

# Strategy for growth

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





### 1 **Emphasising growth**

We want to enhance our position as the leading producer of thermal coal in Russia and to strengthen our presence in international markets, particularly in the Asia-Pacific region. Increasing the share of washed coal in SUEK's product portfolio is a major contributor to this growth. We also plan to develop sales of premium sized coal and to increase trading of semi-soft and hard coking coal with international and Russian metallurgical customers. All current and planned projects for developing new coal deposits indicate our growth potential. We expect to maintain the synergies from association with the Russian electric power industry by signing long-term contracts with energy producers.

 See pages 38-39 for more information.



### 4 **Achieving high safety standards**

We will ensure compliance with the best international standards in occupational and industrial safety in all areas where we operate and we will seek to reduce injury rates and to prevent fatal accidents.

 See page 42 for more information.



### 2 **Improving operational efficiency and productivity**

Our goal is to maintain low-cost coal production, re-equip our production units and further expand our mining assets. By modernising mining equipment and refining operational processes, we can improve the efficiency of our business.

We will continue to improve internal management processes and will benefit by maximising the value of the business.

 See page 40 for more information.



### 3 **Developing coal supply logistics**

Through focused investment, we plan to maximise the efficiency of coal transportation, including upgrades of stations that connect main rail lines to ports and end users and to increase the loading capacity of our port facilities.

 See page 41 for more information.



### 5 **Following the best corporate governance, social and environmental practices**

Our current programme of employee training and development will strengthen our reputation as one of the most attractive employers in the coal mining industry in Russia.

We plan to continue our investment in a number of public, educational and social projects to improve the welfare of people in the regions where we operate. In all aspects of our business, we aim to minimise any adverse impact on the environment.

 See page 43 for more information.

# 1 Emphasising growth

Strategic priorities	Increasing production of high-quality and desirable coal products	Balanced management of the reserves portfolio	Strengthening our position in the Asia-Pacific region and retaining our presence in the largest Atlantic markets
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<b>2014 results</b>	<p>In 2014, SUEK Group increased production by 2.4 million tonnes compared to 2013.</p> <p>The proportion of washed hard coal by the Group increased from 45% in 2013 to 49% in 2014. In late 2013 and first half of 2014 we started test operations at two units of the Chegdomyn washing plant. By the end of the year we had finished set up of the equipment.</p>	<p>In 2014, we continued to acquire licences for developing new coal mining areas in Kuzbass, Khakasia, and Urgal.</p>	<p>Our coal sales to Asia in 2014 totalled 26.3 million tonnes, which is 2% higher than 2013.</p>
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<b>KPI according to strategy</b>	<p><b>TOTAL PRODUCTION:</b></p> <p><b>98.9 Mt</b> </p>	<p><b>JORC RESERVES:</b></p> <p><b>5.5 Bt</b></p>	<p><b>TOTAL EXPORT SALES:</b></p> <p><b>45.6 Mt</b> </p>
	<p><b>AVERAGE LIFE OF HARD COAL DEPOSITS:</b></p> <p><b>over 30 years</b></p>		<p><b>SALES TO ASIAN COUNTRIES:</b></p> <p><b>26.3 Mt</b> </p>

<b>Plans for 2015</b>	<ul style="list-style-type: none"> <li>The Group's priority is to produce high-quality products which are in high demand in international and Russian markets;</li> <li>We are planning to expand open-pit mining in Urgal by developing an open-pit mine in the recently acquired Pravoberezhny area;</li> <li>To further improve the quality of our products, in 2015 we plan to launch a washing plant at Taldinskaya-Zapadnaya 1 mine;</li> <li>In 2015, we are also planning to increase shipments of coal to international markets by 8% through ports where the Group is one of the major shareholders.</li> </ul>	<ul style="list-style-type: none"> <li>The objective is to ensure a sustainable portfolio of high-quality thermal and coking coal which meets market demand. We will continue to monitor promising coal deposits.</li> </ul>	<ul style="list-style-type: none"> <li>We intend to enhance our presence in the Chinese market and to retain our position in Japan, Korea and Taiwan;</li> <li>We plan to increase direct sales by developing our recently established distribution networks in Shanghai and South Korea.</li> </ul>
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### Retaining our position as the largest coal producer and supplier of thermal coal in Russia

We managed to remain the leading thermal coal supplier in Russian market – the Group’s market share is 38%.

