional safety system, analyses and assesses risks and the likelihood of an incident, predicts the potential timing of an incident and sends the data to coordinators and site supervisors. Management decisions are made on the basis of this analysis and forecasting.

The system makes it possible to:

- Recognise hazardous situations early
- Assess current and forecast future risk levels
- Take preventive measures to avoid incidents and accidents

In 2020, this pilot project will be replicated across all of SUEK's mines. We also plan to develop RISC pilot projects for open-pit mining units and washing plants in Buryatia.

The Russian regulatory authorities have recognised our achievements and RISC performance. The approaches and technical solutions we have proposed as a result will become the basis of the state industrial safety monitoring system for the coal industry.

Process of safety analysis

Health and safety at power facilities

There are several key risks associated with producing and transmitting electric power and heat and with repairing and installing equipment at power facilities:

- The possibility of generating a potentially explosive pulverised coal mixture in CHPP units
- Depressurising of equipment operating under significant overpressure
- Electric shocks
- Falling from height during repairs

We focused on improving fire safety at our plants:

- Upgrading fire alarms and fire fighting systems
- Installing additional fire protection systems for personnel
- Applying fire-retardant coatings on electrical power cables
- Installing flame arrestors in boiler coal pulverisation units

We are careful to ensure the correct procedures are followed when carrying out power installations and attending to repairs (installation, commissioning) of equipment at power facilities.

Health and safety training

We work hard to ensure all employees have the necessary knowledge to carry out their responsibilities safely and responsibly. The company has established personnel health and safety training from directors to workers.

At our coal mining and processing facilities before work begins, each employee's occupational and industrial safety knowledge is tested in a pre-shift examination via computer terminals.

In 2019, we opened a new training centre at Tugnuisky, with classrooms that include multimedia interactive simulators of our large operating machines, such as excavators, bulldozers or trucks.

At Murmansk port, Vanino Bulk Terminal, the Kuzbass transport department and energy facilities, managers received leadership training for health safety and behavioural safety auditing.

In addition to regular training, our energy facilities in 2019 ran special health and safety events:

- Regional 'Safety First' conferences for young professionals
- 'Safety Culture Basics' and 'Analysis and Causes of Injuries' training modules introduced into professional development courses for operating personnel at thermal power plants
- An 'Occupational Safety Culture' training course for chief engineers and directors, occupational safety and production control divisions and a number of line managers of plants and a service contractor

Modern work clothes and personal protective equipment

The company has standard requirements for personal protective equipment that cover its protective properties, comfort, ease of use and durability. In 2019, the company's energy assets were added to the Group's ERP system in terms of accounting for, planning, standardisation and the distribution of personal protective equipment.

Based on the results of a successful pilot for the automatic distribution of PPE, implemented in 2018, in 2019, we rolled this technology out at other facilities, making it possible to move away from paper forms and instead keep a digital record of all personal protective equipment issued. In the next two years, we plan to purchase 60 vending machines for our production units.

Healthcare

SUEK has a corporate 'Healthcare' programme focused on maintaining and improving production employees health, looking at overall production and specific risks. It identifies early-stage symptoms of occupational diseases, prevents disease and provides medical services.

In 2019, we implemented the following occupational health projects:

- Launched 76 automated pre-shift medical check-up units
- Set up mobile aid posts at Vostochny and Vostochno-Beisky
- Upgraded equipment at medical facilities in Kuzbass and Krasnoyarsk region and recreation facilities for our employees in Khakassia
- Re-equipped the medical check-up department in Kuzbass
- Purchased a diagnostic and treatment unit for Kharanorsky and an ambulance car for Apsatsky in Zabaikalye
- Provided fitness equipment to corporate sports grounds
- Fitted canteens, office and amenity buildings with updated equipment to meet new recommendations from hygienists

From 2012 to 2019, SUEK's personnel health statistics improved more than two times. In 2019, time lost through sick leave across the company fell to 7.1 days per employee per year, while the share of people suffering from recurring or long-term illnesses was 4.32%.

71%

of SUEK employees were retrained in health in safety in 2019

Advancing technology, enhancing environmental safety

Q:

How does SUEK involve stakeholders in its environmental decisions for production facilities?

A:

We arrange public hearings to present new technology we plan to introduce at any of our production facilities that are subject to state environmental review. We keep our stakeholders informed about any planned projects and the possible impact they might have on the environment. Any suggestions received during public hearings are analysed and, if appropriate, the relevant project documents are adjusted accordingly.

In 2019, we held public hearings on a project for the utilisation of ash and slag, generated when processing waste from our power plants, for construction and land rehabilitation purposes. During the hearing, the local community and municipal authorities had no objections to use these types of materials in construction and land reclamation.

Konstantin Kushnir,
Deputy Technical Director for Environmental Protection, Energy

Our priorities

- Improving the environmental safety of our production operations and environmental management system
- Engaging employees in environmental risk mitigation, enhancing our environmental management system and environmental performance
- Pursuing a transparent environmental policy, disclosing environmental reporting, engaging communities and local governments in the preparation, adoption and implementation of environmental protection initiatives

Our regulatory framework

- Russian environmental laws
- Our environmental policy
- Our energy policy
- Our compliance police
- Our coal quality policy
- ISO 14001 standards
- ISO 50001 standards
- Bettercoal Code
- UN Global Compact
- UN SDG's

Our approach

Our strategic environmental priorities are closely linked to the UN SDGs and focus on the sustainable development of the regions where we operate.

The importance of environmental safety is enshrined in SUEK's Environmental Policy developed in accordance with Russian and international environmental laws and the precautionary principle. Furthermore, our environmental management strategy is set out in the company's Compliance Regulation of licensed activities and environmental management, and Compliance Policy.

Our corporate environmental safety system covers all operational cycle stages, from coal mining to shipment in ports, along with heat and electricity generation.

See SUEK's environmental measures on our website ***http://www.suek.com***

SUEK's coal mining and port facilities in the Republic of Khakassia, Krasnoyarsk and Primorye, Kemerovo and Murmansk regions run environmental management systems that meet the requirements of the ISO 14001 international standards, which is regularly confirmed by external audits. In the future, we plan to certify the company's remaining production assets for compliance with ISO 14001.

$48.2m
invested in environmental protection in 2019

All our policies can be found on the company's website ***http://www.suek.com***

Environmental management structure

BOARD OF DIRECTORS
Nomination and compensation Committee

- Monitoring the implementation of the environmental safety and environmental protection strategy

MANAGEMENT BOARD
Industrial Safety Committee

- Monitoring environmental safety plans
- Coordinating the development of environmental protection measures

DIRECTORATES
for industrial and occupational safety and environmental protection

- Strategic planning
- Development of corporate-wide policies and standards
- Improvement of the environmental management system
- Operational management

REGIONAL ENVIRONMENTAL SERVICES

- Operational activities

Key areas of SUEK's environmental activities:

- Development of an integrated environmental management system and an energy management system in accordance with the ISO 14001 and ISO 50001 standards, respectively
- Implementation of programmes to improve environmental safety, including projects for:
  - The responsible use of natural resources
  - Lower atmospheric pollution
  - Wastewater treatment and responsible water consumption
  - More efficient recycling of waste and secondary raw materials
  - Land rehabilitation

Our environmental safety strategy and initiatives are directly overseen by SUEK's Board of Directors and Industrial Safety Committee of the Management Board. In 2019, we unified our approach to environmental issues across all of our businesses. To improve the control and quality of our environmental programme, in every segment we have a dedicated department focused on refining the environmental management system and supporting operating activities.

Management are given environmental KPIs. The implementation of environmental programmes is also included in the KPIs for the technical directors of our ports.

*See more about SUEK's environmental KPIs in the Strategy section on pages **32.***

Supplier environmental assessment

Compliance with environmental requirements is included as a prerequisite in contracts with organisations that operate at our facilities. We monitor their compliance throughout the entire period of their engagement, with non-compliance leading to contract termination. SUEK is currently developing standard regulation of contractor environmental protection standards, which will be included in all contracts.

Air protection

Minimising emissions of SO_2, NO_x and other pollutants

In coal-fired power generation, controlling the level SO_2, NO_x and of solid emissions is the main priority when it comes to environmental protection.

To improve the environmental situation in the cities where we operate, we use:

- Advanced dust-collecting equipment (electrostatic precipitators, cyclone collectors), which allow us to catch up over 99% of fly ash and other solids
- CHPPs equipped with the above filters, instead of old boiler houses, for supplying heat to local people
- Upgraded equipment and advanced coal burning technologies
- Tall exhaust stacks (over 120 metres on average)

In the reporting year, we replaced electrostatic precipitators at the Biyskaya CHPP.

Thanks to our efforts, emissions from SUEK's generating facilities are not increasing and are overall significantly lower than the legal maximum limits.

In coal mining, SUEK's emissions of CO, NO_x and SO_2 are insignificant and well below the limits set by Russian law. In 2019, specific pollutant emissions per tonne of coal increased due to a cut in production, while gross emissions decreased.

Reducing greenhouse gas emissions

SUEK recognises the need to address climate change and supports global programmes to reduce greenhouse gas emissions into the atmosphere. The co-generation of heat and electricity at our plants helps us to markedly reduce CO_2 emissions per unit of generated energy due to the higher efficiency of the plants. Therefore, one of our main initiatives to reduce GHG emissions is replacing standalone boiler houses with combined heat and power plants.

Replacing boiler houses with co-generated heat enables SUEK to:

- **Reduce specific fuel consumption for heat generation by 32%**
- **Reduce CO_2 emissions by about 9 Mt a year compared to separate generation of heat and electricity**

One of the most ambitious boiler replacement programmes is now underway in Krasnoyarsk. By 2024, we plan to replace at least 35 boiler houses. At the same time, we reconstruct heat distribution networks to reduce heat loss.

We are also taking additional measures to improve the environmental situation in the city. In 2019, we completed construction of the body for a new stack 275 metres tall at the Krasnoyarskaya CHPP-1. Stack No. 2 is scheduled for demolition in 2020, after which all boilers will be connected to the new stack. Along with the modernisation of outdated equipment, the installation of new high-performance electrostatic precipitators, the reconstruction of city heat networks, the replacement of boiler houses and the use of smokeless briquettes by private households, this will reduce emissions in Krasnoyarsk by 37%.

Coal mining releases methane, which is pumped out of mines to ensure they are safe for mine workers. As part of measures to reduce our environmental impact and contribute to the Paris Agreement, we work to maximise the utilisation of mine methane, and thereby minimise our total emissions. Our Kirov and Komsomolets mines are equipped with methane recovery systems and gas engine plants that capture gas and use it to generate heat and electricity. In 2019, the company utilised 4 million m^3 of methane captured from mined-out areas.

We also plant trees and shrubs to offset CO_2 emissions. In 2019, we landscaped the sanitary protection zone around our industrial sites in Chernogorsk and planted trees in its parks and public gardens and also in the cities of Zabaikalye, and the Krasnoyarsk and Kemerovo regions.

Suppressing dust

We also work to reduce dust emissions across the whole production and transportation cycle, both to improve working conditions for our employees and protect the surrounding areas from dust.

At our open-pit mines, washing and power plants, we use special equipment to reduce the concentration of dust in atmospheric emissions:

- Cleaning machines in Khakassia and Buryatia
- Sprinkling and spraying equipment and fog-generating units at our open-pit mines
- Advanced automated fog-generating equipment turning water into thick fog, which envelops finest dust particles within a range of 50 metres, preventing the spread of dust clouds. In 2019, this equipment was commissioned in the Zabaikalye and Krasnoyarsk open-pit mines
- Telescopic pipes of CHPPs which enclose coal discharged from belt conveyors to the stockpiles located below

All of SUEK's units carefully monitor the air quality in the sanitary zone using our own environmental laboratories or by engaging third-party accredited laboratories.

At our ports, we have introduced the world's foremost technologies to minimise SUEK's environmental impact when handling dusty goods. As part of our large-scale environmental programme, we have installed:

- Dust control system consisting of stationary and mobile units with a 'winter package'
- Vacuum units
- Automatic spraying of intra-port roads
- Telescopic enclosures on conveyor discharge points

We have continued a project to construct dust and wind shields at all of our ports. We made progress on the necessary design and research work at Vanino Bulk Terminal in the reporting year, while at Maly Port we installed about 100 m of protective shields. The majority of the shields at Murmansk Commercial Seaport were fully installed in 2019 and the whole project is scheduled for completion in 2020.

At the Murmansk and Maly Ports, we replaced the reloading grapples grapples with bigger models, to reduce dust in the areas where coal is handled. At Vanino Bulk Terminal, two shiploaders and a stacker-reclaimer were equipped with dust suppression and spraying systems.

In 2019 we also commissioned the Environmental Dispatching Office at our Murmansk Commercial Seaport, with environmental forecasting functions. We plan to introduce a similar system based on the existing local monitoring system at Vanino Bulk Terminal.

*Read more about Environmental Dispatching Office on page **73.***

In 2018, our mining units were assessed for compliance with the Bettercoal Code. In 2019, we continued to roll out the best practices recognised by Bettercoal experts across our facilities:

- Installation of advanced modular water treatment systems
- Installation of closed water circulation systems
- Increasing of utilisation of waste in economic activities
- Land reclamation

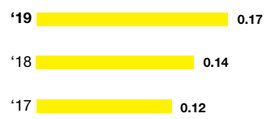
We also continued to progress SUEK's comprehensive energy efficiency programme aimed at reducing energy consumption.

GRI

*See detailed environmental indicators in our **Sustainable Development Report for 2018-2019** and in the GRI tables on pages **158–168.***

Pollutant emissions per unit of electricity (CO, NO_x, SO_2), *kg/kWh*

Pollutant emissions per tonne of coal (CO, NO_x, SO_2), *kg/t*



GHG emissions per revenue, *kg CO_2e/$*

CASE STUDY

The phased transformation of the heat and electricity supply system in Krasnoyarsk

Target

Efficient and clean heat supply to >1 million people 9 months a year

Investments

$834m (2020–2025)

Expected effect

–37% emissions compared to 2018

Russia

Krasnoyarsk

Solution 1

We plan a complete replace the heat distribution network to reduce heat loss.

Solution 2

We will build a new unit for the Krasnoyarskaya cogeneration CHPP-3 to replace retiring facilities, close 35 old small boilers, reducing emissions and supplying the heat needed to meet growing local demand.

We equipped 0.7 km² of new housing and other facilities with central heating in 2019 and plan to increase it by 0.6 km² in 2020.

Solution 3

SUEK's power plants have higher than average exhaust stacks. That is why gases from our plants are released above the cloud level.

We are dismantle the Krasnoyarskaya cogeneration CHPP-1's old exhaust stacks, and building new ones with a height of more than 200 metres.

We will also introduce electrostatic precipitators that catch over 99% of ash.

275 metres

180 metres

120 metres

THE PROBLEM:

~100 metres cloud ceiling in winter (from the Yenisei River that is ice-free due to a hydropower plant)

Vapours from the Yenisey River form a cushion above the city which accumulates emissions from:

- **Old municipal standalone boilers**
- **Private houses**
- **Small factories and large businesses**
- **Cars**

Solution 4

We suggest transferring private houses to the central heating system.

Energy efficiency

We highly appreciated SUEK's impressive efforts and achievements in improving energy efficiency. The results of our audit of SUEK's energy management system, which we conducted to verify compliance with the international ISO 50001 standard, demonstrated the company's responsible, systematic and purposeful approach to optimising energy consumption and protecting the environment.

TÜV AUSTRIA, international certification organisation

SUEK's energy efficiency programme offers an economic benefit whilst helping us minimise our impact on the environment.

In 2019, SUEK's Coal Segment was recertified for compliance with the requirements of the ISO 50001 international standards (updated edition of late 2018).

The main focus areas of our energy efficiency programme in SUEK's Coal Segment include:

- The regular development and introduction of energy efficiency goals and action plans
- Control procedures at various levels
- Introducing innovations and best available technologies related to energy efficiency

In 2019, we delivered the following key projects:

- Upgrading a dragline at Tugnuisky using our own switched reluctance electric motors, which brought specific energy consumption down by 46%
- Modernising the dragline control system at Chernogorsky by installing a modern and energy-efficient digital control system for electric drives
- Revamping the main conveyor line at Berezovsky to reduce specific energy consumption by 17%
- Optimising power consumption during planned peak load hours at Izykhsky and Vostochny by regulating the operation of drainage pumps

In 2019, SUEK's electricity consumption per unit of coal output reduced by 4% across the Group year-on-year.

In the Energy Segment the major contributor to energy saving is our co-generation of electricity and heat, which helps us to save 32% fuel compared to separate generation. The power plants also have other energy saving and energy efficiency programmes. Their main areas are:

- Improving the efficiency and reliability of equipment
- Reducing heat losses
- Reducing electricity consumption for the business' own needs
- Saving fuel and energy resources

In order to increase the energy efficiency of our logistics assets, we have developed and are implementing the Energy Saving and Energy Efficiency Programme until 2025. The main focuses are:

- Improving energy efficiency of the merchant fleet tugs, heat generation facilities, buildings and structures, special and automotive equipment, technological processes and infrastructure
- Using of energy-efficient lighting, optimization of lighting systems
- Improving train control technology
- Improving locomotive indicators and technical condition of track facilities

Energy consumption per coal production, *kWh/m³ of rock mass*

Fuel consumption per unit of energy production

–4%

electricity consumption per tonne of coal compared to 2018

In 2019, we also focused on enhancing our employees' understanding of and ability to improve the energy efficiency of their individual activities.

Water management

The company does not use water from vulnerable or state-protected sources, or from those of particular importance to local communities or for biodiversity. As the water withdrawn is used to cool the turbines and does not contact the contaminated circuit, the activities of SUEK do not affect the water balance in water bodies. We also use modern treatment facilities to ensure we do not influence water quality.

Optimising water consumption

The main use of water resources in the energy sector is related to cooling TPP equipment. At some of our plants, water treated at local treatment facilities is reused in a closed hydraulic ash removal system.

Water is used during the production and transportation of coal for washing and dust suppression. The majority of SUEK's washing plants and ports use a closed water cycle, thereby minimising water intake from external sources.

Most of the water consumed and discharged by the company is natural water (with characteristics typical of local groundwater) that is pumped out of mining areas during operations.

Part of the treated water is used for internal production process. Approximately 60% of the treated quarry water at the Tugnuisky and Nikolsky mines is planned to be used for dust suppression and for production at the Tugnuisky washing plant.

The Vanino Bulk Terminal uses a closed water circulation system. In 2019, the Murmansk Commercial Seaport launched a storm water treatment system at full capacity. The system of local treatment facilities treats all the contaminated storm water generated on the industrial site to almost potable quality. Effluents go through four stages of treatment, including ultraviolet disinfection. After that, the water is not discharged into water bodies but is supplied to the dust suppression and spraying systems.

Wastewater treatment

Our production sites use various methods for treating industrial (including from underground mines and open-pit mines) and household wastewater. As part of SUEK's Environmental policy, the company builds and renovates modern wastewater treatment facilities for cleaning mine/quarry water to meet stringent regulatory requirements for discharge into a water body.

In 2019, SUEK:

- Launched treatment pilot operation of facilities for mine waters of Vostochno-Beisky
- Commissioned new local treatment of household wastewater facilities to replace the old ones at Kharanorsky
- Commissioned treatment facilities at the Taldinskaya-Zapadnaya 1, Ruban and Kirov mines

Our power plants are equipped with treatment facilities for industrial and storm discharges.

We regularly reconstruct treatment plants in our ports. In 2019, this work was started at Vanino Bulk Terminal. We conducted an environmental review of a similar project at Maly Port which is scheduled for 2020.

Water consumption per unit of electricity, *m³/kWh*

Suspended and dissolved solids in wastewater, *kg per tonne of coal*

–80%

reduction in specific discharge of pollutants into the water in recent 8 years due to the reconstruction of treatment facilities

Production waste recycling

Production operations inevitably generate waste.

At our power facilities, the majority of waste produced during coal burning is ash and slag, which are not hazardous. In 2019, SUEK actively developed projects to utilise waste for production purposes. Ash and slag from our plants in Krasnoyarsk, Novosibirsk, Kuzbass are used for the rehabilitation of disturbed lands and the construction of roads in Khakassia and Novosibirsk. In 2019, all of the ash and slag materials produced from the waste from the Krasnoyarskaya CHPP-1 was used for the rehabilitation of a worked-out open-pit mine in the Berezovsky district. SUEK is planning three further large-scale land reclamation projects with ash and slag materials in Krasnoyarsk, Nazarovo and Kemerovo.

There is potential to utilise 3.2 Mt of ash and slag for this purpose every year (90% of total ash and slag waste).

Around 99% of the waste we produce in coal mining is not hazardous (overburden, etc.). This waste is used in production processes or for reclamation purposes. In 2019, the amount of overburden used for reclamation decreased due to less worked-out areas. The remaining 1% waste requires special treatment and is transferred to dedicated organisations for neutralisation.

In order to reduce waste sent for disposal, our Zabaikalye facilities process organic waste, industrial rubber articles, polymers, rubbers, oil sludge, bitumen, roofing felt, electronic equipment, waste oils, medical, wood and other carbon-containing waste.

In Khakassia, we operate a tyre-recycling plant. Worn dump-truck tyres are converted into new products, such as tiles for injury-free sports coatings and rubber granules for road surfacing. Adding rubber granules to asphalt coatings increases the grip and makes the road surface more resistant to temperature changes.

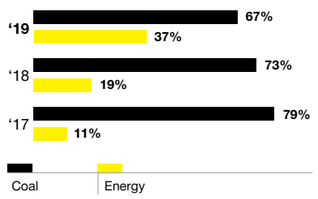
Ash dump safety

The technology used by SUEK for storing ash and slag waste in ash dumps is completely safe. The sites are far removed from people's homes and do not pose any threat to human life.

An ash dump is a hydraulic structure operated in strict compliance with Russian legal requirements. We regularly monitor the safety of these facilities, including the water level in ash dump beds and piezometric wells, through regular depth measurements and other checks. At least once every five years, we engage specialised independent organisations to analyse the safety of SUEK's hydraulic structures. In addition, Rostekhnadzor monitors the state of our ash dumps and ensures their compliance with operational safety requirements during scheduled and unscheduled inspections. Inspection-based corrective actions have top priority.

For each facility, financial and material reserves have been created to eliminate possible accidents, with civil liability insurance contracts covering our hydraulic structures. The personnel involved in operating ash dumps have all of the necessary qualifications and certifications.

Used and recycled waste of total generated waste



Land rehabilitation and biodiversity

None of SUEK's production sites are located in protected or nature reserve areas, including territories protected by UNESCO and the Ramsar Convention, and no rare or endangered species of animals, plants or fungi have been identified at our operational sites.

We run extensive reclamation projects on land disturbed by SUEK's mining projects. Overburden resulting from coal mining is used for filling sinkholes, backfilling and reclaiming land disturbed by mining operations. This is in accordance with approved programmes for the use of mineral resources, including projects to restore the topography and soil, landscaping and gardening programmes. In partnership with the Khakassia Research Institute of Agrarian Problems, we have been running a unique long-term land reclamation project with the goal of preparing recommendations on forest reclamation.

In total for 2019, 552 ha of disturbed lands were reclaimed and rehabilitated to a condition suitable for further use in production processes.

We also take part in projects to assess the state of water resources and minimise the human impact on biodiversity. In order to maintain aquatic biological resources, the company also regularly releases various fish species into local water bodies. In 2019, SUEK released around 800,000 juvenile common carp, peled, Siberian sturgeon, grass carp and silver carp in the Primorye, Zabaikalye, Krasnoyarsk and Kemerovo regions. The Kemerovskaya GRES, Kemerovskaya CHPP and Kuznetskaya CHPP also constructed fish protection facilities.

Attracting talent and empowering progress

Q:

How does SUEK use modern technologies to improve its employee training programmes?

A:

SUEK operates an advanced Staff Training and Development Centre in Leninsk-Kuznetsk. There we use interactive video courses and VR technologies such as a Virtual Mine training simulator, an interactive electronic simulator for roof mounted monorail mine suspension locomotives, etc. With software modeling we are able to simulate certain process conditions and potential hazards that can occur underground, in order to develop a behavioural algorithm. This helps with developing our employees' professional skills and reducing the number of incidents.

In Buryatia and Zabaikalye we use simulators for training drivers of dump trucks, truck cranes, hydraulic excavators, bulldozers, increasing employee qualifications and ensuring mine equipment is operated reliably, efficiently and safely.

In 2020, we plan to purchase a BelAZ simulator, install a multifunctional training complex for auxiliary mine rescue teams and develop an automated computer-based training system called 'Roadheader' for the Centre in Leninsk-Kuznetsk.

