PROGRESS AND ACHIEVEMENT

In 2016, we delivered an outstanding operational performance through the implementation of our strategic programme, with a core focus on efficiency improvements at our mining, washing and transportation facilities and on the development of our sales and distribution network.

For the first time in SUEK's history, coal production for the year exceeded 100 million tonnes, while sales volumes also rose due to the strong demand in the Asia-Pacific market. In addition, expanded washing and transportation capacities helped us to achieve better coal-washing and shipment results.

Operational highlights

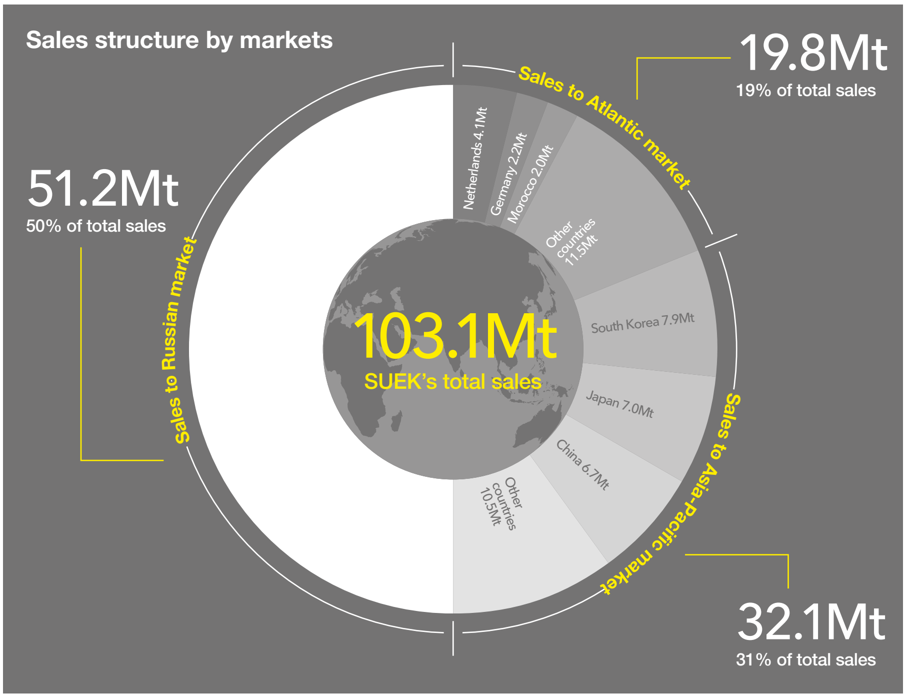
million tonnes	2016	2015	%
Mining			
Production	**105.4**	**97.8**	**8%**
• hard coal	71.3	61.1	17%
• brown coal	34.1	36.7	(7%)
• open-pit	69.6	69.2	1%
• underground	35.8	28.6	25%
Washing			
Coal washed	**37.3**	**33.3**	**12%**
Transportation			
Rail shipments on public tracks	**87.9**	**82.9**	**6%**
Shipment by sea	**46.5**	**43.8**	**6%**
• Vanino Bulk Terminal	19.5	18.3	7%
• Murmansk Commercial Seaport	14.2	13.6	4%
• Maly Port	2.8	2.6	8%
• Other ports	10.0	9.3	8%
Sales	**103.1**	**101.1**	**2%**
International sales	**51.9**	**46.9**	**11%**
• Asia-Pacific market	25.6	21.8	17%
• Atlantic market	17.3	14.9	16%
• Third-party coal	9.0	10.2	(12%)
Domestic sales	**51.2**	**54.2**	**(6%)**
• brown coal	32.8	35.9	(9%)
• hard coal	18.4	18.3	1%

Sales highlights

In 2016, our sales volumes increased by 2% year-on-year, reaching 103.1 million tonnes of coal. We sold 50% to Russian customers and 50% to export markets.

International sales volumes grew by 11% to 51.9 million tonnes. The main markets we sold to globally included South Korea, Japan, China, Taiwan, the Netherlands, India, Germany, Turkey and Poland. In accordance with SUEK's strategic priorities, we increased the share of supply to premium markets by 22%, from 26.4 million tonnes to 32.1 million tonnes. This uplift was achieved as a result of the higher average calorific value of our products, as well as the expansion of our sales and distribution network through strategic partnerships and purchases of distributors in Poland, Turkey, Indonesia and Lithuania.

FOR MARKET REVIEW
SEE PAGES 18-21.



SUEK's sales to Asia grew by 16% to 32.1 million tonnes. This was the result of increased exports to the traditional premium markets of Japan, South Korea, Taiwan and Hong Kong, as well as new markets such as Vietnam and Thailand.

