

# STRATEGY IMPLEMENTATION

We believe that our focus on efficiency, safety, continuous improvement and value growth will help us fulfil our mission and achieve our targets.

## MISSION

Our mission is to fuel the world by producing coal safely and sustainably, helping to ensure global energy security while delivering value to all our stakeholders.

## VISION

Already the top coal producer in Russia, we want to be one of the leading coal companies in the world. We will achieve this by expanding our existing mining and processing assets, investing in new production facilities and further developing our transportation and logistics systems. We also aim to increase output from deposits located closer to our target markets, while continuing to drive innovation and change across the business.

## VALUES

### Safety and efficiency

We are a results-oriented company. As such, we are always looking to improve efficiencies and maximise opportunities.

But our returns must never compromise safety. Coal mining has inherent high production risks, and we apply every effort to mitigate them. Safety is embedded in all our processes and is a non-negotiable part of everyday life across the business.

### Professionalism and cooperation

Professionalism for us means making an active contribution to the company and supporting colleagues. Cooperation is the ability to listen, understand and respect each other.

As part of our commitment to corporate responsibility and professionalism, we comply with all applicable laws and regulations, build respect into all our interactions with stakeholders, and constantly evolve in order to maintain our high level of performance.

### Stability and development

The stability of our company is underpinned not only by our financial and operational strength, but by the skills and also commitment of our employees. SUEK puts the welfare and development of its people above all else. We aim to offer fair remuneration, good benefits and decent working conditions, thereby ensuring that our employees can operate to the very best of their abilities.

Continual development is also crucial to our success. We progress by implementing new technologies, improving working conditions, delivering high-quality products and ensuring the safety, health and productivity of our employees.

### Social responsibility

We seek to have a positive impact on the world around us. We take seriously our commitments to society and the environment, and to the communities and regions in which we operate, and follow best practice in social and environmental responsibility. Company interaction with local authorities and public and business associations is focused on the long term, and on mutually beneficial interests and objectives.

Securing our leading position in the industry is an important goal for SUEK. We continually look for opportunities to reinforce competitive advantage, expand our market share and develop a socially responsible business. To meet these objectives, we have identified five strategy pillars.

S1	S2	S3	S4	S5
FOCUSING ON EFFICIENT GROWTH	IMPROVING OPERATIONAL EFFICIENCY AND PRODUCTIVITY	DEVELOPING COAL SUPPLY LOGISTICS	ACHIEVING HIGH SAFETY STANDARDS	COMMITTED TO SUSTAINABLE DEVELOPMENT
<b>Our priorities</b>				
<p>Increasing production of high-quality and desirable coal products.</p> <p>Achieving balanced management of the reserves portfolio.</p> <p>Strengthening our position in the Asia-Pacific region and retain our presence in the Atlantic market.</p> <p>Retaining our position as the largest coal producer and supplier of thermal coal in Russia.</p> <p>Increasing sales in metallurgical and sized coal in premium markets.</p>	<p>Improving the efficiency of production facilities and processes.</p> <p>Developing washing capacities to improve coal quality.</p>	<p>Developing the company's rail infrastructure and rail fleet.</p> <p>Ensuring the efficient management of port facilities and expand our ship-loading capacity to maximise exports from Russia.</p>	<p>Promoting high international standards in health and safety.</p>	<p>Developing social infrastructure in the regions where we operate.</p> <p>Reducing adverse environmental impacts.</p>
<b>Stakeholders</b>				
<p>Shareholders</p> <p>Financial stakeholders and potential investors</p> <p>Employees</p> <p>Customers</p>	<p>Shareholders</p> <p>Financial stakeholders and potential investors</p> <p>Employees</p> <p>Suppliers</p> <p>Customers</p>	<p>Customers</p> <p>Suppliers and business partners</p>	<p>Employees</p> <p>Local communities</p> <p>State authorities</p> <p>Shareholders</p> <p>NGOs</p>	<p>Local communities</p> <p>Employees</p> <p>State authorities</p> <p>NGOs</p> <p>Financial stakeholders and potential investors</p> <p>Shareholders</p>



## FOCUSING ON EFFICIENT GROWTH

Our objective is to increase supply to and strengthen our presence in high-margin markets, particularly in the Asia-Pacific region. To this end, we are growing the share of washed coal within our product portfolio, developing sales of sized coal and increasing our trade in semi-soft and hard coking coal with international and Russian metallurgical customers.