Dmitry Syromyatnikov,
Human Resources and Administration Director

Our priorities

- Motivate and empower employees to contribute to achieving the company's strategic goals
- Continuously increase industrial safety standards and labour productivity at all operations
- Improve working conditions for employees and enhance living standards
- Improve employee retention rate
- Attract and retain highly promising and skilled personnel, provide ongoing training and talent development opportunities
- Nurture the company's succession pool and promote the industry to attract young talent
- Further develop our corporate culture

Our regulatory framework

- International and Russian Employment Law
- Sectoral and regional agreements with trade unions
- Collective bargaining agreements
- Our Corporate Social Policy
- Our Code of Corporate Ethics
- UN Global Compact
- UN SDG's

Our approach

A workforce of talented and committed employees who believe in SUEK's mission, share our values, and prioritise safe, professional and honest work, is the solid foundation for achieving our strategic goals.

Our HR strategies are outlined in the company's Social Policy and aimed at further developing our corporate culture and a safe, all-inclusive work environment. Ensuring that we have a highly skilled and engaged workforce is crucial to the success of our business, therefore we deploy a wide range of tools to identify and recruit the best candidates and support their ongoing development. We encourage creative and innovative thinking to support continuous improvements in the business.

We act in strict compliance with the labour laws of the countries where we operate and our Code of Corporate Ethics, whilst maintaining international best practices.

SUEK is fully committed to fair treatment and working conditions for all employees and categorically does not use or condone child labour, or any form of forced labour or modern slavery. We are an equal opportunity employer and guarantee the absence of discrimination based on nationality, gender, origin, age, educational or socio-economic background, religious, political or other beliefs, etc. The company recognises the lawful right of workers to form voluntary associations to protect their rights and interests and is fully supportive of our employees' freedom of association.

Our HR strategy is also strongly aligned to the SDG's to uphold the UN's global efforts to ensure healthy lives and promote well-being for all at all ages, ensure inclusive and equitable quality education and promote lifelong learning opportunities for all, achieve gender equality and full and productive employment and decent work for all.

SUEK's Nomination and Compensation Committee of the Board of Directors oversees the implementation of the company's HR strategy and controls incentives and Management Board appointments.

For our stance on human rights, see ***http://www.suek.com***

For our Social Policy and Code of Corporate Ethics, please visit our website ***http://www.suek.com***

HR management structure

Overview

SUEK is one of the largest employers in the Russian coal and energy sectors. In 2019, our average headcount was 66,245 people. Despite the headwinds such as challenging local labour market dynamics and the current demographic composition of Russia, we maintained a stable staff turnover rate in the coal business segment. We also reduced turnover at our energy segment year-on-year with the completion of the restructuring process. The sufficiency of qualified personnel in 2019 was 99% in the Coal Segment and 96% in the Energy Segment.

Promoting diversity

The socio-demographic characteristics of our workforce remained consistent. Whilst we remain focused on increasing female representation within our company, the number of men continues to significantly exceed the number of women in our workforce. This is largely due to the nature of our production processes and Russian legislation[1] which deters and sometimes limits women's opportunities to work in hazardous working conditions.

Despite the challenges, we are working hard to encourage women to join our company. Our efforts are directed at (and not limited to): ensuring suitable facilities in the workplace, creating conditions that allow women to thrive at all levels of the organisation and targeted leadership development programmes.

1. *In accordance with the Russian Government Decree No. 162 of 25 February 2000 to approve the list of arduous jobs and jobs with harmful or dangerous working conditions forbidden to women, women are not allowed to occupy a significant number of underground roles.*
2. *All data excluding Reftinskaya GRES.*

Staff remuneration and incentivisation

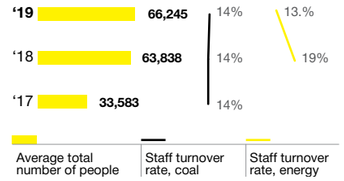
One of our main priorities is ensuring we maintain an effective staff remuneration system that enables us to recruit and retain qualified staff.

SUEK regularly monitors trends in the Russian labour market, analyses best practices in staff remuneration and incentives, as well as the provision of guarantees and other benefits. We frequently take part in salary surveys for companies in the mining, coal, energy and logistics sectors to help us further understand industry trends. Regular analysis of market data enables us to remain confident that we are offering employees competitive working conditions, to plan and adapt our HR management policy accordingly to reflect external economic influences.

SUEK's financial incentive system includes a constant part and a conditionally variable part fixed in collective agreements. The fixed part is paid for the performance of professional duties at the required level. The variable part is an incentive to improve working efficiency and includes economic and production targets as well as ESG-linked KPIs, such as the contribution to certain environmental and social aspects, along with industrial safety performance.

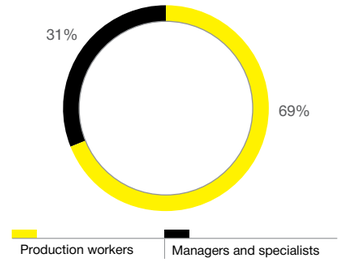
With our continued focus on increasing employee engagement and retaining qualified employees, we have also developed a special bonus system for those employees participating in long-term strategic projects and operational improvement programmes. This incentivises employees to meet the set targets, and improves cross-functional interaction and expertise exchange. In 2019, over 500 employees participated in this incentive programme.

Average headcount and staff turnover rate[2]

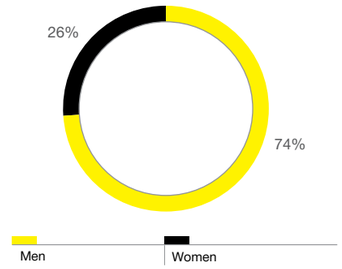


Composition of employees[2]

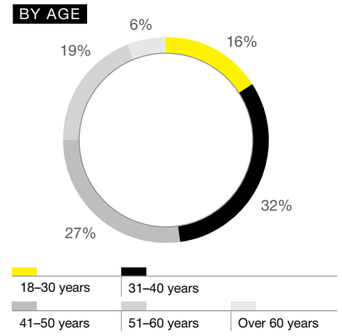
BY PERSONNEL CATEGORIES



BY GENDER



BY AGE



Social support

Our relationships with employees are largely governed by the principles of social partnership. SUEK's employee benefits package is developed based on applicable law and overseen by industry agreements with trade unions and collective bargaining agreements. Approximately 92% of our employees are covered by collective bargaining agreements.

SUEK employees are offered the following social benefits:

- Voluntary medical insurance, including rehabilitation treatment for occupational illness, which covers all employees at our coal facilities and 80% in the energy business
- Combined insurance for industrial accidents
- Financial aid for pensioners, parental leave and premium medical treatment, or financial support for the funerals of company employees
- Financial compensation during children's summer holidays and for medical treatment
- Financial assistance and welfare payments to former employees

*For information about additional social benefits offered to our employees, see our **Sustainable Development Report for 2018-2019.***

~92%
of employees are covered by collective bargaining agreements

Cooperation with trade unions

At SUEK, we fully recognise our workers' freedom of association and therefore we regard trade unions as key partners in our business. The Russian Independent Trade Union of Coal Industry Workers (Rosugleprof) and the Independent Trade Union of Russian Miners (NPG), in which around 64% of SUEK's employees are involved, are active at the company's facilities. In the Energy Segment, employees are involved with a sectoral All-Russia Electric Trade Union.

At a local level, trade unions are consulted during the negotiation of collective bargaining agreements as well as on matters such as issuing regulatory acts relating to social and labour relations, labour protection and remuneration. Union representatives also have regular interaction with managers at our operations. Following consultation with trade union representatives, SUEK develops work schedules and terms of employment, and approves vacation schedules and employee incentive systems.

Employee training and development

SUEK's staff training system is designed to create conditions that promote the professional fulfilment of employees and ensure the systematic development of their professional and managerial competencies, thereby establishing SUEK's talent and succession pool.

The key areas of staff development are:

- Professional training including retraining, qualification advancement, advanced and cross-functional training
- Developing a talent pool for key management positions
- Training young professionals (targeted education, practical training, internships, mentorship programmes)

Professional training

SUEK's Corporate University is an analytical, methodological and advisory centre committed to knowledge management and the development of human resources. The University's programmes are modular in nature and focused on teaching the principles of lean manufacturing and calculating cost-effectiveness. In 2019, more than 450 employees completed training at the University.

SUEK also runs a regional network of occupational training facilities for our employees. This includes 14 training centres and workshops, which have been licensed by Russian state education authorities. Their primary functions comprise empowering employees with new sets of skills as well as further developing their existing qualifications. In the reporting year, more than 39,000 people were trained at our own educational institutions. As our priority is to create a workplace free of occupational hazards, we gave special attention to labour and industrial safety training programmes.

In 2020, the company will participate in the 'Older generation' federal project in the Kemerovo region, which is dedicated to training employees close to retirement age. The main focus of the project will be developing participants' mentoring skills and lean technologies skills.

Succession pool

We use a step-by-step training system to develop the company's succession pool: from site engineers and mine supervisors to the CEO's deputies. This not only provides in-house career opportunities but also enables us to develop a pool of highly qualified candidates to fill managerial vacancies.

In 2019, we:

- Formalised the requirements for various positions, and correspondingly updated our talent pool composition and developed candidates for succession
- Created a uniform model of assessing and developing our employees' managerial competencies
- Completed the recruitment and training of the mobile managerial succession pool of the procurement unit

Training and development of young professionals

To attract young, talented professionals into our business, SUEK participates in youth forums, holds professional skills contests, job fairs, and provides vocational guidance for pupils and applicants. We run educational classes on the energy industry for high school students in the cities of Abakan, Minusinsk, Nazarovo and on the coal industry in Borodino, Nazarovo and Sharypovo. We cooperate actively with Russia's leading and vocation-oriented mining universities. Over 50 students currently participate in SUEK's targeted education programmes. We also attract students to internships at our facilities every year.

To develop the potential of young employees, the company offers a mentoring system. We have created a new, interactive induction course and we have adopted tailored induction regulations at key units. In addition, experienced coaches are allocated as mentors for young employees with high potential.

39 hours
of training per employee on average in 2019

150 requests
were processed through our feedback channels in 2019

Corporate culture and internal communications

SUEK's corporate culture is based on long-standing labour traditions and the Code of Corporate Ethics. Internal communications are key to promoting the values of our corporate culture. We use a number of communications channels:

- Meetings between employees and managers
- Corporate media system, including intranet portal
- Information stands, plasma panels, brochures in corporate transport, and electronic newsletters
- Employee surveys
- Hotline
- 'Alarm Sheet' feedback system
- Sustainable Development reports

*For our corporate values, see Stakeholder Engagement on page **48.***

Ethics and integrity are built into our corporate culture. The Company has an effective system in place to enforce compliance with the Code of Corporate Ethics. Its highest collegial body is the Ethics Commission, which addresses the complex employee ethical issues. In 2019, over 150 requests were submitted and reviewed through various feedback channels included in SUEK's Code Compliance System.

The majority of issues are resolved at the level of ethics coordinators appointed at each unit, while the rest are referred to the Ethics Commission. Most of the issues discussed at the Ethics Commission meetings in 2019 were related to social conditions and employees' personal issues.

As part of the programme to enhance SUEK's corporate culture and internal communications system, in 2019, we continued work on the following areas:

- Upgrade of the company's intranet portal
- Promoting the Code of Corporate Ethics through creative competitions
- Developing a feedback system to maintain an open dialogue with employees and ensure two-way communications, including updating the telephone hotline
- Training sessions for ethics coordinators on best practices and communications skills, as well as skills for influencing change

It is important that we receive regular feedback from our employees and continually identify areas for improvement. In 2019, we carried out an employee survey to measure perceptions of SUEK in seven regions where we operate. The survey included questions around SUEK as an employer, criteria for choosing a place of work and reasons for changing the previous place of work, involvement in the company's work, perceptions of the staff turnover issue, satisfaction with their quality of life, etc. The vast majority of SUEK employees said they were satisfied with their working conditions and consider it prestigious to work at SUEK.

*For the survey results, see Stakeholder Engagement on page **49** and the **Sustainable Development Report for 2018-2019.***

A key focus in 2020 will be the development of our face-to-face communication system. We will also integrate the Reftinskaya GRES and Krasnoyarskaya GRES-2 into SUEK's structure, introducing our corporate rules and standards, while maintaining and continuously improving the best practices that are currently in place at the plant.

Developing local communities and human capital

Q:
How does SUEK promote careers in engineering to children?

A:
Four scientific creativity centres for children have been opened in the Kemerovo region with support from SUEK. In 2019, the recently launched UnikUm centre benefitted from new, modern laboratories and workshops for intelligent electrical engineering, robotics and distance learning.

The aim of the centre is to develop intellectual and practical professional skills, and foster creative potential in pupils in grade five to eleven who show an interest in natural sciences. This unique educational platform gives children the opportunity to participate in scientific projects and have a go at solving issues that affect their region, the whole country and the entire planet. In 2019, SUEK invested $0.55m in this important initiative.

Sergey Grigoriev,
Public Relations and Communications Director, President of the 'Suek to the Regions' fund

Our priorities

In our ongoing commitment to being a good corporate citizen and a supportive and reliable partner for local communities, we have the following priorities:

- Improve housing conditions and promote the development of education, sport, healthcare and culture
- Bolster sustainable economic growth and the development of diverse and thriving communities by providing support to the next generations
- Improve the efficiency of our community investments by introducing innovation into social projects and coordinating activities with regional administrations and NGOs
- Raise awareness amongst young people about the career prospects offered by the energy sector

Our regulatory framework

- ISO 26000 Social Responsibility standard
- Our Corporate Social Policy
- Our Code of Corporate Ethics
- Social Charter of Russian Business
- UN Global Compact
- UN SDG's

Our approach

Our social activities are aimed at improving the living standards and well-being of our employees, their families and the communities in which we operate. Through our work in the regions and a proactive approach both inside and outside the company, we focus on making positive, long-lasting contributions to the economic, as well as the social prosperity of local residents.

We supply heat to more than 5 million people living in regions where the temperature remains below 0 °C for more than 6 months of the year. We are also one of largest electricity suppliers, employers and taxpayers in our regions of presence.

Meanwhile, SUEK's social strategy aims to promote regional development through creating opportunities for local residents. Our social programmes help stimulate economic development and improve living standards for local people by involving them in our projects and ensuring they benefit directly from them. By developing infrastructure and fostering education, we enable communities to solve their own problems and attract the resources they need.

Our investment approach to supporting local communities is underpinned by our Corporate Social Policy, which was developed in line with best-in-class global standards, the UN Global Compact, the UN SDGs, the Social Charter of Russian Business and the ISO 26000 Social Responsibility Standard. Furthermore, SUEK's relations with local communities are governed by the Code of Corporate Ethics, which outlines the corporate values and culture.

We develop and run social programmes in close cooperation with stakeholders: regional and city administrations, non-governmental organisations and local residents. These partnerships are based on a shared desire to encourage regional social development and are aligned with SUEK's strategic goals.

We proactively participate in global sustainability initiatives, such as supporting the UN SDGs through the work we conduct to resolve social challenges that local communities face. Most of our social projects are focused on solving various sustainable development problems, such as improving immunisation, providing electricity, computers and other equipment for schools, and supporting young mothers in developing their careers. These long-term projects are trialled in one region before being replicated across all of the territories where we operate.

SUEK does not operate in the areas of residence of indigenous peoples. In the framework of the current legislation of the Russian Federation, the boundaries of license areas cannot include territories inhabited by them.

Please visit SUEK's website for our Corporate Social Policy and Code of Corporate Ethics:
http://www.suek.com

Corporate Social Policy management structure

- **BOARD OF DIRECTORS**
  - Monitoring the effectiveness of the Corporate Social Policy
  - Approving strategic social programmes
- **MANAGEMENT BOARD**
  - General management of SUEK's social policy
- **COMMUNICATIONS DEPARTMENT**
  - Strategic planning and oversight of community activities
- **REGIONAL PUBLIC RELATIONS UNITS**
  - Delivery of social and charitable projects

Overview

We implement ongoing social and charitable programmes in all our regions of presence. In 2019, we successfully ran over 250 projects in 11 regions of Russia, with a total financial investment of $26m.

SUEK seeks to address urgent community issues in the regions where we operate. We contribute to the creation of a favourable social climate, the improvement of housing conditions for residents of mining towns and villages, and the development of education, sports, health care and culture. The ultimate goal is to increase the attractiveness of the territories of SUEK's presence for young people, attract young people to the mining and energy industry, and ensure the stable development of these territories for years to come.

$26m
invested in local communities in 2019

$541m
paid in taxes in Russia in 2019

Planning and assessment of social programmes

We run and finance our social policy through the 'SUEK to the Regions' and 'SGC – Warming Hearts' funds.

We carefully monitor the social environment in our communities to help better shape our community programmes. Both independent and in-house experts regularly assess our ongoing progress and outcomes. We measure the efficiency of our social investments through continuous monitoring of our projects using integrated social research, evaluating individual initiatives and the final results of our programmes. This analysis enables us to ensure the impact of our social investments is closely in line with our strategic and tactical goals. Moreover, by carrying out continuous analysis we can quickly respond to changes and identify areas for potential improvement.

Assessment tools include:

- Task meetings of project expert panels
- Focus groups with representatives of local and regional administrations, public associations and non-governmental organisations
- Expert surveys
- Analysis of participant surveys
- Discussion of programme results at public events with stakeholders

In 2019, in order to improve the efficiency of gathering feedback from residents, SUEK introduced an IT platform. This improves strategic planning and makes it easier to adjust local development programmes involving local communities, regional authorities and our units in the Kemerovo, Krasnoyarsk and Khabarovsk regions, in Buryatia and Khakassia.

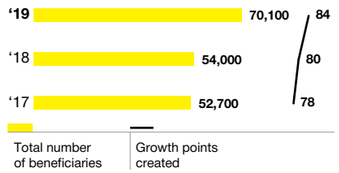
Quantitative parameters:

- Events held, number of participants
- Beneficiaries[1]
- Funds raised for the company's community development programmes
- Partners involved
- Growth points[2] created as a result of the company's community involvement
- Media coverage results

Qualitative parameters:

- The increased efficiency of public-private partnerships, closer interaction between commercial and non-profit sector companies in solving social problems
- Sustainability of previously implemented social projects
- Favourable conditions for interaction with state authorities and the public
- Enhancement of SUEK's reputation as a socially responsible and sustainable company

Growth points[2] and beneficiaries



Assessment of the effectiveness of our community investment

	2017	2018	2019
Number of beneficiaries[3] of our social programmes	1,300+	1,350+	1,500+
Total number of beneficiaries	52,700	54,000	70,100
Growth points[2] created	78	80	84

1. *Beneficiaries are residents of the territories that benefit from the results of our community, entrepreneurial and social-entrepreneurial projects.*
2. *Growth points are organisations set up as a result of social projects aimed at enhancing living standards in a particular district or town (maternity support centre, music workshop, mini-cinema etc.).*
3. *Direct participants in activities (workshops, training courses, work placement) offered by 'SUEK to the Regions' and 'SGC – Warming Hearts' funds, along with the recipients of grants and donations.*

SUEK's key activities

Urban areas and infrastructure development

Goal
Joint projects with local administrations to create a comfortable urban environment

Key projects:
- Joint preparation and delivery of master plans in Chegdomyn, Chernogorsk, Borodino, Kemerovo and Barnaul for modernising urban and social infrastructure, developing cultural facilities and stimulating environmental development
- Improving public areas, nurseries and playgrounds

Education

Goal
Developing innovative and business thinking, fostering initiative and leadership qualities in children and teenagers, vocational guidance for occupations in engineering

Key projects:
- 'Digital Technology School'
- Professional 'Classes by SUEK'
- Smart urban agriculture workshops for high school students

Sports and healthy lifestyle

Goal
Promoting a healthy lifestyle among employees and local communities

Key projects:
- 'Chess to Mining Regions'
- Constructing sports facilities and holding competitions

Medical care

Goal
Providing cutting-edge medical care to employees, their families and local communities

Key projects:
- Treating and rehabilitating children and coal industry veterans in health centres of the Department for Presidential Affairs of the Russian Federation
- Training in outpatient work for doctors from the cities where we operate
- 'Dream Ski' and 'Dream Ski. Roller ski' for children with cerebral palsy and other health restrictions.
- 'Special Parent School' in Nazarovo to train parents and social services counsellors in home rehabilitation for disabled children

Leisure, culture

Goal
Developing a culture of creativity and inclusiveness

Key projects:
- Public lectures on art, workshops and meetings with artists in Barnaul
- 'Street Art Week' festival in Novokuznetsk and a street sports festival in Kemerovo
- 'Believe in Yourself' musical TV Project in Altai
- Support for the VIII[th] Zabaikalye International Film Festival

Environment

Goal
Promoting a culture of environmental awareness in the regions where we operate

Key projects:
- 'Water of Russia': attracting public attention to the need to conserve water bodies, engaging young people in environmental protection, and improving popular recreational areas in mining regions
- The 'Zubochistka' environmental marathon: picking up rubbish left by tourists
- 'SUEK's Green Squad': tree planting, litter picking, and waste paper and waste battery collection for recycling, environmental awareness campaigns

Local community development

Goal
Developing business and leadership skills, personal guidance and improving competencies

Key projects:
- 'School of Social Entrepreneurship' for the advancement of education, medicine, sports, culture, leisure, consumer services in the mining regions
- 'Success Training' for adolescents, including from social welfare facilities
- Summer employment for high school students in landscaping, assistance to veterans and the disabled

Charity

Goal
Helping disadvantaged groups and protecting children

Key projects:
- Cooperation with Rusfond and the Gift of Life charitable foundation in providing children with Hi-Tech treatment
- Purchasing rehabilitation and medical equipment for the automatic administration of insulin for disabled children with severe diabetes
- 'Road to a Fairy Tale' theatre project for children with disabilities and students from low-income families
- 'Gift of Santa Claus' for pupils from low-income families
- Arranging a training apartment in Krasnoyarsk, where children with mental development disorders learn self-care skills
- Support for children with cancer

For more information about our projects in 2019, see SUEK's Sustainable Development Report for 2018-2019.

Addressing the challenges, enhancing sustainability

Alexander Landia,
Chairman of the Board of Directors

In light of the challenging macro conditions, in 2019 we concentrated on improving operational efficiency and enhancing the performance of our business segments to offset the impact of volatility in the global energy markets, and ensure the sustainable development of the company.

The Board reviewed the latest macroeconomic forecasts until 2028 and approved SUEK's consolidated strategy to 2023. Accordingly, we adjusted the targets for our main functional strategies in sales, logistics and the regional strategies for our coal and energy units, and approved key investment projects.

In the Coal Segment, we focused particularly on projects aimed at boosting the company's production of higher margin and competitive products that meet to the demands of our customers. In the Energy Segment, we approved deals to expand our presence in strategically important regions.

In logistics, the Board approved a major transaction for the purchase of railcars to increase our self-sufficiency in this area, which will give us more control over costs and delivery times.

We continued to closely control the consolidation of the energy business. In 2018 we had determined that by exchanging best practices between the two segments we would ensure the combined company would benefit from the strongest competencies of both. Therefore, in 2019 we carefully monitored the progress of this approach. Today, the consolidation process is either completed or is at its final stage across all functions. The remaining work will be completed in the first quarter of 2020 in accordance with the plan approved by the Board of Directors.

In order to ensure smooth strategy implementation, at our Board of Directors meetings we regularly reviewed the motivation system for top and line management. Thus, we continued to improve the incentive system for senior management, with a focus on the needs of stakeholders. The 2020 targets we set for top management include sustainable development KPIs.

