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# Strategic report





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# Chief Executive Officer's statement



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

**Vladimir Rashevskiy**  
Chief Executive Officer  
OJSC SUEK

## Operational performance

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

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

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

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

## Financial results

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

## Projects

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

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

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

## People

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

Last year we adopted a new strategy for managing and developing our people. A wide range of measures will, amongst other things, improve our employees' skills,

improve our motivation and remuneration system, enhance social support and make SUEK a more attractive employer. These measures will help us realise our strategic goals and ensure consistently high levels of productivity.

## Safety

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

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

## Corporate responsibility

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

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

# Our vertically integrated business model



## Mining

## Processing

### How we add value

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

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

### How we add value

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

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

### What we're doing today

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

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

 See page 37 for more information.

### What we're doing today

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

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

 See page 38 for more information.

### Investing for the future

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

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

### Investing for the future

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

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

Focused on growth and efficiency

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



## Logistics

## Sales

### How we add value

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

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

### How we add value

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

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

### What we're doing today

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

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

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

 See page 38 for more information.

### What we're doing today

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

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

### Investing for the future

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

### Investing for the future

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

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

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

# Our strategy for growth

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



## 1 Focusing on growth

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

## 2 Improving economic efficiency and productivity

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

## 3 Securing infrastructure to grow exports

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

## 4 Achieving high safety standards

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

## 5 Adhering to strong standards of corporate governance and social and environmental responsibility

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

# Our strategy for growth continued

Company strategy	Strategic priorities	Our progress in 2013
<p><b>Focusing on growth</b></p>	<p><b>To grow our presence in the Asia-Pacific region and maintain our strength in key Atlantic export markets</b></p>	<p>We increased shipments to export markets from our Kuzbass, Urgal and Apsatsky operations by 2.7 million tonnes.</p> <p>In December 2013, we started installing technical equipment at our new Chegdomyn washing plant at Urgal (Khabarovsk). This will enable us to increase shipments of high calorific value coal from the mine.</p> <p>With ongoing capacity expansion at Vanino Bulk Terminal and increased landborne sales, our total shipments to Asia rose to 25.9 million tonnes, up 16% on last year.</p> <p>This year we kept Atlantic export volumes stable despite strong competition from Russian, Colombian and US suppliers.</p>
	<p><b>To maintain our position as Russia's largest domestic thermal coal producer and supplier</b></p>	<p>We maintained our position as Russia's largest thermal coal supplier, with a 36% share of the market among Russian suppliers.</p> <p>In 2013 we entered into a number of long-term contracts with large power generating companies: SGK (Siberian Generating Company), our related party, and E.ON Russia.</p>
	<p><b>To target metallurgical markets</b></p>	<p>We increased our sales presence in China, which resulted in increased shipments of semi-soft coals to Asia.</p> <p>We increased production of washed concentrate from our Kirova mine to supply metallurgical markets.</p>
	<p><b>To increase sales of sized coal</b></p>	<p>We designated the sized coal segment as a 'premium' segment and established KPIs and a strategy in 2013.</p>
	<p><b>To identify and develop greenfield sites/new projects</b></p>	<p>We continued to invest in the development of our Apsatsky open pit in 2013.</p> <p>We acquired the Kabaktinskoe deposit in Yakutia region, adding 128 million tonnes of low-volatile coking coal resources.</p>

### KPIs aligned to our strategy (2013 performance compared to 2012)

#### Total exports:

42.4 Mt/+9%

#### Exports to Asia:

25.9 Mt/+16%

#### Atlantic steam coal exports:

16.5 Mt/0%

#### Domestic sales:

50.2 Mt/-5%

#### Sales to SGK, our related party:

19.3 Mt/-11%

#### Metallurgical coal exports:

2.7 Mt/+99%

#### Sized coal exports:

1.6 Mt

#### Average reserve life of hard coal deposits:

more than

30 years

### Risks associated with our strategy

Sustained oversupply in Asia-Pacific and Atlantic markets could hinder our efforts to increase sales.

Economic slowdown in coal-importing countries could lower prices and thus reduce our export revenues.

Slow development of Russian rail infrastructure could constrain our export volume growth.

Slowdown of export markets could lead to increased domestic competition. We could lose sales if overall domestic market volume remains stagnant.

An improved export market could reduce the appeal of hard coal to SGK.

Insufficient growth of demand in energy consumption and competition between coal, gas and hydro energy sources could erode SUEK's position.

We are facing tough competition from other suppliers of semi-soft coals. If low metallurgical coal prices persist, our customers could opt to purchase more expensive hard and semi-hard grades of coking coal instead of semi-soft coal.

Sized coal exports are vulnerable to competition from other Russian suppliers as well as Eastern European producers of alternative fuels such as wood pellets.

Costly exploration requires conversion of resources into reserves. Monetisation of the reserves depends on market demand and availability of transport infrastructure.

### Actions for 2014

Our focus is to build our presence in the Chinese market and maintain our strong presence in Japan, Korea, Taiwan and India.

We will ramp up production at Kuzbass, Urgal and Apsatsky following improvements in mine planning and mining equipment upgrades.

We aim to increase coal washing volumes by circa 6.0 million tonnes due to ramping-up to the rated capacity of our Chegdomyn washing plant and increasing the efficiency of existing washing plants and processing facilities.

To support our export sales we focus on de-bottlenecking port and rail infrastructure.

We also intend to increase landborne supplies to the Chinese market.

We expect to maintain our leadership in the domestic market and selectively seek new sales opportunities.

We will continue to supply to the largest coal power generating plants (SGK and E.ON Russia).

Following upgrades to our washing facilities in Kuzbass we expect to increase production of semi-soft coal concentrate, while Apsatsky open pit is expected to boost output of premium low-ash and mid-volatile semi-hard coking coal.

We also aim to increase our sales of high-volatile semi-soft coals to new premium markets.

We intend to expand sales of sized coal to Poland through our dedicated distribution company SUEK Polska.

We plan to increase production at our Apsatsky open pit to 750,000 tonnes in 2014.

We aim to complete a feasibility study into the development of the Kabaktinskoe deposit.

# Our strategy for growth continued

Company strategy	Strategic priorities	Our progress in 2013
<p><b>Improving economic efficiency and productivity</b></p>	<p><b>To upgrade and expand our mines and open pits</b></p>	<p>We invested more than \$467 million in capacity expansion, mainly in the Kuzbass and Ural regions. Our underground mines have been upgraded with new equipment including continuous miner units and high-performance 1,600 mm conveyor systems to enhance efficiency.</p> <p>Our open pits were equipped with additional highly productive excavators and dump trucks.</p>
	<p><b>To increase washing capacity</b></p>	<p>We commissioned Module No.2 at our Kirova washing plant in Kuzbass and completed main construction works at our new 6.0 Mtpa washing plant at Ural (Khabarovsk).</p>
	<p><b>To continue our equipment modernisation programme</b></p>	<p>We invested in new equipment, most of which was sourced from leading international suppliers (Joy, Caterpillar, Komatsu, Liebherr, Terex, Bucyrus).</p>
	<p><b>To continue operational improvements</b></p>	<p>We implemented automated, real-time performance tracking of our major equipment at Tugnuisky open pit. This provided full and reliable downtime accounting, enabling us to immediately identify and address reasons for reduced productivity.</p> <p>At our Tugnuisky open pit we increased overburden removal per machine by over 10% through process improvements and implementation of the automated dispatch system.</p>
<p><b>Securing infrastructure to grow exports</b></p>	<p><b>To develop our own port capacities to support growing export volumes</b></p>	<p>We expanded port capacity at our Vanino Bulk Terminal to 15.3 million tonnes in 2013 through adding equipment and de-bottlenecking the rail infrastructure. We also commenced upgrades at Murmansk Commercial Seaport and Maly Port.</p>
	<p><b>To manage rail car fleet more efficiently</b></p>	<p>We retained our position as a leading Russian rail operator, managing a fleet of around 20,400 rail cars.</p>

### KPIs aligned to our strategy (2013 performance compared to 2012)

**Underground productivity per longwall:**

**2.0 Mt/0%**

### Risks associated with our strategy

Insufficient equipment availability and a lack of qualified personnel for roadway development and longwall mining present major obstacles to improving mine productivity.

### Actions for 2014

We plan to increase our total production by improving underground mine layouts and further upgrading equipment.

We also plan to increase the share of development units with bolter miners and continuous miners in the total fleet to 20-25%.

**Coal washed in washing plants and processing facilities:**

**28.1 Mt/+22%**

Capital costs of constructing washing plants in remote Russian regions tend to be high and projects have to be customised to match local conditions.

We plan to fully utilise existing processing capacities and increase the productivity of our washing plants.

**Investment in new equipment amounted to:**

**\$482m**

Increased capital spending could have an adverse effect on cash flow.

We plan to continue investing in our modernisation programme and to purchase new equipment in 2014.

**Mining productivity of:**

**382 tonnes<sup>1</sup>  
per man-  
month/+1%**

The impact of regulatory requirements could impact our cost-cutting initiatives.

We plan to implement automation of production monitoring systems at two more open pits.

We will also commence comprehensive operational improvement projects for our underground mines.

We will further develop our training facilities and programmes to upgrade the skills of underground miners and equipment maintenance personnel.