Currently, our investments in the development of new coal deposits are solely targeted at the most economically efficient projects. We also expect to maintain synergies through our association with the Russian electric power industry by signing long-term contracts with energy producers.

2016 results	KPIs, 2016 performance	2017 plans
--------------	------------------------	------------

### Increasing production of high-quality and desirable coal products

SUEK's production exceeded 105Mt for the first time in the company's history.

During 2016, we developed a number of hard coal deposit sites, including the Magistralny mine in Kuzbass and the Nikolsky open pit in Buryatia. These will compensate for depleting capacities at nearby sites.

We increased the efficiency and output of the Komsomolets mine washing plant, exceeding the annual targets for this plant by 35%.

At our new Taldinskaya-Zapadnaya 1 washing plant, we achieved an annual total capacity utilisation of 87%, exceeding the 80% target.

TOTAL PRODUCTION	<b>105.4Mt</b>	<b>+8%</b> Year-on-year
TOTAL SALES	<b>103.1Mt</b>	<b>+2%</b> Year-on-year
COAL WASHED	<b>37.3Mt</b>	<b>+12%</b> Year-on-year

The company's priority is to increase the profitable production of high-quality and desirable coal products through the delivery of key investment projects along the value chain, with a key focus on production and washing.

We plan to sustainably increase our volume of washed coal to satisfy the growing demand for high-grade coals in premium markets.

We are committed to delivering our key investment projects in production and washing on budget and on time.

### Achieving balanced management of the reserves portfolio

The company is maintaining a sustainable, high-quality reserves portfolio of thermal and coking coal.

RESERVES <sup>1</sup>	<b>5.4Bt</b>
AVERAGE LIFE OF HARD COAL DEPOSITS	<b>over 30 years</b>

Our goal is to ensure a sustainable portfolio of high-quality thermal and coking coal in order to satisfy market demand and customer requirements.

We will continue to monitor attractive coal deposits.

### Strengthening our position in the Asia-Pacific market and retain our presence in the Atlantic market

SUEK's coal sales to Asia totalled 32.1Mt in 2016, 16% higher than in 2015.

Our 2016 coal sales to the Atlantic market totalled 19.8Mt, 3% over 2015.

Coal sales to the premium Japanese market increased by 6%.

We increased our presence in Poland, Turkey, Indonesia and the Baltic states through strategic partnerships and the acquisition of distributors.

TOTAL INTERNATIONAL SALES	<b>51.9Mt</b>	<b>+11%</b> Year-on-year
SALES TO ASIAN COUNTRIES	<b>32.1Mt</b>	<b>+16%</b> Year-on-year

We intend to enhance our presence in Japan, South Korea, Taiwan and premium markets in South-East Asia.

We plan to increase direct sales by further developing our distribution networks in China, South Korea, Poland and the Baltic states.

<sup>1</sup> SUEK's proven and probable reserves, according to the April 2011 report by SRK Consulting, amounted to 5.9 billion tonnes. Taking into account extraction between April 2011 and December 2016 and SRK's assessment of the Apsatsky coalfield carried out in 2015, these reserves stood at 5.4 billion tonnes as at 31 December 2016.

FOR KEY RISKS,  
SEE PAGES 42-49.



2016 results	KPIs, 2016 performance	2017 plans
--------------	------------------------	------------

### Retaining our position as the largest coal producer and supplier of thermal coal in Russia

<p>We remained the leading thermal coal supplier in Russia, with a market share of 40%.</p>	<p>SHARE OF SUPPLIES TO RUSSIAN THERMAL COAL MARKET</p> <p><b>40%</b></p> <hr/> <p>SALES TO RUSSIAN MARKET</p> <p><b>51.2Mt</b> <b>-6%</b> Year-on-year</p> <hr/> <p>SALES TO SGK</p> <p><b>23.8Mt</b> <b>0%</b> Year-on-year</p>	<p>We plan to maintain our leadership in the Russian market and to seek new opportunities to increase sales to Russian customers.</p> <p>We intend to continue selling coal to the major Russian energy producers – SGK, Unipro, Gazprom Energoholding, TGK-14, DGK and others.</p>
---	---	---