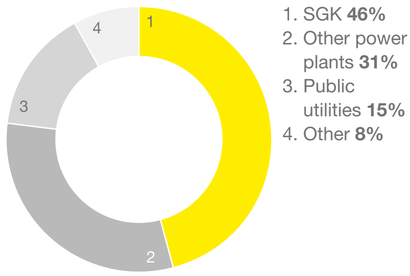
Coal shipments to the Atlantic market grew by 3% to 19.8 million tonnes. The sales mix among countries in the Atlantic market continued to change in 2016. This meant the decline in UK sales was offset by strong demand for our products from the Netherlands and Germany, as well as countries from the Mediterranean region, including Morocco and Turkey.

FOR MORE DETAILS, SEE FINANCIAL REVIEW ON PAGES 59-63.

We also focused on sales of sized coal through our own distribution networks in Poland and in the domestic market of West Siberia. In total, sales of sized coal increased by 22% to 3.25 million tonnes. Sales of metallurgical coal rose by 50% to 2.7 million tonnes.

Sales to the Russian market totalled 51.2 million tonnes, 39.5 million tonnes of which were sold to electric power plants. The 6% decline in sales compared to 2015 is explained by the significant expansion of Russia's hydropower sector, resulting in lower loads within coal-fired power plants. An additional contributing factor was a fire in one of the units at Berezovskaya GRES, a coal-fired power plant in the Krasnoyarsk region. The damaged unit was decommissioned for unscheduled repairs in February 2016.

SUEK's Russian sales structure



Mining highlights

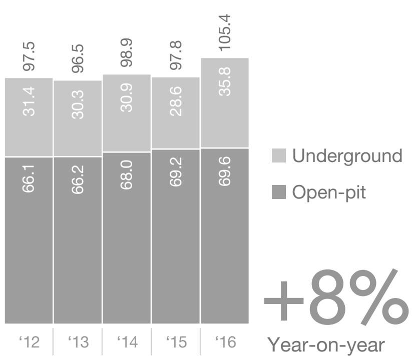
Strong demand for SUEK's products and stable operations at our production facilities enabled us to produce 105.4 million tonnes of coal in 2016, an overall increase of 8%. Underground mining rose by 25% to 35.8 million tonnes of coal, while open-pit mining grew by 1% to 69.6 million tonnes year-on-year.

High-quality hard coal accounted for 68% of our total production, more than half of which was produced at the mines and open pits of the Kemerovo region. Hard coal production increased by 17%, mainly due to the introduction of high-tech solutions based on new high-performance equipment at our production sites in Buryatia, Khakasia and Kemerovo.

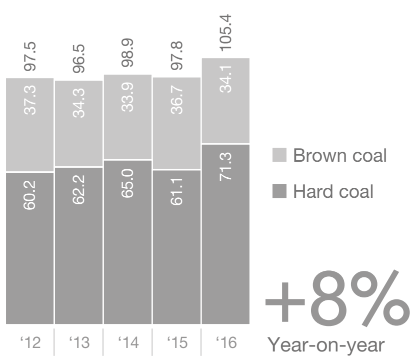
Brown coal production decreased by 7% year-on-year, as a result of reduced demand for coal from Russian power-generating companies, due to the growth of hydropower generation. Brown coal accounted for 32% of total production output, 79% of which was mined from the open pits of the Krasnoyarsk region.

The productivity of production workers at our mining units increased by 12% as a result of improved operational efficiency and staff development programmes.

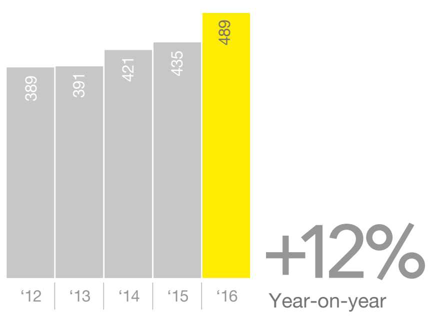
Production by mining method
(million tonnes)



Production by coal type
(million tonnes)



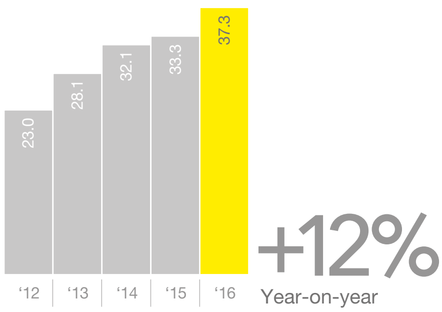
Productivity of mining unit production workers
(tonnes per man-month)



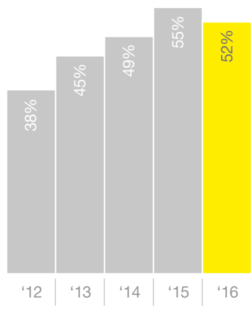
Washing highlights

In line with the strategic priority of increasing our output of high-quality products, the total volume of washed coal grew by 12% to 37.3 million tonnes year-on-year. This was achieved through capacity upgrades and increased volumes at our existing washing plants. Washed coal, as a share of produced hard coal, was 52% in 2016 compared to 55% in 2015. This decline was due to an increase in the production of high-quality coal that does not require washing.

