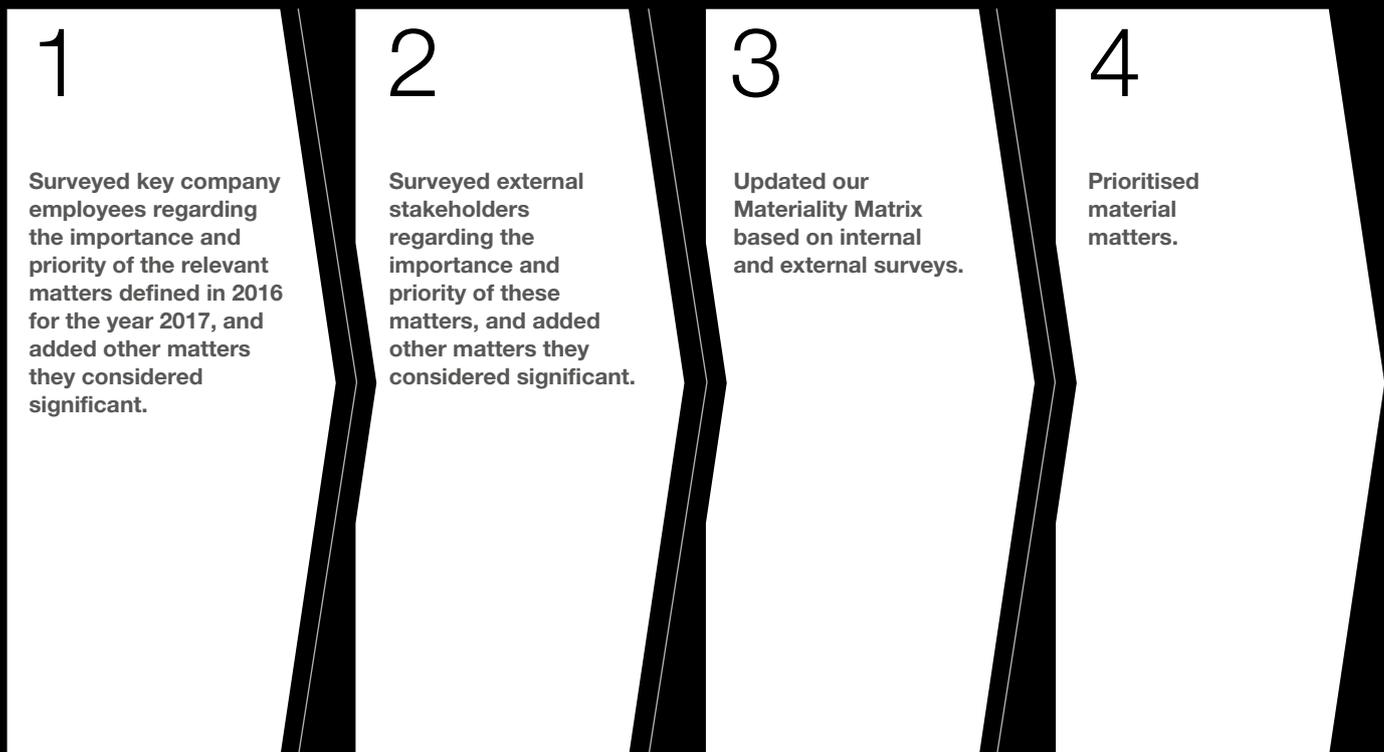


# DEFINING THE ISSUES THAT MATTER

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.

Continuous monitoring of our operational, financial and social activities, along with the identification of interrelated and significant material matters, gives us a better view of the impact that our business has on the world around us, and of how our future value creation may be impacted by our stakeholders.