### Increasing sales in metallurgical and sized coal in premium markets

<p>International sales of metallurgical coal grew to 2.7Mt in 2016, while Russian sales totalled 0.4Mt.</p> <p>Our sized coal sales in 2016 totalled 2.8Mt, including sales of sized coal to Poland which increased by 30% compared with 2015.</p>	<p>METALLURGICAL COAL SALES TO INTERNATIONAL MARKET</p> <p><b>2.7Mt</b> <b>+50%</b> Year-on-year</p> <hr/> <p>METALLURGICAL COAL SALES TO RUSSIAN MARKET</p> <p><b>0.4Mt</b> <b>+95%</b> Year-on-year</p> <hr/> <p>SIZED COAL INTERNATIONAL SALES</p> <p><b>2.8Mt</b> <b>+22%</b> Year-on-year</p>	<p>We plan to develop our presence in the metallurgical coal export market through the sale of Kirova mine concentrate and by increasing supplies to customers in this sector in Asia.</p> <p>We also aim to increase sales of sized coal to international markets in a sustainable way, mainly through doubling sales to Poland and Turkey over the next few years.</p>
--	--	--

### Strategy in action



#### Developing assets to substitute for depleting capacities

The company has a coal-mining licence for the Nikolsky hard coal deposit located near the Tugnuisky open pit and washing plant. The Nikolsky deposit contains 270 million tonnes of mineable reserves. Nikolsky coal is high quality, and will facilitate the production of washed products with higher calorific value, thereby increasing the prospect of sales within premium markets. We actively developed the Nikolsky open pit in 2016 and produced the first million tonnes of coal from Nikolsky at year-end. Our target for 2017 is 2 million tonnes.

In 2016, we also accelerated the development of the Magistralny site in Kuzbass, which will enable us to retain the team from the November 7th mine, where reserves have been depleted. The tentative commissioning date for the first longwall panel at Magistralny is the end of 2017.

S2

## IMPROVING OPERATIONAL EFFICIENCY AND PRODUCTIVITY

We maintain efficient, low-cost coal production by refining our operational processes and modernising our equipment and production units. We will continue to improve internal management processes with the express intention of boosting the overall profitability of the business.

2016 results	KPIs, 2016 performance	2017 plans
--------------	------------------------	------------

### Improving the efficiency of production facilities and processes

We achieved a number of new productivity records in 2016:

- The Kotinskaya mine produced 1,050 tonnes of coal in one month from a longwall face – an all-time Russian record;
- SUEK reached 100Mt of production on 14 December;
- The Chernogorsky open pit set a new world excavation record using a Komatsu PC-4000 (1,075 tonnes per month).

Technological and automation upgrades and achievements in 2016 include:

- Commissioning of an ESh-20/90 dragline, with innovative switched reluctance drives for pull, lift and swing, at our Tugnuisky open pit. An upgrade of a dragline on this scale has never been undertaken in Russia before. All of the drives were manufactured at our own Borodinsky machinery and repair plant. This technology has reduced unit power consumption by 55% and increased productivity by 10%.

PRODUCTIVITY OF MINING UNIT PRODUCTION PERSONNEL

**489 tonnes per man-hour** +12%  
Year-on-year

ELECTRICITY CONSUMPTION PER UNIT OF OUTPUT

**13.7kWh** -1%  
Year-on-year

INVESTMENT IN MODERN MINING EQUIPMENT

**\$235m** +12%  
Year-on-year

We plan to increase overall production by improving our underground mine layouts (including expanding longwall length up to 400m), overcoming geological challenges in some reserve areas, improving operational efficiency and modernising equipment.

We also plan to continue implementing an energy-efficiency improvement programme across all our production sites.

FOR DETAILS, SEE PAGES 71-72.



We will remain focused on modernising our equipment as one of the levers for improved operational efficiency.