Coal washed
(million tonnes)



Washed coal share of hard coal produced (%)



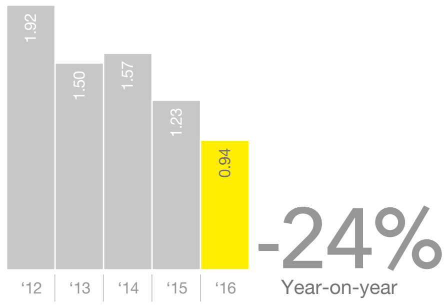
Industrial safety

Ensuring safe working conditions for employees, and minimising the risks associated with coal mining and processing, are among our top priorities. From 2012 to 2016, our main indicator of industrial safety – the Lost Time Injury Frequency Rate (LTIFR) – fell from 1.92 to 0.94 at our production units. We have allocated additional funding to programmes aimed at improving industrial safety and labour protection, reaching $48m in 2016. Furthermore, as a result of adopted measures, our overall injury rate has decreased by 51% over the last five years. In 2016, we registered 49 industrial accidents at our production sites, compared to 62 in 2015, a 21% decrease.

Regrettably, there were three fatal accidents at the company's production facilities in 2016. These occurred during open-pit mining operations in Buryatia and the Krasnoyarsk region, and during underground mining operations in Kuzbass. We deeply regret this loss of life and extend our heartfelt condolences to the families and friends of the deceased. To avoid such accidents in the future, we are carefully analysing their causes and continue to implement best health and safety practice across the company.

We also rolled out training sessions for our safety managers and professionals to increase levels of awareness, competence and skill and organised express safety-knowledge testing among our production workers.

Lost time injury frequency rate (LTIFR)



FOR MORE DETAILS,
SEE INDUSTRIAL SAFETY MEASURES
ON PAGES 64-68.

Transportation highlights

Rail transportation

For SUEK, rail provides a vital means of cost-efficient coal transportation and delivery. The Russian railway network is of crucial strategic importance to SUEK, and in 2016 we transported 80.1 million tonnes of coal via Russian Railways (RZhD). This amount constituted 24%[1] of the total tonnage of coal transported on the network during the year.

We use railways to deliver our products to Russian consumers and reach ports in the Far East and the north-west of Russia. Together with RZhD, we are carrying out projects to increase the capacity of the railways and to make a more efficient use of railcars. Also of key importance is the Eastern Polygon development programme, which involves the expansion by 2018 of tracks and major junctions across the Trans-Siberian Railway and the Baikal-Amur Mainline (BAM). By eliminating infrastructural restraints along the routes we use for cargo transportation, we will be able to increase our export shipments of coal, including those that pass through the Vanino Bulk Terminal.

Our own railway infrastructure includes 746km of railway track, 16 internal loading stations and about 190 locomotives, providing access to the national railway network. Projects are underway to increase the throughput of our internal railway stations and tracks to increase the volumes of transported coal. This will benefit our developing production units in Kuzbass, Khakasia and Buryatia.

With 48,500 railcars used monthly for coal transportation, SUEK currently manages one of the largest railcar fleets in Russia. In 2016, we were able to reduce our numbers of third-party railcars by 9% compared to 2015, due to the increase in railroad delivery speed along SUEK's routes. Our fleet also includes 12,000 new railcars under SUEK's management, with 75- and 77-tonne capacity (compared to the 69-tonne capacity of conventional cars) and a service life of up to 32 years. In 2016, the company increased its fleet by 3,000 of these high-capacity cars.

1 RZhD statistics.

Coal shipment

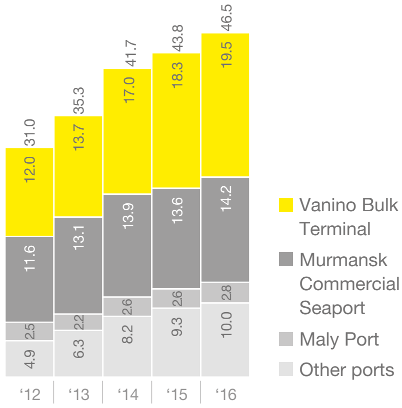
In 2016, we increased our total amount of shipped coal by 6% to 46.5 million tonnes. Shipment through our own ports represented 78% of the total shipment volume.