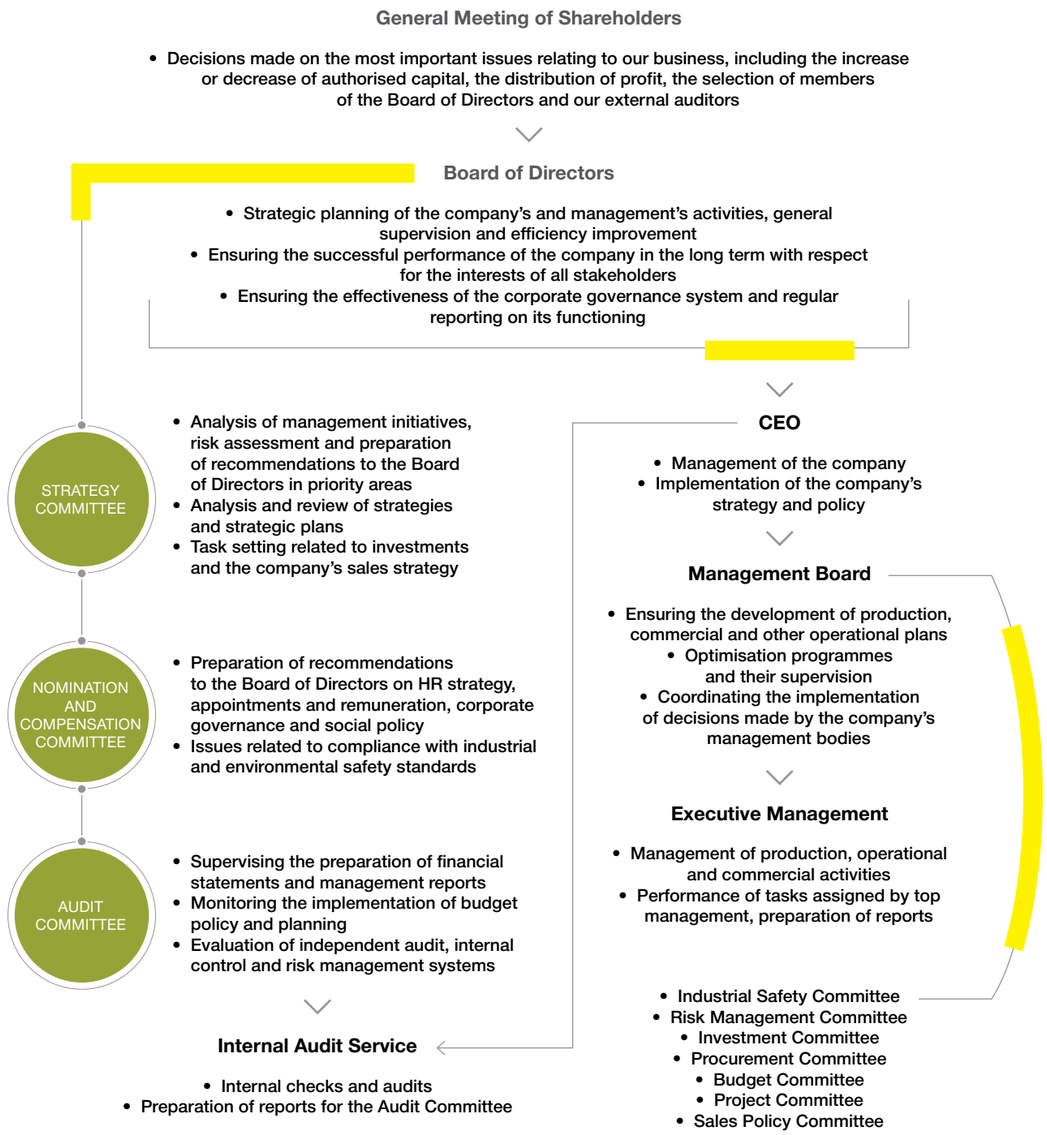
Given the focus on sustainability and growing scale of our operations, we required transparent and detailed reporting at all levels for issues such as such as corporate culture, labour safety, environmental protection and stakeholder engagement. In particular, Klaus-Dieter Beck, a member of the Board of Directors and the Nomination and Compensation Committee, visited the Kuzbass mines several times during the year to assess the status of industrial safety, as well as production and mine development efficiency. The remaining Board members were able to discuss issues of industrial and environmental safety, incentivisation of production personnel, development of youth and the region in general during a visit to the Kuzbass region in September. We also reviewed the results of an employee satisfaction survey SUEK ran in 7 regions of presence and approved certain initiatives proposed by the management to further enhance the company's social engagement.

Although SUEK is not a publicly listed company, we are guided by the best principles of public disclosure for the benefit of all of our stakeholders. The Board of Directors ensures that the company adheres to the best international corporate governance practices. We are proud that in 2019, SUEK received international certificates for compliance and anti-corruption management.

In 2019, two new independent Directors, Vladimir Hlavinka, who has diverse experience in the power industry including nuclear, and the transformation and development of energy businesses, and Michael Baumgärtner, who has significant experience in finance and asset management, joined the Board of Directors as members of the Nomination and Compensation Committee and the Audit Committee. Natalia Izosimova and Tom Cairns left the Board of Directors in August. We thank them for their contribution to the Board's work and wish them success in their future endeavours. The updated composition of the Board of Directors is consistent with the profile and growing scale of the company.

In 2020, we will focus on ensuring that the company's management successfully implements the chosen strategy and has all necessary resources and motivation instruments to benefit all stakeholders.

Corporate governance structure



SUEK's corporate governance system is designed to ensure the business operates in an effective and responsible way that creates value for all stakeholders.

Our corporate governance system is underpinned by the following principles:

- Treating all shareholders equally, recognising and protecting their rights
- Ensuring the efficiency of our strategic and operational management and internal control and audit mechanisms
- Ensuring the company's informational and financial transparency by providing stakeholders with accurate information in convenient formats
- Adhering to rigorous ethical standards in business
- Providing a decent, safe and healthy working environment for our employees

The key internal documents relating to corporate governance at SUEK are our Charter, Regulation on the Board of Directors, Regulation on the Management Board, Corporate Governance Code and SUEK's Code of Corporate Ethics.

The procedure for preparing, convening and holding the General Meeting of Shareholders is also governed by relevant regulations.

Corporate documents can be found on the company's website www.suek.com

In developing our corporate governance system, we are guided by the provisions of the Corporate Governance Code recommended by the Bank of Russia, as well as by the best international practices. The company has adopted a set of recognised international approaches, namely:

- The positions of Board Chairman and CEO are separate
- The Board includes the Strategy Committee, the Audit Committee and the Nomination and Compensation Committee, all of which include Independent and Non-Executive Directors with relevant experience
- When making decisions, Board members avoid potential conflicts of interest
- The status of Independent Director and the number of such Directors are monitored and confirmed by the Board of Directors
- The Board's work is reviewed on an annual basis

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

General Meeting of Shareholders

In 2019, the Annual General Meeting of Shareholders elected the members of the Board of Directors, approved the 2018 Annual Report and financial statements and re-appointed KPMG as SUEK's external auditor for 2019. It also made a resolution on the company's participation in a non-governmental organisation (Transportation Security Association).

Board of Directors

The Board of Directors is a key element of SUEK's corporate governance system. The legislation of the Russian Federation and internal documents of the company vest the Board with the authority to ensure the efficient management of the company.

The Board of Directors runs three Committees:

- Strategy Committee
- Audit Committee
- Nomination and Compensation Committee

The activities of all Committees are aimed at improving the efficiency and quality of decisions made by the Board of Directors.

Composition of the Board of Directors

To ensure the Board of Directors is efficient, its highly qualified members take individual responsibility and overall accountability for all decisions made by the Board. The composition of the Board of Directors is balanced and complies with all applicable requirements from the shareholders and best international practices. The directors' experience in mining, energy and finance contributes to quality strategic management and helps address the challenges faced by the company.

SUEK regularly rotates its Board of Directors. In August 2019, Tom Cairns and Natalia Izosimova left the company. At the same time, Vladimir Hlavinka, a power industry expert, and Michael Baumgärtner, experienced in finance, joined the Board.

Four Directors are Independent: Michael Baumgärtner, Klaus-Dieter Beck, Vladimir Hlavinka and Iain Macdonald (their independence is confirmed by the Board's decision). Seven Board members are Non-Executive Directors: Michael Baumgärtner, Klaus-Dieter Beck, Vladimir Hlavinka, Stefan Judisch, Alexander Landia, Iain Macdonald and Andrey Melnichenko. The Board also includes SUEK's CEO, Vladimir Rashevsky. Alexander Landia serves as the Chairman of the Board.

Selection and nomination policy

The Nomination and Compensation Committee oversees the selection and nomination of new Board members and ensures that it is well balanced and that the competences of Directors will support the achievement of the company's strategic objectives.

Candidates for the Board are Directors who have knowledge of the coal-mining sector, the electric power and the heat generation industries; they should also be highly proficient in finance, investment and risk management.

The criteria that Independent Directors must satisfy are defined in SUEK's Corporate Governance Code and comply with the Corporate Governance Code recommended by the Bank of Russia. Board members are elected for the period up until the next Annual General Meeting, with the possibility of re-election. The Nomination and Compensation Committee evaluates the compliance of prospective Board members with the independence criteria.

Induction and familirisation procedure

The company has developed an induction programme for newly elected Board members, which aims to familiarise Non-Executive Directors with the business, the activities of its subsidiaries and the rules and practices adopted by the management bodies.

Upon election, Directors are granted full access to materials and minutes from all previous Board of Director and Committee meetings.

Control over the induction procedure is exercised by the Corporate Secretary.

Board of Directors

as at 31 December 2019

SUEK's Board of Directors is experienced and provides leadership to the company for its long-term success with respect for the interests of all stakeholders.

N S

ALEXANDER LANDIA, 57

CHAIRMAN
NON-EXECUTIVE DIRECTOR

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

Career
Alexander has extensive management experience, leading and advising various organisations. Between 1993 and 2001, he worked at Dresdner Bank in Frankfurt as First Vice President, Oil & Gas Global Debt. Until 2004, he was General Director of Accenture Russia and was subsequently appointed Global Gas Lead Partner. In 2006, Alexander joined SUEK's Board of Directors, which he chaired between 2006 and 2010. In October 2016, he was reappointed Chairman of the Board.

From 2013 to 2015, Alexander was a Board member of JSC EuroChem. From April 2015 to December 2019, he was Chairman of the Board and a member of the Strategy Committee of EuroChem Group AG. Up until September 2018, he was Chairman of the Board of Directors of Siberian Generating Company (Russia).

Alexander is Chairman of The Mobility House AG (Switzerland), and a member of the Board of Lambert Energy Advisory Ltd (UK).

Appointment to the Board
December 2006

S

ANDREY MELNICHENKO, 48

NON-EXECUTIVE DIRECTOR

Education and qualifications
Andrey studied Physics at the Lomonosov Moscow State University and graduated from the Plekhanov Russian Academy of Economics, with a degree in Finance.

Career
Andrey Melnichenko is a self-made Russian industrialist. Over the past 20 years, he co-founded a number of multi-billion-dollar businesses including fertiliser producer EuroChem, coal producer SUEK, and power generator SGC (now directly owned by SUEK) – which are among the largest companies globally within their industries. In the early 1990s, Andrey co-founded MDM Bank, which under his leadership became one of Russia's most successful and largest private banks. In the 2000s, he exited MDM Bank, while investing in already privatised industries – fertilisers, coal and steel pipes (which he exited in 2006 through an IPO).

Andrey holds main beneficiary interest in EuroChem Group AG and SUEK. He is the member of the Board of Directors of EuroChem Group AG and SUEK. He chairs EuroChem's Nomination and Remuneration Committee and SUEK's Strategy Committee. He sits on the Board of the Russian Union of Industrialists and Entrepreneurs, where he chairs its Mining Commission.

Appointment to the Board
March 2004

S

VLADIMIR RASHEVSKY, 46

CHIEF EXECUTIVE OFFICER

Education and qualifications
Vladimir graduated from the Finance Academy under the Government of the Russian Federation, majoring in Global Economics. He holds a Candidate's Degree in Economic Science.

Career
Vladimir 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 and then, in December 2001, Chairman of the Management Board.

In 2004, Vladimir became President of 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 Distribution Grid Company of Siberia.

Appointment to the Board
June 2011

A

MICHAEL BAUMGÄRTNER, 55

INDEPENDENT
NON-EXECUTIVE DIRECTOR

Education and qualifications
Michael holds a degree in Business Administration from University Pforzheim.

Career
Michael started his career in 1993 as an auditor with KPMG in Stuttgart. He began working in the energy sector in the finance and accounting department of Energie-Versorgung Schwaben in 1996, and then moved to EnBW Energie Baden-Württemberg in 2004 as Head of Asset Management. From 2009 to 2012, he was on the Board of Management in EnBW Kraftwerke. Michael is CFO of STEAG and a member of its Management Board since 2013.

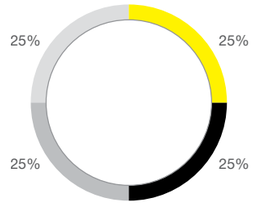
Michael is also Vice Chairman of the Board of Directors of Iskenderun Enerji (Turkey) and Chairman of the Advisory Board from the Business School, University Pforzheim (Germany).

Appointment to the Board
August 2019

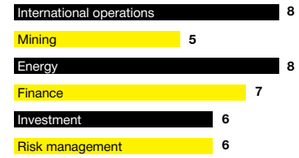
Key to Committee membership

- S Strategy Committee
- N Nomination and Compensation Committee
- A Audit Committee
- Committee's Chairman

Length of service as Board members



Board experience



S N

KLAUS-DIETER BECK, 65

INDEPENDENT
NON-EXECUTIVE DIRECTOR

Education and qualifications
Klaus-Dieter holds a PhD and an MSc in Mining Engineering from Rheinisch-Westfalische Technische Hochschule in Aachen, Germany.

Career
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 subsidiary RAG Niederrhein in Germany, and between 1996 and 1998 was General Manager of Friedrich/Rheinland mine. 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 American 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, and has served as a member of the Supervisory Board of TUEV Nord/Hannover in Germany since 2008.

Appointment to the Board
June 2012

N

VLADIMÍR HLAVINKA, 53

INDEPENDENT
NON-EXECUTIVE DIRECTOR

Education and qualifications
Vladimir holds a Master`s degree in Mechanical engineering, thermal and nuclear power plant design from Technical University Brno and Master's degree in Law from Masaryks University Brno.

Career
Vladimir has diverse experience in the power industry including nuclear industry, including the transformation and development of the energy business. He began his career in 1989 as a research fellow at the Research Institute of the Nuclear Power Plant Trnava, and then he worked for nine years at the Nuclear Power Plant Dukovany.

From 2000 to 2006, Vladimir was a member of the ALTA Board of Directors in charge of M&A, legal affairs, nuclear material and fuel assemblies transport and trading. In 2006, he was employed by CEZ, a.s., where he worked as Director of the Nuclear Power Plant Temelin, Executive Director for Power Generation and Member of Board of Director of CEZ.

From 2007 to 2013, Vladimir led the supervisory boards of some subsidiaries of CEZ with connection to power generation as Nuclear Research Institut Řež, a.s., ČEZ Energo, s.r.o., ČEZ Energetické produkty, s.r.o., ČEZ Teplarenská, ČEZ Energetické služby and ČEZ Energoservis, SRO.

In 2014 - 2015, he served as Deputy Board Chairman at PSG International, a.s. (Czech Republic) and, in 2015, acted as Managing Director and Vice President of Innovation, Uranium One Holding NV (Netherlands). In 2017, Vladimir was elected to the Board of Directors of Uranium One Ink (Canada) and was appointed Managing Director of U1 Trading (Switzerland). Since 2018, he has also been on the Board of Directors at ORGREZ, a.s., where he is a majority shareholder.

Appointment to the Board
August 2019

S A

STEFAN JUDISCH, 61

NON-EXECUTIVE DIRECTOR

Education and qualifications
Stefan holds a degree in Business Administration from Frankfurt.

Career
Throughout his professional life, Stefan has been involved in commodity trading and risk management activities, predominantly focused on energy-related commodities and non-ferrous metals.

Stefan began his career in 1981 at Metallgesellschaft's central controlling department in Frankfurt (Germany). While with Metallgesellschaft, he worked in London, New York and Hamburg where he served as CEO of the company's non-ferrous metal trading and brokerage subsidiary. In 1992, he was hired by the Swiss bank UBS to develop their commodity trading business.

Following the deregulation of Germany's electricity market in 1999, he moved to German utility RWE. He helped to build RWE's global energy and commodity-trading and wholesale-supply business over a period of 16 years. He retired as the company's CEO in February 2015.

Stefan is a Non-Executive Director of Trimet Aluminium SE, the largest aluminium producer in Germany, and its holding company.

From June 2018 until October 2018 and since July 2019 he was and is also a non-executive Director of EuroChem Group AG (EC). From November 2018 until June 2019, he was Chief Commercial Director and deputy CEO, since September 2019 he chairs the Strategy Committee of EC's Board of Directors and is Director of AIM-Capital.

Appointment to the Board
June 2015

A

IAIN MACDONALD, 62

INDEPENDENT
NON-EXECUTIVE DIRECTOR

Education and qualifications
Iain holds a BSc (Eng) from University College London. He also attended the Programme for Management Development at Harvard Business School.

Career
Iain joined BP in 1979 as a chemical engineer.

Over a 30-year career there, he progressed through a variety of technical, operational, marketing and business management roles before moving into finance management during his last ten years with the company. He was Head of Planning for the Group, then Group Controller, finally becoming Deputy Group Chief Financial Officer in charge of the integrated finance function. He was a member of the Board of TNK-BP, and a BP Pension Trustee.

Iain retired from BP in 2010 and took up a position as Chief Financial Officer of Fairfield Energy Ltd, an independent North Sea oil and gas producer. He remained in charge of finance at Fairfield until the end of 2014.

Iain is currently a Non-Executive Director of Premier Oil plc, where he is the Audit and Risk Committee Chairman, and a Non-Executive Director and Chair of the Finance Committee of the Workforce Development Trust Ltd.

Appointment to the Board
April 2015

Board meetings

The Board's schedule and work plan are approved for the following year, with adjustments every six months.

The Corporate Secretary supports the work of the Directors and Board Committees. The Corporate Secretary and CEO make every effort to provide Board members with the materials for meetings in advance.

Board members regularly communicate with the company's management teams. Between meetings, Non-Executive Directors receive monthly management reports, notifications about significant events and overviews of the coal-mining industry. Members of the Board also regularly consult industry experts and visit the company's production and logistic sites. During these visits, Directors can personally evaluate the state of our assets, communicate with regional managers and assess our corporate culture and safety systems at first hand.

Members of the Board have access to information on the activities of all Board Committees and may attend any Committee meeting.

The Board held 17 meetings in 2019 (six scheduled in-person meetings, ten in-absentia meetings and one unscheduled conference call meeting). Most in-person meetings were fully attended.

In addition to regular issues such as the revision of strategy, budget and investment planning, setting objectives for top managers and assessing their performance, at its meetings in 2019, the Board reviewed a number of strategic initiatives, approved major transactions and analysed the short- and long-term financing of the business, along with other issues requiring Board's approval according to the Regulation.

Directors' participation in Board meetings in 2019[1]

Director	Number of Board meetings	Audit Committee	Nomination and Compensation Committee	Strategy Committee
Total number of meetings	**17[2]**	**8**	**5**	**8**
Klaus-Dieter Beck	17	–	5	8
Michael Baumgärtner	4[3]	1[4]	–	–
Natalia Izosimova	8[5]	–	2[6]	–
Tom Cairns	8[7]	4[8]	–	–
Alexander Landia	17	–	5	8
Iain Macdonald	17	8	–	–
Andrey Melnichenko	17	–	–	8
Vladimir Rashevsky	17	–	–	8
Vladimir Hlavinka	6[9]	–	3	–
Stefan Judisch	17	8	–	8

Board investigates into industrial safety and operational efficiency

A member of the Board, Klaus-Dieter Beck, visited the Kuzbass mines several times during the year to assess the applicable industrial safety standards. He also analysed the production process as to develop solutions aimed at improving operational efficiency, with particular attention to roadway development operations.

Directly at coal mines, Klaus-Dieter Beck drew attention the pace and technology of roadway development, as well as the application and correct functioning of industrial safety systems.

After the visits, Klaus-Dieter formulated a report for the Board, based on the results of which, adjustments were made to the 2020 budget.

1. *These are the attendances of the board members in their nominated board committee roles. Many board members have attended other committee meetings in expert roles and/or to participate in discussions.*
2. *Including six in-person meetings, ten in-absentia meetings and one conference call meeting.*
3. *Michael Baumgärtner joined the Board on 09.08.19; he did not participate in Board meetings on 09–10.09.19 and 16.12.19.*
4. *Michael Baumgärtner did not attend the Audit Committee meeting on 16.12.19.*
5. *Natalia Izosimova did not attend the Board meetings on 21.06.19, 23.07.19 and retired from the Board on 09.08.19.*
6. *Natalia Izosimova did not attend the Nomination and Compensation Committee meeting on 21.06.19.*
7. *Tom Cairns did not attend the Board meetings on 21.06.19, 23.07.19 and retired from the Board on 09.08.19.*
8. *Tom Cairns did not attend the Audit Committee meetings on 20.06.19 and 09.07.19.*
9. *Vladimir Hlavinka joined the Board on 09.08.19.*

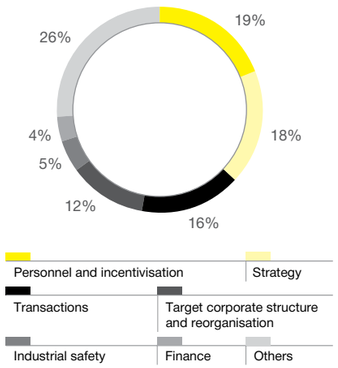
During the year, the Board focused on the following issues:

- **Maintaining business stability.** The measures supported by the Board included further operational efficiency improvements, in both the Coal and Energy Segments (including increasing the efficiency of heat supply), the further development of the company's logistics facilities and sales networks and expansion of the resource base.
- **The strategic development of SUEK and its individual business segments.** Updating SUEK's consolidated strategic model. Evaluating and adjusting the targets of our main strategies. Approving a number of key investment development projects.
- **SGC's integration into SUEK.** The Board considered issues related to the strategic development of the consolidated company and ensuring efficient control over financial and economic activities of the Energy Segment.
- **Industrial safety.** The Board approved initiatives to improve the labour and industrial safety system at SGC units, some of which were then included in the HR strategy. The Board developed the principles and format for the Board and Committees' work relating to industrial safety issues in 2020.
- **Equipment upgrades at our power plants.** The Board approved submitting our projects for DPM-2 programme.
- **Personnel matters,** including an assessment of the company's human resources function and issues affecting the continuity of senior management. In particular, the Board evaluated the progress of senior managers towards personal goals set in 2018, set goals for 2020.
- **Improving the incentive system for SUEK's senior management and supervised the annual assessment of the Board's performance.** In the context of the consolidation of SGC, the Board approved a strategy for the management of the SGC workforce. This focuses on the key areas of headcount and cost management, productivity growth, staff development and improvement of safety systems.
- **Approving internal documents of the company.** In line with changing statutory requirements, we updated a number of internal documents, including the Compliance Policy and the Anti-Corruption Policy. The company also outlined the principles of internal audit, corresponding to the target model of the internal control system.

Priority issues to consider in 2020

- Maintaining the sustainability of the business and focusing on the company's strategic development
- Updating the company's health and safety and environment programme to reflect our strategy to enhance industrial safety in the Energy Segment companies
- Further increasing the operational efficiency of the Group, including by digital analytical, reporting and planning tools
- Monitoring the consolidation of energy assets acquired in 2019
- Further revision of the management incentivisation system

Issues considered at Board meetings in 2019



Board remuneration

The remuneration paid to Board members is based on how they perform their general duties and their membership and chairmanship of the Board Committees. They also receive reimbursement of all reasonable expenses they incur in relation to their work as Directors.

Liability insurance for Board members

Since 2006, the company has been adhering to the policy of liability insurance for members of the Board of Directors and key executives (D&O). For the period from April 2019 to April 2020, JSC SOGAZ was selected as the insurance service provider.

The amount of cover for all Board members, in accordance with the Insurance Policy (liability limit), is $25m. The additional insurance cover for Non-Executive Independent Directors is $1m for each and $8m for all.

Board effectiveness and evaluation

The Board's effectiveness is assessed on a regular basis. As usual, in 2019 the annual assessment was overseen by the Nomination and Compensation Committee based on a questionnaire, refined to meet the changing business priorities and objectives of the Board. Each Director assessed various aspects of the Board's activities and Chairman's work.

While the Directors expressed their general approval of the Board's effectiveness, they also recommended specific improvements.

Board Committees

Strategy Committee

Members of the Committee
as at 31 December 2019

ANDREY MELNICHENKO (Chairman)

Klaus-Dieter Beck

Stefan Judisch

Alexander Landia

Vladimir Rashevsky

Areas of responsibility:

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

- Defining the operating priorities of the company
- Developing the company's overall strategy, strategic plans for business segments and strategies by functional area
- Developing the company's strategies and goals in target markets
- Implementing major investment projects
- Defining the company's operating priorities and evaluating the operational efficiency of management
- Carrying out investment planning, project management and capital management
- Improving key business processes

In 2019, the Strategy Committee's work was focused on the development prospects of the segments and the Group as a whole.