## TO DEFINE MATERIALITY, WE:



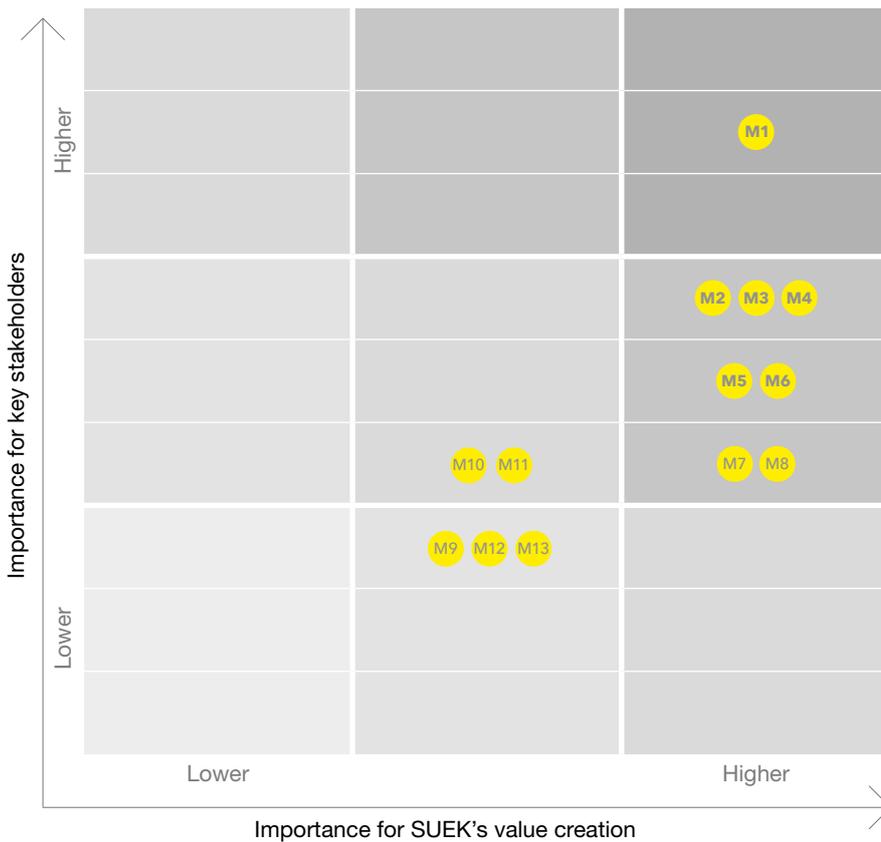
We define 'material matters' as those which are of significance to the company's value creation potential, and those which are important to our key stakeholders. In preparing this Annual Report, we conducted a thorough analysis of the external and internal environment, carried out surveys among our employees, and interacted with a number of external stakeholders.

Through this process, we identified relevant matters, which we believe are important for the growth, success and sustainability of our business, such as reputation, financial performance, delivery of strategy and licence to operate.

In 2017, we updated our Materiality Matrix and used it to assess our long-term goals, strategic priorities and governance. We also used it to support the content and development of this Report.

In total, we identified 13 key issues, of which the first six were deemed the most material for the year:

### MATERIALITY MATRIX 2017



#### Key material matters

- M1 Financial stability and development prospects
- M2 Product quality and high-value products
- M3 Industrial safety and emergency preparedness
- M4 Environmental impact of the company's operations and management
- M5 Production efficiency
- M6 Corporate governance and risk management

#### Other important matters

- M7 Fair remuneration and social support for employees
- M8 Human resources policy and labour relationships
- M9 Staff training, including training for new jobs
- M10 Development of local communities
- M11 Clear specifications and requirements for suppliers and support for local suppliers
- M12 Mutual adherence to business ethics
- M13 Company's role in the development of mono-industry towns