**Total attributable port capacity:**

**33.5 Mt**

Bottlenecks in the rail infrastructure (Trans-Siberian and Baikal-Amur mainlines and access to Murmansk) render some of our port capacity redundant, despite our efforts at optimisation.

We expect to expand our port capacities including Vanino Bulk Terminal to 16.5 Mtpa and Murmansk Commercial Seaport to 13.9 Mtpa.

**Rail cars managed:**

**20,400**

Changes in rail car prices and rental rates could have an adverse effect on the profitability of rail cars managed by SUEK.

We plan to expand our managed rail car fleet, incorporating new innovative rail cars.

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

# Our strategy for growth continued

Company strategy	Strategic priorities	Our progress in 2013
<p>Achieving high safety standards</p>	<p><b>To strive to implement international best practices in health and safety</b></p>	<p>We initiated a comprehensive overhaul of underground safety systems to minimise potential errors. We commissioned an independent audit of safety procedures from an international consultancy: RAG Mining Solutions.</p>
<p>Adhering to strong standards of corporate governance, and social and environmental responsibility</p>	<p><b>To maintain strong standards of corporate governance and sustainable development</b></p>	<p>New Directors have joined the Board, bringing additional experience and skills to SUEK.</p> <p>We continued to invest in our communities through our 'SUEK to the regions' fund and other initiatives.</p>
	<p><b>To reduce any negative impacts on the environment</b></p>	<p>We are implementing cutting-edge technologies to reduce overall negative impacts on the environment from our production operations. We are designing and constructing water treatment facilities, running a project to reduce emissions of methane from gas drainage activities (greenhouses gases) and reclaiming land.</p> <p>We have launched several energy-saving initiatives, enabling us to reduce our energy consumption and minimise energy losses. We upgraded our units at Kuzbass, Buryatia, Ural, Khakasia and Apsat with modern energy-efficient equipment and implemented energy-controlling systems.</p>

### KPIs aligned to our strategy (2013 performance compared to 2012)

#### LTIFR:

1.50/-22%

#### Fatalities:

17

#### Social and community investments:

\$19m

#### Investments in environmental activities:

\$12m

### Risks associated with our strategy

Gradual increases in mining depth could make gas and water management more challenging in underground mines. Difficult geological conditions could necessitate additional spending on support and maintenance of mine operations.

In the event of an economic downturn, public spending on social projects is likely to fall, potentially requiring SUEK to increase its social and community spending.

Restrictive environmental regulations could significantly influence our plans and expenditure aimed at minimising our environmental footprint.

Implementation of new production technologies often requires significant capital expenditure, as projects have to be customised to achieve an acceptable return on investment.

The positive effects of our energy efficiency improvement initiatives could be offset by increases in fuel and energy prices (which are beyond our control).

### Actions for 2014

New investments are planned in mine signalling, ventilation and degassing.

We will continue to implement modern signalling systems and automation, enabling us to minimise human error at our mines.

We will further promote our corporate safety culture through training programmes.

We plan additional investment in social and community projects.

We aim to minimise any adverse environmental impact of our activities by further developing our ongoing programmes, as well as through modernising production processes. These include development of a project to reduce methane emissions as a result of gas drainage activities (greenhouse gases), design and construction of treatment facilities, implementation of environmentally-friendly closed-loop water-slurry systems at our Kirova, Komsomolets and Polysaevsky washing plants, and implementation of dry vacuum coal dust removal technology at our washing plants.

We will continue to reclaim abandoned sites through the implementation of modern technologies.

We will strive to execute our energy-saving programme through the implementation of modern automated energy control and accounting systems. These will enable us to monitor and manage overall fuel and electricity consumption by mining equipment.

# The coal market

## Coal fundamentals

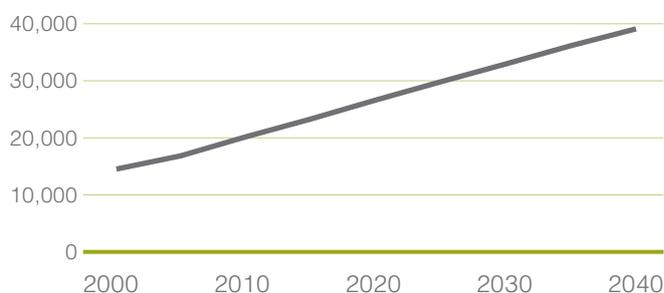
**Coal plays a significant role in driving the economies of all industrialised nations and will retain this role for years to come.**

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

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

### Thermal coal demand growth

Historical and forecast worldwide electricity generation TWh



Source: World Bank, International Energy Agency.

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

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

# 70%

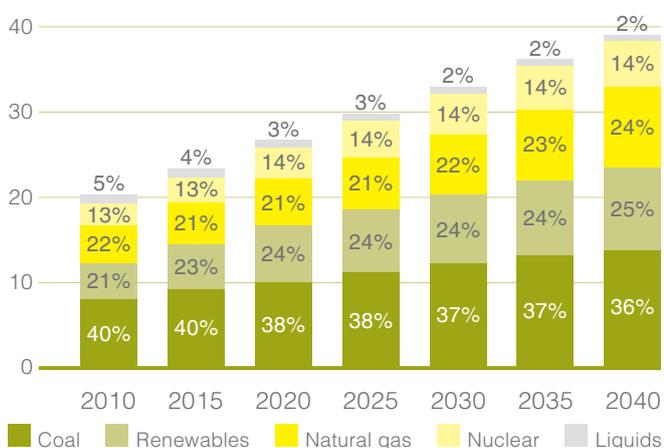
of thermal coal was used to generate electricity

<sup>1</sup> International Energy Agency, World Energy Outlook 2013.

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

### Coal's share of the global energy mix

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



Source: International Energy Agency.

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

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

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

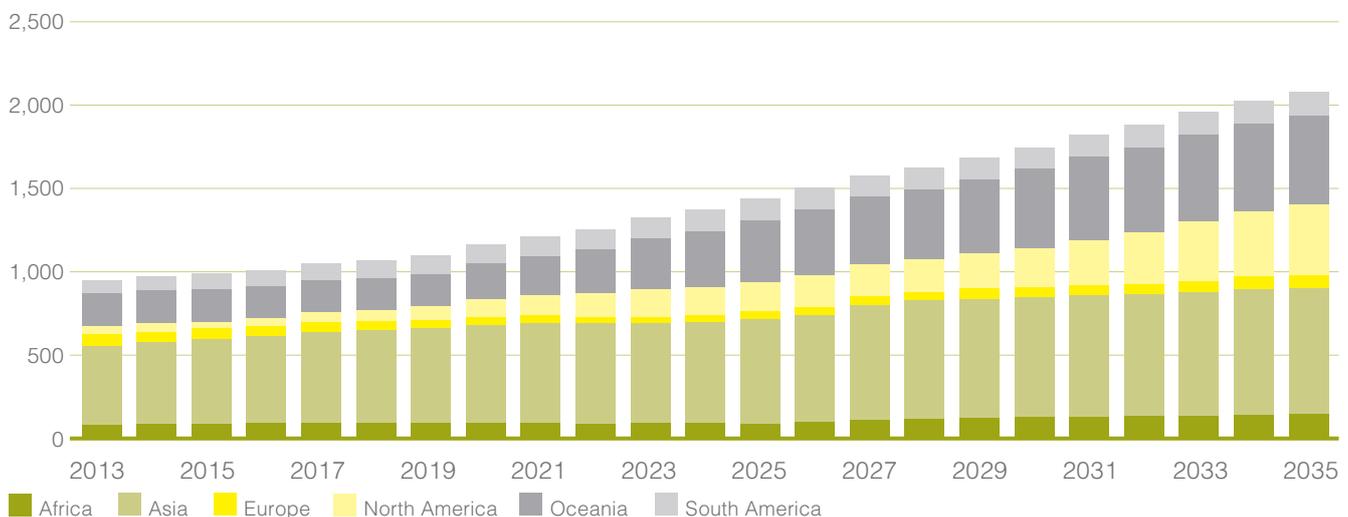
<sup>1</sup> International Energy Agency, World Energy Outlook 2013.

# The coal market continued

## Coal fundamentals

### Thermal coal supply

**Thermal seaborne export supply by region**  
million tonnes



Source: Wood Mackenzie Coal Market Service.

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

International coal trade volumes have doubled every decade since 1990, making it an attractive commodity for the mining industry and providing new investment opportunities. Large steam coal projects have been constructed in Australia, Indonesia, South Africa, Russia and Colombia, together with expensive washing, rail and port infrastructure. However not all coal projects brought online in recent years can sustain operations in the current market: 2013 proved to be a difficult year for some, with

many major diversified mining companies taking large balance sheet write-offs and disposing of certain coal assets. Given that only the cost-efficient mines will remain in operation in the long run, global demand and supply will be effectively balanced.

#### Lessons from the cost curve

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

<sup>1</sup> International Energy Agency, World Energy Outlook, 2013.