The amount of coal shipped to Asia-Pacific customers via our Vanino Bulk Terminal was 19.5 million tonnes, 7% more than in 2015. Throughout the year, we continued to upgrade Vanino Bulk Terminal, with a view to reaching our target annual capacity of 24 million tonnes. Our main project includes measures to expand public rail infrastructure, and in 2016 we successfully completed second-stage construction of railways, roads and other facilities. This project is due to be completed in the first half of 2017.

In 2016, SUEK consolidated a 75.5% share of Murmansk Commercial Seaport. We shipped 14.2 million tonnes of coal to the Atlantic market through the port in 2016, a 4% year-on-year increase.

We also shipped 2.8 million tonnes through Maly Port, located in the Russian Far East, an 8% increase year-on-year; and 10.0 million tonnes through other ports.

Coal shipment (million tonnes)



FOR MORE DETAILS ABOUT OUR PORT FACILITIES, SEE PAGES 52-53.

Product quality

As a responsible supplier, SUEK strives to meet customers' needs for product quality and to ensure strict fulfilment of contractual obligations. Our work at all levels – from exploration, design and development of production to warehousing, shipping, transportation and end-use by our customers – is aimed at ensuring the required level of product quality.

In accordance with SUEK's Quality Policy, the company's mining units and washing plants run strict quality-control systems that provide:

- Quality control for produced, washed and shipped coal at every stage of the process;
- Compliance with relevant regulatory requirements;
- Effective interaction with our customers on product quality issues.

Since 2009, SUEK has been implementing a quality management system according to ISO 9001:2008. The system is in use and subject to a regular external audit at the company's units in Kemerovo, Krasnoyarsk and Khakasia. At other units, product quality control is carried out in accordance with SUEK's Quality Policy.

Our main approach to improving the quality of our products is to increase the volume and depth of coal washing. Washing coal reduces its ash content and increases its calorific value, which enables us to deliver high-quality products with high added value and improve our business profitability.

Supply chain

Our interaction with suppliers and business partners is aimed at the development of reliable, long-term relationships based on the strict fulfilment of contractual obligations and compliance with business ethics.

We pay special attention to our suppliers' compliance with the principles of social responsibility, particularly in the field of industrial safety and labour protection. Adherence to standards in this area is one of our contractual requirements for suppliers. We also closely monitor quality control within suppliers' production processes.

SUEK's supplier selection process is based on regulated competitive procedures. This provides the necessary level of transparency and efficiency for all procurement activities. In 2016, the number of SUEK's suppliers totalled 6,816, a 12% increase over 2015. About 99% of the company's suppliers are located in Russia. Only when we need equipment that is unobtainable in Russia, we do look to leading international manufacturers.

ALL INFORMATION REQUIRED FOR SUPPLIERS CAN BE FOUND IN THE PROCUREMENT SECTION ON THE COMPANY'S WEBSITE WWW.SUEK.RU

Investment projects

Due to the challenging market environment in 2016, our main investment focus was on projects relating to maintenance, industrial safety and environmental safety, on key development projects and on those projects close to completion. Total capital expenditures in 2016 reached $492m.

In 2016, the company implemented a range of key investment projects, including:

- Developing the Pravoberezhny area in Urgal, with a prospective annual capacity up to 3 million tonnes, and developing the Magistralny area in Kuzbass, with a prospective annual capacity up to 3.5 million tonnes;
- Increasing production of thermal, export-quality coal in the Kuzbass mines, including the transition to developing a 400-metre wide longwall in the Kotinskaya mine (a unique undertaking in Russia, which is in line with best international practices);
- Completing the second phase of infrastructure development at Vanino Bulk Terminal;
- Expanding our railcar fleet under management by 3,000 railcars with higher capacity;
- Investment in environmental programmes, including early construction of treatment facilities for a number of units using advanced wastewater treatment technology.

FOR MORE DETAILS ABOUT OUR CAPITAL EXPENDITURES, SEE PAGE 62.

Our priorities for 2017

Our priorities for 2017 are to achieve long-term competitive advantages by improving the operational efficiency of the entire business chain, developing our railway and port logistics, expanding our coal washing capacities, and investing in assets that maximise our export margins.

In 2017, the main emphasis of our investment programme will be on maintaining the capacity achieved and on implementing key development projects.

In 2017, we plan to produce more than 104 million tonnes of coal. As part of our development strategy, we are going to reduce production at mines that are shortly to cease production due to resource depletion: November 7th mine and Vostochnoe mine; we will also develop the Magistralny site in Kuzbass, Pravoberezhny site, Severnaya mine and Bureinsky open pit in Urgal in the Khabarovsk region.

In addition, we intend to increase washing volumes, primarily at the Chegdomyn and Polysaevskaya mine washing plants. As a result, our production of thermal coal with a high calorific value, along with metallurgical and sized coal, will grow significantly in 2017.

