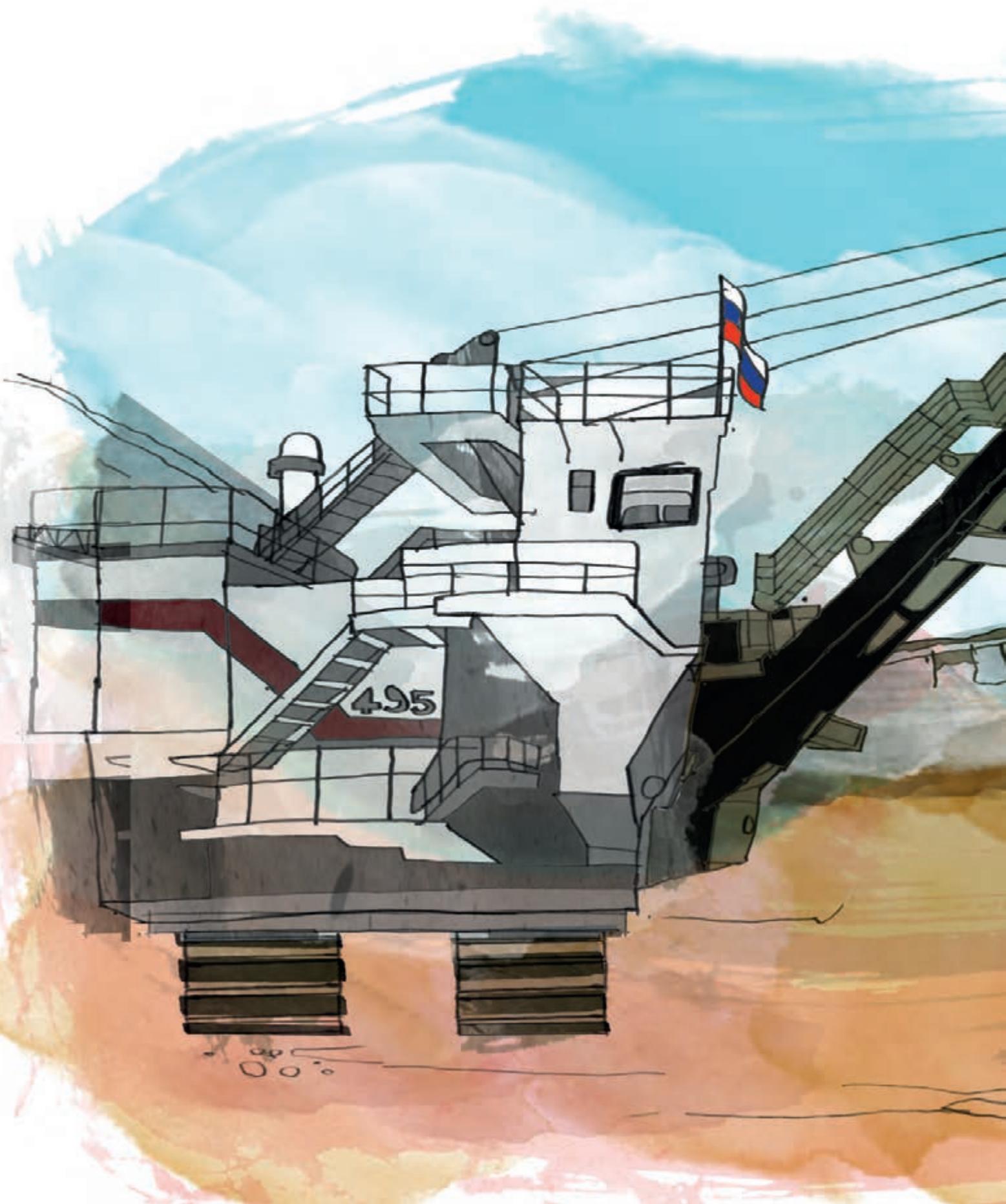
