

29 January 2020

JSC SUEK (“SUEK”, “the Group” or “the Company”) has published its financial results for the year ended 31 December 2019, prepared in accordance with IFRS and audited by KPMG.

Key Group highlights

- Total revenue of \$7,547 million, a 9% decrease year-on-year reflecting lower prices in international coal markets
- EBITDA for the full year reached \$2,115 million, a 17% decrease year-on-year corresponding to lower Group revenues, partially offset by a strong contribution from the Energy Segment
- EBITDA margin for the year was a solid 28%
- Net profit for the full year amounted to \$706 million

Vladimir Rashevsky, Chief Executive Officer of SUEK, commented,

“Despite a challenging year for the coal markets globally, SUEK generated robust cash flow in 2019 and demonstrated a stable performance across all business segments. Our mining, washing, power, transportation and sales assets enable us to benefit from the new synergies arising from the Group’s vertical integration and diversification. By further enhancing our operational efficiency and focusing on stringent financial control, alongside timely investments, in 2019 we solidified our competitive advantages, and we are confident SUEK is well placed to deliver on our purpose for the benefit of all stakeholders even in difficult market situation”.

SUEK’s combined operating activities generated \$2,059 million of operating cash flow, representing an 8% year-on-year increase as the Company focused on working capital optimisation.

Consistent with its strategy, the Company made good progress with its capacity development programme. Total CAPEX grew by 10% year-on-year to 994 million, reflecting major investments aimed at increasing coal washing capacities, improving environmental and health and safety performance, upgrading power capacities and the development of logistics assets.

In addition, as part of the Company’s strategy to boost its competitive advantages for the long-term, SUEK made a number of strategic acquisitions in 2019. In order to improve its self-sufficiency in transportation, the Company acquired 16,024 higher-capacity railcars. The Company also completed the strategic acquisition of the Reftinskaya power plant^[1], with a capacity of 3.8 GW, located in the Urals, enabling SUEK to strengthen its position in the resilient Russian energy market and benefit from the favourable energy price zone in the Urals. As a consequence of the acquisitions, there has been a temporary increase in SUEK’s net debt and net debt to EBITDA ratio, which was 3.1x as at the year-end.

SUEK maintained its international credit ratings, with Ba2 from Moody’s, BB from Fitch and ruAA- from Expert RA, which is a further testament to the Company’s resilient business model.

Coal Segment

SUEK’s external coal revenue decreased by 15% to \$4,877 million impacted by substantially lower global coal prices. This was largely due to excess gas volumes on the market, which resulted in lower demand for coal in the Atlantic region, coupled with a relatively warm winter in the Atlantic and North East Asia.

SUEK’s international coal sales volumes were 3% lower year-on-year at 53.8 million tonnes due to negative market environment. The majority of SUEK’s international sales were to Japan, South Korea, China and Southeast Asian countries, with the Netherlands and Germany also remaining significant supply destinations. Russian coal supplies increased by 1.5 million tonnes to 59.9 million tonnes, reflecting increased deliveries to the Group’s power plants.

Coal production decreased by 4% to 106.2 million tonnes as SUEK used the bottom of the cycle to upgrade its mines and prepare for a potential increase in production.

With the launch of a second washing plant at Tugnuisky, the Company continued to focus on the the strategic goal of increasing its production of high-CV coal for the prospective Asian market.

Energy Segment

The Company's installed power capacity increased by 35% year-on-year to 14.7 GW as a result of the acquisition of the Reftinskaya GRES. The corresponding increase in electricity sales was 10%, reaching 55.2 billion KWh. As a result, revenue from the sales of electricity, heat and capacity reached \$2,132 million, a 4% growth year-on-year supported by sales from the new assets, as well as rising prices for capacity in a competitive market and year-on-year electricity prices in Siberia due to the influence of a higher price Zone 1 (the European part).

Heat energy sales decreased by 5% year-on-year to 35.3 million Gcal reflecting unusually high outdoor temperatures which led to lower demand.

In addition to the acquisition of the Reftinskaya GRES, in December 2019 SUEK agreed to acquire Krasnoyarskaya GRES-2 to be completed in 2020.

Logistics

In 2019, SUEK increased its managed railcar fleet to over 53,000 railcars following the acquisition of innovative railcars. As a result, the Company manages one of the largest higher-capacity railcar fleets in Russia and was able to cover over 80% of its transportation needs with its managed railcars and limit the rise in transportation costs.

In addition, SUEK transhipped 40.9 million tonnes of coal and other goods through its ports, covering over 80% of its exported coal transshipments. The Vanino Bulk Terminal transhipped a record 20.5 million tonnes during the reporting year. The 5% year-on-year increase resulted from its prior development of capacity at the Vanino Bulk Terminal and Murmansk Commercial seaport.

Key financial and operational figures^[2]:

	2019	2018
REVENUE, \$ MILLION	7,547	8,296
EBITDA, \$ MILLION	2,115	2,541
NET PROFIT, \$ MILLION	706	1,164
NET DEBT/BANK EBITDA ^[3] RATIO	3.1x	1.6x
OPERATING CASH FLOW, \$ MILLION	2,059	1,901
CAPITAL EXPENDITURE (CAPEX) ^[4] , \$ MILLION	994	903
COAL PRODUCTION, MILLION TONNES	106.2	110.4
COAL AND OTHER PRODUCTS SALES, MILLION TONNES	115.1	115.6
- INCLUDING INTERNATIONAL COAL SALES ^[5]	53.8	55.4
- INCLUDING DOMESTIC COAL SALES	26.2	28.2

AND INTRAGROUP COAL SALES	33.7	30.2
- INCLUDING PETROLEUM COKE AND OTHER PRODUCTS SALES	1.4	1.8
TRANSSHIPMENT THROUGH OWN PORTS, MILLION TONNES ^[6]	40.9	38.8
ELECTRICITY OUTPUT, BILLION KWH	51.5	46.2
HEAT OUTPUT, MILLION GCAL	43.5	46.0
POWER CAPACITY SALES, GW	10.0	9.2
ELECTRICITY SALES, BILLION KWH	55.2	50.0
HEAT SALES, MILLION GCAL	35.3	37.2

^[1] The financial results of the Reftinskaya power plant have been consolidated into SUEK Group's financial statements starting from October 2019.

^[2] SUEK IFRS consolidated annual financial statements for the year ended 31 December 2019 are available at <http://www.suek.ru/investors/disclosure/>.

^[3] Bank EBITDA is calculated in accordance with SUEK loan agreements.

^[4] Cash outflow, excluding purchase of 16,042 railcars and Reftinskaya GRES.

^[5] Including own coal and coal purchased from third parties.

^[6] Including third-party coal and other goods transshipment (1.3 Mt in 2019, 0.8 Mt in 2018) at Murmansk Commercial Seaport.