Looking at the trends of the global coal market, the domestic electricity market and analysis of the external environment factors that are significant for SUEK, we updated the company's strategic model by summarising the strategic targets for the divisions, business segments and supporting functions. In particular, we reviewed and adjusted the strategic goals for the next five years in sales and logistics.

Recognising our responsibility as a business to look after the natural environment and communities in which we operate, we carefully assessed any potential social or environmental impact of our strategic decisions.

We evaluated our management's strategic initiatives to develop resource base with consideration for long-term market growth forecasts, and analysed the sustainability of SUEK's mining assets in the context of changes in external parameters. The Committee reviewed the updated key strategic priorities for the coal, energy and logistics assets in Kuzbass, Krasnoyarsk, Barnaul and other Siberian towns. Committee members reviewed management reports relating to prospective energy-intensive consumption projects in the domestic market.

As part of improving operational efficiency, the Committee evaluated the intermediate results of programmes to increase the efficiency of open-pit mining and advance our drilling and blasting operations, and supported a plan to increase the operational efficiency of SGC's processes.

In the Energy Segment, we reviewed the results of DPM-1 projects and approved key approaches to identifying priority modernisation projects under the DPM-2 programme.

During the year, the Committee traditionally monitored the processes of budgeting, accounting and reporting, and the delivery of investment projects. In view of the market conditions and forecasts from the banking sector and industry analysts, the Committee supervised the refinement of macroeconomic parameters and operating performance targets for strategic and budget planning.

Andrey Melnichenko,
Chairman of the Strategy Committee

5
in-person meetings
in 2019

3
in-absentia meetings
in 2019

Audit Committee

Members of the Committee
as at 31 December 2019

IAIN MACDONALD (Chairman)

Michael Baumgärtner

Stefan Judisch

Areas of responsibility:

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

As Chairman of the Audit Committee, I worked closely with my colleagues to ensure the efficient work of the Committee. In 2019, we focused on planned matters as well as issues related to the consolidation of the Energy Segment.

In 2019, we monitored various areas of SGC's integration into SUEK: information and documentation, IT strategy, compliance system, and the Internal Audit Service.

During the year, the Committee regularly monitored the functioning of the company's compliance system, paying particular attention to our policy of compliance with applicable sanctions. In general, we believe that the compliance culture and compliance control in the company are at a high level. The Committee supervised a project to extend the common standards of the compliance system to SGC units, as part of the integration process.

An important achievement of the compliance system in 2019 was the certification of SUEK's unified compliance management system with ISO 19600:2014 and the anti-corruption management system with ISO 37001:2016 standards of the International Compliance Association (ICA). We reviewed and closely evaluated the changes made to the company's Anti-Corruption and Compliance Policies. The new versions of these policies reflect changes in a number of legislative acts of the Russian Federation and provisions of international standards.

The Committee reviewed reports of the Internal Audit Service on a quarterly basis. It approved internal audit plans and the Internal Audit Service budget and held regular meetings with the head of IAS without management being present. Under the supervision of the Committee, as part of SGC consolidation, a unified consolidated Internal Audit Service was established based on common methodology. We prepared and issued recommendations on the content and structure of the Regulation on the Internal Audit Service and SUEK's Internal Audit Policy.

In addition to considering the regular issue of preparing the company's Annual Report, the Committee monitored the preparation status of the Sustainable Development Report for 2018–2019, which is focused on environmental protection and ecology, environmental performance, efficiency, and industrial and labour safety.

The Committee reviewed planned reporting matters (IFRS) and considered regular issues relating to the evaluation of the external auditor's effectiveness, remuneration and independence.

Iain Macdonald,
Chairman of the Audit Committee

5
in-person meetings
in 2019

3
conference calls

Nomination and Compensation Committee

Members of the Committee
as at 31 December 2019

ALEXANDER LANDIA (Chairman)

Klaus-Dieter Beck

Vladimir Hlavinka

Areas of responsibility:

- Making recommendations to the Board of Directors regarding HR strategy, nominations and compensation, corporate governance and social policy
- Ensuring the continuity of senior management, developing a succession pool and talent pipeline and designing and assessing programmes for developing managers
- Ensuring compliance with industrial and environmental safety standards at our enterprises; monitoring our system of key performance indicators in this area
- Assessing the compliance of our industrial safety system with regulatory and corporate requirements; assessing the efficiency of controls in this area
- Analysing the causes and consequences of accidents and developing recommendations on their future prevention

As Chairman of the Nomination and Compensation Committee, I focused the Committee's activities on the improvement of labour, industrial and environmental safety. One of the key issues for us was the revision of the Group's HR strategy to support the new Group strategy implementation.

The Committee set the task for top managers to further improve the business process of personnel management while integrating HR functions. We gave recommendations regarding the expanded list of key positions in respect of which the Board of Directors approves recruitment, dismissal and remuneration. We also assessed the current state of the talent pool and took actions aimed at supporting the succession of senior managers. On the Committee's initiative, the company began the development of a single model of managerial competencies across the Group.

We also developed and approved an updated the reporting format for operating indicators of the generating units, based on our guidelines.

We improved the top management incentivisation system, including a review of the approach to its long-term component. New incentive tools are now under development. During the year, we proposed and approved a remuneration programme for achieving mine development targets, which is currently one of SUEK's key tasks. Work continues on testing and adjusting the business' main indicator of economic efficiency, which is used for incentivisation purposes, along with a methodology for calculating the parameters of incentivisation systems for individual functions, and we preliminarily reviewed the top managers' progress towards their personal goals for 2019 and set target KPIs for 2020.

5

in-person meetings
in 2019

We also focused on monitoring the labour and industrial safety system at our mining and generating units. At our Committee meetings we carefully analysed the circumstances surrounding any fatal or severe occupational accidents.

We worked on recruiting for the Board of Directors. In 2019, two highly qualified professionals, Michael Baumgärtner and Vladimir Hlavinka, joined the Board of Directors. Vladimir Hlavinka also joined the Nomination and Compensation Committee.

The Committee approved the company's updated Communications Strategy and defined areas for coordination between SUEK's and SGC's PR services, taking into consideration the specifics of each segment. As part of our activities, the Committee oversees a regular opinion survey of representatives of target stakeholders in the regions where the company operates. We reviewed an employee satisfaction survey and offered recommendations to the management on the inclusion of additional social projects in the 2020 plan.

The Committee supervised the annual assessment of the Board's performance, identifying areas that require further attention, reviewed opportunities for the professional development of Directors. It confirmed the status of the company's Independent Directors.

Alexander Landia,
Chairman of the Nomination
and Compensation Committee

Internal audit

Areas of responsibility:

- Helping improve the efficiency and effectiveness of the company's activities by providing independent assessment and advice on internal control, corporate governance, risk management, the compliance of the distribution of roles and responsibilities in risk management and internal control with international best practices.
- Facilitating the timely identification of risks and the development of risk mitigation actions by evaluating the efficiency of operations, compliance with regulatory requirements, the reliability of the company's external and internal reporting.
- Providing management, the Audit Committee and the Board of Directors with timely and complete and high-quality information for making decisions and gaining reasonable confidence in assessing the degree to which the company has achieved its goals.
- Contributing to the company's value enhancement by participating in the processes of setting and assessing the achievement of strategic goals.
- Being a model in following the principles of corporate culture and behaviour, ethics and professionalism.

The independence of the Service is ensured by its functional subordination to the Audit Committee. The Committee reviews the Service's reports on a quarterly basis, approves internal audit plans and the Service's budget, holds regular meetings with the head of the Service to discuss current issues.

When planning its work, the Service applies a risk-based approach, taking into account the external environment and performance of the company, focus areas of the Board of Directors and executives, risk assessment results.

In 2019, particular focus was given to the following issues:

- Industrial and labour safety
- Environmental protection
- Automation of business processes
- Production planning
- Asset management, equipment maintenance and repairs
- Implementing keys investment projects

Based on the recommendations of the Service, managers develop and take corrective actions aimed at improving the efficiency of the internal control system, business processes and operations. The Service monitors and analyses the efficiency of such actions.

During the year, the Service implemented the internal audit function's development strategy for 2018–2020, including the following areas:

- Assessing the principles of building the internal control system in the context of the 'Three Defence Lines' concept according to the Board's recommendations on the compliance of the company's internal control system with best practices
- Increasing the automation of internal audit processes
- Unifying the audit methodology and developing the expertise function, taking into consideration the consolidation of SUEK's and SGC's internal audit services, in particular, unifying risk assessment processes and procedures for planning and conducting audits in the Coal and Energy Segments
- Creating a single platform for scheduling, accounting for resources used and managing internal audit projects

The Service implemented its own development software, for the automation of the following elements:

- Scheduling of and accounting for actual hours worked in terms of employees and projects
- Monitoring the deadlines and planned labour intensity of projects by stages
- Approval procedures for initiating, modifying, completing and assessing the quality of conducted audits
- Support for the employee competency model and the Service as a whole

Further work continues on the automation of the internal audit function. In particular, based on the results of analytical work carried out in 2019, a project was initiated to automate audit procedures for a 'continuous audit' of business processes based on the automated continuous analysis of accounting systems data.

The key focus areas for 2020

- Evaluating the compliance of the internal control system for business processes with the classic 'Three Defence Lines' model
- Project management risk assessment, including when delivering projects of the DPM-2 programme and purchasing new assets
- Automation of business processes
- Wage pool budgeting
- Implementing the development strategy for maintenance and repair processes

Compliance management system

By ingraining values of compliance in SUEK's corporate culture and affecting a gradual change in the mind-sets of our employees, we can achieve greater business sustainability, confident of avoiding the negative consequences associated with potential compliance breaches.

Dmitry Kanterov,
Chief Compliance Officer

SUEK has introduced a compliance system and approved a Compliance Policy designed to ensure the company's activities remain in compliance with the requirements of applicable law, internal norms and rules, compliance principles and standards.

Within the framework of the compliance management system, applicable standards are monitored, explained and communicated to performers; compliance with mandatory requirements is monitored across all units; non-compliance risks are prevented, identified and corrected.

Compliance Policy can be found on the company's website http://www.suek.com

In connection with the consolidation of the energy business, compliance procedures are being introduced in phases at SGC. Key roadmap activities were completed by mid-2019, and the synergistic effect of synchronising compliance across SUEK's Coal and Energy Segments' management systems is already visible. Our own experience gained in consistently implementing compliance systems means we are able to move towards achieving compliance goals ahead of standard deadlines.

In 2019, SUEK's compliance management system successfully passed an independent audit and gained recognition at a global level. Experts from the International Compliance Association visited SUEK's office in Moscow and production assets in the Krasnoyarsk region. Our certification audit at all levels, from the Board of Directors to production sites, included 55 interviews and resulted in more than 230 documentary proofs of how the company actually followed compliance policies. Based on the audit results, in December 2019, SUEK received certification for ISO 19600:2014 (Compliance Management) and ISO 37001:2016 (Anti-Corruption Management).

Therefore, SUEK's management systems have now been confirmed for compliance with international standards across all ten areas (risk areas) of the company's compliance programme:

- Code of Corporate Ethics
- Anti-corruption compliance
- Anti-monopoly compliance
- Sanction compliance
- Compliance in licensed activities and natural resource management
- Compliance in covenants/limits
- Tax compliance of our business partners
- Compliance in land and property matters
- Counterparties' compliance
- Health and safety compliance

The continuous improvement to our compliance system is intended to provide reasonable assurance that the company's efficiency, the achievement of its targets, preservation of assets, reliability and timeliness of reporting are achieved in compliance with applicable standards.

Digitisation of compliance management

In 2019, a pilot project was launched to optimise the process of analysing violations, identifying systemic and repeated violations. The following modules were developed on the basis of the existing IT system:

Module 1 – systematisation of data on cases of administrative offenses in relation to enterprises and officials

Module 2 – the development and implementation of action plans ('road maps') to eliminate inconsistencies associated with the preparation of permits for construction.

Digitalisation reduces dependence on the 'human factor', expands the potential for analytics and forecasting and significantly reduces the complexity of standard processes, which allows the company to best prioritize and provide the necessary resources to the most relevant areas.

Management Board

as at 31 December 2019

SUEK's management includes long-serving professionals with wide experience in mining, energy and their respective areas.

VLADIMIR RASHEVSKY, 46

CHIEF EXECUTIVE OFFICER
CHAIRMAN OF THE MANAGEMENT BOARD

Education and qualifications
Vladimir graduated from the Finance Academy under the Government of the Russian Federation, majoring in Global Economics. He holds a Candidate's Degree in Economic Science.

Career
Vladimir 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 and then, in December 2001, Chairman of the Management Board.

In 2004, Vladimir became President of 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 Distribution Grid Company of Siberia.

VLADIMIR ARTEMIEV, 54

CHIEF OPERATIONS OFFICER
MEMBER OF THE MANAGEMENT BOARD

Education and qualifications
Vladimir graduated from Novocherkassk Polytechnic Institute as a Mining Engineer and has a PhD in Engineering Science.

Career
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. He was appointed Head of the Coal Industry Department at the Russian Ministry of Energy in 2002, and Head of the Mines Inspectorate for the Federal Administration of Environmental, Technological and Nuclear Supervision (Rostekhnadzor) in 2004.

In 2006, Vladimir became Chief Operations Officer of SUEK. In January 2007, he was appointed to the company's Management Board. He has been awarded the Order of Courage for a mine rescue operation, and holds all three degrees of the Miner's Glory medal.

In 2016, Vladimir was awarded the Order of Friendship state award.

IGOR GRIBANOVSKY, 47

CHIEF COMMERCIAL OFFICER
MEMBER OF THE MANAGEMENT BOARD

Education and qualifications
Igor graduated from the Moscow State Institute of Steel and Alloys, where he studied Metal Forming. He did his postgraduate studies at the Faculty of Economics of Lomonosov Moscow State University, where he majored in Public Sector Economics.

Career
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, Igor was appointed Managing Director of SUEK AG, and has been SUEK's Chief Commercial Officer since 2007.

In 2017, he received a state award for his great personal contribution to the development of the national fuel and energy sector.

NIKOLAY PILIPENKO[1], 54

CHIEF FINANCIAL OFFICER
MEMBER OF THE MANAGEMENT BOARD

Education and qualifications
Nikolay graduated from Moscow State University in 1989, where he studied Political Economy. He also holds a PhD in Economics.

Career
From 2006 to 2008, Nikolay was Chief Financial Officer of JSC EuroChem. Between 2009 and 2015, he was a member of the Board of Directors, Audit Committee and Nomination and Remuneration Committee of JSC EuroChem. From 2015 to 2016, he was a member of the Board of Directors, Audit Committee and Nomination and Remuneration Committee of EuroChem Group AG. Before joining EuroChem, he held several management positions at ABB Group in Russia, Spain and Switzerland.

In 2012–2018, Nikolay was a member of the Board of Directors of Siberian Generating Company, where he chaired the Audit Committee. He was appointed Chief Financial Officer of SUEK in October 2016.

ANDREI VANYUSHIN[2], 42

CHIEF INFORMATION OFFICER

Education and qualifications
In 1999, Andrei graduated with honours from the Finance Academy affiliated to the Government of the Russian Federation with a degree in Finance and Credit. In 2004, he received a PhD in Economics from the Finance Academy. In 2011, Andrei graduated from INSEAD Executive MBA programme.

Career
Andrei started his career in 1998 as auditor at PWC. From 2003, he worked in the financial service of TNK-BP Management.

From 2005 to 2017, Andrei progressed in SUEK's Financial Service, holding positions from the Department Head to the Deputy Chief Financial Officer. Since 2017, he has served as Chief Financial Officer of SGC. From March 2019 to March 2020, Andrei also was Chief Information Officer at SUEK.

1. *Nikolay left the position of Chief Financial Officer on 12 March 2020.*
2. *Andrei was appointed Chief Financial Officer of SUEK on 12 March 2020 and became a member of Management Board on 17 March 2020.*

Executives

ALEXANDER DOLGOPOLOV, 40

CHIEF AUDIT EXECUTIVE

Education and qualifications
Alexander is a graduate of the Moscow State Institute of International Relations (MGIMO), where he studied International Economic Relations. He is also a member of the Institute of Internal Auditors (IIA, US).

Career
From 2000 to 2005, Alexander worked as Assistant Manager in the Energy and Mining Department at PwC.

In 2005, he joined SUEK as Head of Audit Unit and was subsequently appointed Head of Internal Control and Audit Service in May 2011.

SERGEI GRIGORIEV, 63

PUBLIC RELATIONS AND COMMUNICATIONS DIRECTOR

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 degree from Harvard's John F. Kennedy School of Government.

Career
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 later a political consultant and commentator. His roles also included adviser to the Chairman of the All-Russian State Television and Broadcasting Company and, in 2001, Chief of Staff of the Department of Presidential Affairs of the Russian Federation.

Between 2004 and 2006, Sergei was Vice President of the National Reserve Bank. He was then appointed Deputy General Director of the National Reserve Corporation. Sergei was appointed Public Relations and Communications Director at SUEK in February 2007.

In 2014, he was elected to the Civic Chamber of the Russian Federation. He was also appointed Chairman of the Commission on Development of the Real Sector of the Economy of the Civic Chamber of the Russian Federation.

In 2017, he received a state award from the Ministry of Energy of the Russian Federation for his great personal contribution to the development of the national fuel and energy sector.

DENIS ILATOVSKY, 48

DIRECTOR OF LOGISTICS

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.

Career
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 Director of Logistics and General Director of the Baltic Metallurgical Terminal (Ust-Luga).

In 2012, Denis joined SUEK as Director of Logistics.

In 2017, he was thanked by the Ministry of Energy of the Russian Federation for his great personal contribution to the development of the national fuel and energy sector.

In December 2018, in accordance with the Order of the Russian Ministry of Natural Resources, he received an award for his great contribution to environmental protection, resources conservation and environmental safety.

ANDREY MIRONOV, 54

GENERAL AFFAIRS DIRECTOR

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.

Career
Andrey spent the early part of his career in the Federal Security Service. In 2007, he began working in the oil industry as a Security Director.

He joined SUEK in 2011 as General Affairs Deputy Director, and was promoted to General Affairs Director in July 2012.

ALEXANDER REDKIN, 58

GENERAL COUNSEL AND COMPLIANCE OFFICER

Education and qualifications
Alexander graduated from the Saratov Law Institute in 1986.

Career
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.

Alexander joined SUEK in 2005, initially as Deputy General Counsel, and was then appointed General Counsel in January 2008.

In 2017, he received a state award from the Ministry of Energy of the Russian Federation for his great personal contribution to the development of the national fuel and energy sector.

STEPAN SOLZHENITSYN, 47

SGC CHIEF EXECUTIVE OFFICER

Education and qualifications
Stepan graduated from the Massachusetts Institute of Technology and Harvard University. He specialized in regulatory and environmental aspects of the power industry.

Career
Since 2004, he worked at the Russian office of McKinsey and was in charge of the electric power industry and heat supply in Russia and the CIS. Stepan supervised projects in the field of power generation, network development and operation, sales activities.

He joined SUEK Group in October 2018, and has been Chief Executive Officer of SGC since November 2018.

DMITRY SYROMYATNIKOV, 53

DIRECTOR OF HR AND ADMINISTRATION

Education and qualifications
Dmitry is a graduate of Saint Petersburg State Paediatric Medical University.
In 2005, he attended a Human Resources Management course at the Management Centre Europe (MCE) in Belgium.

Career
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 transferred to the RUSAL Management Company, where he worked in a number of roles including Head of Recruitment and Director of Compensations.

From 2007 to 2008 and 2012 to 2014, he was HR and PR Director at Kirovsky Zavod.

From April 2008 to February 2012, Dmitry was Director of HR and Administration at SUEK, a role he returned to in September 2014.

In 2017, he was awarded the Labour Glory state third degree award by the Ministry of Energy of the Russian Federation in recognition of his great personal contribution to the development of the fuel and energy sector.

VLADIMIR TUZOV, 43

CHIEF STRATEGY OFFICER

Education and qualifications
Vladimir graduated from Bauman Moscow State Technical University, majoring in Biomedical Engineering.
He holds a Master's degree in Industrial Management from Ecole Centrale Paris and an MBA from Wharton Business School (University of Pennsylvania).

Career
Vladimir began his career in 2001 as a Production Planning Engineer for Pechiney, an aluminium company in France. Over the following five years, he held various managerial roles in production, marketing and supply chain management for non-ferrous and ferrous metallurgical companies in France, Russia, Guinea and Ukraine.

Between 2007 and 2013, Vladimir worked for The Boston Consulting Group (BCG) in Russia and the US. At BCG, he provided consultancy services to financial institutions, heavy industry, mining, automotive and processing companies.

From 2013 until 2015, Vladimir worked at pulp and paper company Ilim Group as Deputy CEO for Strategy and Product Management, and served on the Board of Directors of Ilim Gofra.

Vladimir has been SUEK's Chief Strategy Officer since August 2015.

SERGEY TVERDOKHLEB, 46

STRATEGY AND CORPORATE POLICY DIRECTOR

Education and qualifications
Sergey graduated from the History Department of the Lomonosov Moscow State University and the Finance and Credit Department of the Finance Academy under the Government of Russia.

Career
From 1995 to 2004, he worked in the analytical and economic divisions of the following commercial banks: SBS-Agro, Avtobank and MDM Bank.

In 2004, he began his tenure with OJSC SUEK as an adviser to the CEO.
In 2009, Sergey was appointed Director of the Corporate Policy and Special Projects Department at SUEK. Since 2019, he has been Director of Strategy and Corporate Policy.

In 2017, he was thanked by the Ministry of Energy of the Russian Federation for his great personal contribution to the development of the national fuel and energy sector.

In 2019, by the Russian President's Decree, he was awarded the medal of the Order of Merit for the Motherland, II degree, for his many years of dedicated work in the coal industry.

IRINA ZAYTSEVA, 43

PROCUREMENT DIRECTOR

Education and qualifications
Irina graduated from Perm State University, Faculty of Law in 1998, and from the National Research University Higher School of Economics, Moscow, in 2001.

Career
Between 2002 and 2011, Irina worked at Uralkali, a potash mining company, where she held a number of senior positions including Director of Inventory and Logistics.

She was appointed Procurement Director at SUEK in May 2011.

In 2017, Irina was thanked by the Ministry of Energy of the Russian Federation for her great personal contribution to the development of the national fuel and energy sector.

Management Board report

SUEK's activities are managed by executive bodies – the Chief Executive Officer and the Management Board. The CEO is elected for an indefinite period. Vladimir Rashevsky has been the CEO of SUEK since 2004 and Chairman of the Management Board since 2005.

The Management Board reports to the Board of Directors and the General Meeting of Shareholders. The primary responsibilities of the Management Board are the development and implementation of the company's production, commercial and other operational plans and improvement programmes. It is also responsible for the timely and effective coordination of the resolutions of the company's executive bodies.

In order to achieve its targets, under the Regulation on the Management Board, SUEK established Management Board committees and panels that enable key managers and experts from different functions to interact on the main issues affecting the company's operations, including consultations on economic, environmental and social matters.

Composition of the Management Board

As of 31 December 2019, the Management Board was comprised of the following four members:

- Vladimir Rashevsky, Chief Executive Officer
- Vladimir Artemiev, Chief Operations Officer
- Igor Gribanovsky, Chief Commercial Officer
- Nikolay Pilipenko, Chief Financial Officer

During the year, 11 senior managers who are not members of the Management Board regularly attended Management Board meetings in-person.

Meetings of the Management Board

There were 18 meetings of SUEK's Management Board in 2019: 12 in-person and six in-absentia. Four meetings were held in an expanded format with the participation of heads of regional coal production units.

The main areas of the Management Board's activities in 2019 were:

- The timely and effective implementation of resolutions taken at the General Meeting of Shareholders and by the company's Board of Directors; preparation of consolidated financial statements, the Group's budget including the Energy Segment, along with other issues related to the resolution of the Board of Directors on SGC consolidation
- The implementation of SUEK's joint and segmented strategies and functional strategies (including coal asset strategy for Kuzbass and Khakassia, consolidated sales strategy, heat supply strategy, development programme for drilling and blasting operations, IT strategy, strategy for power companies in the Altai region)
- Ensuring the effective implementation of major investment projects and improving the quality of how they are monitored
- The implementation and efficiency assessment of the company's HR policies (including the provision of Kuzbass and Urgal mines with key staff), Information Policy (including a survey in the regions of operations in partnership with the Public Opinion Foundation Institute, a social research into customer's attitude to SGC), Social Policy (translation of the Code of Corporate Ethics to employees), Environmental Policy (analysis of environmental protection measures at SUEK's port coal terminals)
- The monthly monitoring of our performance in meeting approved budgets and production targets in volatile market conditions
- Systematic monitoring of actions aimed at managing key risks in 2019, including the risk of coal use restrictions following the decisions of international and national regulators
- Ensuring safe working conditions, minimising the risks associated with coal mining and electricity generation, and developing a strong safety culture
- Optimising production and business processes as part of developing SUEK's management system, with a focus on labour productivity improvement
- Further improving our compliance system, including obtaining certificates for SUEK's compliance management system according to international standards

Some items relating to operational management were reviewed at meetings of specialist committees established in line with the company's Charter and functioning according to the approved work plans:

- Industrial Safety Committee
- Risk Committee
- Investment Committee
- Procurement Committee
- Budget Committee
- Project Committee
- Sales Policy Committee

In 2019, seven special-purpose committees under the Management Board held 91 meetings.