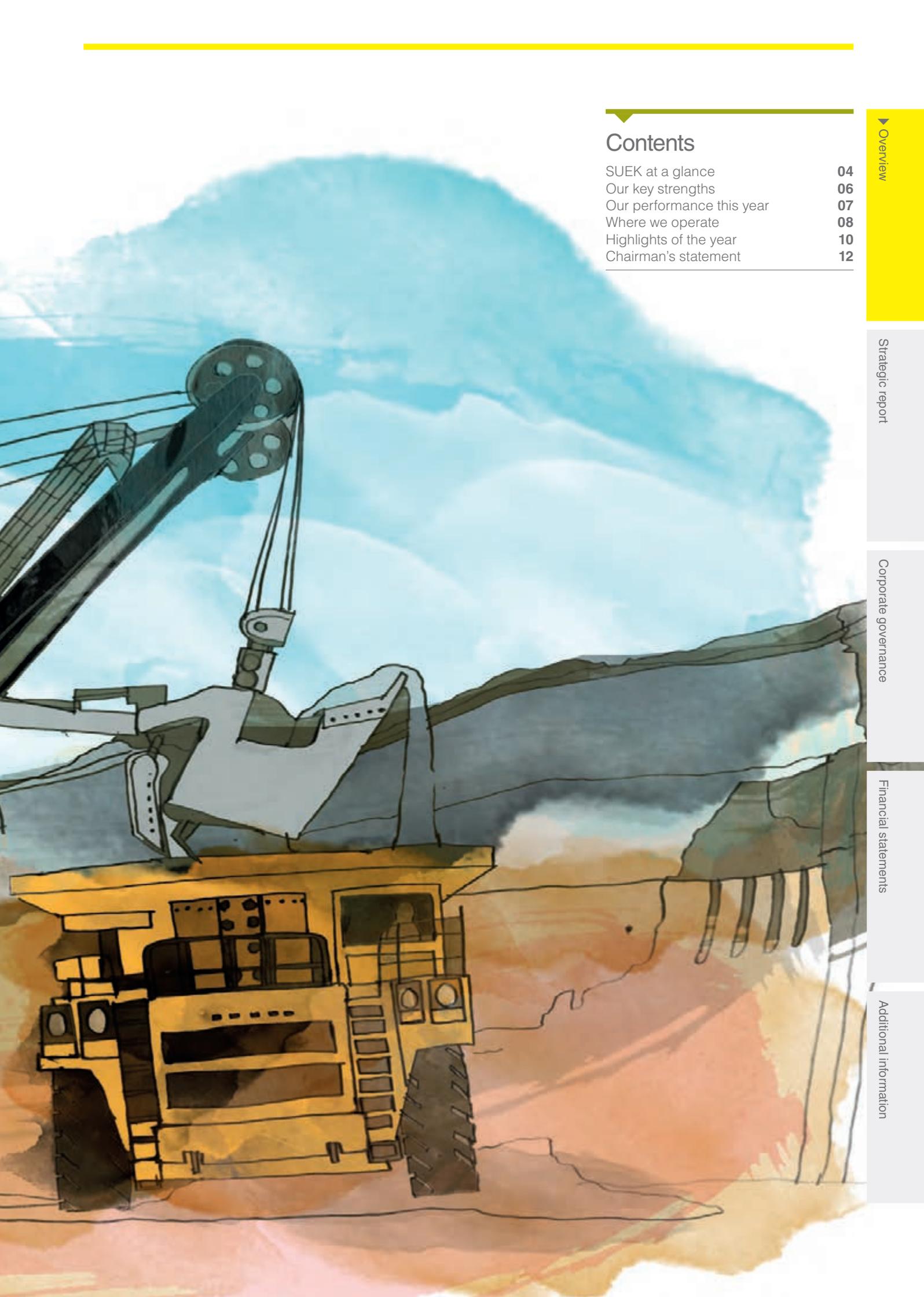