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

International sales of metallurgical coal amounted to 2.2 million tonnes, while Russian sales were 59 thousand tonnes.

In 2014, sized-coal sales totalled 1.8 million tonnes.

**RUSSIAN SALES:**

**49.7 Mt**  -1%

**SALES TO SGK (THE GROUP’S RELATED PARTY):**

**20.6 Mt**  +7%

**METALLURGICAL COAL INTERNATIONAL SALES:**

**2.2 Mt**  -19%

**RUSSIAN SALES:**

**59,000 t**  +379%

**SIZED-COAL INTERNATIONAL SALES:**

**1.8 Mt**  +22%

- We plan to retain our leadership in the Russian market and to seek new opportunities to increase sales;
- We intend to continue selling coal to the major Russian energy producers – SGK, E.ON, Gazprom Energoholding, TGK-14 and DGK.

- Following modernisation of two washing plants in Kuzbass, we are expecting an increase in production of semi-coking coal. We are planning to increase production of premium, low-ash, semi-hard, mid-volatile coking coal from Apsatsky open pit;
- We also intend to increase sales of semi-coking high-volatile coal in the new markets;
- We are planning to increase sales of sized coal to Poland through our dedicated distribution company – SUEK Polska, particularly in view of the plans of the Polish government to close loss-making coal mines.

### Strategy in action

#### New licences for coal development at Urgal



In order to expand the open-pit mining resource base, in 2014 we acquired a licence for developing the Pravoberezhny area at Urgal. In 2015, we commence the development of the project, which will enable us to mine 3-5 million tonnes per year in three to five years. By developing the existing Bureinsky open pit and commissioning mining operations in the Pravoberezhny area, the total capacity of Urgal can be increased to 12 million tonnes per year – and potentially more in the future.

At the end of 2013, we also commissioned the first unit of the Chegdomyn washing plant and in 2014 we commissioned the second. The annual design capacity of the washing plant is 6 million tonnes. As we increase production we are considering further expansion of washing capacity. The objective is to ensure supplies of high-quality product to Southeast Asia and to maximise profit due to short haulage distance to the major customers in that region.