### Developing washing capacities to improve coal quality

During 2016, we upgraded the Polysaevskaya mine washing plant.

We increased the efficiency and output of the Komsomolets mine washing plant, exceeding the annual targets for the plant by 35%.

The new Taldinskaya-Zapadnaya 1 washing plant achieved an annual utilisation rate of 87%, exceeding the 80% target.

COAL WASHED

**37.3Mt** +12%  
Year-on-year

We intend to maximise the utilisation and improve the productivity of our coal-washing facilities.

Plans to increase our coal-washing capacities include the engineering of a new washing plant at the Kotinskaya mine and the expansion of the existing washing plant at the Tugnuisky open pit.

We will also improve and optimise the portfolio of products we offer at our coal-washing facilities.

### Strategy in action



#### Improvements in blasting and maintenance

In the first half of 2016, the company started to implement a new strategy for improving drilling and blasting operations. As part of this process, we identified the following key improvement factors: reducing the cost and consumption of explosives, and reducing drilling costs.

In 2016, we also began to implement a new technical policy, 'Labour-saving equipment for ancillary processes'. This has the objective of ensuring that systematic and standardised labour-saving equipment is provided for ancillary work and maintenance tasks. To date, we have developed generic solutions for equipping automotive, maintenance, installation and railway workshops and boiler houses under this policy.



## DEVELOPING COAL SUPPLY LOGISTICS

We plan to keep our costs under control by making focused investments. Increasing the loading capacity of our port facilities will maximise the exports we can ship from our own ports. Working with Russian Railways, we are also carrying out projects to reduce the time it takes to deliver coal by rail.

2016 results	KPIs, 2016 performance	2017 plans
--------------	------------------------	------------

### Developing the company's rail infrastructure and rail fleet

<p>In 2016, the fleet of higher-capacity railcars under SUEK's management grew by 30%, to 12,000 by the end of the year.</p> <p>We also received a new main-line locomotive at our Tugnuisky open pit, while our railcar turnover was improved.</p> <p>We continued our collaboration with Russian Railways to develop the traffic capacity of our own railway stations. Other key achievements in 2016 include:</p> <ul style="list-style-type: none"> <li>• Development of Murmansk station (to be completed in 2017);</li> <li>• Development of Vanino Bulk Terminal railway infrastructure (to be completed in 1H 2017);</li> <li>• Increase of Kamyshta station capacity for the Vostochno-Beisky open pit in Khakasia by 60%.</li> </ul>	<p><b>RAILCARS WITH HIGHER CAPACITY UNDER MANAGEMENT</b></p> <p><b>12,000</b> <b>+30%</b> Year-on-year</p>	<p>We aim to increase our loading-station capacity in line with production growth.</p> <p>We plan to acquire additional higher-capacity railcars. This will further reduce transportation costs and increase coal shipments through our port facilities.</p>
--	--	--

### Ensuring the efficient management of port facilities and expand our ship-loading capacity to maximise exports from Russia

<p>We continued to develop our Vanino Bulk Terminal. We commissioned the first and second facilities as part of our 'External development of Far East transportation hub's railway infrastructure' project.</p> <p>We also commissioned new portal cranes and other higher-capacity equipment at Murmansk Commercial Seaport and Maly Port and started expanding railway infrastructure at Murmansk Commercial Seaport.</p>	<p><b>SHIP-LOADING CAPACITY THROUGH OUR PORTS</b></p> <p><b>41.5Mt</b></p> <hr/> <p><b>SHIPPED THROUGH OUR PORTS</b></p> <p><b>36.5Mt</b> <b>+6%</b> Year-on-year</p>	<p>We intend to meet all our ship-loading needs through our own dedicated ports.</p> <p>We plan to increase the ship-loading capacity of Vanino Bulk Terminal to 24Mt by 2018, and of Murmansk Commercial Seaport to 16Mt by the end of 2017.</p>
---	---	---

### Strategy in action



#### Increasing coal shipment through Murmansk Commercial Seaport

In 2016, we began to modernise our railway infrastructure at Murmansk Commercial Seaport, with the aim of increasing the number of railcars handled to 600 units a day. Our main priority is to remove any constraints created by capacity limitations on the railway which leads to the port. We plan to complete the final stage of expanding the railway infrastructure in mid-2017, with the goal of achieving an annual shipment capacity of 16 million tonnes from this port.