As part of the energy business consolidation, the Board approved a new version of the Regulation on the Industrial Safety Committee, which covers the company's Energy Segment. Considering the increasing focus given to environmental issues by state bodies, their social dimension and importance for SUEK's business reputation, aspects of ensuring the environmental safety at Group's units were added to the Regulation.

Management Board remuneration

SUEK's remuneration system ensures there is a direct relationship between payments to the CEO, members of the Management Board and senior executives and the achievement of KPIs and goals for the reporting period.

The indicators used for annual assessment and calculation of remuneration include both the economic performance of the company and indicators of achieving the company's sustainable development activity (ensuring the required level of industrial and environmental safety, social security of employees, contribution to the development of the regions where SUEK operates).

In particular, ensuring the proper level of industrial safety is one of the fundamentals of the incentive system for the CEO, members of the Management Board and top managers of SUEK. LTIFR is a crucial indicator affecting remuneration. In addition to the general indicator (both for the company as a whole and by regions), managers may also be subject to additional restrictive conditions for accidents/industrial injuries, depending on the area of responsibility. If these conditions are not met, the annual variable payments are significantly reduced: by 50% or more, down to zero.

Environmental indicators are included in the KPI map for managers, whose area of responsibility includes the implementation of programmes adopted in the field of environmental protection.

The weight of general corporate indicators varies from 20 to 50% of the bonus map, depending on the functional area. Individual indicators for evaluating the performance of managers account for, respectively, 50–80% of the weight of the bonus map.

Annual targets and performance indicators are set for each member of the Management Board and the CEO. They are regularly discussed with SUEK's Nomination and Compensation Committee and approved by SUEK's Board of Directors. The actual amount of remuneration is also determined by the Board of Directors' resolution.

The total remuneration paid out to the members of the Management Board and the CEO of SUEK in 2019, based on their performance during the year[1], was $10.1m.

2020 priorities

In accordance with decisions taken by the Board of Directors, in 2020 the Management Board's activities will be aimed at strengthening the competitive advantages of the company. The main emphasis is expected to be given to the following areas:

- Further development and implementation of the development strategy for the Reftinskaya GRES and increasing its operational efficiency
- Developing the updated Environmental Strategy of SGC
- Reorganising the internal control system for business processes according to the 'Three Defence Lines' model
- Enhanced monitoring of industrial and labour safety issues

1. *In 2019, SUEK made remuneration for top management for several large-scale projects, the outcomes of which significantly exceeded expectations.*

Independent Auditors' Report to the Shareholders of JSC SUEK

Opinion

We have audited the consolidated financial statements of JSC SUEK (the 'Company') and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is Andrey A. Kim.

JSC 'KPMG'
Moscow, Russia

29 January 2020

Audited entity: JSC SUEK	Independent auditor: JSC 'KPMG', a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.
Registration No. in the Unified State Register of Legal Entities 1027700151380.	Registration No. in the Unified State Register of Legal Entities 1027700125628.
Moscow, Russia	Member of the Self-regulated organization of auditors 'Russian Union of auditors' (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

Consolidated statement of profit or loss for the year ended 31 December 2019

Millions of US Dollars

	Notes	2019	2018
Revenue	**6**	**7,547**	**8,296**
Cost of sales	7	(4,275)	(4,110)
Distribution costs	8	(1,978)	(2,047)
General and administrative expenses	9	(229)	(239)
Other expenses, net		(3)	(28)
Operating profit		**1,062**	**1,872**
Finance costs, net	10	(422)	(311)
Foreign exchange gain/(loss)		200	(83)
Profit before tax		**840**	**1,478**
Income tax expense	27	(134)	(314)
Net profit for the year		**706**	**1,164**
Net profit attributable to:			
Ordinary shareholders of the parent		699	1,144
Non-controlling interests		7	20
Net profit for the year		**706**	**1,164**
Basic and diluted earnings per share (in US Dollars)	20	2.96	4.88

The accompanying notes on pages 129 to 157 are an integral part of these consolidated financial statements.

Vladimir Rashevsky
Chief Executive Officer

Nikolay Pilipenko
Chief Financial Officer

29 January 2020

Consolidated statement of comprehensive income for the year ended 31 December 2019

Millions of US Dollars

	Notes	2019	2018
Net profit for the year		**706**	**1,164**
Other comprehensive income			
Items which may be reclassified to profit or loss in the future:			
Translation difference		141	(460)
Revaluation of intra-group debt denominated in foreign currency	3.2	(1)	(1)
Transfer of changes in fair value of cash flow hedges to profit or loss, net of deferred tax	16	(220)	104
Effective portion of changes in fair value of cash flow hedges, net of deferred tax	16	311	(16)
Total items which may be reclassified to profit or loss in the future		**231**	**(373)**
Items which may not be reclassified to profit or loss in the future:			
Revaluation (deficit)/surplus	4	(810)	1,322
Tax effect of revaluation	4	162	(264)
Actuarial (losses)/gains		(7)	10
Total items which may not be reclassified to profit or loss in the future		**(655)**	**1,068**
Total other comprehensive (loss)/income for the year		**(424)**	**695**
Total other comprehensive (loss)/income attributable to:			
Ordinary shareholders of the parent		(414)	718
Non-controlling interests		(10)	(23)
Total other comprehensive (loss)/income for the year		**(424)**	**695**
Total comprehensive income attributable to:			
Ordinary shareholders of the parent		280	1,858
Non-controlling interests		2	1
Total comprehensive income for the year		**282**	**1,859**

The accompanying notes on pages 129 to 157 are an integral part of these consolidated financial statements.

Consolidated statement of financial position as at 31 December 2019

Millions of US Dollars

	Notes	2019	2018
ASSETS			
Non-current assets		**14,165**	**12,044**
Property, plant and equipment	11	12,226	11,724
Right-of-use assets	12	1,631	—
Deferred tax assets	27	132	136
Goodwill		78	78
Other assets	13	98	106
Current assets		**2,306**	**1,995**
Trade accounts and other receivables	14	957	882
Inventories	15	766	735
Prepaid and recoverable taxes	17	265	175
Derivative financial assets	16	142	37
Cash and cash equivalents	18	176	166
Total assets		**16,471**	**14,039**
EQUITY AND LIABILITIES			
Equity		**5,501**	**5,235**
Share capital	19	—	—
Share premium		104	104
Revaluation reserve		4,866	5,665
Hedging reserve		117	26
Translation reserve		(1,684)	(1,812)
Retained earnings		1,923	1,063
Attributable to ordinary shareholders of the parent		**5,326**	**5,046**
Non-controlling interests		**175**	**189**
Non-current liabilities		**7,770**	**7,083**
Long-term borrowings	21	4,939	3,272
Long-term lease liabilities	22	984	—
Deferred tax liabilities	27	1,476	1,663
Other liabilities	24	371	2,148
Current liabilities		**3,200**	**1,721**
Short-term borrowings	21	1,799	1,081
Short-term lease liabilities	22	225	—
Trade accounts and other payables	25	998	506
Derivative financial liabilities	16	12	4
Taxes payable	26	166	130
Total shareholders' equity and liabilities		**16,471**	**14,039**

The accompanying notes on pages 129 to 157 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2019

Millions of US Dollars

	Notes	2019	2018
Profit before tax		**840**	**1,478**
Adjustments to profit before tax:			
Depreciation and amortisation	7, 8	1,053	669
Bad debt expense		7	30
Finance costs, net	10	422	311
Foreign exchange (gain)/loss		(200)	83
Other, net		4	(9)
Changes in working capital items:			
Increase in trade accounts and other receivables		(36)	(61)
Decrease/(increase) in inventories		3	(144)
Increase in prepaid and recoverable taxes (other than income tax)		(60)	(25)
Increase/(decrease) in trade accounts and other payables		232	(156)
(Decrease)/increase in taxes payable (other than income tax)		(28)	13
Net cash inflow from operations		**2,237**	**2,189**
Income tax paid		(178)	(288)
Net cash inflow from operating activities		**2,059**	**1,901**
Investing activities			
Purchase of property, plant and equipment	11, 12	(1,321)	(903)
Payments for the acquisition of SGC group	33	(1,941)	—
Business combination	33	(259)	(496)
Loans issued, net		(8)	37
Interest received		11	28
Other non-current investments, net		(12)	3
Net cash outflow used in investing activities		**(3,530)**	**(1,331)**
Financing activities			
Proceeds from long-term borrowings		3,424	2,402
Repayments of long-term borrowings		(1,295)	(2,641)
Proceeds from/(repayments of) short-term borrowings, net		5	(134)
Payments of lease liabilities	22	(311)	—
Interest and commissions paid		(301)	(313)
Acquisition of non-controlling interests		(17)	(164)
Dividends paid to non-controlling interests		(12)	(8)
Settlement of cross-currency interest rate swap		—	(30)
Net cash inflow from/(outflow used in) financing activities	23	**1,493**	**(888)**
Foreign exchange effect on cash and cash equivalents		(12)	8
Net increase/(decrease) in cash and cash equivalents		**10**	**(310)**
Cash and cash equivalents at the beginning of the year	18	166	476
Cash and cash equivalents at the end of the year	18	**176**	**166**

The accompanying notes on pages 129 to 157 are an integral part of these consolidated financial statements.

Consolidated statement of changes in shareholders' equity for the year ended 31 December 2019

Millions of US Dollars

	Share capital	Share premium	Reva-luation reserve	Hedging reserve	Trans-lation reserve	Retained earnings	Attributable to ordinary shareholders of the parent	Non-controlling interests	Total
Balance at 1 January 2018	**—**	**—**	**4,774**	**(62)**	**(1,402)**	**1,704**	**5,014**	**201**	**5,215**
Net profit for the year	—	—	—	—	—	1,144	1,144	20	1,164
Other comprehensive income	—	—	1,030	88	(410)	10	718	(23)	695
Transfer to retained earnings	—	—	(139)	—	—	135	(4)	4	—
Total comprehensive income for the year	**—**	**—**	**891**	**88**	**(410)**	**1,289**	**1,858**	**1**	**1,859**
Transactions with owners:									
Issue of shares	—	104	—	—	—	—	104	—	104
Acquisition of SGC group	—	—	—	—	—	(1,916)	(1,916)	—	(1,916)
Business combination	—	—	—	—	—	—	—	145	145
Acquisition of non-controlling interests	—	—	—	—	—	(14)	(14)	(150)	(164)
Dividends to non-controlling interests	—	—	—	—	—	—	—	(8)	(8)
Total transactions with owners	**—**	**104**	**—**	**—**	**—**	**(1,930)**	**(1,826)**	**(13)**	**(1,839)**
Balance at 31 December 2018	**—**	**104**	**5,665**	**26**	**(1,812)**	**1,063**	**5,046**	**189**	**5,235**
Balance at 1 January 2019	**—**	**104**	**5,665**	**26**	**(1,812)**	**1,063**	**5,046**	**189**	**5,235**
Net profit for the year	—	—	—	—	—	699	699	7	706
Other comprehensive loss	—	—	(626)	91	128	(7)	(414)	(10)	(424)
Transfer to retained earnings	—	—	(173)	—	—	168	(5)	5	—
Total comprehensive income for the year	**—**	**—**	**(799)**	**91**	**128**	**860**	**280**	**2**	**282**
Business combination	—	—	—	—	—	—	—	13	13
Acquisition of non-controlling interests	—	—	—	—	—	—	—	(17)	(17)
Dividends to non-controlling interests	—	—	—	—	—	—	—	(12)	(12)
Total transactions with owners	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(16)**	**(16)**
Balance at 31 December 2019	**—**	**104**	**4,866**	**117**	**(1,684)**	**1,923**	**5,326**	**175**	**5,501**

The accompanying notes on pages 129 to 157 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2019

Millions of US Dollars, unless otherwise stated

1. General information

Organisation and principal activities.
Joint Stock Company ('JSC') 'Siberian Coal Energy Company' ('SUEK' or the 'Company') was founded on 1 December 1999. The Company and its subsidiaries are collectively referred to as the Group. The address of registered office is Dubininskaya st. 53, bld. 7, Moscow, Russian Federation. The principal activities of the Group are the extraction and sales of coal and generation and sales of electricity, heat and capacity.

AIM Capital SE, registered in the Republic of Cyprus, is the immediate parent company of SUEK with 92.2% interest in the Company's share capital.

A company that holds business interests beneficially for Mr. Andrey Melnichenko indirectly owns 100% of AIM Capital SE.

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:

- mining assets carried at fair value; and
- derivative financial instruments which are stated at fair value.

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

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

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

	2019	2018
Year end	61.91	69.47
Average rate	64.74	62.71

Adoption of a new standard
The Group has applied IFRS 16 'Leases' from 1 January 2019 using the modified retrospective approach as of 1 January 2019 and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any repayments of lease made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition,

the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the payments of lease discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The weighted-average rate applied is 8.03%.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, payments of lease in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future payments of lease arising from a change in an index or rate. If there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

If the terms of the asset's lease agreement provide for a purchase option and the Group is reasonably certain that it exercises this option, the Group depreciates the right-of-use asset from the commencement date till the end of the useful life of the underlying asset. Depreciation will be calculated based on the useful life of assets under lease.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of assets that have a lease term of 12 months or less and leases of low-value assets (with a value of USD 5,000 or less upon purchase). The Group recognises the payments of lease associated with these leases as an expense on a straight-line basis over the lease term.

A number of other new standards and amendments to the existing standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements, except for those described above.

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- amendments to references to conceptual framework in IFRS standards;
- definition of a business (amendments to IFRS 3);
- definition of material (amendments to IAS 1 and IAS 8); and
- IFRS 17 'Insurance Contracts'.

3. Significant accounting policies

The accounting policies and judgements applied by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2018, except for the adoption of IFRS 16 'Leases' described above.

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 former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Business combination under common control.
Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recorded previously in the predecessor's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of additional paid-in capital. Difference between the purchase consideration and carrying value of net assets acquired is recognised directly in equity.

3.2. Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to the respective functional currency at the exchange rate ruling at the balance sheet date. Exchange differences arising from changes in exchange rates are recognised in profit or loss, except that exchange differences arising from the revaluation of the intra-group debt accounted for as a part of net investments in foreign entities are recognised in other comprehensive income in the consolidated financial statements.

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.
Mining assets.
Mining assets include mineral rights with capitalised mine development costs and certain types of operating equipment, such as equipment which represents an integral part of a particular mine or a particular open-pit, or such items of mining equipment whose use on an alternative mine or open-pit is impracticable or not economically feasible. The remaining part of tangible fixed assets besides listed above is defined as operating tangible fixed assets.

Mining assets are carried at fair value since the date of the creation of this new class of property, plant and equipment. Mineral rights were 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 mining assets 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 mining assets and depreciation based on the asset's historical cost, is transferred from the revaluation reserve to retained earnings.

The mineral rights of new greenfields are carried at historical value until detailed technical and financial plans for the assets are finalised.

Property, plant and equipment, other than mining assets.
Property, plant and equipment, other than mining assets, is stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads, and the corresponding capitalised borrowing costs. Where an item of property, plant and equipment, other than mining assets, comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Starting from 2019 railcars wheel pairs are also accounted for as separate items of property, plant and equipment.

Expenditure incurred to replace a component of an item of property, plant and equipment, other than mining assets, that is accounted for separately, is capitalised to the carrying amount of the component that has been replaced being written off. Subsequent expenditure is capitalised if future economic benefits arise from the expenditure. All other expenditure, including repairs and maintenance, is recognised in profit or loss as an expense as incurred.

Generating assets and railcars.
In 2019, the Group has changed its accounting policy and established two new categories of property, plant and equipment – Generating assets and Railcars. Generating assets include buildings, machinery, equipment and utilities which are used in generation of energy. Management believes that the new accounting policy presents more fairly the consolidated financial position of the Group by recognising the whole value of the energy resource base, which is the Energy segment's core asset in its consolidated statement of financial position.

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 mining assets, are as follows:

- mining assets average of 64 years
- generating assets 4 – 53 years
- machinery, equipment, transport and other 2 – 37 years
- buildings, structures and utilities 6 – 60 years
- railcars 7 – 32 years

3.4. Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Amortisation or depreciation of these assets commences when the assets are put in the location and condition necessary for them to be capable of operating in the manner intended by management. Capital construction-in-progress is reviewed regularly to determine whether its carrying value is recoverable.

3.5. Impairment

The Group reviews the carrying amounts of its tangible and intangible assets regularly to determine whether there are indicators of impairment. If any such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs.

A recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or CGU is estimated to be less than the carrying amount, the carrying amount is reduced to the recoverable amount and the impairment losses are recognised in profit or loss for the year. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to CGU, and then to reduce the carrying amounts of the other assets in CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.6. Research and exploration expenditure

Pre-exploration costs are recognised in profit or loss as incurred.

Exploration and evaluation costs (including 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 recognises a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. At initial recognition, the Group measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

Financial assets at amortised cost.
Financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss ('FVTPL'):

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets at fair value through other comprehensive income ('FVOCI').
Financial assets are classified and measured at fair value through other comprehensive income if they meet both of the following conditions and are not designated as at FVTPL:

- they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Financial assets at fair value through profit or loss.
Any financial assets that are not held in one of the two business models mentioned above are measured at fair value through profit or loss. This includes all derivative financial assets.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

If the Group changes its business model for managing financial assets it must reclassify all affected financial assets.

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, or it retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

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.

Financial liabilities.
All financial liabilities are measured at amortised cost, except for financial liabilities at fair value through profit or loss. Such liabilities include derivatives (other than derivatives that are financial guarantee contracts or are designated and effective hedging instruments), other liabilities held for trading, and liabilities that the Group designates to be measured at fair value through profit or loss. After initial recognition, the Group cannot reclassify any financial liability.

The Group derecognises a financial liability (or a part of a financial liability) when the obligation specified in the contract is discharged or cancelled or expires.

Impairment of financial assets.
The Group assesses on a forward looking basis the expected credit losses ('ECL') associated with its financial assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The impairment model applies to the financial instruments that are not measured at FVTPL.Loss allowance is recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.The Group measures loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date;
- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

For loans, the Group measures ECL on an individual basis, or on a collective basis for portfolios that share similar economic risk characteristics.

An impairment loss in respect of the financial assets is calculated as present value of the difference between the contractual cash flows that are due to the Group under the contract, and the cash flows that the Group expects to receive. For trade receivables, the Group applies a simplified approach permitted by the standard, which requires expected lifetime losses to be recognised from initial recognition of the receivables. To measure the expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and the days past due. In assessing the impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognised in other comprehensive income, instead of reducing the carrying amount of the asset. Impairment losses on financial assets are presented under 'other expenses' in the operating profit or loss, similar to the presentation under IAS 39, and not presented separately in the statement of profit or loss and other comprehensive income due to materiality considerations.

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. The subsequent changes are recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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 (to revenue or foreign exchange gain/loss depending on a hedged item) 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.

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. 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.

3.12. Revenue recognition

Revenue comprises the sales value of coal, energy and other goods and services supplied to customers during the period, excluding value-added tax. The sales of goods are recognised when control of the products has transferred to the customer. Revenue from providing services is recognised in the accounting period in which the services are rendered.

Energy sales are carried out on both regulated and unregulated energy markets. Regulated market revenue is based on the application of authorised tariffs as approved by the Federal Antimonopoly Service and Regional Energy Commission of Russian Federation. Revenue is recognised on a monthly basis upon the delivery of the electricity and heat.

The amounts of revenue and expenses of self-produced and consumed electricity volume are shown net for presentation purposes based on selling prices on a day-ahead market. Management believes that such presentation provides more relevant and meaningful information about the operation of the Group.

3.13. 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.

3.14. Development expenditure

Development costs are capitalised when shaft sinking is done to prepare a certain part of a deposit for mining and used throughout the life of a mine. Development costs are expensed in case longwalls are being prepared for extraction.

3.15. 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.

3.16. 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, 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.

3.17. 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 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.

3.18. Goodwill

Goodwill arises on acquisitions and is recognised as an asset initially measured at cost, being the excess of the cost of the business combination over the Group's share of the net fair value of acquiree's identifiable assets, liabilities

and contingent liabilities recognised at the date of acquisition. If the Group's share of the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities, after reassessment, exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. Transaction costs incurred in a business combination are expensed.

The Group elected not to restate past business combinations at the date of adoption of IFRS.

4. Critical accounting judgements and estimates

In the process of applying the Group's accounting policies management has made the following principal judgements and estimates that have a significant effect on the amounts recognised in the consolidated financial statements. Actual results may differ from these estimates.

Coal reserve estimates.
Coal reserve estimates are used as the basis for future cash flows, which enter into the valuation of mining 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 revisions of the coal reserve estimates, which are confirmed by independent consulting mining engineers, as appropriate.

Although management's long-term mine plans exceed the remaining useful life of some of the mining licenses of the Group, the Group has a legal right to apply for the extension of the licenses for its existing mining resources and therefore management is confident that the licenses will be extended provided that it is the same coal resource within the original mining license and that certain other conditions are met. Extensions to new seams or adjacent areas are often 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 mining assets.
Mining assets 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 mining assets, 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 should be deducted in arriving at the fair value of the mining assets.

Since the operating tangible fixed assets are carried at historical cost, for the purposes of regular revaluation of mining assets their fair value is determined either based on market prices for similar items of tangible fixed assets recently acquired or constructed by the Group or, in absence of such items, by applying a price index for the relevant year of acquisition of mining equipment to the residual value of items.

At 31 December 2019 the fair value of mining assets 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 using projected volumes of coal and the available capacity of the transport infrastructure in the foreseeable period and thereafter;
- in 2019 the Group performed appraisal of proven and probable reserves as at 1 January 2019. The appraisal was performed by external professional consultants;
- export coal sales volumes were estimated to grow at an average of 2% for the foreseeable forecasted period 2020-2030;
- export coal prices for Asian markets are estimated to fall by 7% in 2020 in comparison to 2019 and to grow at an average of 3% for 2021-2023. Export coal prices for European markets are estimated to stay in 2020 at the level of 2019 and to grow at an average of 6% for 2021-2023. Forecast for 2020-2023 is based on the forward rates and consensus forecast of investment banks, forecast after 2023 is estimated to be in line with long-term USD inflation;
- domestic coal sales volumes were estimated to grow at an average of 1% for the foreseeable forecasted period 2020-2030;
- domestic coal prices were estimated to grow at an average of 5% in 2020 and to grow in line with RUB inflation thereafter;
- regulated railroad tariffs for 2020 were estimated to grow at an average of 3.5% and to grow in line with RUB inflation less than 0.1% thereafter;
- the RUB/USD exchange rate was estimated in 2020 at the level of 65.5 RUB/USD. For 2020-2021 the estimate was based on the RUB/USD forward rate and a consensus forecast of investment banks and was indexed by the ratio between the expected RUB inflation of the corresponding year and the long-term USD inflation thereafter;
- cash flow forecasts were discounted to their present value at the nominal weighted average cost of capital of 12.5% in RUB for brown coal mining units and at the nominal weighted average cost of capital of 9.5% in USD for hard coal mining units.

At 31 December 2019 the total effect of the revaluation of the mining assets was a decrease of 810 million USD (31 December 2018 – an increase of 1,322 million USD); the after-tax effect on equity was a decrease of 648 million USD (31 December 2018 – an increase of 1,058 million USD).

Example changes in key assumptions applied to the first forecasted year would have the following effect on the fair value of the mining assets:

	(Decrease)/increase of the fair value
Increase in weighted average cost of capital by 1 percentage point	(954)
Increase in export coal prices of 1%	400
Increase in RUB/USD exchange rate of 1%	255
Increase in export coal sales volumes of 1%	157
Increase in regulated railroad tariffs growth of 1%	(186)
Increase in domestic coal prices of 1%	134
Increase in domestic coal sales volumes of 1%	62

Determination of recoverable amount of property, plant and equipment of the Coal segment (other than mining assets).