In terms of logistics, we will continue to change our transportation structure, in particular, by significantly increasing the share of owned and leased railcars we manage (both standard and modern high-capacity railcars), with the aim to guarantee 70% of the railcar volume we require. Furthermore, our development programme is aimed at improving the efficiency of rail transportation in general.

After the completion of the main stage of infrastructure development at Vanino Bulk Terminal, shipment volumes to the Asia-Pacific market through the terminal may exceed 21 million tonnes in 2017. SUEK also plans to ship 3 million tonnes of coal through Maly Port to Asia, and over 14 million tonnes of coal through Murmansk Commercial Seaport to Atlantic market.

Safety improvements remain our top priority, and in 2017 we aim to avoid fatal accidents and to further decrease our LTIFR ratio.

FINANCIAL REVIEW

Despite ongoing volatility in the thermal coal market, in 2016 SUEK increased its profitability compared to the previous year, and maintained financial stability.

The decline in world coal prices in the first half of 2016, and a reduction in domestic demand, affected the company's revenue, which decreased compared to 2015. However, several key factors helped to neutralise the negative impact of these conditions on SUEK's financial results, including the redistribution of volumes to premium Asian markets and an increase in coal prices in the second half of the year; the effective management of our railcar fleet; and the development of our trade and distribution network. Our investments in highly productive equipment and coal washing capacities, as well as our own logistics, will also help to ensure we remain cost-competitive and occupy a strong and financially sustainable position for many years to come.

Overview

SUEK supplies 50% of its coal to the international markets and receives a substantial portion of its revenues (about 74%) in US Dollars. Accordingly, changes to the global macroeconomic environment have a significant impact on the company's operational and financial performance.
The majority of our costs are denominated in Russian Roubles because our production facilities are located in Russia. Therefore, the economic situation in the country also influences our financial performance.

2016 was another challenging year for the coal industry, which witnessed extreme price volatility in the world markets: from a historical low in the first half of the year, to a gradual recovery in the second half of the year. This positive trend was due mainly to rising prices in the Asian markets linked to regulatory measures adopted by the Chinese authorities to cut working hours for coal miners, which led to increased demand for imported coal.

Despite the volatility of the global coal market, SUEK maintained its leading position by responding quickly to changing conditions and extending its own trade and distribution network to robust markets. In 2016, our international sales volumes grew by 11% compared to 2015, reaching 51.9 million tonnes and reinforcing our position as one of the top five largest coal suppliers in the world.

During 2016, Russian coal prices remained fairly stable. At the same time, there was a reduction in demand from coal-fired power plants due to increased hydropower generation linked to high water levels in Siberia and the Far East. SUEK maintained its leading position in the domestic market, with our sales to Russian customers totalling 51.2 million tonnes.

In 1Q 2016, the depreciation of the Russian Rouble continued, due to the negative market environment. A rise in oil prices and the strengthening of the national currency from April onwards did not fully offset the negative trend seen at the beginning of the year, and on average the Russian Rouble depreciated by 10% compared to 2015. On the one hand, our revenue from Russian sales went down in US Dollar terms; but on the other, this decrease helped the company maintain its position in the lower segment of the global cost curve.

Financial highlights

$m	2016	2015	Change, %
Revenue	**4,002**	**4,132**	**(3%)**
Revenue from international sales (including purchased coal)	**2,965**	3,023	(2%)
Revenue from sales in Russia	**915**	993	(8%)
Other revenue	**122**	116	5%
Cost of sales (including transportation)	**(3,314)**	**(3,576)**	**(7%)**
Cash cost of coal sold[1]	**(990)**	(1,124)	(12%)
Transportation	**(1,365)**	(1,267)	8%
Depreciation	**(395)**	(448)	(12%)
Purchased coal (including transportation)	**(470)**	(653)	(28%)
Other	**(94)**	(84)	11%
Gross profit	**688**	**556**	**24%**
Gross profit margin, %	**17%**	13%	–
Selling, general and administrative expenses	**(114)**	**(102)**	**12%**
EBITDA	**965**	**887**	**9%**
EBITDA margin, %	**24%**	21%	–
Income tax	**(85)**	**(81)**	**5%**
Net profit	**303**	**200**	**52%**
Net margin, %	**8%**	5%	–
Capital expenditure	**492**	**355**	**39%**
Debt	**3,308**	**2,890**	**14%**
Cash and cash equivalents	**330**	104	218%
Net debt	**2,978**	2,786	7%
Net debt/bank EBITDA ratio[2]	**2.9x**	3.0x	(3%)
Bank EBITDA/interest expense ratio	**7.54x**	7.52x	0.3%

Exchange rates

RUB/US$	2016	2015	Change, %
Average for the year	**67.03**	60.96	10%
At the year end	**60.66**	72.88	(17%)