## Key thermal coal exporters and importers in 2013, million tonnes



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

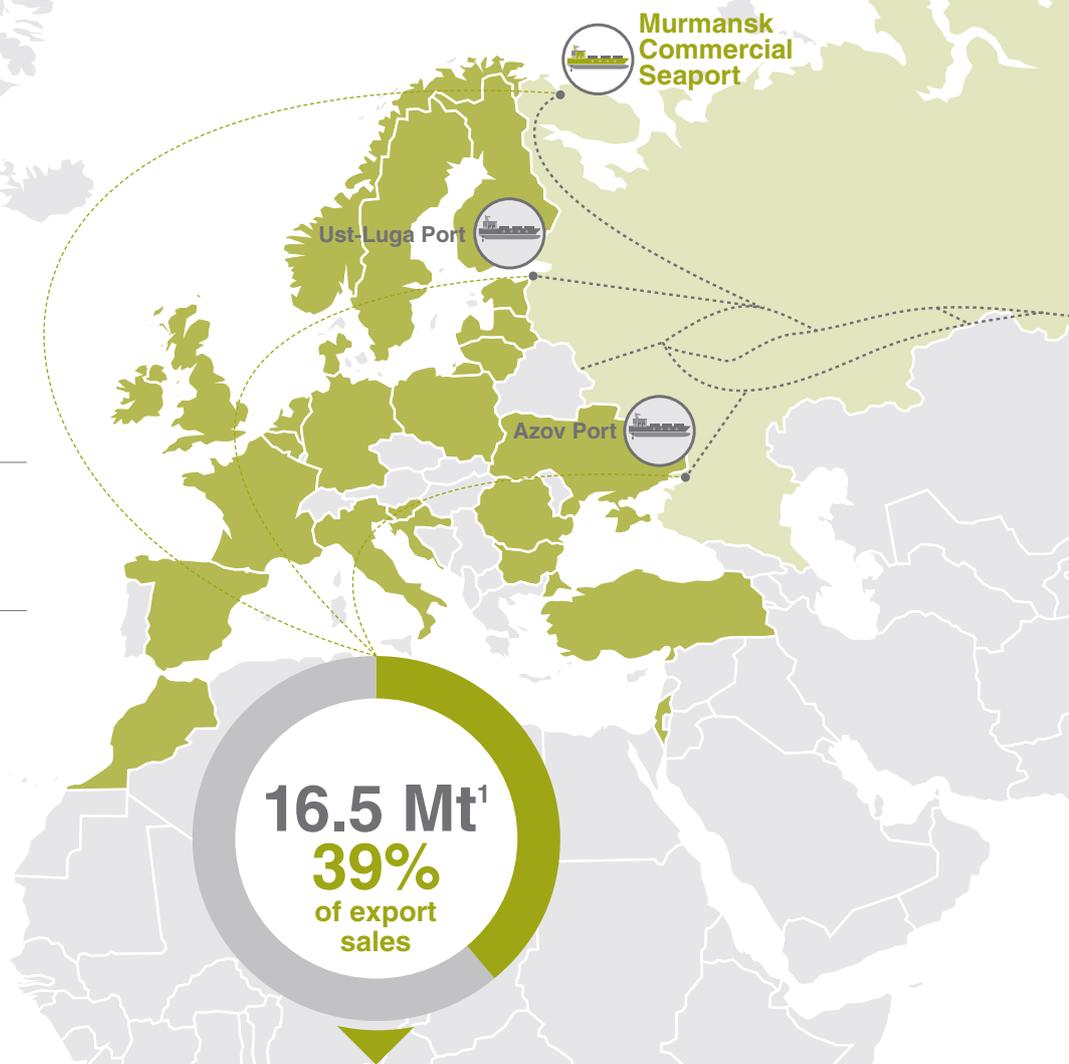
Russian and US mines have lower average mining costs than Australian and Indonesian operations, for example. However, high inland transportation costs and, in the case of the USA, higher seaborne freight costs allow more costly Australian and Indonesian coals to compete in Asian markets. Diligent coal-market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

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

# The coal market continued

## Map of supplies

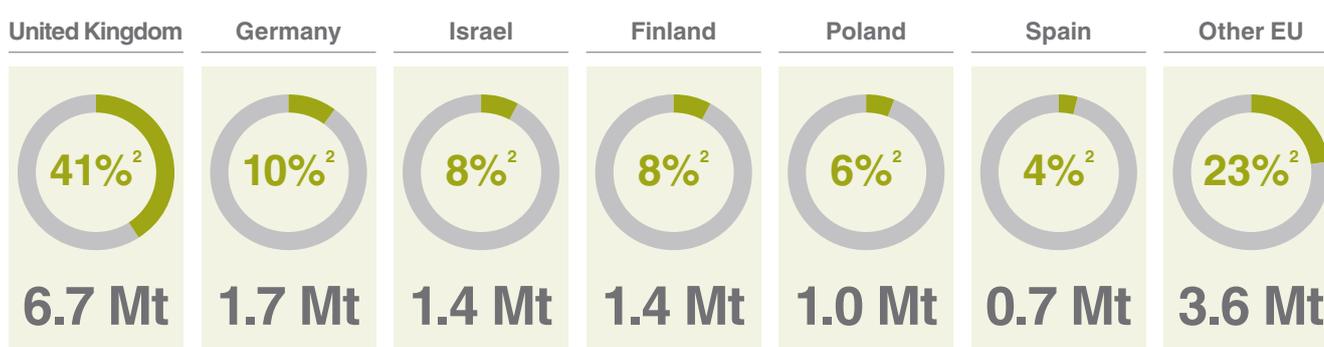
We are well positioned to service both the Atlantic and Asia-Pacific markets.



**92.6 Mt**

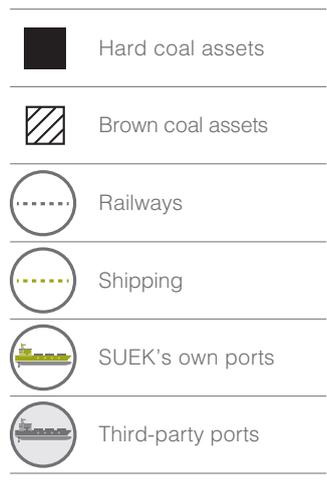
SUEK's total sales

### Atlantic region



<sup>1</sup> Sales volumes to the Atlantic region comprise sales of own coal mined by SUEK (15.8 million tonnes) and sales of coal purchased from third parties (0.7 million tonnes).

<sup>2</sup> Share of sales to the country from total sales to the Atlantic region.



China	South Korea	Japan	Taiwan	India	Other Asia
 <b>48%<sup>4</sup></b>	 <b>22%<sup>4</sup></b>	 <b>18%<sup>4</sup></b>	 <b>5%<sup>4</sup></b>	 <b>4%<sup>4</sup></b>	 <b>3%<sup>4</sup></b>
<b>12.6 Mt</b>	<b>5.8 Mt</b>	<b>4.6 Mt</b>	<b>1.3 Mt</b>	<b>1.0 Mt</b>	<b>0.6 Mt</b>

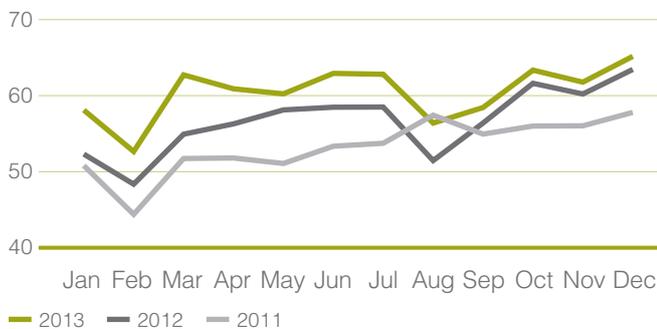
<sup>3</sup> Sales volumes to the Asia-Pacific region comprise sales of own coal mined by SUEK (22.9 million tonnes) and sales of coal purchased from third parties (3.0 million tonnes).  
<sup>4</sup> Share of sales to the country from total sales to the Asia-Pacific region.

# The coal market continued

## International coal market

### 2013 was a difficult year for seaborne thermal coal.

**Steam coal exports**  
million tonnes



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

**Steam coal indices in 2013**  
\$ per tonne



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

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

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

#### Atlantic market

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

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

<sup>1</sup> Wood Mackenzie.



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

**Igor Gribanovsky**  
Sales and Marketing Director

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

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

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

### Pacific market

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

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

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

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

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

<sup>2</sup> Monitoring report 2013, Bundesnetzagentur.

<sup>3</sup> World Coal Association & Steel home, [www.worldcoal.org](http://www.worldcoal.org).

<sup>4</sup> China Customs Statistics Information Service.

<sup>5</sup> Central Electricity Authority of India.

<sup>6</sup> Mining Weekly Research, [www.miningweekly.com](http://www.miningweekly.com).

# The coal market continued

## Domestic market

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

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

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

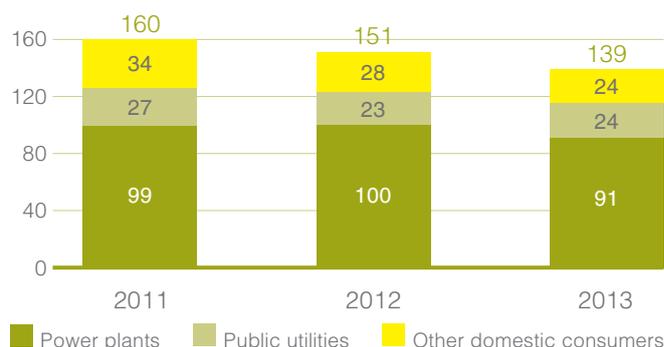
The power sector consumes most domestically produced thermal coal: 91 million tonnes or 35% in 2013. Thermal coal supplies to the domestic power industry declined by 9% in 2013, due to:

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

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

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

**Thermal coal domestic supplies in Russia by consumers**  
million tonnes



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

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

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

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

# Our operating performance

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

## Analysis of operating results

### Production highlights

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

### Mining

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

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

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

 See pages 40-41 for map of production results.