The recoverable amount of the property, plant and equipment of the coal segment (other than mining assets) as at 31 December 2019 was determined either based on market prices for similar items of machinery and equipment recently acquired by the Group or, if no such purchases occured, 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.

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.

Starting from 1 January 2019 operating segments identified by management are coal, logistics, energy and corporate segments. The coal segment includes coal extraction, coal washing, sales and distribution in the Russian Federation and abroad; the logistics segment includes railroad transportation and transshipment in ports; the energy segment includes generation and sales of electricity, heat and capacity and the corporate segment includes operations of holding companies.

Management believes that the new disclosure structure presents more fairly the operating segment information. Changes were caused by evolutionary approach resulting from acquisition and development of business other than coal. The comparative information for the year ended and as at 31 December 2018 has been restated for the effect of these changes.

Operating segment information for the Group at 31 December 2019 and for the year then ended is as follows:

	Coal	Logistics	Energy	Corporate	Inter-segment elimination	Total
Segment revenue and profitability						
Segment external revenues	5,140	218	2,189	—	—	7,547
Russian Federation	614	218	2,189	—	—	3,021
Pacific region	2,712	—	—	—	—	2,712
Atlantic region	1,814	—	—	—	—	1,814
Inter-segment revenues	664	1,903	8	53	(2,628)	—
Segment expenses	(5,650)	(1,632)	(1,720)	(111)	2,628	(6,485)
Operating profit/(loss)	**154**	**489**	**477**	**(58)**	**—**	**1,062**
Depreciation and amortisation	(597)	(265)	(184)	(7)	—	(1,053)
Interest expense and interest on lease	(157)	(94)	(121)	(239)	206	(405)
Interest income	5	7	4	210	(206)	20
(Loss)/profit before tax	(88)	444	357	127	—	840
Income tax benefit/(expense)	51	(89)	(71)	(25)	—	(134)
Net (loss)/profit for the year	**(37)**	**355**	**286**	**102**	**—**	**706**
Capital expenditures incurred during the year	972	89	158	12	—	1,231
Additions of right-of-use assets	**13**	**932**	**4**	**—**	**—**	**949**
Segment assets and liabilities						
Total segment assets	**13,271**	**2,601**	**3,682**	**1,210**	**(4,293)**	**16,471**
Total segment liabilities	**5,013**	**1,409**	**2,493**	**6,348**	**(4,293)**	**10,970**

Operating segment information for the Group at 31 December 2018 and for the year then ended is as follows:

	Coal	Logistics	Energy	Corporate	Inter-segment elimination	Total
Segment revenue and profitability						
Segment external revenues	6,031	135	2,130	—	—	8,296
Russian Federation	679	135	2,130	—	—	2,944
Pacific region	3,054	—	—	—	—	3,054
Atlantic region	2,298	—	—	—	—	2,298
Inter-segment revenues	568	1,875	7	54	(2,504)	—
Segment expenses	(5,406)	(1,687)	(1,746)	(89)	2,504	(6,424)
Operating profit/(loss)	**1,193**	**323**	**391**	**(35)**	**—**	**1,872**
Depreciation and amortisation	(438)	(50)	(177)	(4)	—	(669)
Interest expense	(141)	(14)	(135)	(180)	178	(292)
Interest income	7	16	7	171	(178)	23
Profit/(loss) before tax	1,032	294	259	(107)	—	1,478
Income tax (expense)/benefit	(224)	(59)	(52)	21	—	(314)
Net profit/(loss) for the year	**808**	**235**	**207**	**(86)**	**—**	**1,164**
Capital expenditures incurred during the year	802	80	101	7	—	990
Segment assets and liabilities						
Total segment assets	**12,727**	**952**	**2,786**	**834**	**(3,260)**	**14,039**
Total segment liabilities	**4,244**	**288**	**1,976**	**5,556**	**(3,260)**	**8,804**

6. Revenue

	2019	2018
Coal	4,877	5,706
Capacity	732	720
Heat	707	734
Electricity	693	588
Petroleum coke	153	250
Other	385	298
Total	**7,547**	**8,296**

7. Cost of sales

	2019	2018
Coal and petroleum coke purchased from third parties	1,090	1,155
Labour	846	784
Depreciation and amortisation	794	627
Consumables and spares	454	373
Purchased fuel	279	256
Purchased energy	197	223
Repairs and maintenance services	164	137
Transportation services	58	51
Property and other taxes	54	72
Drilling and blasting services	22	44
Tax on mining	41	40
Personnel transportation services	37	33
Fire and rescue brigade expenses	36	32
Transfer of heat	28	27
Special equipment services	15	16
Land rent	6	17
Other	154	223
Total	**4,275**	**4,110**

Proceeds from the sale of electricity and purchased energy are presented after deduction of cost of electricity generated by the Group and consumed for own process needs in the amount of 96 million USD for the year ended 31 December 2019 (for the year ended 31 December 2018 – 87 million USD).

8. Distribution costs

	2019	2018
Railway services	1,172	1,234
Freight	289	282
Depreciation and amortisation	259	42
Stevedoring from third parties	138	139
Repair and maintenance services	44	50
Labour	44	47
Consumables and spares	9	20
Customs expenses and export duties	8	18
Property and other taxes	2	3
Rent of rail cars	—	193
Other	13	19
Total	**1,978**	**2,047**

9. General and administrative expenses

	2019	2018
Salaries	140	131
Consulting, legal, audit and other professional services	38	38
Charitable donations	26	38
Office rent	—	8
Other	25	24
Total	**229**	**239**

10. Finance Costs, NET

	2019	2018
Interest expense	317	292
Interest on lease	88	—
Bank commissions and charges	24	32
Unwinding of discount on provisions	13	10
Interest income	(20)	(23)
Total	**422**	**311**

11. Property, plant and equipment

	Mining assets	Generating assets	Machinery, equipment, transport and other	Buildings, structures and utilities	Railcars	Construction-in-progress	Total
Cost							
Balance at 1 January 2018	**6,636**	**2,162**	**2,422**	**1,680**	**314**	**349**	**13,563**
Revaluation of mining assets	1,322	—	—	—	—	—	1,322
Business combination	—	644	6	161	—	33	844
Additions	40	19	5	15	—	911	990
Transfers	351	20	443	(209)	34	(639)	—
Disposals	—	(4)	(60)	(4)	—	(9)	(77)
Translation difference	(358)	(485)	(140)	(130)	(32)	(38)	(1,183)
Balance at 31 December 2018	**7,991**	**2,356**	**2,676**	**1,513**	**316**	**607**	**15,459**
Revaluation of mining assets	(810)	—	—	—	—	—	(810)
Business combination (see note 33)	28	314	15	36	—	40	433
Additions	55	—	4	55	—	1,117	1,231
Transfers	108	52	599	138	41	(938)	—
Disposals	(5)	(8)	(74)	(15)	—	(13)	(115)
Translation difference	207	305	108	76	23	29	748
Balance at 31 December 2019	**7,574**	**3,019**	**3,328**	**1,803**	**380**	**842**	**16,946**
Accumulated depreciation and amortisation							
Balance at 1 January 2018	**722**	**623**	**1,399**	**658**	**19**	**—**	**3,421**
Depreciation and amortisation (including transfers)	368	125	238	(67)	14	—	678
Disposals	—	(3)	(58)	(3)	—	—	(64)
Translation difference	(65)	(118)	(66)	(46)	(5)	—	(300)
Balance at 31 December 2018	**1,025**	**627**	**1,513**	**542**	**28**	**—**	**3,735**
Depreciation and amortisation	305	114	295	82	38	—	834
Disposals	(5)	—	(45)	(2)	—	—	(52)
Translation difference	44	81	54	22	2	—	203
Balance at 31 December 2019	**1,369**	**822**	**1,817**	**644**	**68**	**—**	**4,720**
Net book value at 31 December 2018	**6,966**	**1,729**	**1,163**	**971**	**288**	**607**	**11,724**
Net book value at 31 December 2019	**6,205**	**2,197**	**1,511**	**1,159**	**312**	**842**	**12,226**

Group assets include advances issued for capital expenditures of 64 million USD (31 December 2018 – 100 million USD).

If mining assets had been carried at the historical cost, the net book value of property, plant and equipment at 31 December 2019 would have been 6,776 million USD (31 December 2018 – 5,372 million USD).

12. Right-of-use assets

	Generating assets	Buildings, structures and utilities	Machinery, equipment, transport and other	Railcars	Total
Cost					
Balance at 1 January 2019	**79**	**85**	**28**	**591**	**783**
Additions	4	11	2	932	949
Modifications	(5)	13	(1)	(1)	6
Disposals	—	—	—	(38)	(38)
Translation difference	10	13	1	111	135
Balance at 31 December 2019	**88**	**122**	**30**	**1,595**	**1,835**
Accumulated depreciation					
Balance at 1 January 2019	**—**	**—**	**4**	**—**	**4**
Depreciation	10	10	8	192	220
Modifications	—	—	—	(4)	(4)
Disposals	—	—	—	(25)	(25)
Translation difference	1	—	—	8	9
Balance at 31 December 2019	**11**	**10**	**12**	**171**	**204**
Net book value at 1 January 2019	**79**	**85**	**24**	**591**	**779**
Net book value at 31 December 2019	**77**	**112**	**18**	**1,424**	**1,631**

In the first half of 2019, the Group acquired a company which owned railcars in lease for a consideration of 425 million USD from a third party. The Group treated this transaction as an acquisition of assets and recognised railcars in the form of a right-of-use assets of 832 million USD. Lease liabilities related to these railcars are disclosed in note 22. The consideration paid is included in the Property, plant and equipment line in the consolidated statement of cash flows in accordance with its substance.

13. Other assets

	2019	2018
Contract assets under concession agreements	49	24
Other assets	49	82
Total	**98**	**106**

14. Trade accounts and other receivables

	2019	2018
Trade accounts receivable	985	859
Advances issued	115	127
Other receivables	55	67
Subtotal	**1,155**	**1,053**
Less: Allowance for doubtful debts	198	171
Total	**957**	**882**

15. Inventories

	2019	2018
Coal stock	356	416
Consumable stores and materials	455	350
Less: Allowance for obsolescence	45	31
Net consumable stores and materials	410	319
Total	**766**	**735**

16. Derivative financial instruments

	2019		2018	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Cross-currency swaps – cash flow hedges	104	5	—	—
Coal contracts – cash flow hedges	37	7	35	4
Other derivatives	1	—	2	—
Total	**142**	**12**	**37**	**4**

Derivative financial instruments were valued using observable inputs, which correspond to Level 2 of the hierarchy of the fair value measurements (see note 31). Details of the effective portion of changes in fair value of cash flow hedges were as follows:

	2019		2018	
	Gain recognised in comprehensive income	Gain recycled from comprehensive income to the profit or loss	Loss recognised in comprehensive income	Loss recycled from comprehensive income to the profit or loss
Effective portion of changes in fair value of cash flow hedges	344	(241)	(17)	114
Deferred tax	(33)	21	1	(10)
Total	**311**	**(220)**	**(16)**	**104**

Cross-currency swaps. In the second half of 2019 the Group entered into cross-currency swap contracts to manage exposure of fluctuations in foreign currency exchange rates.

At 31 December 2019 the outstanding principle amount of hedge is 1,908 million USD. Details of the cross-currency swaps designated as cash flow hedges were as follows:

	2019		2018	
	Volume, million USD	Derivative	Volume, million USD	Derivative
Derivative assets				
2021	177	17	—	—
2022	676	62	—	—
2023	392	25	—	—
Total	**1,245**	**104**	**—**	**—**
Derivative liabilities				
2023	662	5	—	—
Total	**662**	**5**	**—**	**—**

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

	2019		2018	
	Volume, ‘000 tonne	Derivative	Volume, ‘000 tonne	Derivative
Derivative assets				
0 – 3 months	1,014	9	2,623	12
3 – 6 months	738	11	2,043	9
6 – 9 months	738	9	1,923	9
9 – 12 months	828	8	1,743	7
Total	**3,318**	**37**	**8,332**	**37**
Derivative liabilities				
0 – 3 months	192	2	210	2
3 – 6 months	112	2	150	1
6 – 9 months	125	2	30	1
9 – 12 months	105	1	30	—
Total	**534**	**7**	**420**	**4**

At 31 December 2019 the average coal sales price under the hedge coal forward contracts was 70 USD per ton (31 December 2018 – 92 USD per ton) and the average coal puchase price under the coal forward contracts was 69 USD per ton (31 December 2018 – 94 USD per ton).

17. Prepaid and recoverable taxes

	2019	2018
Value-added tax recoverable	195	122
Income tax receivable	65	51
Prepaid other taxes	5	2
Total	**265**	**175**

18. Cash and cash equivalents

		2019	2018
Current accounts	— RUB	83	62
	— foreign currency	56	61
Deposits	— RUB	24	19
	— foreign currency	9	9
Other cash equivalents	— foreign currency	4	15
Total		**176**	**166**

19. Share capital and reserves

	Number of shares, in thousands	
	2019	2018
Authorised share capital		
Ordinary shares	236,060	236,060
Issued share capital		
Ordinary shares	236,060	236,060

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

20. 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.

	2019	2018
Profit for the year attributable to ordinary shareholders of the parent	699	1,144
Weighted average number of ordinary shares in issue (in thousands)	236,060	234,393
Basic and diluted earnings per share (in USD)	**2.96**	**4.88**

21. Borrowings

	Effective interest rate	2019	2018
Long-term borrowings			
Variable rate borrowings		**2,952**	**3,050**
Unsecured USD-denominated borrowings	6M LIBOR + 0.9% to 1M LIBOR + 3%	2,780	2,692
Unsecured EUR-denominated borrowings	6M EURIBOR + 0.38% to 6M EURIBOR + 2.25%	172	141
Unsecured RUB-denominated borrowings		—	217
Fixed rate borrowings		**3,631**	**1,241**
Unsecured USD-denominated borrowings	3.2% to 5.1%	1,814	—
Unsecured RUB-denominated borrowings	0.05% to 8.03%	977	970
Unsecured RUB-denominated bonds	7.4% to 8.3%	840	271
Subtotal		**6,583**	**4,291**
Less: Current portion of long-term borrowings		1,644	1,019
Total long-term borrowings		**4,939**	**3,272**
Short-term borrowings			
Fixed rate borrowings		**155**	**62**
Unsecured USD-denominated borrowings	2.25% to 2.3%	150	—
Undecured RUB-denominated borrowings	7.6% to 7.75%	—	60
Other borrowings		5	2
Subtotal		**155**	**62**
Current portion of long-term borrowings		1,644	1,019
Total short-term borrowings		**1,799**	**1,081**

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. As at 31 December 2019 the Group was in compliance with all such covenants.

22. Lease liabilities

	2019	2018
Recognition at the beginning of the period	**799**	**—**
Additions	521	—
Modifications	11	
Interest on lease	88	—
Payments of lease liabilities	(311)	—
Disposals	(16)	—
Translation difference	117	—
Closing balance	**1,209**	**—**

Closing balance of a lease liability of 399 million USD relates to railcars in lease disclosed in Note 12.

23. Changes in liabilities arising from financial activities

The table below provides information of changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes:

	Long-term borrowings	Short-term borrowings	Lease liabilities	Acquisition of NCI	Other	Total
Balance as at 1 January 2018	**4,650**	**177**	**—**	**—**	**—**	**4,827**
Cash flows	(550)	(136)	—	(164)	(38)	(888)
Foreign exchange (gain)/loss	(297)	(28)	—	—	1	(324)
Interest expenses	289	3	—	—	—	292
Business combination	167	46	—	—	—	213
Bank commissions	32	—	—	—	—	32
Other payables	—	—	—	164	37	201
Balance as at 31 December 2018	**4,291**	**62**	**—**	**—**	**—**	**4,353**
Balance as at 1 January 2019	**4,291**	**62**	**799**	**—**	**—**	**5,152**
Cash flows	1,828	5	(311)	(17)	(12)	1,493
Foreign exchange loss	144	67	117	—	—	328
Interest expenses and interest on lease	296	21	88	—	—	405
Change in lease obligations	—	—	516	—	—	516
Bank commissions	24	—	—	—	—	24
Other payables	—	—	—	17	12	29
Balance as at 31 December 2019	**6,583**	**155**	**1,209**	**—**	**—**	**7,947**

24. Other long-term liabilities

	2019	2018
Provision for environmental obligation	175	79
Provision for defined benefit obligation	64	49
Payables for the acquisition of SGC group	—	1,916
Other long-term liabilities	132	104
Total	**371**	**2,148**

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 assets, 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:

	2019	2018
Discount rate	7%	9%
Inflation rate	4%	5%

Provision for defined benefit obligation.
Actuarial assumptions used for the calculation of the defined benefit obligation were as follows:

	2019	2018
Discount rate	7%	9%
Inflation rate	4%	5%
Future increases in salaries	4%	5%

25. Trade accounts and other payables

	2019	2018
Trade accounts payable and accruals	518	302
Advances from customers	198	57
Accrual for vacation payments	72	56
Wages and salaries	66	57
Payables for the acquisition of Reftinskaya GRES (see note 33)	65	—
Other creditors	79	34
Total	**998**	**506**

26. Taxes payable

	2019	2018
Value-added tax	72	80
Income tax	46	9
Social security contributions	28	18
Other	20	23
Total	**166**	**130**

27. Taxation

	2019	2018
Current income tax expense	209	243
Deferred income tax (benefit)/expense	(75)	71
Income tax expense	**134**	**314**

The reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation, where the Company is domiciled, to the amount of actual income tax expense recorded in the consolidated statement of profit or loss and other comprehensive income is as follows:

	2019	2018
Profit before tax	**840**	**1,478**
Theoretical income tax expense at 20%	168	296
Impact of specific tax rates in Switzerland	(38)	(20)
Impact of tax rate change in Switzerland	(22)	—
Impact of specific tax rates in Russian Federation	(2)	(3)
Tax effect of non-deductible expenses	28	41
Total income tax expense	**134**	**314**

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

	Opening balance	Effect of IFRS 16	Recognised in equity	Recognised in profit or loss	Effect of translation to presentation currency	Closing balance
2019						
Deferred tax assets	**247**	**156**	**9**	**80**	**35**	**527**
Lease liabilities	—	156	—	62	10	228
Tax losses carried forward	193	—	6	(24)	16	191
Prepaid expenses and accruals	13	—	2	—	(1)	14
Environmental and other provisions	19	—	1	17	2	39
Employee benefit obligations	14	—	—	2	1	17
Trade accounts and other receivables	8	—	—	2	1	11
Inventory	—	—	—	—	5	5
Other	—	—	—	21	1	22
Deferred tax liabilities	**(1,774)**	**(156)**	**149**	**(5)**	**(85)**	**(1,871)**
Property, plant and equipment	(1,757)	—	161	39	(63)	(1,620)
Right-of-use	—	(156)	—	(62)	(10)	(228)
Derivative financial assets	(3)	—	(12)	—	—	(15)
Inventory	(7)	—	—	10	(3)	—
Other	(7)	—	—	8	(9)	(8)
Net deferred tax liabilities	**(1,527)**	**—**	**158**	**75**	**(50)**	**(1,344)**

	Opening balance	Recognised in equity	Recognised in profit or loss	Effect of translation to presentation currency	Closing balance
2018					
Deferred tax assets	**302**	**—**	**(17)**	**(38)**	**247**
Tax losses carried forward	242	—	(18)	(31)	193
Environmental and other provisions	17	2	2	(2)	19
Employee benefit obligations	15	1	(1)	(1)	14
Prepaid expenses and accruals	10	1	4	(2)	13
Trade accounts and other receivables	13	1	(4)	(2)	8
Derivative financial liabilities	5	(5)	—	—	—
Deferred tax liabilities	**(1,437)**	**(395)**	**(54)**	**112**	**(1,774)**
Property, plant and equipment	(1,424)	(392)	(53)	112	(1,757)
Inventory	(4)	—	(1)	(2)	(7)
Derivative financial assets	—	(3)	—	—	(3)
Other	(9)	—	—	2	(7)
Net deferred tax liabilities	**(1,135)**	**(395)**	**(71)**	**74**	**(1,527)**

In 2018 net effect of business combination, included in recognised in equity column above, amounted to 121 million USD.

Unrecognised temporary differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and distribution of dividends, including distribution on a tax-free basis when certain conditions are met, and it is probable that the temporary difference will not be reversed in the foreseeable future, amounted to 3,229 million USD (31 December 2018 – 4,032 million USD).

Management believes that sufficient taxable profits will be available, against which the unused tax losses can be utilised by the Group in the unlimited future period.

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

	2019	2018
Deferred tax assets	132	136
Deferred tax liabilities	(1,476)	(1,663)
Net deferred tax liabilities	**(1,344)**	**(1,527)**

28. Related party transactions

Related parties are considered to include the ultimate beneficiary, affiliates and entities under common ownership and control of the same principal ultimate beneficiary. 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 not dealt with elsewhere in the consolidated financial statements are as follows:

	2019	2018
Coal sales to DEC group, an associate of a company with the same principal ultimate beneficiary	134	136
Other energy sales	61	58
Other revenue from EuroChem group	25	7
Other coal sales	—	36
Other expenses	31	64
Interest expense	1	2
Remuneration of the Board of Directors and the Management members	16	18

The outstanding balances with related parties are as follows:

	2019	2018
Trade accounts and other receivables from DEC group	14	14
Payables for the acquisition of SGC group to a related company	—	1,916
Other receivables	—	30

29. Commitments

Capital commitments.
The following key capital expenditures were approved:

	2019	2018
Contracted	1,025	559
Not yet contracted	284	117
Total	**1,309**	**676**

30. 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 energy 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 litigations 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.

Starting in 2014, the United States of America, the European Union and some other countries have imposed and expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. This change in the environment did not have a significant effect on the Group's operations, however, the longer-term effects of the imposed and possible additional sanctions are difficult to determine. The Group implemented relevant compliance policy, continuously monitors economic sanctions and analyses their effect on the Group's financial position and operation results.

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.

31. 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 2019, the fair values of financial instruments carried at amortised cost, which are mainly loans and receivables, did not materially differ from the carrying values.

Financial instruments carried at fair value.

Fair values of derivative financial assets and liabilities were determined using inputs from observable market data, which correspond to Level 2 of the hierarchy of fair values.

Mining assets carried at fair value.

The fair value of mining assets was determined using discounted cash flow method corresponding to Level 3 of the hierarchy of fair values (see note 4).

32. Financial risk management

In the normal course of its operations, the Group is exposed to market (including foreign currency and interest rate), credit and liquidity risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out through regular meetings of a risk management committee of operational management and by the central treasury department. The Board of Directors approves principles for overall risk management. In addition, operational management have developed policies covering specific areas, such as foreign currency risk, interest rate risk and the use of derivative and non-derivative financial instruments.

32.1. Market risk

Market risk is the risk that changes in market prices, such as coal prices, foreign exchange rates and interest rates will negatively impact the Group's results or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risk management includes the analysis of foreign currency and interest rate risks.

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 2,952 million USD (31 December 2018 – 3,050 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 percentage point, provided that the amount of outstanding balance remained constant for the whole year, would have decreased or increased profit for the year by 30 million USD (2018 – 31 million USD).

Foreign currency risk
Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed.

A significant portion of the Group's revenues are denominated in USD, whereas the majority of the Group's expenditures are denominated in RUB. Accordingly, operating profits may be adversely impacted by the appreciation of the RUB against the USD. The risk of negative fluctuations in the USD/RUB exchange rate for future revenue streams is naturally hedged by the USD borrowings.

