

# STABILITY AND ACHIEVEMENT



With our core strategic focus on cost efficiency, product quality improvement, environmental safety and network expansion, we can look ahead with confidence, and with a deep conviction in our capabilities and self-reliance.



## **A milestone year**

2016 was a milestone year for the Russian coal-mining industry. For the first time in history, the 100 million tonne production mark by a single company was surpassed in our country; and I am proud to announce that it was SUEK, in its 15th year of operation, that achieved this remarkable feat. I hope that, with this achievement, we have brought some light to the coal-mining community, which for so long has operated in challenging market conditions.

Extreme coal-price volatility was the most crucial feature of the global market in 2016. The Pacific market increased, while the Atlantic market saw a continuous decline in demand. The Russian market remained relatively stable, although high water levels in the rivers of Siberia and the Far East led to decreased coal consumption by power-generation companies.

In this challenging market environment, SUEK's achievements were only possible through well-coordinated teamwork and the efficient cooperation of all our branches. Our strategic focus on the development of high-quality deposits, the expansion of our coal-washing capacity, and the modernisation of existing plants, delivered remarkable results. Increased productivity, the use of higher-capacity mining equipment, and the improvement of our logistical and distribution network, enabled us to achieve stable operational growth: +8% year-on-year in production, +12% year-on-year in coal-washing volumes, and +2% year-on-year in sales volume.

In 2016, we efficiently adapted to changing market conditions and demonstrated high flexibility in our sales. Thus, given the reduced consumption of brown coal domestically, we increased its export, and for the first time in the company's history we supplied over 1 million tonnes of brown coal to other countries.

Our efforts led to stable financial results. EBITDA grew 9% compared to 2015, to \$965m, while our EBITDA margin increased by 3% to 24%, mainly due to our focus on premium markets and increased sales efficiency. Net profit, meanwhile, grew by half to \$303m.

**Key focus areas: safety, efficiency and sustainable development**

The health and safety of our people remains our number-one priority. As such, one of the most important results we achieved in 2016 was a significant decrease in the accident rate at our production units. Our Lost Time Injury Frequency Rate (LTIFR) fell by a quarter, not only to the lowest level in SUEK's history, but to one of the lowest levels in the global coal industry.

This vital achievement came as a result of concerted efforts to protect the health and wellbeing of our employees, such as the implementation of the most advanced available technologies and procedures across our production assets. In December 2015, SUEK's management unveiled a new SUEK's Code of Corporate Ethics that placed Safety and Efficiency at the top of a list of corporate values. We seek that the whole community of 33,500 SUEK employees strongly adheres to these safety principles. Indeed, health and safety is now deeply embedded across the organisation, both in our everyday actions as individuals, and in our collective ethos and commitments.

In 2016, we analysed our operational performance against that of other leading international coal producers. Based on the results of this exercise, we implemented a number of measures designed to achieve further improvements in efficiency, including changes in our coal storage management, the monitoring of coal quality in transportation, and the enhancement of our drilling and blasting operations. The analysis also enabled us to study and understand the various breakdowns, incidents, accidents and injuries that occur within the coal industry, and to take prompt steps to prevent such situations arising at our own production facilities. Examples of complex accident control initiatives rolled out during the year include the introduction and operational adaptation of our company-wide automated safety system, as well as the close monitoring and improvement of all health, safety and environmental measures.

Alongside safety comes our firm commitment to social and environmental responsibility, upheld through our deep involvement in the lives and wellbeing of Russian people and communities, and in the protection of our national landscape. At SUEK, we consider it a point of duty to do everything possible to preserve the environment for future generations, and in 2016 we signed important agreements with the Ministry of Natural Resources and the Environment, and with several regional authorities. These agreements will form a reliable framework for our environmental activities in 2017, which has been declared the Year of Ecology across the Russian Federation.

**Outlook**

Despite our strong operational and financial results in 2016, we know there is still uncertainty within the global industry. However, even in such circumstances, we are uniquely placed to tackle any future challenges we may encounter. With our core strategic focus on cost efficiency, product quality improvement, environmental safety and network expansion, we can look ahead with confidence, and with a deep conviction in our capabilities and self-reliance.

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