We have also installed seven new portal cranes at the port and are using higher-capacity bucket grabs, which increase shipment capacity and suppress dust generation. We expect to install another six cranes in the next three years.

Murmansk Commercial Seaport is the largest year-round ice-free seaport north of the Arctic Circle. At the year-end SUEK held a 75.5% stake in the voting shares of the port. The port is able to service ships with a deadweight of up to 160,000 tonnes. It ships both bulk and general loads and provides regular access to the Atlantic Ocean and links to ports in Western Europe, the Mediterranean and on the eastern seaboard of the US.



## ACHIEVING HIGH SAFETY STANDARDS

All SUEK companies comply with leading international standards in occupational and industrial safety. Our fundamental aims are to reduce injury rates and prevent fatal accidents.

2016 results	KPIs, 2016 performance	2017 plans
<b>Promoting high international standards in health and safety</b>		
<p>SUEK continued to invest time and money in developing monitoring and safety alert systems.</p> <p>In 2016, as part of our commitment to continuous staff training and health and safety awareness, we equipped all our mining facilities with terminals for complex pre-shift examination. Now, before starting a shift, all miners take a test to check their knowledge on health and safety matters.</p> <p>The occupational health and safety management system for open-pit coal mining and processing in Khakasia was certified as conforming to the OHSAS 18001:2007 standard.</p>	<p>LTIFR</p> <p><b>0.94</b> <b>-24%</b> Year-on-year</p> <hr/> <p>FATAL ACCIDENTS</p> <p><b>3</b></p> <hr/> <p>INVESTMENTS IN HEALTH AND SAFETY</p> <p><b>\$48m</b></p>	<p>We are committed to ongoing investment and improvement in the monitoring and provision of safety alerts, particularly for ventilation, gas drainage and stone-dusting systems, and in the installation of modern explosion-proof starters.</p> <p>We plan to deliver additional personnel training programmes to help reduce the number of accidents at our sites.</p>

### Strategy in action



#### SUEK rescue team among leaders at the International Mines Rescue Competition in Canada

In 2016 SUEK's auxiliary mine rescue team placed 5th at the International Mines Rescue Competition (IMRC) held in Sudbury, Canada. For the first time in Russian history, a team of non-professional rescuers participated in the international rescue competition. To be a member of the team requires a high level of training. SUEK's team was headed by Oleg Yurchenko, an experienced rescuer and a member of Russia's Militarised Mine Rescue Unit for 15 years.

The IMRC has been held since 1999, and represents a unique opportunity for rescue teams of volunteers and professionals from around the world to meet and improve their mine rescue skills, while sharing technical and organisational knowledge and practical experience. In Sudbury, 27 teams from 13 countries (Canada, Russia, China, Poland, Australia, Ireland, the US, Slovakia, Vietnam, India, Colombia, and an Americas team) competed in six competitive events at the IMRC, including underground firefighting, first aid, mine rescue simulation, as well as in a technician competition and theory exam. The next IMRC will be held in Russia in 2018 in the city of Novokuznetsk, Kemerovo region.



#### Unified control and analytical centre

The company's head office features a unified control and analytical centre, where the objectives are to improve the quality and efficiency of managerial decisions and to prevent crisis and emergency situations. It aims to achieve these goals by conducting timely reviews, ensuring real-time access to information resources and videoconferences, and by conducting briefings using visualisation tools.

Our unified information space provides the technological basis for managing industrial safety at SUEK. For example, our IT-technologies, containing mine atmospheric safety and emergency preparedness solutions, help us to meet industrial safety standards, organise the operational management of production processes and improve planning efficiency. Our integrated industrial-safety system includes a range of key processes – from geology to surveying and power supply – and is implemented through our head office, regional offices and each individual mine.