### Coal reserves

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

#### Coal reserves<sup>2</sup> under the JORC Code

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

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

<sup>1</sup> SUEK's JORC-compliant reserves were estimated at 5.9 billion tonnes by SRK in April 2011. Allowing for extraction from April 2011 to December 2013, the Company has reserves of 5.6 billion tonnes.

<sup>2</sup> Reserves under the JORC Code do not include the reserves of our Apsatsky open pit and the Kabaktinskoe coal deposit.

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

#### Coal resources<sup>3</sup> under Russian methodology<sup>4</sup>

	Number and type of mine			
	Resources	Underground	Open-pit	Total
Hard coal, Mt	548	–	2 <sup>5</sup>	2

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

<sup>3</sup> Resources under the Russian methodology include the resources of our Apsatsky open pit and the Kabaktinskoe coal deposit.

<sup>4</sup> The Russian methodology relies on geometric methods to determine reserves, with deposits falling into one of four classes, based on the complexity of their geological structure. Classification may take into account quantitative results measuring inconsistencies in the basic features of mineralisation.

<sup>5</sup> Coal resources under the Russian methodology include the resources of our Apsatsky open pit and the Kabaktinskoe coal deposit. Only our Apsatsky open pit is currently operating.

# Our operating performance continued

## Washing

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

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

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

## Transportation

### Rail

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

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

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

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

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

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

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

### Ports

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

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



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

**Denis Ilatovsky**  
Director of Logistics

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

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

#### Capital expenditure

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

Export-focused investment priorities in 2013 included:

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

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

#### Looking ahead

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

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

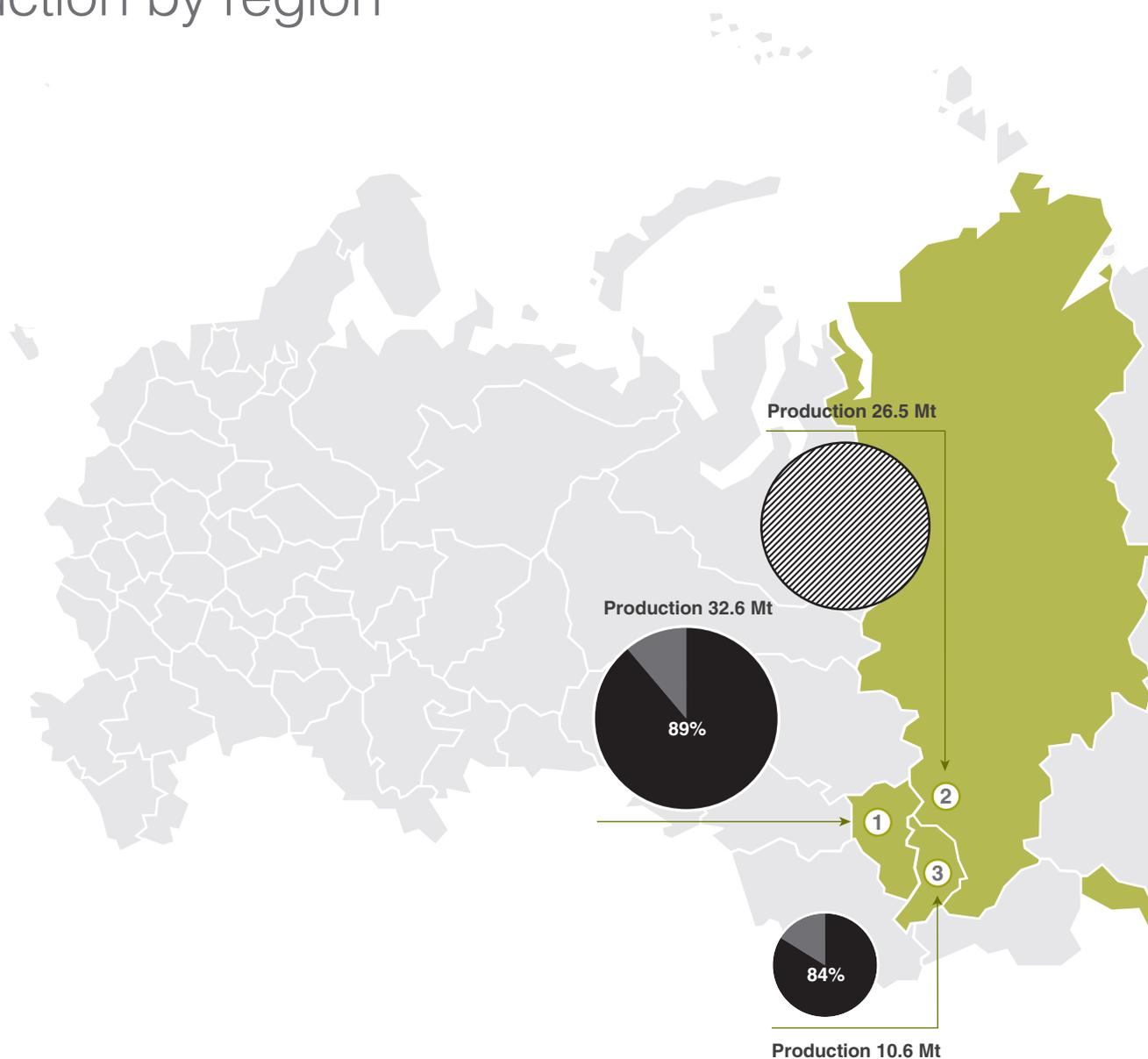
In 2014 we anticipate a significant increase in export and domestic railway transportation volumes, without tariff adjustments by Russian Railways. We expect substantial changes in the structure of our rolling stock adding 4,000 units to our innovative, high-capacity rail car fleet by the end of the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

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

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

# Our operating performance continued

## Production by region



### ① Kemerovo

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

### ② Krasnoyarsk

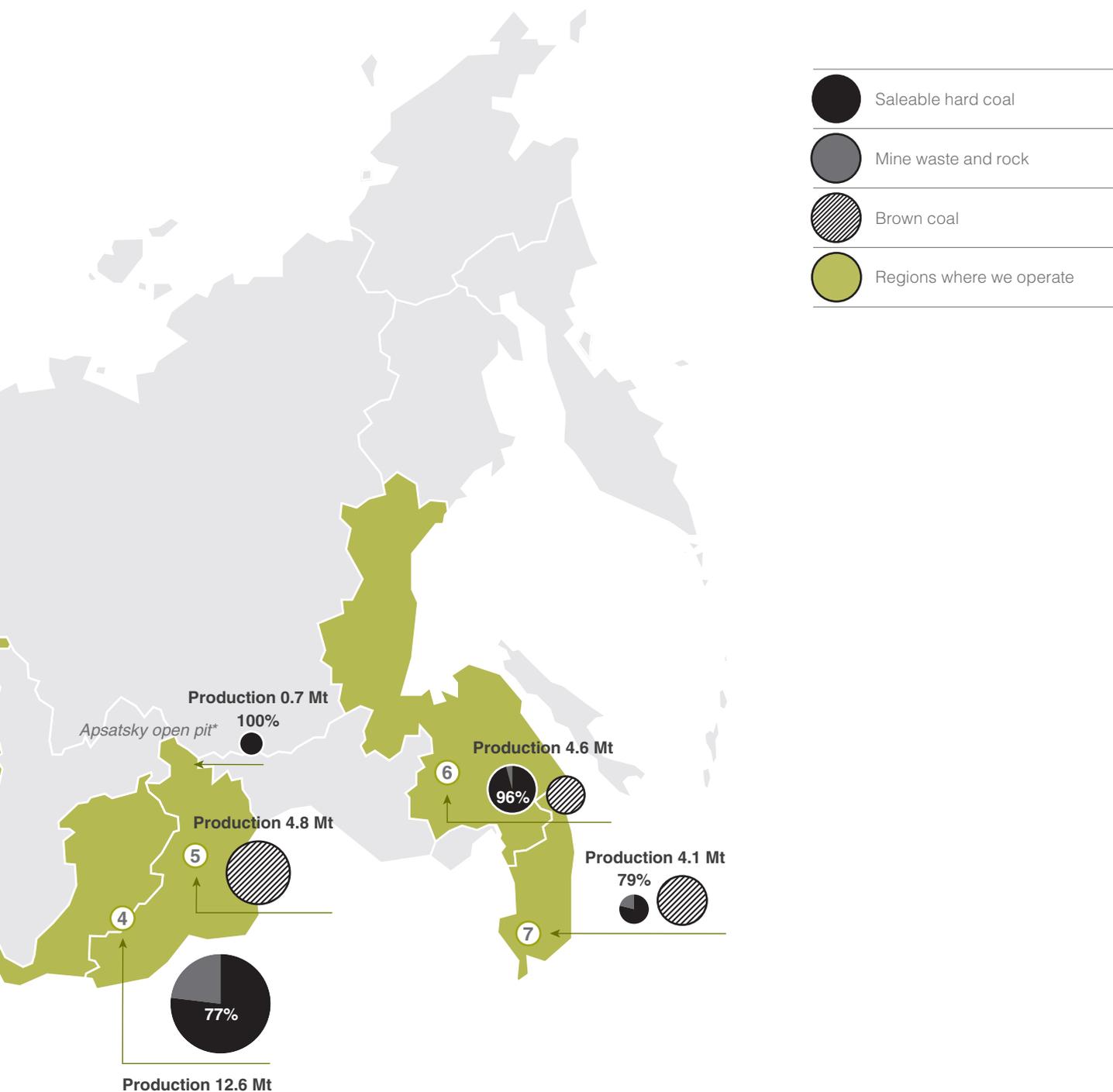
Type of coal	<b>Brown</b>
Production, Mt	<b>26.5</b>
<i>Open-pit, Mt</i>	26.5
<i>Underground, Mt</i>	n/a
Reserves, Mt	<b>3,609</b>
Market	<b>Domestic</b>
Share of total export supplies	<b>n/a</b>
Share of total domestic supplies	<b>53%</b>
Expansion capital expenditure, \$ million	<b>3</b>
Average headcount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

### ③ Khakasia

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

### ④ Buryatia

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



### ⑤ Zabaikalye<sup>1</sup>

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

### \*Apsatsky open pit, Zabaikalye

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

### ⑥ Khabarovsk

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

### ⑦ Primorye

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

<sup>1</sup> Data excludes Apsatsky open pit.