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

	2019				2018			
	RUB	USD	EUR	Total	RUB	USD	EUR	Total
Balances with third and related parties	**(203)**	**(1,787)**	**(312)**	**(2,302)**	**(108)**	**(1,918)**	**(225)**	**(2,251)**
Prepaid and recoverable taxes	137	—	—	137	93	—	—	93
Cash and cash equivalents	49	7	—	56	30	1	—	31
Trade accounts receivable	45	—	1	46	38	—	1	39
Other receivables	23	—	—	23	3	—	—	3
Borrowings	—	(1,772)	(185)	(1,957)	—	—	(141)	(141)
Other long-term liabilities	(245)	—	(6)	(251)	(97)	—	(14)	(111)
Trade accounts payable and accruals	(142)	(22)	(76)	(240)	(114)	(3)	(49)	(166)
Other creditors	(1)	—	(46)	(47)	(7)	—	(22)	(29)
Taxes payable	(25)	—	—	(25)	(17)	—	—	(17)
Accrual for vacation payments	(24)	—	—	(24)	(19)	—	—	(19)
Wages and salaries	(20)	—	—	(20)	(18)	—	—	(18)
Payables for acquisition of SGC	—	—	—	—	—	(1,916)	—	(1,916)
Intra-group balances	**(696)**	**(202)**	**4**	**(894)**	**(467)**	**(164)**	**1**	**(630)**
Intra-group receivables	254	12	160	426	204	38	146	388
Intra-group borrowings	(450)	(206)	(156)	(812)	(344)	(202)	(144)	(690)
Intra-group payables	(500)	(8)	—	(508)	(327)	—	(1)	(328)
Total net liabilities	**(899)**	**(1,989)**	**(308)**	**(3,196)**	**(575)**	**(2,082)**	**(224)**	**(2,881)**

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

	2019			
	RUB	USD	Other	Total
(Increase)/decrease in equity	(41)	145	15	119
(Increase)/decrease in profit or loss for the year	(74)	130	15	71

32.2. 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 2019 8% of total trade receivables were due from the Group's largest customer and 26% of the total trade receivables were due from the Group's next 19 largest customers (31 December 2018 – 3% and 26%, respectively).

The table below analyses the Group's trade receivables into relevant groupings based on ageing.

	2019		2018	
	Gross	Allowance for doubtful debts	Gross	Allowance for doubtful debts
Not past due	708	—	625	—
Past due for less than 12 months	153	61	107	41
Past due for more than one year	124	124	127	127
Total	**985**	**185**	**859**	**168**

The movement in the allowance for doubtful debts in respect of trade receivables during the year was as follows:

	2019	2018
Opening balance	**168**	**151**
Additional doubtful debts	99	94
Bad debt recovered	(95)	(70)
Bad debt written-off (impairment loss recognised)	(7)	(11)
Effect of translation to presentation currency	20	(9)
Adjustment of expected credit losses under IFRS 9	—	13
Closing balance	**185**	**168**

Analysis of credit quality of cash and cash equivalents, including bank deposits, based on credit ratings of independent agencies 'Standard & Poor's', 'Fitch Ratings' and others is listed in the table below:

	2019	2018
From A- to AAA	48	36
From BBB- to BBB+	85	42
From BB- to BB+	30	60
Other	13	28
Total	**176**	**166**

32.3. 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 2020 and will be sufficient to cover the capital expenditures programme of the Group. In addition, management believes that the Company will be able to attract additional sources of financing in order to refinance existing short-term facilities.

The central treasury department of the Group maintains flexibility in funding by ensuring the availability of credit line facilities. The unused portion of these lines at 31 December 2019 totalled 2,889 million USD (31 December 2018 – 3,427 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 2019					
Long-term borrowings	4,939	5,303	259	2,087	2,957
Short-term borrowings	1,799	1,799	1,799	—	—
Lease liabilities	1,209	1,793	282	273	1,238
Trade accounts payable and accruals	518	518	518	—	—
Payables for the acquisition of Reftinskaya GRES (see note 33)	65	65	65	—	—
Net-settled derivative liabilities	12	12	12	—	—
Other creditors	79	79	79	—	—
Total	**8,621**	**9,569**	**3,014**	**2,360**	**4,195**
Balance at 31 December 2018					
Long-term borrowings	3,272	3,820	246	1,409	2,165
Short-term borrowings	1,081	1,081	1,081	—	—
Payables for the acquisition of SGC group	1,916	1,997	—	1,997	—
Trade accounts payable and accruals	302	302	302	—	—
Net-settled derivative liabilities	4	4	4	—	—
Other creditors	34	34	34	—	—
Total	**6,609**	**7,238**	**1,667**	**3,406**	**2,165**

32.4. 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.

33. Investments in significant subsidiaries

Subsidiaries by country of incorporation	Principal activity	2019	2018
Russian Federation			
Murmansk			
JSC 'Murmanskiy Morskoi Torgovyi Port'	Port facilities	100%	100%
Kemerovo			
JSC 'SUEK-Kuzbass'	Hard coal extraction	100%	100%
JSC 'Kuzbassenergo'	Energy generation	99.9%	99.9%
JSC 'Kemerovo Generation'	Energy generation	100%	100%
JSC 'Novo-Kemerovskaya CHPP'	Energy generation	100%	100%
JSC 'Kuznetskaya CHPP'	Energy generation	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%
JSC 'Yenisei Territorial Generating Company (TGC-13)'	Energy generation	99.9%	99.9%
JSC 'Nazarovo GRES'	Energy generation	100%	100%
JSC 'Krasnoyarsk CHPP-1'	Energy generation	100%	100%
JSC 'Krasnoyarsk Heat Transportation Company'	Transfer of heat	100%	100%
Khakasia			
LLC 'SUEK-Khakasia'	Hard coal extraction	100%	100%
LLC 'Vostochno-Beyskiy razrez'	Hard coal extraction	50%	50%
JSC 'Razrez Izykhskiy'	Hard coal extraction	100%	100%
Buryatia			
JSC 'Razrez Tugnuiskiy'	Hard coal extraction	100%	100%
Zabaikalye			
JSC 'Razrez Kharanorskiy'	Brown coal extraction	100%	100%
LLC 'Chitaugol'	Brown coal extraction	100%	100%
Altai			
JSC 'Barnaul CHPP-3'	Energy generation	100%	100%
JSC 'Barnaul Generation'	Energy generation	100%	100%
JSC 'Byiskenergo'	Energy generation	100%	97.1%
JSC 'Barnaul Heat Network Company'	Transfer of heat	100%	100%
Novosibirsk			
JSC 'SIBECO'	Energy generation	100%	97.1%
Khabarovsk			
JSC 'Urgalugol'	Hard coal extraction	100%	100%
JSC 'Daltransugol'	Port facilities	100%	100%
Primorye			
LLC 'Primorskugol'	Brown coal extraction	100%	100%
Switzerland			
SUEK AG	Export sales of coal	100%	100%
Republic of Cyprus			
SUEK LTD	Debt holding company	100%	100%

Business combination.
In October 2019 the Group acquired generating and other assets of Reftinskaya GRES for 345 million USD, including a contingent consideration described below, from a third party. The core activity of the acquired business is generation and sales of energy. Along with the acquired assets the Group obtained control over all processes of generation and sales, acquired rights and obligations under key contracts were transferred to the Group. The Group recognizes the acquisition of the assets of Reftinskaya GRES as a business combination since assets represent a unified complex for generation of electricity and the Group also acquired all key processes, altogether representing the attributes of the business. Before the Group completes the process of obtaining permits and licenses required to operate Reftinskaya GRES, the acquired assets are leased back to the seller. Under the terms of the lease, the Group has control over business processes and financial results, thus, at the time of the transitional period, the Group consolidates Reftinskaya GRES. At 31 December 2019 the Group did not finalise purchase price allocation for this business combination, therefore, the carrying amounts of the acquired assets and assumed liabilities at the date of acquisition were estimated on a provisional basis at 353 million USD and 8 million USD, respectively.

By 31 December 2019 the Group paid 259 million USD for the acquisition. The Group also recognised a contingent consideration at fair value of 24 million USD and allocated it to the generating assets. The effect of the consolidation of the acquired assets on the consolidated statement of profit or loss for the year ended 31 December 2019 is 22 million USD.

Acquisition of Krasnoyarskaya GRES-2.
In December 2019 the Group signed an agreement with a third party for the acquisition of generating and other assets of Krasnoyarskaya GRES-2 for 157 million USD. The transfer of ownership and payments will take place in the first half of 2020.

Acquisition of SGC group.
In August 2018 the Group acquired from a parent company 99.9% of LLC 'SGC' for 1,916 million USD. In 2019 the consideration of 1,916 million USD and interest accrued for deferred payment of 25 million USD were fully paid.

Non-controlling interests.
Information of LLC 'Vostochno-Beyskiy razrez' that has significant non-controlling interests is as follows:

	2019	2018
Non-current assets	285	311
Current assets	55	56
Non-current liabilities	(55)	(60)
Current liabilities	(15)	(14)
Net assets	**270**	**293**
Accumulated non-controlling interests	**135**	**147**
Revenue	139	155
Net (loss)/profit for the year	(2)	33
(Loss)/profit allocated to non-controlling interests	(1)	17
Revaluation of mining assets	(22)	28
Cash flows from operating activities	11	26
Cash flows used in investment activities	(11)	(20)
Cash flows used in financing activities	(13)	(8)
Dividends to non-controlling interests	6	4

34. Events subsequent to the balance sheet date

In January 2020 the Group issued 10-years rouble-denominated bonds with the nominal value of 477 million USD and a coupon rate of 6.9% p.a.

In January 2020 the Group paid 81 million USD net of VAT to a third party for the acquisition of generating and other assets of Krasnoyarskaya GRES-2.

GRI Standards Indicator and General standard disclosures

GRI Standards Indicator and General standard disclosures	SUEK's response in 2019
GENERAL DISCLOSURE	
ORGANISATIONAL PROFILE	
102-1 Name of the organisation	JSC SUEK (JSC Siberian Coal Energy Company)
102-2 Activities, brands, products, and services	Year highlights, pages 2–3 SUEK at a glance, pages 4–5 Where we operate, pages 6–7 Business model, pages 12–13 Business review, pages 60–75 Information on the company, page 173
102-3 Location of headquarters	Contacts, page 173
102-4 Location of operations	None of SUEK's production sites are situated in protected or natural reserve areas including the protected territories. Where we operate, pages 6–7
102-5 Ownership and legal form	Information on the company, page 173
102-6 Markets served	Where we operate, pages 6–7 Business review, pages 60–75
102-7 Scale of the organisation	SUEK at a glance, pages 4–5 Where we operate, pages 6–7 Business review, pages 60–75 Group financial review, pages 56–59 Financial statements, page 156
102-8 Information on employees and other workers	Business model, pages 12–13 Our people and corporate culture, pages 95–99
102-9 Supply chain	Business model, pages 12–13 Business review, page 75 See also our Sustainable Development Report for 2018–2019 on the website: http://www.suek.com/investors/reporting/#year_19
102-10 Significant changes to the organisation and its supply chain	Where we operate, pages 6–7 CEO's statement, pages 10–11 Strategy, page 29 Financial statements, pages 156–157
102-11 Precautionary principle or approach	SUEK subscribes to the precautionary approach particularly as regards our control of occupational health and safety, and our impact on the environment. This is implemented through our risk management process. Risk management, pages 34–43 Health & safety, pages 80–85 Environment, pages 86–94 Additional information on our Policies is available on our corporate website: www.suek.com/about–us/corporate–governance/by–laws/
102-12 External initiatives	SUEK at a glance, pages 4–5 Our approach to sustainability, pages 78–79 Health & safety, page 81 Environment, page 87 Our people and corporate culture, page 96 Communities, page 101 See also our Sustainable Development Report for 2018–2019 on the website: http://www.suek.com/investors/reporting/#year_19
102-13 Membership of associations	SUEK's key memberships include: • Russian Union of Industrialists and Entrepreneurs • RAND corporation • Clean Coal Association • All–Russia Industrial Association of Employers of the Coal Industry • The Russian Managers Association • German–Russia Chamber of Commerce • World Coal Association • Bettercoal • Vision Zero • World energy council • Anti-corruption Charter of Russian Business • AD HOC COUNCIL (the European Government Business Relations Council)

GRI Standards Indicator and General standard disclosures	SUEK's response in 2019
STRATEGY	
102-14 Statement from senior decision-maker	SUEK's main beneficiary's statement, title page Chairman's statement, pages 8–9 CEO's statement, pages 10–11
102-15 Key impacts, risks and opportunities	What impacts SUEK's ability to create value, its sustainability and its stakeholders, is presented in the following sections: Chairman's and CEO's statements, pages 8–11 Market fundamentals and SUEK, pages 16–21 Strategy, pages 22–33 Risk management, pages 34–43 Materiality, pages 44–47
ETHICS AND INTEGRITY	
102-16 Values, principles, standards, and norms of behavior	Strategy, pages 22–33 Our approach to sustainability, pages 78–79 Our people and corporate culture, pages 95–99 Corporate governance, pages 104–121 Our Code of Ethics is available on our corporate website: www.suek.com/about–us/corporate–governance/by–laws/
102-17 Mechanisms for advice and concerns about ethics	Our people and corporate culture, page 99 Compliance management system, page 116
GOVERNANCE	
102-18 Governance structure	Corporate governance, page 106
102-19 Delegating authority	Corporate governance, pages 104–121 For more information, see section 15 and 16 of the Charter of JSC SUEK on our corporate website: www.suek.com/about–us/corporate–governance/by–laws/
102-20 Executive-level responsibility for economic, environmental and social topics	Corporate governance, pages 104–121 Our approach to sustainability, page 79
102-21 Consulting stakeholders on economic, environmental, and social topics	Materiality, pages 44–45 Stakeholder engagement, pages 48–49 Environment, page 86 Communities, page 102
102-22 Composition of the highest corporate body and its Committees	Board of Directors' report, pages 108–111
102-23 Chair of the highest governance body	The Chairman of the Board of Directors, the highest governance body, is not an executive officer. Board of Directors' report, pages 108–111
102-24 Nomination and selection processes for the highest governance body	Board of Directors' report, pages 108–111
102-25 Conflicts of interests	Corporate governance, pages 104–121 The related–party transactions are reported in Financial statements, page 150
102-26 The role of the highest governance body and senior executives in setting purpose, values and strategy	The Board has final approval of SUEK's strategy and goals for environmental and social development. Corporate governance, pages 104–121
102-27 Highest governance body's collective knowledge	Corporate governance, pages 104–121
102-28 Evaluation of the activities of the highest body of governance	Corporate governance, pages 104–121
102-29 Identification and management of economic, environmental and social impacts	Corporate governance, pages 104–121
102-30 Risk management	Risk management, pages 34–43
102-31 Review of economic, environmental and social topics	Corporate governance, pages 104–121 Risk management, pages 34–43 Materiality, pages 44–47 Environment, page 86
102-32 Highest governance body's role in sustainability report	The Report is approved by the Audit Committee of the Board of Directors. About this Report, page 173

GRI Standards Indicator and General standard disclosures	SUEK's response in 2019
102-33 Communicating critical concerns	Risk management, pages 34–43 Materiality, pages 44–47 Stakeholder engagement, page 49 Corporate governance, pages 104–121
102-34 The nature and the total number of critical concerns	Risk management, pages 34–43 Materiality, pages 44–47 Stakeholder engagement, page 49 Our people and corporate culture, page 99 Corporate governance, pages 104–121
102-35 Remuneration policies	Board of Directors' report, pages 108–111 Management Board report, pages 120–121
102-36 Process for determining remuneration	Board of Directors' report, pages 108–111 Management Board report, pages 120–121
102-37 Stakeholders' involvement in remuneration	Stakeholder engagement, page 49
STAKEHOLDER ENGAGEMENT	
102-40 List of stakeholder group(s)	Stakeholder engagement, pages 48–49
102-41 Collective bargaining agreements	Our people and corporate culture, page 98
102-42 Identifying and selecting stakeholders	Stakeholder engagement, pages 48–49
102-43 Approach to stakeholder engagement	Stakeholder engagement, pages 48–49
102-44 Key topics and concerns raised	Chairman's statement, pages 8–9 CEO's statement, pages 10–11 Materiality, pages 44–47 Stakeholder engagement, pages 48–49 Chairman's introduction, pages 104–105 Board of Directors' report, pages 110–111
REPORTING PRACTICE (REPORT PROFILE)	
102-45 Entities included in the consolidated financial statements	Consolidated financial statements, page 156
102-46 Defining report content and topic Boundaries	Materiality, pages 44–47 About this Report, page 173
102-47 List of material topics	Materiality, pages 44–47
102-48 Restatements of information	There were no restatements of information in this Report.
102-49 Changes in reporting	Materiality, pages 44–47
102-50 Reporting period	Financial year from 1 January 2019 to 31 December 2019
102-51 Date of most recent report	March 2019
102-52 Reporting cycle	Annual
102-53 Contact point for questions regarding the report	Olga Ilina, Head of Investor Relations E–mail: ir@suek.ru
102-54 Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option.
102-55 GRI content index	158
102-56 External assurance	The Report was prepared under the supervision of SUEK's Chief Financial Officer, with the Audit Committee of the Board of Directors also collectively contributing to its preparation and ensuring its overall integrity. The consolidated financial statements included in this Report were audited and the text of the report was reviewed by JSC 'KPMG'.
SPECIFIC DISCLOSURE	
ECONOMIC	
201 ECONOMIC PERFOMANCE	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Chairman's statement, pages 8–9 Strategy, pages 22–33 Group financial review, pages 56–59 Business model, pages 12–13
103-3 Evaluation of the management approach	Group financial review, pages 56–59 Corporate governance, page 113
201-1 Direct economic value generated and distributed	Year highlights, pages 2–3 Business model, pages 12–13 Group financial review, pages 56–59 Financial Statements, pages 122–157
201-2 Financial implications and other risks and opportunities due to climate change	Risk management, pages 34–43 Environment, pages 87–89 SUEK's position on climate change is available on our corporate website: www.suek.com/en/sustainability/environment/
201-3 Defined benefit plan obligations and other retirement	Our people and corporate culture, pages 95–99 Financial Statements, pages 122–157
201-4 Financial assistance received from government	During the reporting period the company did not receive any subsidies from the government. However, some infrastructural and social projects implemented by the company can be subsidised by the government. Strategy, pages 22–33
203 INDIRECT ECONOMIC IMPACTS	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Communities, pages 100–103
103-3 Evaluation of the management approach	Communities, pages 100–103
203-1 Infrastructure investments and services supported	Business model, pages 12–13 Communities, pages 100–103
203-2 Significant indirect economic impacts	Business model, pages 12–13 Communities, pages 100–103
204 PROCUREMENT PRACTICES	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Business review, page 75
103-3 Evaluation of the management approach	Business review, page 75
204-1 Proportion of spending on local suppliers	In 2019, the Company attracted more than 10 thousand suppliers: 6,816 in the coal segment, 3,235 in the energy segment. 99% of organisations are located in the Russian Federation. See also our Sustainable Development Report for 2018–2019 on the website: http://www.suek.com/investors/reporting/#year_19
205 ANTI-CORRUPTION	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Compliance management system, page 116
103-3 Evaluation of the management approach	Compliance management system, page 116
205-1 Operations assessed for risks related to corruption	SUEK has a corporate risk management system that covers all divisions and businesses of the company. Risk assessment is carried out on a regular basis. Risk management, pages 34–43
205-2 Communication and training about anti-corruption policies and procedures	Compliance management system, page 116
205-3 Confirmed incidents of corruption and actions taken	During the reporting period, no cases of corruption were detected.
206 ANTI-COMPETITIVE BEHAVIOR	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Compliance management system, page 116
103-3 Evaluation of the management approach	Compliance management system, page 116
206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	In 2019 the antimonopoly authorities did not apply any legal actions against SUEK regarding violation of the antimonopoly legislation.

GRI Standards Indicator and General standard disclosures	SUEK's response in 2019
207 TAX	
103-1 Explanation of the material topic and its Boundary	Risk management, pages 34–43
103-2 The management approach and its components	SUEK has internal compliance tax policy.
207-1 Approach to tax	SUEK has internal compliance tax policy.
207-2 Tax governance, control, and risk management	Risk management, pages 34–43
207-4 Country-by-country reporting	Financial Statements, pages 122–157
ENVIROMENTAL	
301 MATERIALS	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Strategy, page 32 Environment, page 94
103-3 Evaluation of the management approach	Strategy, page 32 Environment, page 94
301-1 Materials used by weight or volume	Environment, pages 92–94
301-2 Recycled input materials used	Environment, pages 92–94
301-3 Reclaimed products and their packaging materials	Strategy, page 32 Environment, page 94
302 ENERGY	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Strategy, page 26 Environment, page 92
103-3 Evaluation of the management approach	Strategy, page 26 Environment, page 92
302-1 Energy consumption within the organisation	Strategy, page 26 Environment, page 92
302-2 Energy consumption outside of the organisation	Accounting is not conducted due to the lack of legislative requirements.
302-3 Energy intensity	Environment, page 92
302-4 Reduction of energy consumption	Strategy, page 26 Environment, page 92
302-5 Reductions in energy requirements of products and services	Not applicable to company's products.
303 WATER AND EFFLUENTS	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Strategy, page 32 Environment, pages 87, 93
103-3 Evaluation of the management approach	Strategy, page 32 Environment, pages 87, 93
303-1 Interactions with water as a shared resource	Strategy, page 32 Environment, page 93

GRI Standards Indicator and General standard disclosures	SUEK's response in 2019
303-2 Management of water discharge-related impacts	Environment, page 93
303-3 Water withdrawal	The company does not use water from vulnerable or state protected sources, or from those of particular importance to local communities or for biodiversity. As the water withdrawn is used to cool the turbines and does not contact the contaminated circuit, the activities of SUEK do not affect the water balance in water bodies. We also use modern treatment facilities to ensure we do not influence water quality. Environment, page 93

	2015	2016	2017	2018	2019
Coal					
groundwater				Not applicable	16.0
Total volume of water withdrawn from sources, including underground reservoirs, surface reservoirs and wastewater from other companies, million m³	120.1	137.2	135.8	154.8	146.6
surface water					
third-party water					Not applicable
Transferred to other consumers (without usage), million m³	106.6	121.9	122.6	138.3	132.0
Energy					
groundwater	–	–	12.6	12.4	16.0
Total volume of water withdrawn from sources, including underground reservoirs, surface reservoirs and wastewater from other companies, million m³	–	–	2,460.4	2,231.4	2,119.8
surface water	–	–	2,209.1	2,009.6	1,860.1
third-party water	–	–	238,764.1	209,462.8	243,686.5
Transferred to other consumers (without usage), million m³	–	–	227.8	202.4	238.0

303-4 Water discharge	Environment, page 93

	2015	2016	2017	2018	2019
Coal					
Wastewater discharged, milllion m³	106.2	123.0	121.3	145.6	135.8
including contaminated without cleaning	42.5	43.5	34.2	29.2	25.9
insufficiently cleaned	50.2	63.2	70.8	70.4	59.0
regulatory clean	3.8	3.9	3.8	5.9	0
cleaned	0.7	2.8	3.3	26.1	40.0
transferred to other consumers (after use)	1.2	1.2	1.2	1.1	1.05
Energy					
Wastewater discharged, milllion m³	–	–	2,083.2	1,850.5	1,914.3
including contaminated without cleaning	–	–	11.7	2.5	2.5
insufficiently cleaned	–	–	53.1	27.9	34.4
regulatory clean	–	–	1,826.2	1,805.5	1,862.2
cleaned	–	–	186.9	10.7	8.4
transferred to other consumers (after use)	–	–	5.3	3.9	12.1

303-5 Water consumption	Environment, page 93

304 BIODIVERSITY	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Environment, pages 87, 94
103-3 Evaluation of the management approach	Environment, pages 87–88
304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	On the sites of production assets, as well as adjacent territories, there are no specially protected natural territories of federal and regional significance. Rare, endangered species of animals, plants and fungi have not been identified.
304-2 Significant impacts of activities, products, and services on biodiversity	
304-3 Habitats protected or restored	Environment, page 94
304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	At SUEK's production assets, as well as adjacent areas, rare, endangered species of animals, plants and fungi have not been identified. Environment, page 94

	2015	2016	2017	2018	2019
Coal					
Lands disturbed, ha					
at the beginning of year	17,522	18,112	18,667	19,645	20,427
at the end of year	18,112	18,622	19,261	22,246	21,430
Disturbed during the year, ha	805.0	907	938	2,813	1,742
Recultivated during the year, ha	215.0	397	385	212	552
Energy					
Lands disturbed, ha					
at the beginning of year	–	–	2,668	2,568	2,525
at the end of year	–	–	2,564	2,556	2,525
Disturbed during the year, ha	–	–	0	0	0
Recultivated during the year, ha	–	–	104	12	0

305 EMISSIONS	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Environment, pages 88–91
103-3 Evaluation of the management approach	Environment, pages 87–88
305-1 Direct (Scope 1) GHG emissions	Environment, pages 88–91

	2015	2016	2017	2018	2019
Coal					
Gross emissions, thousand tonnes of CO_2-equivalent	3,669	3,793	4 868	5,563	5,149
Energy					
Gross emissions, thousand tonnes of CO_2-equivalent	–	–	58,846	56,951	55,409

305-2 Energy indirect (Scope 2) GHG emissions	There are no mandatory legislative requirements for the regular preparation of these indicators and transfer to the authorized state bodies of information on it.
305-3 Other indirect (Scope 3) GHG emissions	There are no mandatory legislative requirements for the regular preparation of these indicators and transfer to the authorized state bodies of information on it.
305-4 GHG emissions intensity	Environment, pages 88–91
305-5 Reduction of GHG emissions	Environment, pages 88–91
305-7 Nitrogen oxides (NO_x), sulfur oxides (SO_x), and other significant air emissions	Environment, pages 88–91

	2015	2016	2017	2018	2019
Coal					
Emissions, thousand tonnes:					
Solid substance	7.7	8.5	5.9	8.1	8.5
SO_2	1.6	1.6	1.7	1.9	2.0
CO	7.6	7.5	7.5	9.0	8.9
NO_x	4.6	4.0	3.8	5.1	6.9
Volatile organic compounds	1.4	1.4	1.9	2.1	2.4
Energy					
Emissions, thousand tonnes:					
Solid substance	–	–	84.5	82.1	79.3
SO_2	–	–	158.4	150.7	146.9
CO	–	–	17.9	15.5	15.7
NO_x	–	–	114.2	107.7	106.5
Volatile organic compounds	–	–	0.19	0.18	1.58

306 EFFLUENTS AND WASTE	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Environment, pages 92–99
103-3 Evaluation of the management approach	Environment, pages 87–88 Strategy, page 32
306-1 Water discharge by quality and destination	Environment, page 93
306-2 Waste by type and disposal method	SUEK does not transport, import, export or process waste that is hazardous in accordance with Annexes I, II, III and VIII to the Basel Convention.