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Overview





## Contents

SUEK at a glance	04
Our key strengths	06
Our performance this year	07
Where we operate	08
Highlights of the year	10
Chairman's statement	12

► Overview

Strategic report

Corporate governance

Financial statements

Additional information

# SUEK at a glance

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

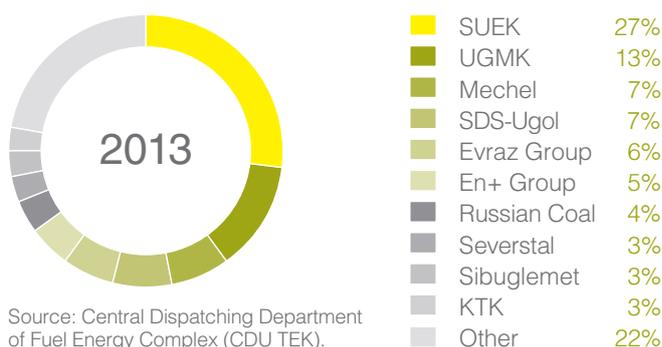
**We have assets that are located much closer to Pacific markets than the assets of most other Russian coal companies. Around 34% of our exported coal is delivered over distances shorter by 2,500-6,000 km than our main peers, delivering savings of around \$5-6 per tonne on transport expenses.**

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

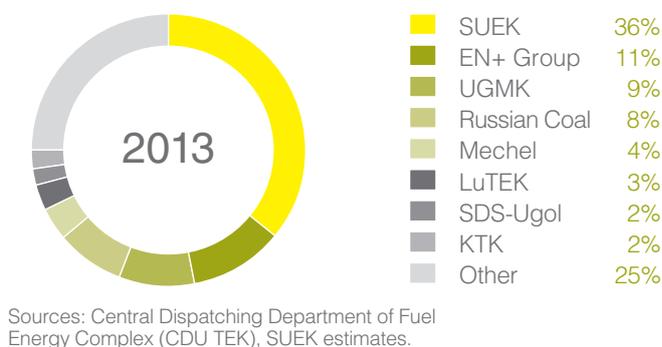
One of the central features of our integrated business is our logistics and transportation system. This includes our own rail infrastructure and ports, enabling us to deliver to the domestic market and to ship coal to multiple export markets. Maintaining low-cost operations, optimising transportation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

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

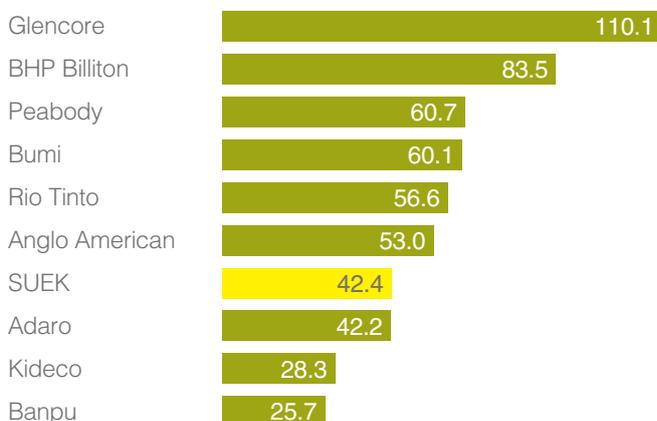
## Coal production in Russia



## Thermal coal domestic supplies in Russia



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



Sources: SUEK estimates, public filings.

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

## Mission

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

## Vision

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

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

## Values

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

## Our assets

### Underground mines



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

See pages 50-53 for more information.

### Open pits



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

See pages 50-53 for more information.

### Washing plants



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

See page 54 for more information.

### Rail



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

See page 55 for more information.

### Ports



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

See page 54 for more information.

### Sales offices



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

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# Our key strengths

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

## Established coal company

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

## Vast mineral reserves

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

## Favourable geographic position

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

## Integrated business model

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

## Prudent corporate governance

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

## Focus on strong operating efficiency

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

## Investing in human capital

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

## Focus on health and safety

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

## Environmental commitment

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

# Our performance this year

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

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

 See pages 56-61 for more details.