<sup>2</sup> Resources at Apsatsky open pit are estimated under the Russian methodology.

# Our operating performance continued

## Open-pit mining

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

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

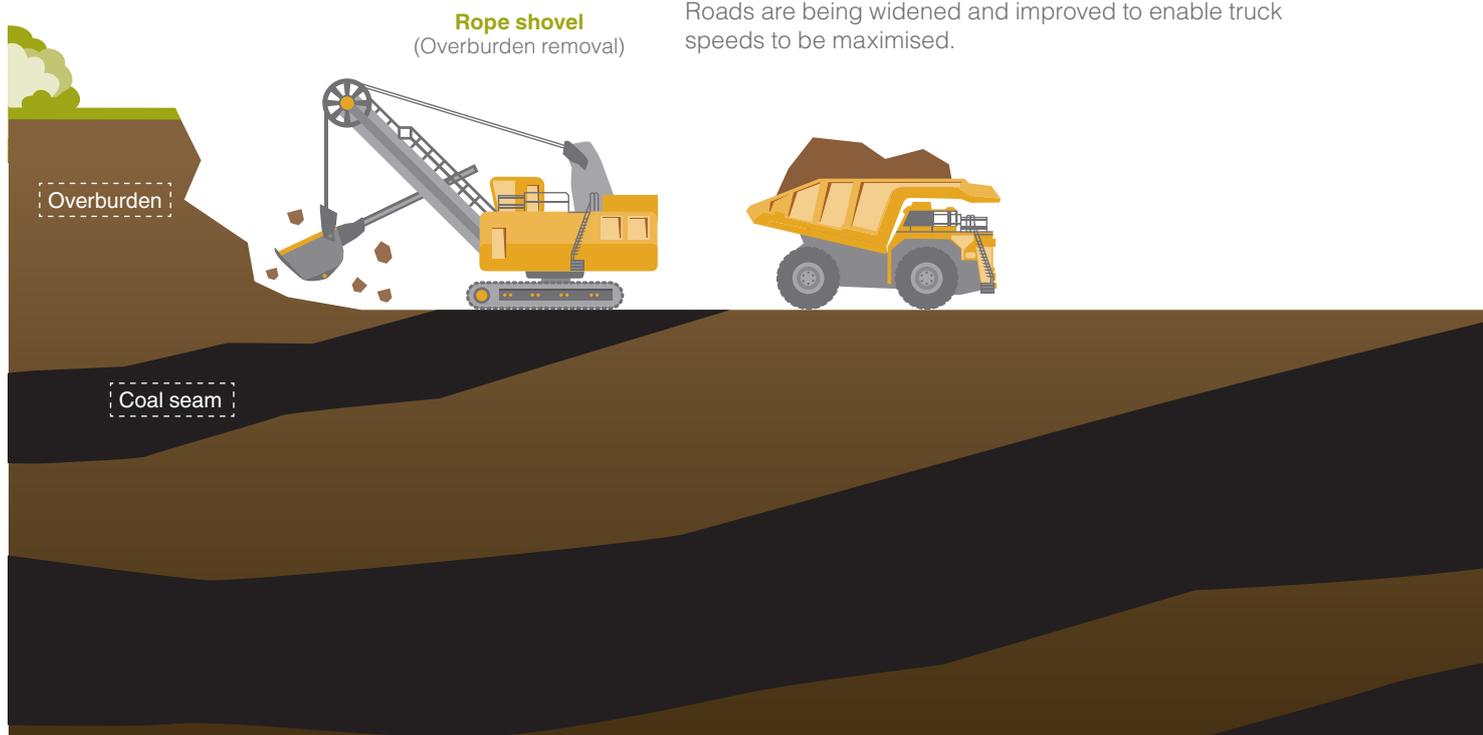
The first stage involves the removal of overburden to expose the uppermost coal seam. This starts with bulldozing and excavation to remove soil and weak rock. Solid rock is then blasted before removal by excavators and trucks. Once the coal seams are exposed, extraction commences – often using high-powered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

Open-pit coal mining has several advantages over underground methods. Principal amongst these is a higher

level of productivity, achieved through the use of large, high-performance earth-moving machinery. For example, rope shovels can dig and load up to 3,500 m<sup>3</sup> of hard, blasted overburden per hour.

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

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



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

Case study

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

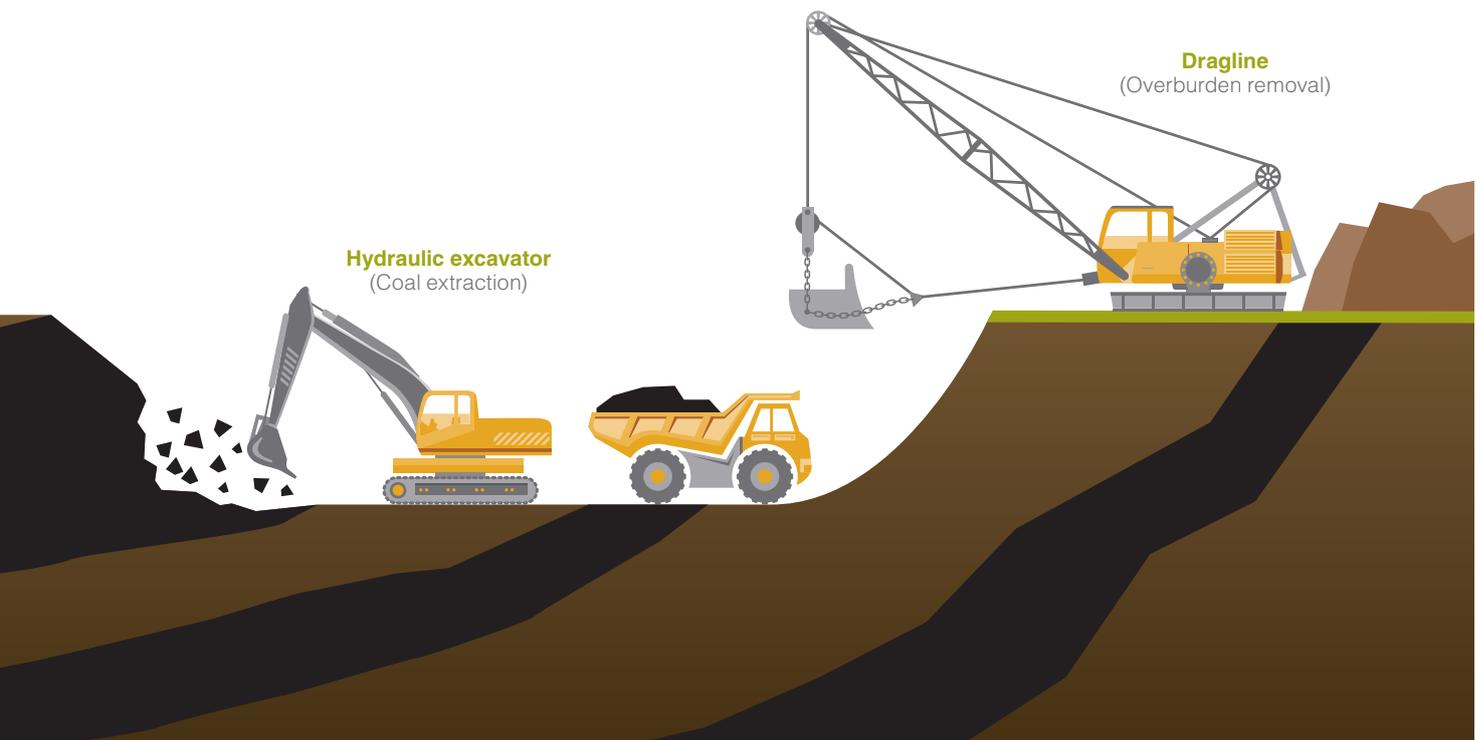
Tugnuisky open pit extracts high-quality hard coal, up to 88% of which is exported, predominantly to Asia. The mine produces high-volatile coal with a low nitrogen content that meets the specific requirements of Japanese power utilities. Some of Tugnuisky's coal is also supplied to power generation companies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

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

the coal washing plant and related infrastructure at Tugnuisky was \$359 million.

