SUEK

29 January 2021

JSC SUEK ("SUEK", "Group" or "the Company") has published its financial results for the year ended 31 December 2020, prepared in accordance with IFRS and audited by KPMG.

Key Group highlights

- Group Revenue totaled $6.7bn, a 12% decrease year-on-year reflecting lower prices in international coal markets
- EBITDA for the full year reached $2bn, a 9% decrease year-on-year corresponding to lower Group revenues, partially offset by a strong contribution from new energy and logistics assets
- Capacity and electricity sales volumes rose 46% and 24%, respectively
- EBITDA margin for the year was a solid 30%
- Operating cash flow reached $1.7bn
- Net profit for the full year amounted to $0.2bn

Stepan Solzhenitsyn, CEO of SUEK, commented:

"2020 was a challenging year both for people and for industry amidst the COVID-19 pandemic. I would like to extend my deep gratitude to our employees. In this challenging environment they have helped to ensure uninterrupted supply of our products, which are vital to provide reliable energy to millions of people, including homes, hospitals and major industries. They have also given their time to support our local communities, providing transport and other volunteer services for local doctors and helping families in need.

Our solid financial performance demonstrates that SUEK's chosen strategy aimed at business diversification proved resilient to macro challenges. While coal consumption and prices were subdued due to a general decline in industrial production, we increased the share of EBITDA generated from our more stable business by expanding the scale of heat and electricity supplies. Meanwhile, our logistics business, supported by the addition of new terminals and railcars, demonstrated its competitiveness on the external market. We are confident that this business will contribute to a significant share of the Group's total revenue going forward."

The Company's revenue decreased by 12% year-on-year to $6,683m. The growth in revenue from the Energy and Logistics Segments, supported by the acquisition of new assets, partially offset the drop in Coal Segment revenues caused by lower fossil fuel prices during the majority of the year amidst the COVID-19 pandemic.

EBITDA amounted to $1,973m, a 9% decline year-on-year, reflecting lower revenues. Nevertheless, strict cost control and the weaker rouble helped us to maintain stable margins. The Group's net profit fell to $194m due to a revaluation of foreign currency debt.

SUEK's combined operating activities generated $1,669m of operating cash flow enabling us to continue with our key investment projects. The CAPEX for capacity development and maintenance amounted to $965m, 3% down year-on-year.

The Company started investment projects at Krasnoyarsk CHPPs 1 and 3 and Tom-Usinskaya GRES as part of the thermal power modernisation programme, and we continued our efforts to replace old standalone boiler facilities in order to boost the efficiency of heat and electricity cogeneration and improve environmental performance. In June, a flotation unit was commissioned at the Kirov washing plant for deep coal processing, allowing us to increase production of high-quality coal with a calorific value of more than 6,600 kcal/kg and reduce waste. We have also continued developing our Buryatia and Khabarovsk mining and washing assets and the Vanino Bulk Terminal to support growing supplies to Asia-Pacific. As usual, a significant proportion of SUEK's CAPEX was committed to health, safety and environmental projects, including construction of water treatment facilities.

As part of the Company's strategy to boost its competitive advantages for the long-term, SUEK also made a number of strategic acquisitions in 2020. We continued to strengthen our energy capacities, acquiring Krasnoyarskaya GRES-2 in Siberia and expanding the geographic footprint of our energy business to the Far East as we purchased the region's largest power plant, Primorskaya GRES. We also diversified our logistics business, acquiring fertiliser transhipment terminals in Murmansk and Tuapse.

As a consequence of the strategic acquisitions of the past two years, there has been a temporary increase in SUEK's net debt and net debt to EBITDA ratio, which stood at 3.3x as at the year-end.

SUEK's credit ratings were confirmed in April and June 2020 by international credit agencies, Moody's at Ba2 and Fitch at BB, with a negative outlook. Expert RA, a Russian credit agency, lowered its rating to ruA+ with a stable outlook.

The Company also received its first comprehensive ESG evaluation, from S&P, demonstrating that the Company compares positively to industry and local averages, with "good" environmental and social profiles and "strong" corporate governance practices.

Coal Segment

In the first eight months of the year, the coal export market was impacted by reduced electricity consumption resulting from pandemic-related lockdowns and low gas prices. Although prices had recovered by the year end, the year-on-year average decline in major price benchmarks amounted to 20%.