Source: Central Bank of Russia

1 Less non-cash cost items.
2 Bank EBITDA is calculated in accordance with our existing credit agreements.

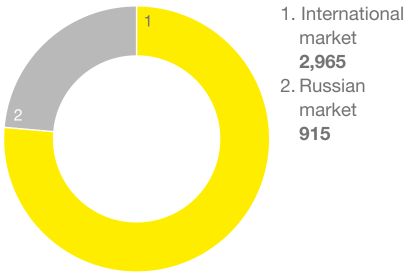
Revenue

In 2016, SUEK's export revenue from coal sales decreased by 2% to $2,965m. This downward trend was due to a 13% decrease in the sales price factor, partially offset 11% by an increase in the sales volume factor. Actual sales prices had a delayed reaction to changes in market conditions, as a result of the prices within certain contracts, fixed as at the date of agreement, while contract implementation and revenue recognition are delayed.

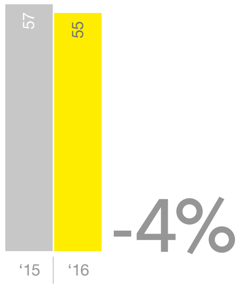
Revenues in the Russian market in US Dollar terms declined by 8% to $915m. This scenario is explained by weaker year-on-year sales volumes (-6%) and the effect of Rouble devaluation, partially offset by higher average Rouble prices in the Russian market (+8%). Sales volumes were weakened by reduced demand from domestic coal-fired power plants (see above), and by a fire in one of the units at the Berezovskaya GRES coal-fired power plant in the Krasnoyarsk region. The damaged unit was decommissioned for unscheduled repairs in February 2016.

FOR SUEK'S MARKETS AND SALES VOLUMES
SEE PAGES 54-55.

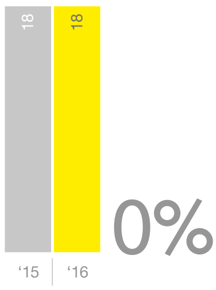
Revenue by market
($m)



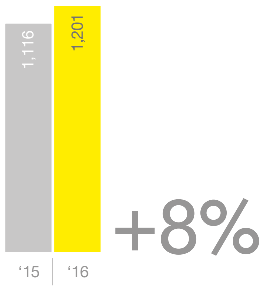
Average price of coal sold on international markets, FOB basis
($ per tonne)



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



(RUB per tonne)



Transportation costs

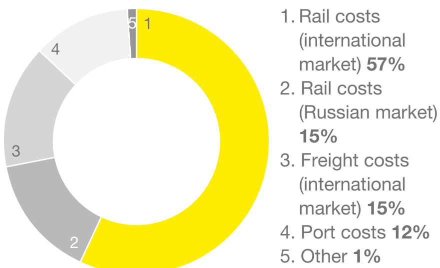
In 2016, rail transportation costs in US Dollar terms increased by 8% ($76m) compared to the previous year, due to greater rail transportation volumes (+6%), and higher average Rouble-denominated transportation costs offset by the weakening Rouble. The growth of transportation costs was due mainly to the extension of routes because of the increased share of exports in the turnover structure.

Higher Rouble rates for domestic and export traffic (+9 and +10%, respectively) were the result of an increase in operator rates in 4Q 2016 and a lack of available railcars. Railcars fleet consolidation in the market and the accelerated write-off of old railcars led to limited vehicle availability, while demand for new railcars outstripped supply. However, the effective management of our fleet and timely changes to SUEK's logistic chain helped to minimise the negative impact of the above-mentioned external factors.

Transportation costs

$m	2016	2015	Change, %
Rail costs	**991**	915	8%
Freight costs	**195**	212	(8%)
Port costs:	**166**	130	28%
• Own ports	**43**	29	48%
• Third-party ports	**123**	101	22%
Other	**13**	10	30%
Total transportation costs	**1,365**	**1,397**	**(2%)**

Transportation cost structure



Transportation costs (continued)

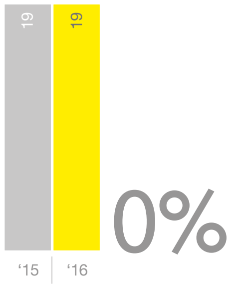
As part of the strategy to enhance our railcar fleet, in 2016 we increased the number of innovative railcars under SUEK management to 12,000.

SUEK is among the few coal companies in Russia with its own port facilities for coal shipment: Vanino Bulk Terminal, Murmansk Commercial Seaport and Maly Port. In the reporting year, our share in the Murmansk Commercial Seaport was raised to 75.5% after acquiring a 36% stake from EuroChem. In 2016, 78% of the coal we supplied to the international market was shipped through our ports, which provided additional savings on shipment costs. Overall, coal shipments via our ports increased by 6%. As a result, port costs per tonne of shipped coal were down 15% compared to 2015. Freight costs also decreased by 8% year-on-year, following the fall of the freight cost in the international markets.