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

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



# Our operating performance continued

## Underground mining

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

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

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

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

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

#### Case study



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

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

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

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

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



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

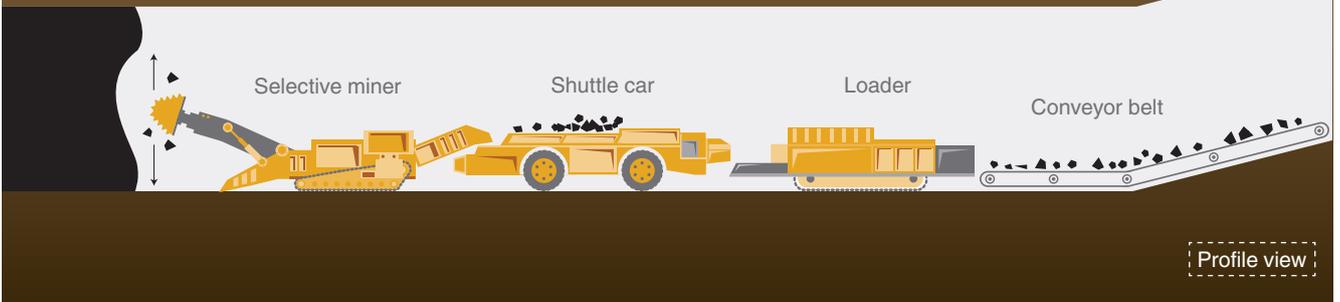
**Vladimir Artemiev**  
Production Director

## Development process

### 1 Continuous mining

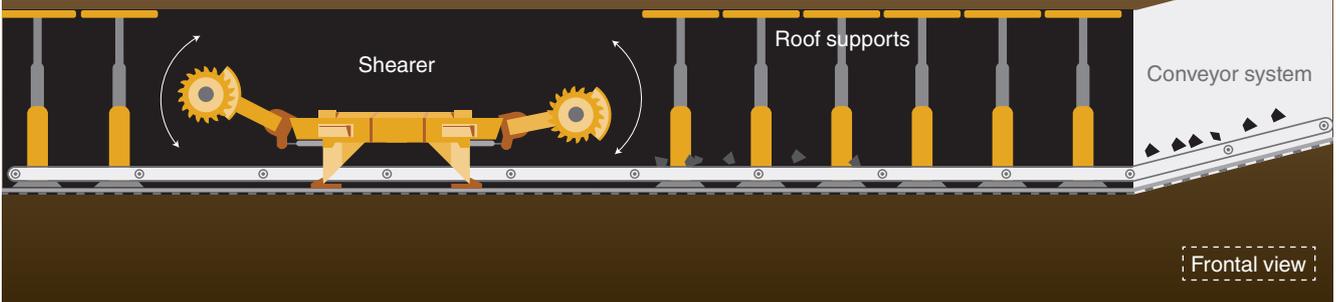


### 2 Selective mining



## Mining process

### 1 Longwall mining



# Our operating performance continued

## Washing

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

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

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

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

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

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

#### Case study

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



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

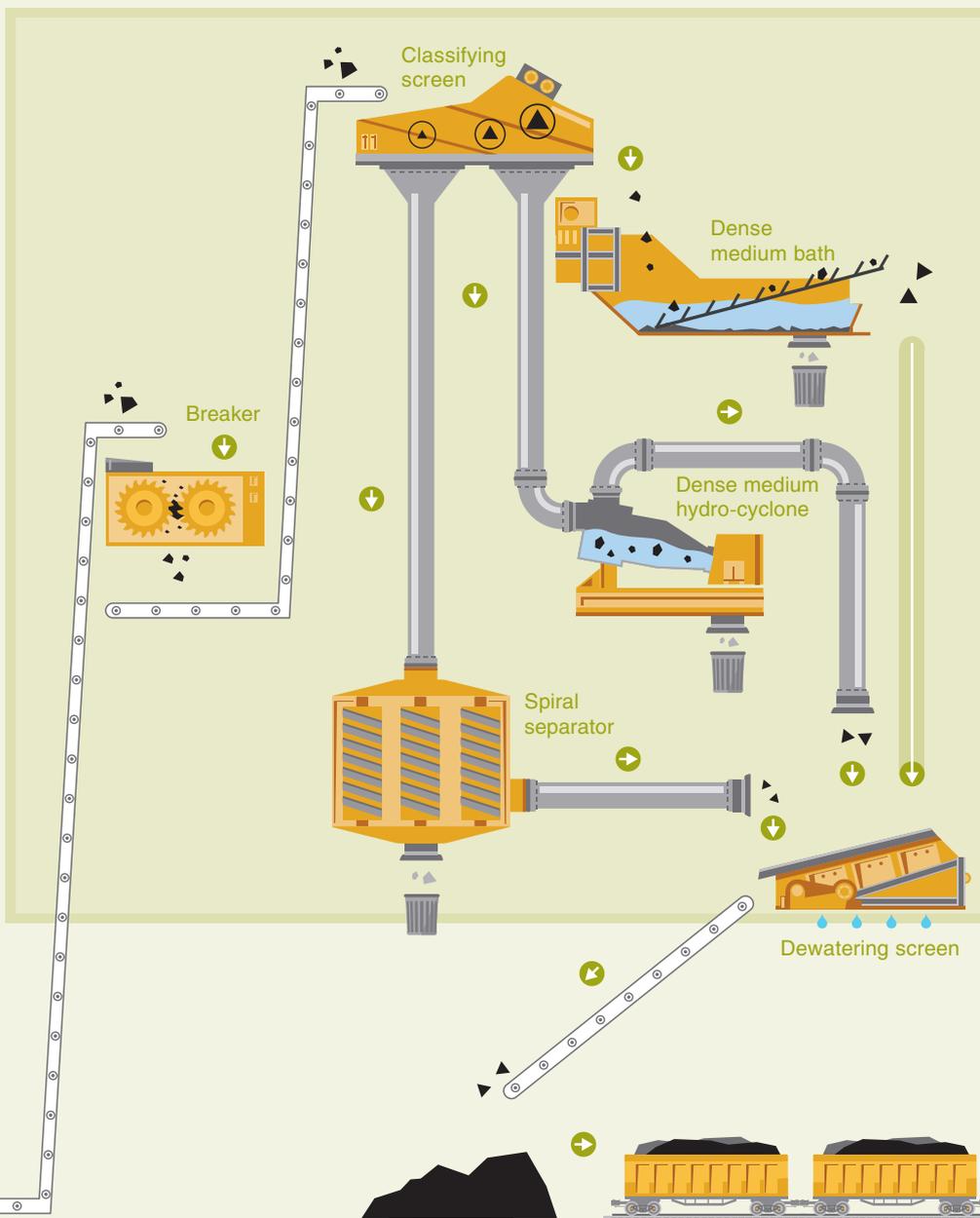
The project was executed on schedule: test operations commenced in October 2012 and the plant reached its designed capacity in 2013. The new facility features the most advanced processing equipment sourced from leading suppliers in Germany, Russia and the USA.

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

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

# Washing process

- ▲ Large size
- ▲ Medium size
- ▲ Small size
- Coal
- Water
- Waste



# Our operating performance continued

## Ports

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

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

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

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

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

#### Case study

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



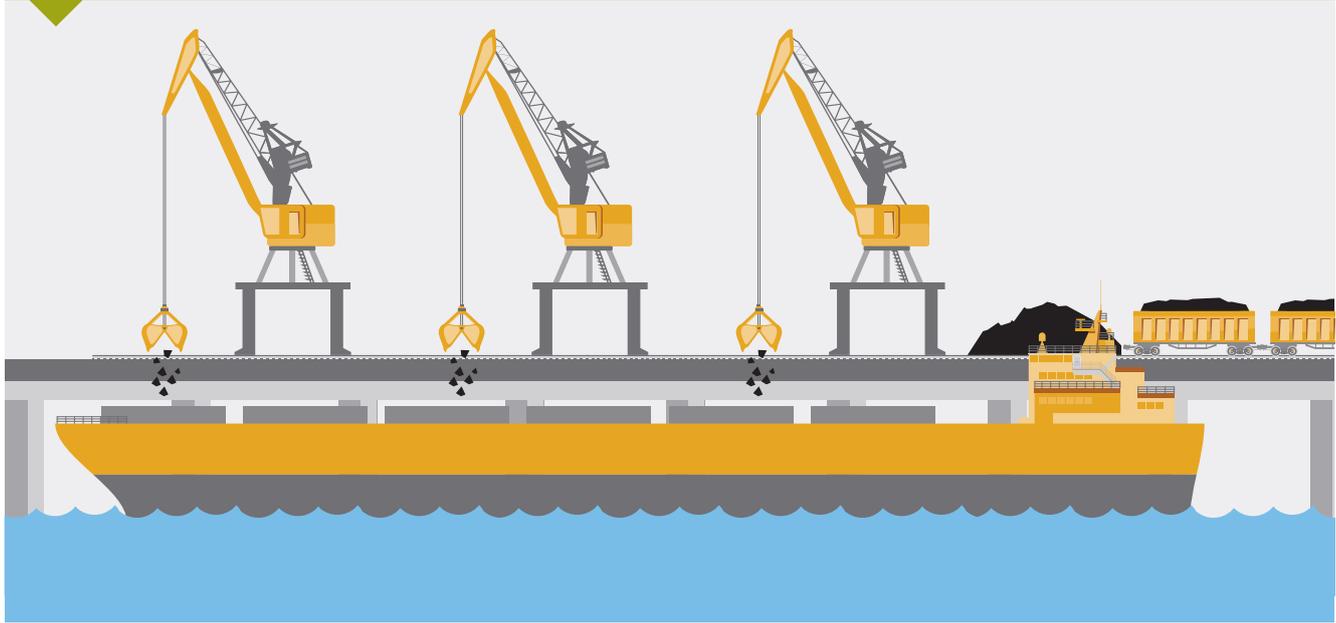
Commissioned in 2008, Vanino Bulk Terminal is a highly automated commercial seaport. With a current annual capacity of 13.7 million tonnes, it provides the most cost-efficient transshipment routes from our mines to end-users across the Asia-Pacific region. In 2013, 13.7 million tonnes – some 70% of our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