## Non-financial indicators

<b>Production</b> million tonnes	<b>-1%</b>	<b>Sales volume</b> million tonnes	<b>+1%</b>	<b>Average calorific value of exported coal, kcal/kg</b>	<b>0%</b>
2013	96.5	2013	92.6	2013	5,760
2012	97.5	2012	91.7	2012	5,770
<b>Average headcount</b>	<b>+8%<sup>1</sup></b>	<b>Lost-Time Injury Frequency Rate<sup>2</sup></b>	<b>-22%</b>		
2013	33,576	2013	1.50		
2012	31,044	2012	1.92		

## Financial indicators

<b>Revenue</b> \$ million	<b>-5%</b>	<b>EBITDA<sup>3</sup></b> \$ million	<b>-31%</b>	<b>Net profit</b> \$ million	<b>-86%</b>
2013	5,381	2013	1,037	2013	133
2012	5,635	2012	1,496	2012	967
<b>Average export FOB price, \$ per tonne</b>	<b>-18%</b>	<b>Capital expenditure</b> \$ million	<b>-15%</b>		
2013	80	2013	797		
2012	97	2012	938		

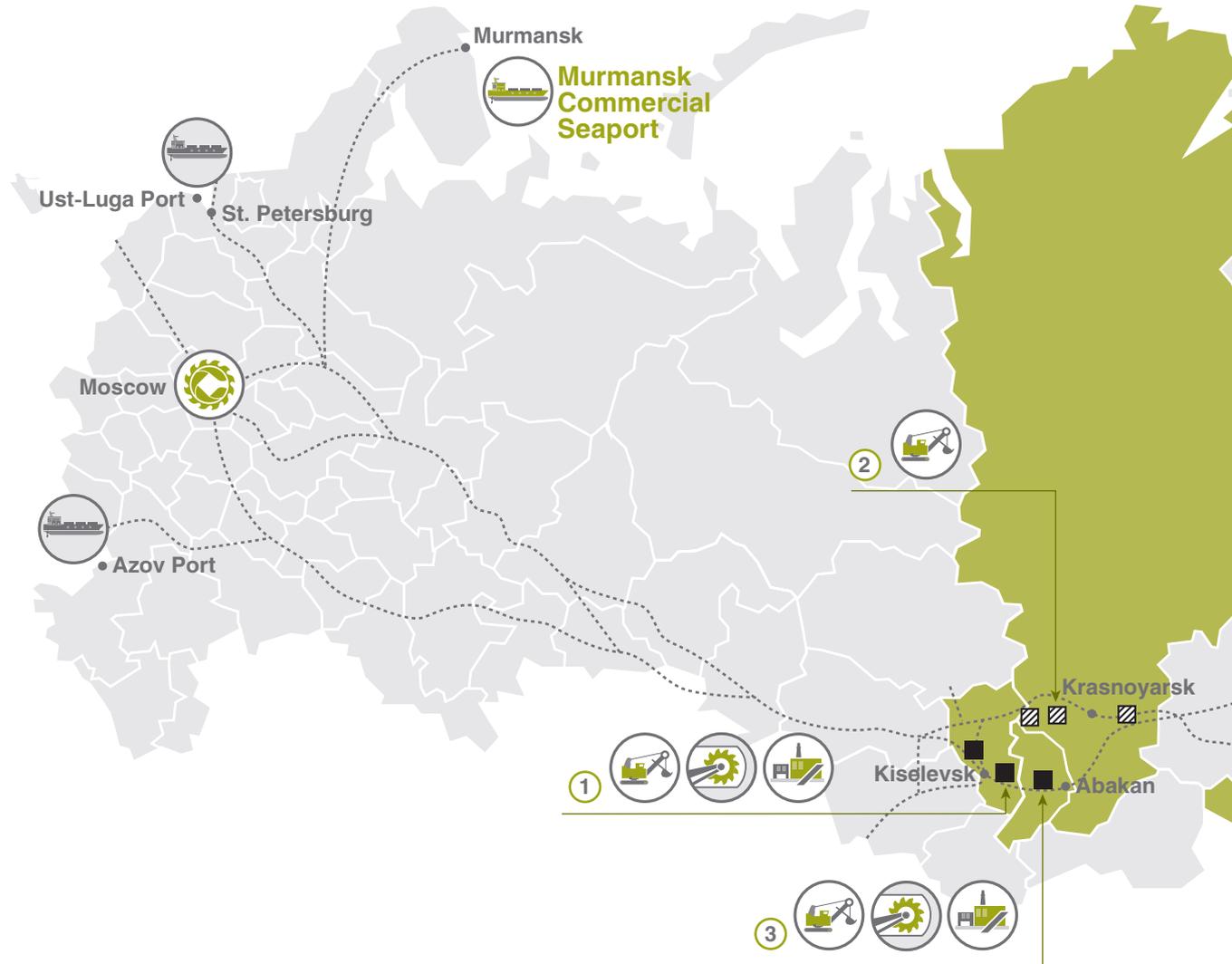
<sup>1</sup> Our headcount increased by 8% in 2013. The increase resulted from the consolidation of Murmansk Commercial Seaport and Maly Port in 2013.