At SUEK's Coal Segment, external revenue declined by 21% compared to 2019, to $4,057m, reflecting falling global prices, while the Company's international sales volumes remained stable year-on-year at 53.8 Mt. The majority of SUEK's international sales (67%) were to Japan, South Korea, China and Southeast Asian countries, with Germany, the Netherlands and Morocco also remaining significant supply destinations. The 1 Mt (2%) reduction in supply to the domestic market was a result of lowered coal-fired station generation due to the warm winter 2019-2020 and increased output from hydroelectric stations.

Coal production decreased by 5% year-on-year to 101.2 Mt amidst weaker domestic demand. Meanwhile, we increased coal washing by 7% to grow output of high-CV coal. As a result, we achieved our target of washing 100% of exported coal, which supports our sales into margin-attractive market segments.

Energy Segment

In 2020, the Company continued to expand its energy business and completed the planned acquisition of Krasnoyarskaya GRES-2, with a capacity of 1.3 GW, and Primorskaya GRES, with a capacity of 1.5 GW, bringing the total installed capacity up 19% year-on-year to 17.5 GW.

Capacity sales grew by 46% and electricity sales grew by 24%, as the sales of newly purchased assets in the second half of 2019 and in 2020 compensated for lower electricity sales in Siberia. This was due to a general decline in electricity consumption, reflecting the impact of the COVID-19 pandemic and above average precipitation and snow melt leading to above normal water supply into Siberia's hydropower generation systems.

Heat output for the year remained stable year-on-year at 43.7 MGcal as the addition of new customers in Krasnoyarsk, Kemerovo, Altai and Novosibirsk regions compensated for the impact higher ambient temperatures at the beginning of 2020.

The increase in capacity and electricity sales volumes secured 6% year-on-year revenue growth at the Company's Energy Segment, to $2,374m, despite the negative impact on SUEK's US Dollar revenue from the weakening rouble.

Logistics

In the second half of 2020, SUEK took under management, and then acquired, Murmansk Bulk Terminal and Tuapse Bulk Terminal, which transship fertilisers, iron ore and other bulk goods. As a result, SUEK became one of the largest Russian bulk stevedoring companies. The Company's transshipment volumes grew to 46.6 Mt, with the share of non-coal transshipment reaching 15%. Vanino Bulk Terminal (Daltransugol), our major port, focused on satisfying the growing demand from Asia and reached another transshipment record of 23.2 Mt, while the Company started a project to expand the Terminal's capacity to 40 Mt.

SUEK's railcar fleet exceeded 52,000 units at the end of 2020. In the reporting year, the total volume of different types of loads transported by SUEK's railcar fleet rose by 6% to 109.8 Mt.

Reflecting this growth in third-party volumes, SUEK consolidated its railcar and port assets under the new brand name of National Transportation Company (NTC), as part of the SUEK Group.

The Logistics Segment's external revenue in 2020 amounted to $252m.

Key financial and operational figures[1]:

	2020	2019

REVENUE, $M	6,683	7,638
EBITDA, $M	1,973	2,168
NET PROFIT, $M	194	749
OPERATING CASH FLOW, $M	1,669	2,125
CAPEX, $M[2]	965	994[3]
COAL PRODUCTION, MT	101.2	106.2
COAL AND OTHER PRODUCTS SALES, MT[4]	114	115.1
- INTERNATIONAL COAL SALES	53.8	53.8
- DOMESTIC COAL SALES	58.9	59.9
INCL. INTRAGROUP COAL SALES	37.1	33.7
- PETROLEUM COKE AND OTHER PRODUCTS SALES	1.3	1.4
ELECTRICITY OUTPUT, BKWH	63.7	51.5
HEAT OUTPUT, MGCAL	43.7	43.5
POWER CAPACITY SALES, GW	14.7	10.0
ELECTRICITY SALES, BKWH	68.2	55.2
HEAT SALES, MGCAL	35.4	35.3
TRANSSHIPMENT, MT	46.6	40.9
- COAL[5]	39.7	39.6

- OTHER BULK LOADS	6.9[6]	1.3
RAILCAR TRANSPORTATION, MT	109.8	103.7

[1] SUEK IFRS consolidated annual financial statements for the year ended 31 December 2020 are available at http://www.suek.com/investors/disclosure/.

[2] Cash outflow.

[3] 2019 figure in this table does not include the purchase of 16,025 high-capacity railcars for $357m.

[4] Including own coal and coal purchased from third parties.

[5] Including third-party coal transshipment.

[6] Including transshipment of Murmansk Bulk Terminal from 1 July 2020 and Tuapse Bulk Terminal from 1 October 2020.