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

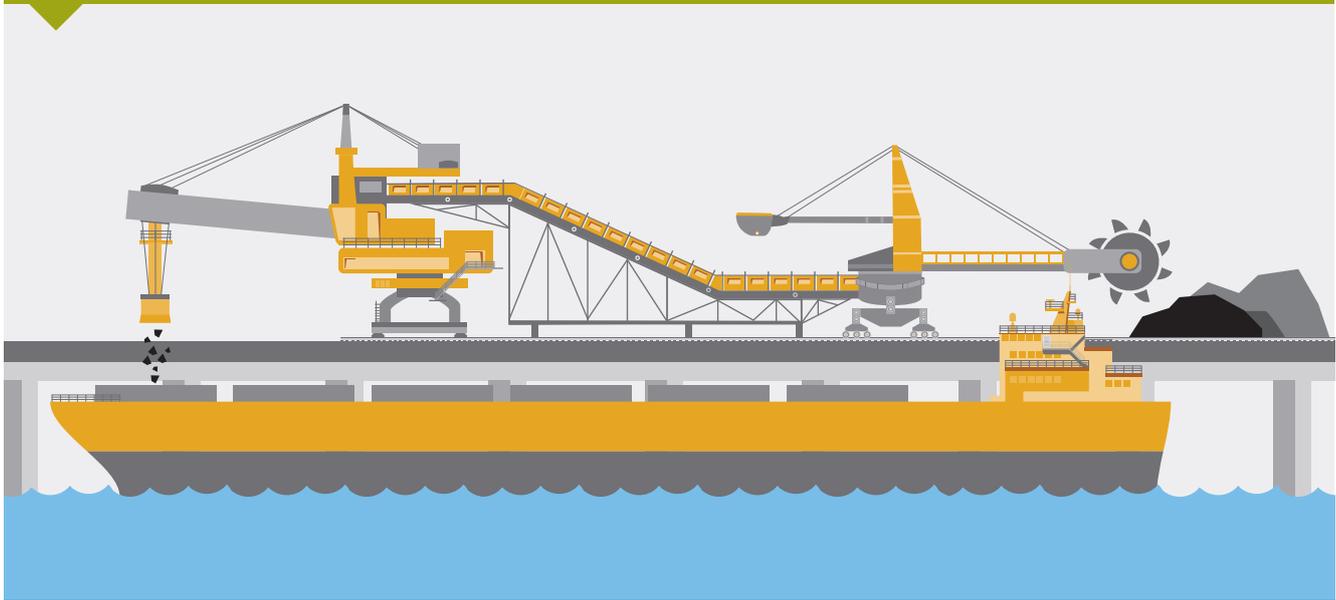
With the steady growth of the Asia-Pacific thermal coal market, our ongoing investment in this key export hub is of considerable strategic importance, eliminating potential shipment bottlenecks and reducing our dependence on other Russian Far East ports.

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

### Grab loading



### Stacker-reclaimer loading



# Our operating performance continued

## Our assets

### Production units

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

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

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

#### Kemerovo

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



 Komsomolets mine

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

We mine valuable grades of hard coal from the following nine underground mines and three open pits:

- Kirova mine
- November 7th mine
- Polysaevskaya mine
- Komsomolets mine
- Rubana mine
- Kotinskaya mine
- Mine No.7
- Taldinskaya-Zapadnaya 1 mine
- Taldinskaya-Zapadnaya 2 mine
- Zarechny open pit
- Kamyschansky open pit
- Maisky open pit

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

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

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

## Krasnoyarsk

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



 Nazarovsky open pit

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

- Berezovsky open pit
- Borodinsky open pit
- Nazarovsky open pit

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

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

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

## Khakasia

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



 Vostochno-Beisky open pit

Our production units in Khakasia are located in the Minusinsk basin. Hard coals are mined at three open pits and one underground mine:

- Chernogorsky open pit
- Vostochno-Beisky open pit
- Lzykhsky open pit
- Khakasskaya mine

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

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

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

# Our operating performance continued

## Our assets

### Buryatia and Zabaikalye

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



 Tugnuisky open pit

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

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

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

 See page 43 for more information about Tugnuisky open pit.

### Zabaikalye

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



 Apsatsky open pit

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

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

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

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

### Khabarovsk

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



 Bureinsky open pit

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

- Marekansky open pit
- Bureinsky open pit
- Severnaya mine

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

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

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

### Primorye

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



 Pavlovsky open pit

The three assets in Primorye are:

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

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

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

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

# Our operating performance continued

## Our assets

### Washing plants

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



 Tugnuisky washing plant

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

#### Washing plants

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

#### Processing facilities

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

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

### Rail transport

**SUEK operates one of the largest rail fleets in Russia.**



 Rail fleet near the Borodinsky open pit

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

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

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

## Ports

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



 Vanino Bulk Terminal

#### Vanino Bulk Terminal

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

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

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

#### Maly Port

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

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

#### Murmansk Commercial Seaport

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

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

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

# Financial review

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

## Financial position

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

<sup>1</sup> Adjusted EBITDA calculated in accordance with our existing credit agreements.

## Sales highlights

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

<sup>2</sup> We supply hard coal to export markets.

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

## Exchange rates

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

Source: Central Bank of Russia.

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



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

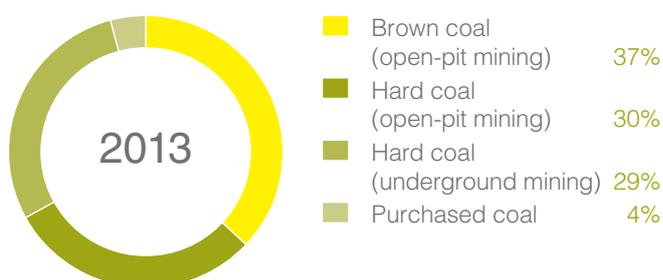
**Kuzma Marchuk**  
Chief Financial Officer

**Revenue**

**Sales structure by markets, million tonnes**



**Sales structure by coal type, million tonnes**



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

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

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

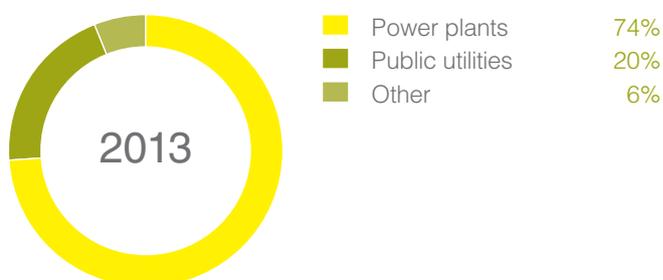
See page 36 for more information in our Domestic market review.

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

**Export sales structure, million tonnes**



**Domestic sales structure, million tonnes**



**Average export FOB price**  
\$ per tonne

**-18%**



**Average domestic price**  
\$ per tonne

**+7%**



# Financial review continued

## Cash cost of coal sold

**Cash cost of coal sold**  
\$ per tonne

**+12%**



**SUEK's own coal sold**  
million tonnes

**0%**



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

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

- The increase in cash cost per tonne of hard coal sold was the result of inflation. This growth was partly offset by the increase in hard coal production by 2 million tonnes (+3%).

## Transportation costs

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

## Transportation cost structure



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

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

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

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

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

### Transportation costs continued

#### Rail costs (export) \$ per tonne

0%



#### Rail costs (domestic) \$ per tonne

0%



#### Port costs (export) \$ per tonne

-38%



#### Freight costs (export) \$ per tonne

-8%



### Selling, general and administrative expenses

#### Selling, general and administrative expenses \$ million

-8%



#### Selling, general and administrative expense structure



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

# Financial review continued

## EBITDA

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

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

## Net profit

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

## Capital expenditure

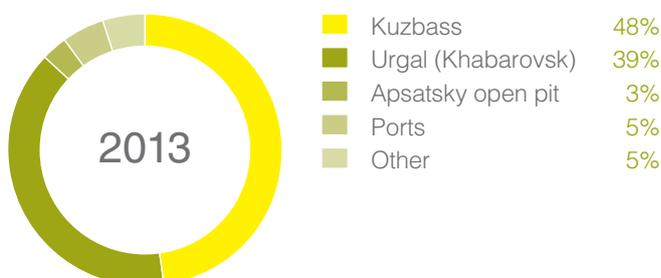
Capital expenditure in 2013 decreased by 15% compared with 2012 and amounted to \$797 million. Expansion capital expenditure areas were:

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

### Capital expenditure by type



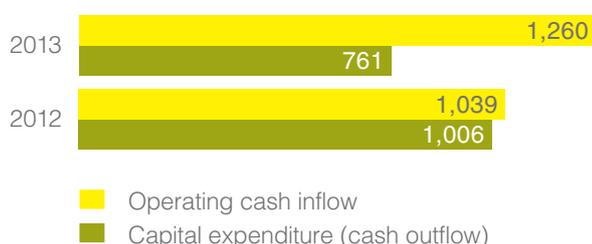
### Expansion capital expenditure by projects



## Operating cash flow and net debt

### Operating cash flow vs capital expenditure

\$ million



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

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

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

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

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

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

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

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# Risks and risk management

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

### **Our risk management system**

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

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

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

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

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

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

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

Overall our risk management approach enables:

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

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

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

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

## Principal risks

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

# Risks and risk management continued

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

 See pages 74-75 for more details.