## 2 Improving operational efficiency and productivity

Strategic priorities	Improving efficiency of production activities	Improving coal quality	Ongoing programme for modernising mining equipment
<p><b>2014 results</b></p>	<p>In 2014, we achieved a number of world and Russian records in terms of productivity, including:</p> <ul style="list-style-type: none"> <li>• World record in excavating raw coal in Khakasia;</li> <li>• World record in loading overburden into dump trucks using Bucyrus and Hitachi excavators at Tugnuisky open pit;</li> <li>• World record in gas drainage hole drilling rates in Kuzbass;</li> <li>• All-time Russian record in longwall rates at November 7th mine in Kuzbass.</li> </ul> <p>We continued to improve operational efficiency at the Tugnuisky open pit. In 2014, we introduced automated centralised lubrication systems for excavators and systems for monitoring tyre pressure on trucks. We also ran a pilot project for automated planning of diesel fuel consumption usage.</p>	<p>In 1Q 2014, we completed the upgrade of the Komsomolets washing plant by changing to a closed-fines circuit. This enables us to increase the clean coal yield and stop producing low-quality fines and slimes. We are bringing the washing plant to its design capacity.</p> <p>We started to construct a washing plant at Taldinskaya-Zapadnaya 1 mine.</p> <p>Our Tugnuisky washing plant has reached record-breaking processing capacity. In 2014, the plant processed 11.1 million tonnes of coal.</p> <p>In 2014, we commissioned units of the Chegdomyn washing plant in Urgal and completed setup of the equipment.</p>	<p>In 2014, we invested in new equipment. Most of it came from the major international manufacturers – Joy, Caterpillar, Komatsu, Liebherr, Terex and Bucyrus.</p>
<p><b>KPI according to strategy</b></p>	<p>PRODUCTIVITY OF PRODUCTION PERSONNEL:</p> <p><b>421</b> <b>+8%</b></p> <p><b>tonnes per person per month</b></p>	<p>COAL WASHED:</p> <p><b>32.1 Mt</b> <b>+14%</b></p>	<p>INVESTMENT IN MODERN MINING EQUIPMENT:</p> <p><b>\$215m</b></p>
<p><b>Plans for 2015</b></p>	<ul style="list-style-type: none"> <li>• The Group plans to increase overall production by improving underground mine layouts and further modernising equipment;</li> <li>• We also plan to continue to implement a programme for improving energy efficiency across all of our enterprises.</li> </ul>	<ul style="list-style-type: none"> <li>• We intend to fully utilise our coal washing facilities and to improve their productivity;</li> <li>• Our aim is to increase the production rate of Chernogorsky washing plant to 1,200 tonnes per hour;</li> <li>• In 2015, we are planning to prove that the capable operating capacity of Chegdomyn washing plant is 6 million tonnes per year.</li> </ul>	<ul style="list-style-type: none"> <li>• In 2015, we will continue to modernise mining equipment and will focus on strategically important and effective investment projects.</li> </ul>

### Strategy in action

#### Introduction of a programme for development of longwalls and roadways



In 2013, we adopted a strategy for developing longwall roads and permanent underground roadways. The main features of the strategy were:

- Reducing the required amount of development by rationalising mine layouts;
- Increasing development rates by improving organisation of work;
- Increasing productivity of the existing equipment and introducing new high capacity equipment;

- Optimising repairs, improving the employee motivation system and maintaining safety in the development sections.

As part of this strategy, in 2014 we introduced progressive layouts and managed to reverse the negative trend of reducing development rates – in 2014 we developed 94 km of roadways, 21% more than in 2013.



## Developing coal supply logistics

**Strategic priorities**

**Development of Group’s rail infrastructure and rail fleet**

**Efficient management of port facilities and expansion of our export ship-loading capacity from Russia**

**2014 results**

We implemented projects to expand the capacity of our internal railway stations. For example, we invested into expansion of Karasuk railway station, enabling us to remove logistical constraints in transporting coal from production units located in Khakasia to Russian Railway’s network.

In 2014, the Group’s rail fleet has been improved by new, higher-capacity rail cars able to hold 75 tonnes.

In 2014, we continued to implement a programme for developing Vanino Bulk Terminal, and it loaded 17 million tonnes in 2014.

We were working on establishing a ship refuelling system at Vanino Bulk Terminal.

**KPI according to strategy**

RAIL CARS WITH HIGHER CAPACITY:

**6,500**

THE ULTIMATE COAL SHIP-LOADING CAPACITY THROUGH DEDICATED PORTS:

**41 Mt**

**Plans for 2015**

- We plan to continue to develop and increase capacities of our dedicated loading stations in 2015;
- In 2015 we aim to add new, higher-capacity rail cars to our fleet to increase coal supplies to international markets from our production units located in Khakasia.

- We strive to cover all of our ship-loading needs within dedicated port capacity;
- We plan to increase the ship-loading capacity of Vanino Bulk Terminal to 24 million tonnes in 2015-2016.



**Strategy in action**  
**Increase of coal shipment through Vanino Bulk Terminal**

In order to strengthen the Group’s presence in the Pacific markets we have been systematically increasing our ship-loading capacity at Vanino Bulk Terminal. In 2013 we loaded 13.7 million tonnes of coal through the port while in 2014 we managed to load 17 million tonnes.