<sup>2</sup> Lost-Time Injury Frequency Rate (LTIFR) is a measure of overall safety performance. It is calculated as the number of lost-time injuries within a reporting period relative to the total number of hours worked by SUEK employees at coal mining enterprises, and normalised for one million man-hours.

<sup>3</sup> EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) was calculated based on the Group consolidated financial statements as earnings before tax, financial expenses, obtained dividends, the share of the profits of associates, exchange differences, amortisation and depreciation.

# Where we operate

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



## ① Kemerovo



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

See page 50 for more information.

## ② Krasnoyarsk



- 3 open pits

See page 51 for more information.

## ③ Khakasia



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

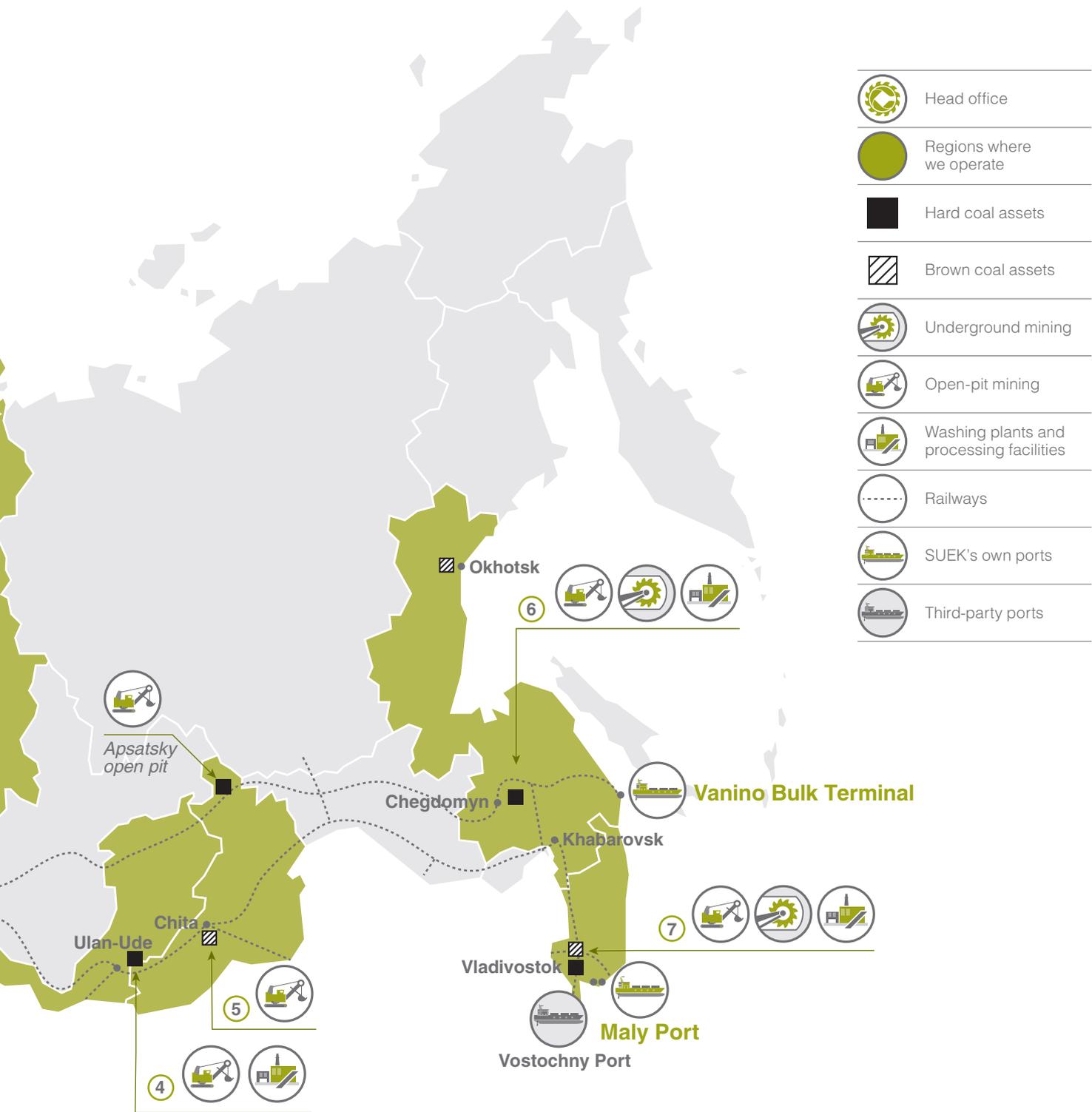
See page 51 for more information.

## ④ Buryatia



- 1 open pit
- 1 washing plant

See page 52 for more information.



-  Head office
-  Regions where we operate
-  Hard coal assets
-  Brown coal assets
-  Underground mining
-  Open-pit mining
-  Washing plants and processing facilities
-  Railways
-  SUEK's own ports
-  Third-party ports

⑤ Zabaikalye



- 3 open pits

 See page 52 for more information.

⑥ Khabarovsk



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

 See page 53 for more information.

⑦ Primorye



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

 See page 53 for more information.

Rail assets and ports



- Rail**
- Around 20,400 rail cars under operation
- Ports**
- 3 ports

 See pages 54-55 for more information.

# Highlights of the year

February

## High-technology longwall operations in Kuzbass

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

May

## World record excavator performance

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



June

## First drills in Russia

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

March

## Longwall record established

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

May

## Accolade for SUEK employee

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



June

## Apsatsky open pit is recognised at government level

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

May

## World record drilling

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

June

## High performance of shovel at Tugnuisky

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

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

**August**



**Murmansk Commercial Seaport sets loading and transhipment records**

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

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

**September**

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

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



**November**

**SUEK ranked fifth in Russia for charitable activities**

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

**November**

**Washing plant sets daily record**

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

**August**

**President Vladimir Putin meets miners**

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

**October**

**Modern waste treatment facilities commissioned**

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

**October**

**SUEK hosts international mining conference**

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

**December**

**New sorting and crushing facility installed in Kuzbass**

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

**December**

**Decision to create distribution operation in the Altay region**

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

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# Chairman's statement



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

## **Andrey Melnichenko**

Chairman of the Board of Directors  
OJSC SUEK

### **Leadership in the coal industry**

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

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

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

### **Strategy**

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

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

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

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

### Governance

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

### Sustainable approach

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

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

### Outlook

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

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

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