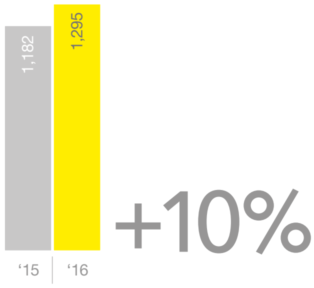
However, due to an increase in coal volumes shipped to premium Asian markets under the favourable pricing conditions in the second half of 2016, we did incur some higher shipment costs at third-party ports.

FOR MORE DETAILS,
SEE OPERATING REVIEW
ON PAGE 54-58.

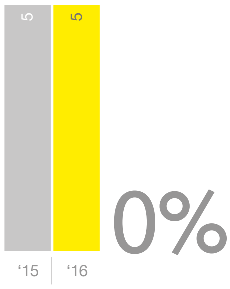
Rail costs (international market)
($ per tonne)



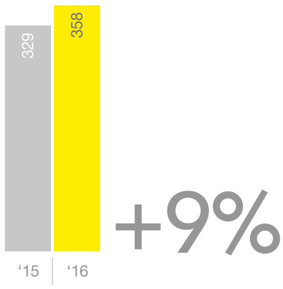
(RUB per tonne)



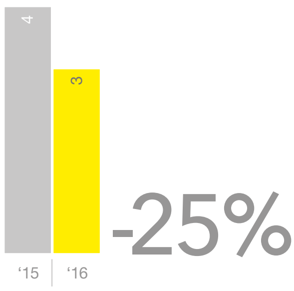
Rail costs (Russian market)
($ per tonne)



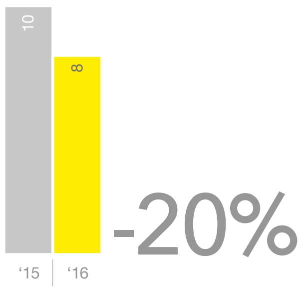
(RUB per tonne)



Port costs (international market)
($ per tonne)



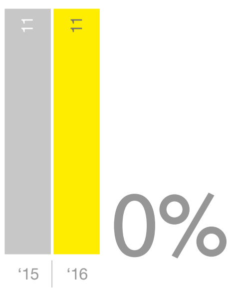
Freight costs (international market)
($ per tonne)



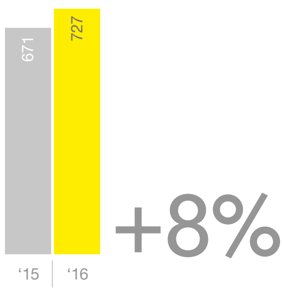
Cash cost of coal sold

In 2016, the cash cost of coal sold per tonne in US Dollar terms did not change compared to 2015 because of the lower Rouble exchange rate. However, the cash cost of coal sold per tonne in Rouble terms increased by 8% due to inflation and the structural shift in production – that is, an increase in the more expensive underground mining of hard coal, and a decrease in the less expensive, open-pit mining of brown coal.

Average cash cost of coal sold
($ per tonne)



(RUB per tonne)



Selling, general and administrative expenses

In 2016, our selling, general and administrative expenses went up by 12%, mainly due to growth in wages and increased charitable donations.

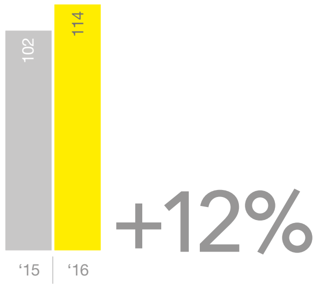
EBITDA

In 2016, an increase in the volume of international coal sales, and a decrease in the cost of sales in US Dollar terms due to Rouble devaluation, compensated for the adverse effect of falling international coal prices in the first half of the year. EBITDA was up 9% on the previous year, totalling $965m, while the return on EBITDA rose by 3%, amounting to 24%.

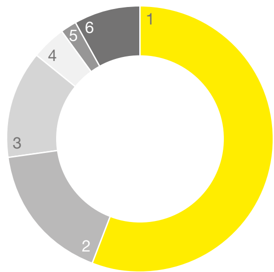
Net profit

In 2016, SUEK's net profit increased by $101m, totalling $303m.

General and administrative expenses ($m)



General and administrative expenses structure



Capital expenditure

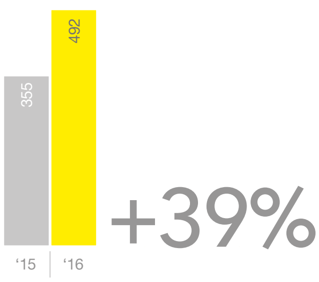
SUEK remains a major investor in coal mining industry in Russia. Our total capital expenditure in 2016 amounted to $492m, which represents a 39% increase compared to the previous year. Given the market conditions at the beginning of 2016, our main goal was to focus on investment projects related to maintenance, industrial and environmental safety, as well as the implementation of key development projects. The more favourable pricing environment in the second half of 2016 also made it possible to initiate a number of development projects with a short payback period.