In 2014 we set records in daily unloading of rail cars and loading coal into ships as well as in the monthly ship-loading rate of 2 million tonnes. During 2014, Vanino Bulk Terminal proved that the port is capable of loading 24 million tonnes of coal per year.

However, bottlenecks in the external railway infrastructure leading to the terminal remain the major constraint in terms of maximising its loading capacity. In 2015-2016, we plan to remove these bottlenecks and increase the ship-loading capacity of the terminal to 24 million tonnes.

 For more information about Vanino Bulk Terminal refer to page 59.



## Achieving high safety standards

**Strategic priorities**

### Introducing high international standards in Health and Safety

**2014 results**

We have significantly improved the system of production supervision of industrial safety in our enterprises – we have developed a new Industrial Safety Policy and introduced new regulatory documents which include regulations on duty system, investigation of incidents and a unified methodology for risk assessment for open pits and underground mines.



Read more about our measures to improve safety on pages 82-84.

**KPI according to strategy**

FATAL ACCIDENTS:

LTIFR:

8

1.57 

**Plans for 2015**

- For 2015 we plan to continue investments to sustain and develop further systems for monitoring and providing safety alerts, particularly in relation to ventilation and gas drainage;
- We will continue to introduce modern warning and automation systems which reduce the level of human errors;
- We will further develop our safety culture through improved training of our employees.

### Strategy in action 'Mining Olympics 2014'



In August 2014, JSC SUEK hosted a competition of mining professional skills in several of our operating regions associated with the annual Miners' Day in Russia. All leading coal mining companies in Russia participated in the event. The total number of participants was 486 and competitions in 32 coal mining categories were held.

This was an opportunity for participants to share experiences and ideas in their professional fields. The underlying theme of the event was health and safety in mining.



For more information refer to page 88.

**5**

**Following the best corporate governance, social and environmental practices**

**Strategic priorities**

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

**Reducing adverse environmental impact**

**2014 results**

We are actively cooperating with regional and municipal governments to develop social infrastructure in the regions where we operate. For example, in 2014 we constructed a sports playground in Novaya Chara located in North Zabaikalye nearby our Apsatsky open pit.

We continued to upgrade the living environment in Sagan-Nur town nearby Tugnuisky open pit and carried out a number of social projects – for example the ‘Work teams’ project.

We used modern technologies to reduce general adverse impacts of our operations on the environment. We designed and constructed water treatment plants, implemented projects for reducing methane emissions (greenhouse gases) as a result of gas drainage activities, and improved land rehabilitation.

We commissioned several projects which enable us to reduce energy consumption and minimise cost. Our production units in Kuzbass, Buryatia, Khakasia, Urgal and Apsatsky open pit are now utilising modern energy-efficient equipment and energy management systems.

**KPI according to strategy**

**INVESTMENT IN PUBLIC AND SOCIAL PROJECTS:**

**\$16m**

**INVESTMENT IN ENVIRONMENTAL ACTIVITIES:**

**\$80m**

**Plans for 2015**

- We will continue to invest in suitable public and social projects.
- We will strive to minimise our adverse environmental impact by implementing appropriate programmes and by modernising our operations, including projects for reducing methane emissions;
- We will continue to implement energy saving programmes by the introduction of automated energy management systems. This will enable us to control energy consumption by monitoring mining equipment energy consumption rates.



**Strategy in action**  
**JSC SUEK’s ‘Work teams’**

The project is an example of effective public/private partnership and is based on co-funding with regional employment offices and municipal authorities.

The idea behind the project is to pay senior high school students from mining cities and towns to improve their living environment. It is not only children of employees who do this work but other children including those with disabilities or from families with low incomes.

The project started in Krasnoyarsk region in 2005. At present, it is running in Kemerovo region, Primorye, Khabarovsk, Buryatia and Khakasia. In 2014, 1,090 school children were working in JSC SUEK’s ‘Work teams’. In 2015 we are planning to set up the project in Zabaikalye.