

# Focusing on the issues that matter

In defining our strategic priorities and the content of our corporate reports, we analyse the matters that are most important to the company, our value-creation processes and our stakeholders.

By continuously monitoring our operational, financial and social activities, and working to identify any interrelated and significant material matters, we are able to better understand the impact that our business has on the world around us, and of how our future value creation may be impacted by our stakeholders.





Material issue	Context 2019	Potential impact on our value creation	How we responded
<p><b>M1</b> Financial stability and development prospects</p>	<p>In 2019, the global coal market saw a significant decrease in key coal price indices under the pressure of lower gas prices, still Asian high-CV coal market demand remained steady due to limited supply of premium quality coal.</p> <p>Continued restrictions on the financing of coal projects, imposed by a number of banks following the Paris Climate Change Agreement.</p>	<p>A significant reduction in coal prices and limited financing available for core activities could adversely affect the company's financial stability and operations.</p> <p>Limited diversification of our international debt portfolio and the necessity to attract higher-cost financing from Russian banks instead of coal-exiting European banks could impact SUEK's financial results.</p>	<p>Consolidation of the energy business in 2018 diversified SUEK's cash flow, decreasing EBITDA dependence on volatile global coal prices, and ensured predictable and stable financial results amidst falling market prices, enabling the Group to maintain its credit rating.</p> <p>In the coal segment, operational efficiency and flexibility of our investment programme helped keep costs down and maintain profitability.</p> <p>In 2019, in addition to traditional financing instruments such as pre-export syndicated loans and loans related to the purchase of imported mining equipment backed by export agencies, SUEK took advantage of the local bond market, which became available due to a significant reduction in the Russian Central Bank key rate, and placed two offers of Russian bonds totalling RUB 41 bn (\$633m).</p>
<p><b>M2</b> Industrial safety and emergency preparedness</p>	<p>Coal mining is associated with high production risks related to natural and man-made hazards, mining and geological factors, regularly changing working conditions and the human factor. Work at power plants and heat networks is also associated with high risks to human life and health.</p> <p>Despite all our efforts, in 2019 there were eight fatal accidents at the company's coal and energy facilities.</p>	<p>Industrial accidents and emergencies could potentially result in a number of tragic and adverse consequences: loss of life, direct property or environmental damage, temporary suspension of operations and, consequently, losses and fines, social unrest, or damage to business reputation. They could encourage partners to discontinue business relationships or lenders to demand early loan repayments.</p>	<p>We thoroughly investigated all accidents and incidents, took actions to prevent their re-occurrence in the future, and reiterated our commitment to zero tolerance for accidents and breaches of safety requirements.</p> <p>In early 2019, we started the transition to the new ISO 45001:2018 Standard across the Group.</p> <p>LTIFR dropped to 0.72 for our coal and to 0.24 for our energy facilities. These figures are among the lowest for the coal and energy industries in Russia and abroad.</p>
<p><b>M3</b> Product quality and high-value products</p>	<p>In 2019, despite international coal price volatility, the demand for high-CV coal remained at a consistently high level due to the growing number of new, high-efficiency coal-fired power plants consuming premium-quality coal, and reflecting tighter environmental standards.</p> <p>In Russia, the issue of heat energy supply quality is becoming increasingly important to consumers. The progressive deterioration of local heat networks is increasing the risk of supply disruptions.</p>	<p>Stricter requirements from new coal-fired power stations and tighter domestic and international environmental coal quality standards could lead to lower demand for lower-grade coal. This trend could influence the company's financial and operational performance.</p> <p>Incidents on heat networks and restrictions to heat supplies reduce customer satisfaction with the quality of services.</p>	<p>We invest in the development of high-grade coal deposits and continuously expand our washing capacities.</p> <p>In 2019, SUEK increased its share of washed hard coal to 62%.</p> <p>In June 2019, a second washing plant was piloted at Tugnuisky. Additional equipment was also installed at the first plant to boost the efficiency of coal processing.</p> <p>In the Energy Segment SUEK has developed, and proposed to local authorities, investment projects to modernise the heat supply systems in the cities where SUEK operates, which would significantly improve the quality of heat supply.</p>

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<p><b>M4</b> <b>Operational efficiency</b></p>	<p>In the coal segment, with prices falling to a level close to the margin of profitability in a number of key markets, operational efficiency was critical to optimising costs and maintaining profitability and competitiveness.</p>	<p>Inefficient production processes can increase costs and decrease product quality, consequently diminishing the company's competitive advantages.</p>	<p>Due to the high operational efficiency achieved through continuous improvements in operational processes and timely investments in equipment and staff training, SUEK continues to achieve a strong financial performance during lows in the market cycle.</p> <p>We also focused on the development of our logistics business, which represents one of our key cost factors. We expanded our fleet of high-capacity railcars and optimised our routes, enabling us to contain the growth of rail transportation costs and ensure that we can meet our own railcar needs by more than 80%.</p> <p>The consolidation of the coal and energy businesses has made it possible to optimise utilisation rates at mining facilities and fuel supplies to generating companies and refine administrative functions within the consolidated company.</p>
<p><b>M5</b> <b>Environmental impact of the company's operations</b></p>	<p>Environmental and climate issues are becoming increasingly important to SUEK's product consumers, financial institutions and residents of local communities.</p> <p>Ratification of the Paris Agreement by Russia in 2019 drew increased public attention to carbon regulation and the responsibility of business to protect the environment.</p>	<p>In the event of environmental damage or degradation, there could be claims from supervisory bodies, financial institutions or potential investors.</p> <p>These claims could, in turn, influence the company's production and financial performance; negatively affecting our ability to raise funds through the debt market.</p>	<p>In 2019, SUEK continued to implement its Environmental Policy 2023 and closely monitored national carbon regulation developments.</p> <p>We are updating our energy strategy to take into account our long-term sustainable development goals and the needs of society. Thus, we are implementing a Comprehensive Emission Reduction Plan in the cities of Krasnoyarsk and Novokuznetsk, including the construction of taller chimneys and the installation of new filters and substitution of inefficient standalone boilers with co-generation power plant heat.</p> <p>We also utilise mine methane, waste oil and other carbon-containing waste for heat generation and use solar panels for local power generation at coal production sites and social facilities.</p> <p>In 2019, SUEK received approval from the authorities for its projects on utilisation of ash and sludge waste from power generation as materials for land reclamation and construction.</p>