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

# Risks and risk management continued

Category	Name	Description and potential effect	Mitigation measures
Regulatory and legal risks	<b>Country risk</b>	<p>The conduct of our business is subject to laws and regulations administered by government bodies in the markets in which our products are produced and sold. The Group operates and conducts business predominantly in the Russian Federation. Russia is an emerging market, and currently has a less developed business and regulatory infrastructure – as well as less stable banking and judicial systems – than more developed markets. Our operations could be influenced by the decisions of authorities in respect of tariffs, quotas, trade barriers, non-resident ownership restrictions, subsidies, licensing and competition policy, the establishment of refinancing rates and other actions.</p> <p>We conduct our export sales through our Swiss trading company SUEK AG which is, in turn, represented in seven key overseas territories – Poland, China, Japan, Taiwan, South Korea, Indonesia and the USA – where we also have to comply with an extensive range of requirements and regulations.</p> <p>SUEK PLC is registered in Cyprus and therefore is also subject to Cypriot law.</p>	<p>We constantly conduct compliance and internal procedures for the organisation of business processes to minimise risks of claims from anti-monopoly and tax authorities.</p> <p>Our managers and specialists actively participate in expert discussions of trends and actions of state policy relating to issues such as the coal industry, coal markets, coal transportation, technical supervision, social and labour relations, financial markets.</p>
	<b>Changes in existing legislation</b>	<p>Legislative changes could have a significant impact on us. These include changes in tax law, securities law, anti-monopoly legislation and corporate law, customs and duties regulations, exchange control regulations, licensing and subsoil use legislation, changes in judicial practice and possible tightening of legislation on environmental protection or enforcement practices.</p>	<p>We monitor planned and adopted changes in the legislative and regulatory framework, in order to make changes to business processes and the corporate organisational structure to ensure compliance with current legal and regulatory requirements.</p>
	<b>Political risk</b>	<p>Our activities can be impacted by certain political risks caused by the ongoing reforms in the Russian Federation, as well as the crisis in global markets. These could adversely affect our market value and the business environment.</p>	<p>We monitor trends in Russian federal and regional legal enforcement practices and we analyse and assess planned regulatory changes.</p>

Category	Name	Description and potential effect	Mitigation measures
Regulatory and legal risks continued	<b>Risk of deficiency of mineral rights</b>	Licences for production of coal held by production units could be suspended, terminated early (withdrawn) or not extended after their termination. These risks are largely dependent on the discretion of the regulator (Rosnedra). We must apply for new licences with regard to depletion of fields developed on the basis of existing licences.	We have in place appropriate internal procedures and take measures to comply with licensing requirements, ensuring timely extension and reissuance of the licences. We also strive to address promptly any cases of non-compliance with licences highlighted by regulatory authorities.
	<b>Anti-monopoly legislation</b>	Companies of the Group are recognised as having a dominant position in certain regional thermal coal markets and ports – and are natural monopolies in terms of Russian anti-monopoly laws. We are therefore subject to specific anti-trust requirements and regulation by the Federal Antimonopoly Service (FAS) of the Russian Federation.	We have established internal procedures and regulations aimed at ensuring conformance of our production and operational units with the applicable anti-monopoly rules and restrictions.
Social and environmental risks	<b>Ecological risks</b>	Risks associated with mining and coal processing include potential harm to the environment (eg from emission of pollutants into the atmosphere, emissions of coal dust, soil and water pollution, noise).	SUEK develops and implements land regeneration projects and is introducing methane capture and utilisation projects. We implement protection measures close to human habitations. We work to reduce any adverse impacts on the environment and ecosystems in the areas where we operate and to reduce harmful emissions, as well as providing for proper disposal and recycling of waste. The schedule of mining, processing and reclamation works is determined by current legislation, our environmental policy and environmental protection measures.   See pages 77-79 for more details.

# Sustainability

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

### Our approach to sustainability

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

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

 Our specific policies and standards are accessible via our website at: [www.suek.ru](http://www.suek.ru)

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

### Our sustainability priorities:

Objectives related to potential development of personnel:

- improved labour resource efficiency;
- enhanced people skills and motivation levels; and
- greater employee loyalty.

 See pages 72-73 for more details.

Objectives related to occupational safety:

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

 See pages 74-76 for more details.

Objectives related to environmental protection:

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

 See pages 77-79 for more details.

Objectives related to relationships with external social and business partners:

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

 See pages 80-81 for more details.

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

### Engaging with our stakeholders

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

We strive to build and maintain strong relationships with all our stakeholders. These are built on the principles contained in our Corporate Code of Conduct:

- compliance with appropriate legal standards;
- business transparency and openness;
- adherence to business ethics;
- pursuing a balance of all groups' interests.

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

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

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

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

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

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

## Main formats for SUEK's interaction with stakeholders



<sup>2</sup> EIE stands for 'environmental impact estimate', a measure devised to assess environmental impact and which includes related consequences.

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# Sustainability continued



## Shareholders

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

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

## Financial stakeholders

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

## Employees

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

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

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

## Suppliers and business partners

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

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

## Consumers

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

We have developed and introduced a claim filing system.

## Local communities

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

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

## Government authorities

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

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

## Expert organisations and NGOs

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

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# Sustainability continued

## Our people

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### Our employees are fundamental to our success and future growth.

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

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

#### Remuneration

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

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

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

#### Social support

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

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

#### Training and development

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

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

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

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

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

#### Communications

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

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

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

### ❑ Priorities for 2014 include:

#### Improve the remuneration and benefits system:

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

#### Recruitment:

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

#### Reward employee loyalty:

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

#### Provide basic and advanced training for employees:

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

#### Increase productivity and contain staff-related spending:

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

### Case study

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



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

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

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

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

# Sustainability continued

## Health and safety

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

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

#### Safety in the workplace

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

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

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

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

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

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

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

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

**Expenditure on health and safety protection and industrial safety**  
\$ million

**+1%**

2013	88
2012	87

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

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

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

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

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

### Occupational health

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

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

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

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

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

# Sustainability continued

## Health and safety

### **☒ Priorities for 2014 include:**

#### Further enhance OHS management:

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

#### Ensure efficiency of response to any emergency and safety issues relating to hazardous gases and dust:

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

#### Reduce the risk of industrial injuries and occupational diseases:

- further implement and develop SUEK's 'Health' programme;
- implement actions to further reduce lost time incidents due to industrial injuries.



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

### Case study

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



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

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

# Environmental protection

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

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

### Our approach

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

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

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

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

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

### Air, water and earth

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

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

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

**Total wastewater**  
million m<sup>3</sup>

**-30%**

2013 110.1

2012 158.3

<sup>1</sup> ISO 14001:2004 is a standard that specifies a set of environmental management requirements for environmental management systems.

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# Sustainability continued

## Environmental protection

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Our capital investment in environmental protection includes actions that are part of SUEK's 2013 investment programme:

- construction of a modern mine water treatment facility at our Rubana mine;
- construction of a modular mine water treatment plant at our Kotinskaya mine;
- construction of a domestic wastewater treatment facility at our Khakasskaya mine;
- renovation of the existing water supply and sewage disposal system at our Berezovsky open pit (design);
- design of a treatment facility for mine and domestic wastewater at our Taldinskaya-Zapadnaya 1 mine;
- design of a mine water treatment facility at our Severnaya mine.

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

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

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

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

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

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

### **Energy efficiency**

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

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

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



More details can be found in our Corporate Social Responsibility Report for 2011-2013. The report is accessible via our website at: [www.suek.ru](http://www.suek.ru)

### ■ Priorities for 2014 include:

#### Further develop environmental management systems:

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

#### Mitigate any negative environmental impacts:

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

### Case study

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



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

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

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

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# Sustainability continued

## Communities

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

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

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

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

#### **Key projects**

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

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

the development of our Apsatsky open pit in Zabaikalye, joint efforts to develop single-industry towns and interaction with Housing and Utility Reform Foundation and others.

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

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

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

#### **Evaluation and effectiveness**

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

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



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

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

### 'SUEK to the regions' fund

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

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



More details on 'SUEK to the regions' can be found on the website at [www.fond.suek.ru](http://www.fond.suek.ru)

### ■ Priorities for 2014 include:

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

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

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

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

### Case study

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



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

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

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

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

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

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