	2015	2016	2017	2018	2019
Coal					
Waste generation, thousand tonnes	**457,626.1**	**480,465.4**	**491,154.3**	**592 350,0**	**649 230,7**
Including I class hazard	0.005	0.005	0.006	0	0
II class hazard	0.038	0.024	0.023	0	0
III class hazard	1.8	1.3	1.7	2,3	3,4
IV class hazard	7.2	7.9	7.6	10,5	13,0
V class hazard	457,617.0	480,456.2	491,145.0	592 337,0	649 214,2
Collection of waste from other organisations, thousand tonnes	**5,454.8**	**4,836.5**	**4,856.1**	**4,170.5**	**4,163.1**
Use of waste, thousand tonnes	**341,747.2**	**391,712.6**	**387,477.6**	**431 314,0**	**437 407,8**
Including I class hazard	0	0	0	0	0
II class hazard	0.023	0.013	0.011	0,041	0,025
III class hazard	1.4	0.9	0.9	1,4	2,0
IV class hazard	2.0	1.4	2.7	2,5	4,9
V class hazard	337,894.1	391,710.4	387,474.1	431 310,0	437 401,5
Neutralisation, thousand tonnes	**0.8**	**1.0**	**0.7**	**10,2**	**0,7**
Including I class hazard	0.005	0.0046	0.005	0	0
II class hazard	0.011	0.0192	0.003	0	0
III class hazard	0.4	0.4	0.5	0,9	1,2
IV class hazard	0.2	0.6	0.2	3,7	2,2
V class hazard	0.010	0.0064	0.003	5,6	5,8
Available waste at the year-end, thousand tonnes	**999,365.75**	**1,169,865.4**	**1,107,011.7**	**1 258 264,0**	**1 130 840,4**
Including I class hazard	0.0002	0.0005	0	0,0004	0
II class hazard	0.010	0.001109	0.005	0,005	0,009
III class hazard	0.1	0.2	0.4	0,3	0,3
IV class hazard	2.8	3.1	0.7	1,4	1,6
V class hazard	999,362.78	1,169,862.1	1,107,010.6	1 258 262,3	1 130 838,5

	2015	2016	2017	2018	2019

Energy					
Waste generation, thousand tonnes	–	–	3,580.41	3,259.28	3,063.60
Including I class hazard	–	–	0.02	0.02	0.07
II class hazard	–	–	0	0.01	0
III class hazard	–	–	0.54	0.59	0.55
IV class hazard	–	–	21.80	21.05	14.26
V class hazard	–	–	3,558.05	3,237.60	3,048.71
Collection of waste from other organisations, thousand tonnes	–	–	0.03	0.07	0
Use of waste, thousand tonnes	–	–	342.66	607.61	1,026.66
Including I class hazard	–	–	0	0	0
II class hazard	–	–	0.01	0.01	0
III class hazard	–	–	0.32	4.75	0.30
IV class hazard	–	–	1.37	39.72	0.30
V class hazard	–	–	340.96	563.13	1,026.44
Neutralisation, thousand tonnes	–	–	512.98	90.09	228.66
Including I class hazard	–	–	0.01	0.02	0.03
II class hazard	–	–	0	0	0
III class hazard	–	–	0.25	0.13	0.24
IV class hazard	–	–	19.68	20.28	9.59
V class hazard	–	–	493.03	69.66	218.91
Available waste at the year-end, thousand tonnes	–	–	127,502.46	126,461.42	133,555.68
Including I class hazard	–	–	0	0	0
II class hazard	–	–	0	0	0
III class hazard	–	–	0.03	0.14	0.09
IV class hazard	–	–	4,318.18	23.19	25.66
V class hazard	–	–	123,184.25	126,526.74	133,529.93

306-4 Transport of hazardous waste	The Company does not transport, import, export or process waste that is hazardous under Annexes I, II, III and VIII to the Basel Convention.
306-5 Water bodies affected by water discharges and/or runoff	The company does not significantly affect water bodies and associated habitats.
307 ENVIRONMENTAL COMPLIANCE	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Environment, pages 86–87
103-3 Evaluation of the management approach	Environment, pages 87–88 Compliance management system, page 116
307-1 Non-compliance with environmental laws and regulations	

	2015	2016	2017	2018	2019
Coal					
Charges for violation of environmental legislation. including the elimination of damages. $ thousand	26.9	32.5	36.3	14.0	11.2
Energy					
Charges for violation of environmental legislation. including the elimination of damages. $ thousand	–	–	17.4	2.0	8.5

308 SUPPLIER ENVIRONMENTAL ASSESSMENT	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Environment, page 88
103-3 Evaluation of the management approach	Environment, pages 87–88
308-1 New suppliers that were screened using environmental criteria	Environment, page 88
308-2 Negative environmental impacts in the supply chain and actions taken	No negative environmental impact was identified in the SUEK supply chain.
SOCIAL	
401 EMPLOYMENT	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Strategy, page 33 Our approach to sustainability, pages 78–79 Our people and corporate culture, pages 100–105
103-3 Evaluation of the management approach	Strategy, page 33 Our people and corporate culture, pages 100–105
401-1 New employee hires and employee turnover	Strategy, page 33 Our people and corporate culture, page 97
401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Our people and corporate culture, page 98 See also our Sustainable Development Report for 2018–2019 on the website: http://www.suek.com/investors/reporting/#year_19
402 LABOUR / MANAGEMENT RELATIONS	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Our people and corporate culture, pages 100–105
103-3 Evaluation of the management approach	Stakeholder engagement, page 49 Our people and corporate culture, page 99
402-1 Minimum notice periods regarding operational changes	The company follows the Labour Code of the Russian Federation, which defines the minimum notice period regarding significant changes in the activities of the company (no later than two months before the start of the relevant activities, and in the case of a decision to reduce the number of workers or staff, that may lead to mass layoffs – no later than three months before the start of the relevant activities).
403 OCCUPATIONAL HEALTH AND SAFETY	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Strategy, page 30 Our approach to sustainability, pages 78–79 Health & safety, pages 80–85 Our people and corporate culture, pages 100–105
103-3 Evaluation of the management approach	Strategy, page 30 Health & safety, pages 80–85
403-1 Occupational health and safety management system	Health & safety, page 81
403-2 Hazard identification, risk assessment, and incident investigation	Health & safety, pages 80–85
403-3 Occupational health services	Health & safety, pages 81–84
403-4 Worker participation, consultation, and communication on occupational health and safety	Stakeholder engagement, pages 48–49 Our people and corporate culture, pages 100–105
403-5 Worker training on occupational health and safety	Health & safety, page 85 Our people and corporate culture, page 98
403-6 Promotion of worker health	Our people and corporate culture, page 98 Health & safety, page 85 See also our Sustainable Development Report for 2018–2019 on the website: http://www.suek.com/investors/reporting/#year_19
403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Health & safety, pages 80–85
403-8 Workers covered by an occupational health and safety management system	Work of all our employees is covered by our health & safety system.
403-9 Work-related injuries	Health & safety, pages 80–85 Causes of fatal accidents and measures taken are discribed in the table:

Work performed	Causes	Our measures
Coal		
Cutter loader operator while cuttering loader operation in the mine	• Unauthorised presence in the hazardous area near the moving parts of a mine scraper conveyor	• Assessing the condition of the mine transport facilities at all mine working faces to verify the necessary protection systems and interlocks are in place and working effectively
Coal sizing operator while servicing a feeding bin belt conveyor at the surface coal sizing unit	• Violating the Labour Safety Instructions: unauthorised presence in the hazardous area next to moving and rotating parts of a sizing unit • The absence of interlocked fences that prevent access to the moving and rotating parts of the feeding bin belt conveyor	• Checking compliance with industrial safety requirements and ensuring the protection systems and interlocks at surface facilities at the coal washing plants and coal-sizing facilities are working properly • Installing safety guards to prevent access to moving parts of the belt conveyor, interlocked with the equipment to prevent start-up
Underground worker while belting conveyor maintenance and repair	• Malfunctioning protection, interlock and alarm systems, the absence of fences • Unauthorised presence in the hazardous area of a non-interlocked belt conveyor	• A targeted inspection to check the condition of belt conveyors, as well as the availability, condition and performance of alarm systems, electrical and mechanical protection tools and interlocks at all of SUEK's units. For the period of the targeted inspection, the operation of all belt conveyors was suspended
Assistant section supervisor while monitoring the operation of loaders and dump trucks in the open-pit mine	• Unauthorised presence in the hazardous area of a BelAZ dump truck • No audible signal on the dump truck when it started moving	• Targeted inspection to ensure the availability, condition and performance of the standard sound alarm systems and additional sound alarm systems when disabling the parking brake and moving mining vehicles • Installing equipment to pilot test SUEK's own technical solutions to ensure timely audible alerts are given to both drivers and employees present in the hazardous area, as well as using smart bands to monitor the location of employees
Energy		
Fuel supply operator while servicing a fuel supply belt conveyor	• Violating safety requirements: being present in the hazardous area of an operating convey	• Equipping conveyor belts with interlock and alarm systems • Installing video surveillance cameras in hazardous areas of the fuel supply line
Process pipeline fitter when installing work at height	• Not wearing fall arrest personal protective equipment	• Verifying the condition of all safety decks, platforms and safety systems to ensure safe work at height
Electrical fitter repairing power plant equipment while working in high-voltage electrical installations	• Poor control of work safety during electrical installations • Working on electrical installations without switching off the electricity supply	• Checking compliance with labour safety requirements relating to electrical installations at power facilities
Equipment repairman when installing and doing repair work at a height	• Violating labour safety requirements when voluntarily leaving a safe working area where there were no risks of falling from height	• Verifying the practical skills of employees related to the use of safety platforms and fall arrest systems when working at a height

Overall measures

1. Alerting SUEK's production personnel to the causes of the accidents and developing plans to address them in working groups; posting information sheets on HSE stands
2. Briefings for SUEK's dedicated safety staff on specific methods of preventing different kinds of accidents
3. Labour safety training and testing employees' understanding of how to operate safely, in specific the scenarios where the accidents have occurred
4. Updating the test questions in training terminals to reflect findings following the accidents
5. Making videos that reflect issues raised during investigations into the causes of the accidents, demonstrating safety measures should be applied in similar situations
6. Exceptional industrial safety certification for engineers and technical workers and heads of units where the accidents have taken place
7. Updating internal documents that regulate safe working methods and techniques to ensure these include actions to eliminate the causes of the accidents
8. Considering the circumstances and causes of any accident, ensuring comprehensive measures have been taken to prevent similar occurrences and individuals are held personally accountable by SUEK's Industrial Safety Committee overseen by the Management Board

404 TRAINING AND EDUCATION	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44-47
103-2 The management approach and its components	Our people and corporate culture, pages 95, 98–99
103-3 Evaluation of the management approach	Our people and corporate culture, pages 98–99
404-1 Average hours of training per year per employee	Our people and corporate culture, pages 98–99
404-2 Programs of upgrading employee skills and transition assistance programs	Our people and corporate culture, pages 98–99
405 DIVERSITY AND EQUAL OPPORTUNITY	
103-1 Explanation of the material topic and its Boundary	Our people and corporate culture, pages 96–97
103-2 The management approach and its components	Our people and corporate culture, pages 96–97
103-3 Evaluation of the management approach	Our people and corporate culture, pages 96–97
405-1 Diversity of governance bodies and employees	Our people and corporate culture, pages 97 Corporate governance, pages 104–121
405-2 Ratio of basic salary and renumeration of women to men	SUEK has set the same base salary for men and women.
406 NON-DISCRIMINATION	
103-1 Explanation of the material topic and its Boundary	Our people and corporate culture, page 96
103-2 The management approach and its components	Our people and corporate culture, page 96
103-3 Evaluation of the management approach	Our people and corporate culture, pages 95–99
406-1 Incidents of discriminarion and corrective actions taken	Incidents of discrimination have not been identified during the reporting year.
407 FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING	
103-1 Explanation of the material topic and its Boundary	Materiality, page 45
103-2 The management approach and its components	Our people and corporate culture, pages 96, 98
103-3 Evaluation of the management approach	Our people and corporate culture, page 98
407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	During the reporting period it was not revealed.
408 CHILD LABOR	
103-1 Explanation of the material topic and its Boundary	Our people and corporate culture, page 96
103-2 The management approach and its components	Our people and corporate culture, page 96
103-3 Evaluation of the management approach	Our approach to sustainability, page 78
408-1 Operations and suppliers identified as having significant risk for incidents of child labour	SUEK is against the practice of child labour, and no such incidents were identified during the reporting year.
411 RIGHTS OF INDIGENOUS PEOPLES	
103-2 The management approach and its components	SUEK does not operate in the areas of residence of small and indigenous peoples. In the framework of the current legislation of the Russian Federation, the boundaries of license areas cannot include territories inhabited by them.
411-1 Incidents of violations involving rights of indigenous peoples	Incidents of violations involving rights of indigenous peoples have not been identified.
413 LOCAL COMMUNITIES	
103-1 Explanation of the material topic and its Boundary	Materiality, pages 44–47
103-2 The management approach and its components	Strategy, page 33 Communities, pages 100–103
103-3 Evaluation of the management approach	SUEK's social programmes are assessed in numerous Russian ESG ratings and competitions. For details, see our Sustainable Development Report for 2018–2019 on the website: http://www.suek.com/investors/reporting/#year_19.
413-1 Operations with local community engagement, impact assessment, and development programmes	Stakeholder engagement, pages 38–40 Communities, pages 106–110
413-2 Operations with significant actual and potential negative impacts on local communities	Environment, pages 92–99

Coal Reserves Report

SUEK's coal reserves were audited by SRK Consulting (UK) Limited as of January 1, 2019.

Although the statement on resources and reserves is dated January 1, 2019, SRK took into account the information provided by the company during the asset visits and discussions during 2019, as well as the permissions received or filed during 2019. Taking into account the release date of the Annual Report and the date of the audit, the data are presented taking into account the production of assets for 2019.

The reporting of SUEK's Coal Resources and Reserves, SRK has used the guidelines of the 2012 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves as published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (the JORC Code).

All coal reserves are indicated by rock mass (RoM) and are within the areas of existing licenses or territories where SUEK plans to obtain licenses and has provided funding for this.

Region/Site	Reserve, Mt 31.12.2019
Kemerovo Region (Kuzbass) – hard coal	**2,125**
Kamyshansky open-pit	127
Kirov underground mine	592
Komsomolets underground mine	125
Polysaevskaya underground mine	26
Ruban underground mine (Krasnoyarskaya incl Magistralny 2011)	144
November 7th Novaya underground mine	249
Taldinskaya-Zapadnaya 1 underground mine	145
Taldinskaya-Zapadnaya 2 underground mine	157
Yalevsky underground mine	437
Zarechny open-pit	123
Krasnoyarsk region – brown coal	**3,967**
Berezovsky open-pit	3,369
Borodinsky open-pit	528
Nazarovsky open-pit	70
Zabaikalye	**539**
Apsatsky open-pit – coking coal	70
Kharanorsky brown coal	315
Vostochny brown coal	154
Buryatiya – hard coal	**317**
Nikolsky open-pit	262
Tugnuisky open-pit	55
Khakassia – hard coal	**342**
Abakansky open-pit	39
Chernogorsky open-pit	142
Izykhsky open-pit	38
Vostochno-Beisky open-pit	123
Primorye	**108**
Nekkovy open-pit – hard coal	3
Pavlovsky open-pit – brown coal	106
Khabarovsk region – hard coal	**222**
Bureinsky open-pit	22
Pravoberezhny open-pit	114
Severnaya underground mine	86
Total	**7.621**
Hard coal	**3.006**
Brown coal	**4.545**
Coking coal	**70**

Glossary

Terms and definitions

Ash dump A place for collecting ash and slag generated during the combustion of solid fuel-solid fuels at thermal power plants.

'Alternative boiler' tariff A method introduced in Russia in 2017. It is used for calculating heating prices, when only the maximum long-term level is set. It is calculated based on the cost of constructing and operating a new alternative boiler house. The final heating price is determined by agreement of the parties.

API 2 Index The CIF (cost, insurance and freight) price of coal at the ports of ARA (Amsterdam, Rotterdam and Antwerp) with coal calorific value of 6,000 kcal/kg.

API 8 Index The CFR (cost and freight) price of coal delivered to south China with coal calorific value of 5,500 kcal/kg.

Bettercoal Global non-profit organisation promoting continuous improvement in corporate social responsibility related to coal supply systems, including for social, environmental and ethical practices.

Calorific value The amount of potential energy in coal that can be converted into actual heat.

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

Day-Ahead Market (abbr. as DAM) Competitive selection of price and price-taking applications of suppliers and buyers a day before the actual supply of electricity with the determination of prices and supply volumes for each hour of the day.

DPM (or DPM-1) The programme of capacity supply contracts initiated by Russian energy market regulators lasted from 2010 until the end of 2018 and was designed to stimulate investment into the construction of new power generating capacity. Under the programme, investors committed to building a certain generation capacity within the specified period. In return, they received a guarantee on the return of invested funds supported by an increase to sold capacity prices during the subsequent 10 years. Any investor that did not meet their commitments under this programme would be subject to strict penalties.

DPM-2 The programme, launched by the Russian government in February 2019 as a continuation of DPM-1 programme, guarantees a return on investment in heat and power capacity development for participating projects up until 2030.

ESG Environmental, social and governance criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments.

FOB 'Free On Board' means that the seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel, and the buyer bears all costs from that moment onwards.

globalCOAL NEWC Index based on the Free On Board (FOB) delivery of thermal coal at the Port of Newcastle in Australia with coal calorific value of 6,000 kcal/kg NAR.

HELE High-efficiency, low-emissions coal-fired power plants with supercritical and ultra-supercritical steam cycles.

High-CV coals are coals with a calorific value of 5,600+ kcal per kg. Calorific Value is the most important parameter that determines the economics of the power plant. It indicates the amount of heat that is released when the coal is burned.

Installed capacity The amount of energy that a power station is able to produce

LoM Life-of-mine model is specifically designed for each coal production unit based on 3D geology, using special mining software, and covering the production process for both brownfield and greenfield operations for the total duration of mining.

Metallurgical coal Generic term referring to coking coal and its different qualities as well as Pulverised coal injection coal (PCI).

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.

System Operator of Unified Energy System An organisation that carries out centralised operational dispatch control in the Unified Energy System of Russia.

SRK SRK Consulting is an independent, international consulting practice that provides advice and solutions mainly to the metals and mining sector .

UN Aarhus Convention The international agreement that grants the public rights regarding access to information, public participation and access to justice, in governmental decision-making processes on matters concerning the local, national and transboundary environment.

Abbreviations and acronyms

BAM Baikal–Amur Mainline

bn Billion

Bt Billion tonnes

CAPEX capital expenditure

CHPP Cogeneration or combined heat and power plant

CNY Chinese Yuan

CSR Corporate social responsibility

EBITDA Earnings before interest, tax, depreciation and amortisation

ERP Enterprise Resource Planning

CAGR Compound annual growth rate

Gcal Gigacalorie

GCHPP Gas combined heat and power plant

GTPP Gas turbine power plant

GDP Gross Domestic Product

GHG Greenhouse gas

GRES State District Power Plant

GW Gigawatt (one billion watts)

ha Hectare

HPP Hydro Power Plant

HR Human resources

HSE Health, Safety and Environment

ISO International Organisation for Standardisation

kcal Kilocalorie

kcal/kg Kilocalories per kilogramme

kg Kilogramme

km Kilometre

KPI Key performance indicator

kW Kilowatt

kWh Kilowatt-hour

LIBOR London Interbank Offer rate

LNG Liquefied natural gas

LTIFR Lost time injury frequency rate

M&A Mergers and acquisitions

m³ Cubic metre

mm Millimetre

Mtce Million tonnes of coal equivalent

Mtoe Million tonnes of oil equivalent

Mt Million tonnes

MW Megawatt

MWh Megawatt-hour

NGO Non-governmental organisation

OHSAS Occupational Health & Safety Assessment Series

PCI Pulverized coal injection

PPE Personal protective equipment

PR Public Relations

R&D Research & Development

RUB Russian Rouble

SPP Solar Power Plant

SRM Supplier relationship management

ths Thousand

TPP Thermal Power Plant

TWh Terawatt hours

UN United Nations

WP Washing plant

$ US Dollar

$m Million US Dollars

€ Euro

About this report

This Integrated Report presents the results of SUEK Group's[1] operations in 2019.

We use the term 'Coal Segment' to describe our coal production and sale operations, while the term 'Energy Segment' is used to describe our activities related to the generation of electricity and heat. The term 'Logistics Segment' covers SUEK's rail transportation and coal transhipment operations at ports.

One of the key objectives of this Report is to demonstrate how SUEK responds to macroeconomic and market challenges, enhances its competitiveness and improves efficiency across all stages, adapts its strategy and management methods to stakeholder requirements, including an increasing focus to environmental, industrial safety and societal issues, and also develops its coal, energy and logistics businesses.

The Report presents SUEK's updated goals and risks for the medium term in line with its Strategy to 2023 (see pages 22–33).

For the fourth consecutive year, we have aligned our 2019 Report with the principles of integrated reporting, as set out in the International Integrated Reporting Council's (IIRC) Framework. We also take into account Russian legislative requirements.

In our disclosure of non-financial information, we adhere to GRI Standards.

This Integrated Report should be read alongside our 2019 audited financial statements, prepared in accordance with International Financial Reporting Standards (IFRS). The Report was prepared under the supervision of SUEK's Chief Financial Officer and with the Audit Committee of the Board of Directors also collectively contributing to its preparation and ensuring its overall integrity. The draft of the Report was approved by the Board of Directors in March 2020 and is subject to approval at the General Meeting of Shareholders.

Information on the company

The key assets of JSC SUEK are coal-mining and generating assets, processing facilities, port, transport and service facilities in 12 regions of Russia, as well as the international trader SUEK AG and its trading network. SUEK LTD is responsible for the Group's fundraising. The share capital of JSC SUEK amounts to RUB 1,180,300 (one million, one hundred and eighty thousand, three hundred Russian Roubles) divided into 236,060,000 (two hundred and thirty-six million and sixty thousand) ordinary registered shares with a face value of RUB 0.005 (zero point double zero five Russian Roubles) each. The main beneficiary of SUEK is Andrey Melnichenko.

Forward-looking information and statements on competitive position

This Annual Report contains certain forward-looking statements. All statements, other than those of historical fact, are forward-looking statements that involve risks and uncertainties. There can be no assurances that such statements will prove accurate, and actual results and future events could differ materially from those anticipated.

The information contained herein represents management's best judgement as at the date of the Report, based on information currently available. SUEK does not assume the obligation to update any forward-looking statements. Any statements referring to the Group's competitive position are based on our understanding of the prevailing market environment.

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

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1. *In this Report, each of the terms 'SUEK', 'SUEK Group', 'the Group', 'the company', 'we' refer to all companies consolidated in the IFRS financial statements of JSC SUEK (Russia), including, inter alia, SUEK LTD, SUEK AG, Siberian Generating Company (SGC) and their subsidiaries. From October 2019, our operational and financial performance includes the results of acquired Reftinskaya GRES.*