In 2016, we implemented the following key investment projects:

- Increased production of export-quality thermal coal in the Kuzbass mines, including the initial development works for the construction of a 400-metre longwall in the Kotinskaya mine, which is a first in Russia and is in line with best international practices (the completion of development works is planned in 1H 2017);
- Completion of the second phase of infrastructure development at Vanino Bulk Terminal;
- Expanded our railcar fleet under management by 3,000 higher-capacity railcars;
- Capacity development, including an open pit in the Pravoberezhny area in Urgal, with prospective capacity of 3 million tonnes per year, and the Magistralny underground site in Kuzbass, with prospective capacity of 3.5 million tonnes per year;
- Our investments in 2016 also had a strong environmental focus, for example in the construction of treatment facilities at a number of units, using advanced wastewater treatment technology.

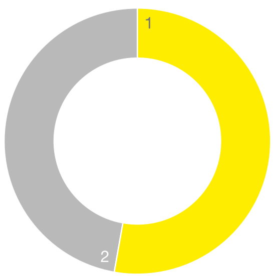
FOR MORE DETAILS, SEE ENVIRONMENT SECTION ON PAGES 68-72.

Capital expenditure[1] ($m)

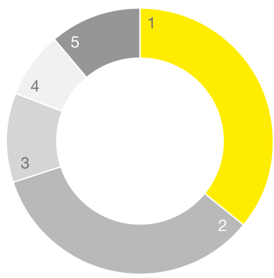


1 The graph represents costs incurred during the year.

Capital expenditure by type



Expansion capital expenditure by project



Operating cash flow and net debt

In 2016, the company saw its cash flow from operating activities decrease by $353m (39%) on 2015, totalling $552m. This trend was influenced by a significant increase in our working capital compared to the previous year, for example a rise in trade receivables by $125m, in finished goods and materials inventory by $146m, and recoverable taxes by $30m.

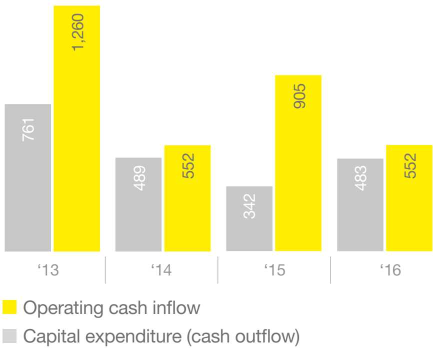
As of 31 December 2016, our net debt was up 7% on 2015, totalling $2,978m. At that date, the ratio of net debt to our bank EBITDA was 2.94x, which meets the current covenants of our loan agreements, according to which this ratio must not exceed 4.0x.

As of 31 December 2016, most of the Group's bank loans (84%) were denominated in US Dollars, with an effective interest rate of 4.4%. The rest of the debt is denominated in Euros, with an effective interest rate of 1.5%, and in Roubles, with an effective rate of 7.9% (with currency-interest swaps taken into account). We chose US Dollars as the main functional currency because this allows us to use natural hedging (meaning the debt can be serviced, as we have a positive US Dollar cash flow generated by international sales). In addition, loans in US Dollars have a lower interest rate than loans denominated in Roubles.

Our main borrowing instrument is pre-export finance secured by international revenue. In 2016, its share together with financing provided by export credit agencies (ECAs) accounted for 80% of the company's total debt portfolio. In addition, flexible financing was ensured through open credit lines: at 31 December 2016, the company had $1,560m of available credit lines.

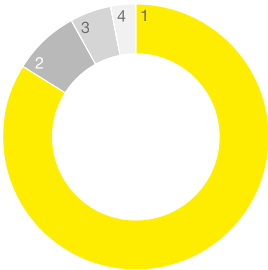
Operating cash flow vs capital expenditure

($m)



Debt structure as at 31 December 2016

($m)



1. Debt in US Dollars **84%**
2. Debt in Euros **8%**
3. Rouble debt hedged by cross-currency and interest rate swaps **5%**
4. Debt in Russian Roubles **3%**

Moody's

Ba3, Stable outlook

SUEK's rating confirmed by Moody's

In April 2016, Moody's confirmed SUEK's Ba3 rating with a stable outlook. Moody's positively assessed the company's ability to control operating costs via an increase in operational efficiency and effectiveness; its substantial coal reserves; favourable geological conditions; control over a considerable portion of the transportation infrastructure (including port facilities); its well-diversified Russian and international customer base; high profitability; and adequate liquidity.