## COMMITTING TO SUSTAINABLE DEVELOPMENT

Our aim is to contribute to global energy security by producing coal safely and sustainably, while also delivering value to all our stakeholders. Our environmental programmes are designed to minimise any negative impacts our business might have. SUEK also seeks to sustain its position as one of the most attractive employers in the Russian mining industry, primarily through the quality of our employee training and development programmes. In addition, through ongoing investment in environmental, public, educational and social projects, we aim to improve quality of life in the communities where SUEK operates.

2016 results	KPIs, 2016 performance	2017 plans
--------------	------------------------	------------

### Developing social infrastructure in the regions where we operate

We continued to collaborate with regional and municipal governments to develop social and educational infrastructure in the communities where we work.

We provided support for various local infrastructure development initiatives and gave financial assistance to 20 projects across Russia.

We continued to support charities and organisations that provide treatment and care for children. We extended our involvement in a care programme for children from coal-mining regions, which we run in cooperation with the Office of the President of the Russian Federation.

The company also worked on a range of educational programmes, including leadership, economic and social entrepreneurship programmes.

#### INVESTMENT IN PUBLIC AND SOCIAL PROJECTS

**\$15m**

#### NEW ORGANISATIONS CONTRIBUTING TO COMMUNITY DEVELOPMENT IN THE REGIONS WHERE WE OPERATE

**66**

**+18%**  
Year-on-year

SUEK has a long-term commitment to developing social infrastructure, and supports local communities in the regions where we operate.

We will continue to invest in key public and social projects.

### Reducing adverse environmental impacts

2016 key environmental projects included water treatment, reduction of greenhouse gas emissions and land rehabilitation.

In 2016, we utilised 8.55 million m<sup>3</sup> of methane captured from mines to generate heat and electricity, a 14% increase compared to 2015.

We constructed water-treatment facilities at the Kotinskaya mine.

At Murmansk Commercial Seaport, we continued to use higher-capacity grabs to suppress dust, reducing emissions by 20% over the last four years. In 2016, we launched a fog-generation dust suppression system, which allowed us to reduce dust generation by 49%. We carried out the pre-project modelling of shields that suppress over 80% of the dust generation.

SUEK Khakasia was certified in compliance with the ISO 50001:2011 energy management system.

SUEK signed environmental agreements with relevant regional governments, including plans for the construction of water-treatment facilities, installing fog-generation equipment (to decrease airborne dust) and other projects. Total expenditure to be involved amounts to \$40m.

#### INVESTMENT IN ENVIRONMENTAL ACTIVITIES

**\$11m**

#### METHANE UTILISATION

**8.55mln m<sup>3</sup>** **+14%**  
Year-on-year

#### SUSPENDED AND DISSOLVED SOLIDS IN WASTEWATER

**0.23kg per tonne**  
**of production -12%**  
Year-on-year

#### LAND REHABILITATED

**397ha**

**+85%**  
Year-on-year

SUEK aims to minimise its environmental impact by implementing appropriate programmes, including projects for reducing methane emissions and the construction of treatment facilities.

We will continue to implement energy-saving schemes by introducing automated energy-management systems. This will enable us to monitor and control energy consumption linked to mining equipment, and ultimately to decrease emissions.

By the end of 2017, we plan to complete the design works of dust-suppression shields at Murmansk Commercial Seaport, along with commissioning of storm water treatment facilities.

### Strategy in action



#### Creating comfortable living environment

In 2016, for the sixth consecutive year, SUEK ran a multi-regional competition for development projects to improve urban land. Called 'Comfortable Living Environment', the competition includes five categories: 'Cosy courtyard, cosy home', 'Beauty around us', 'Clean city – healthy future', 'Health zone' and 'Discovering Russia'. SUEK received 230 applications, almost a third of the total number of applications received over the past six years. Of these, 20 projects received financial support. The winners included the following proposals: new street lights for the town of Sagan-Nur and development of a playground in Nikolsk town in Buryatia; construction of a playground in Leninsk-Kuznetsky in Kemerovo; park landscaping in Primorye and in the Khabarovsk region; development of a sports ground in Khakasia; construction of a health and sports ground and a mobile library for children in the Krasnoyarsk region; creating an 'Autotown' ground for children to learn traffic regulations in Zabaikalye.