Material issue	Context 2017	Impact on our value creation	How we responded
<p><b>M1</b></p> <p><b>Financial stability and development prospects</b></p>	<p>In 2017, the recovery of coal prices – which began in 4Q 2016 – continued. Nevertheless, restrictions on the financing of coal projects, imposed by a number of banks following the Paris Climate Change agreement, persisted.</p> <p>Restrictions on the financing of Russian companies introduced by international banks also remained in force due to geopolitical issues.</p>	<p>Inability to finance our operating activities could adversely affect the company's operations and business as a whole. An increase in the cost of investment and operating costs, as well as the need to attract more financing, may impact SUEK's financial results.</p>	<p>SUEK demonstrated that the company has a positive cash flow, sustainable margins and comprehensive environmental programmes. This enabled us to secure a \$1bn pre-export finance facility from a pool of international banks in May 2017 and \$1bn in March 2018.</p>
<p><b>M2</b></p> <p><b>Product quality and high-value products</b></p>	<p>In 2017, many Pacific countries increased demand for higher-quality coal. This was due to tighter environmental regulations and the introduction of more efficient coal-fired plants requiring higher grades of coal.</p> <p>The 2017 International Energy Outlook forecasts that by 2040, around 400 GW of new supercritical and 235 GW of new ultra-supercritical coal-fired power generation will be built. It also predicts that the share of coal-fired subcritical plants will drop from around 60% today to less than 40% in 2040. The new plants will require high-quality coal.</p>	<p>Tighter domestic and international environmental standards on coal quality, and stricter requirements from new coal-fired power stations, may result in a lower demand for lower-grade coal. This trend could influence the company's financial and operational performance.</p>	<p>We invest in the development of high-grade coal deposits and improve washing capacities to meet demand for higher-quality products from international markets. In 2017 SUEK increased washing capacities by 12% and approved projects to build new washing capacities.</p> <p>We also develop sales of sized and metallurgical coals. In 2017, we increased sales of higher calorific thermal coal and coking coal by 60% and 10% respectively.</p>
<p><b>M3</b></p> <p><b>Industrial safety and emergency preparedness</b></p>	<p>Coal mining is associated with risks related to geological factors, technical conditions within mines, emergency situations and human error. These risks are of ongoing major importance to the company, its employees and the regulatory authorities. Despite all our efforts, in 2017 there were three fatal accidents at the company's production facilities. We deeply regret this loss of life and extend our condolences to the families and friends of the deceased.</p>	<p>Industrial accidents and emergencies may result in human fatalities, environmental damage or suspension of operations. Subsequently, they can result in direct losses for the company, fines, reputational damage, discontinued business partnerships and relationships, or claims from lenders for early loan repayments.</p>	<p>SUEK implements a comprehensive health and safety programme, including the promotion of international safety standards and zero-tolerance to accidents.</p> <p>We conducted thorough investigations of every accident, with the aim of preventing them in the future.</p> <p>We also provided employee training, modern personal protective equipment and continued the modernisation of production facilities.</p> <p>In 2017, these measures enabled us to maintain our LTIFR at 1.0, which is one of the lowest levels in the Russian and global coal-mining industries.</p>

Material issue	Context 2017	Impact on our value creation	How we responded
<p><b>M4</b></p> <p><b>Environmental impact of the company's operations and management</b></p>	<p>The year 2017 was the Year of Ecology in Russia. In this context, Russian authorities continued their efforts to change environmental legislation and tighten environmental standards, which began in 2014. These changes encourage companies to adopt the best available technology and impose more severe sanctions for excessive environmental impacts.</p> <p>Environmental responsibility issues are becoming increasingly important for SUEK's product consumers, financial institutions and potential investors.</p>	<p>In the event of environmental damage or degradation, there may be claims from supervisory bodies, as well as on the part of financial institutions and potential investors. These claims could, in turn, influence the company's production and financial performance indicators, and negatively affect our ability to raise funds through the debt market.</p>	<p>In 2017, SUEK adopted a new environmental strategy, which will help ensure full operational compliance with environmental standards by 2023. The fundamental principle of the new policy is to minimise our environmental impact by reducing emissions of harmful substances and maximising the recycling of production waste.</p> <p>The company increased coal washing rates, thereby reducing the environmental impact of our products during their transportation and use.</p> <p>We are constantly improving the disclosure of information relating to environmental protection and in 2017 adopted the new GRI Standards.</p>
<p><b>M5</b></p> <p><b>Production efficiency</b></p>	<p>Following the appreciation of the Russian Rouble compared to the previous year, SUEK focused on production efficiency and cost optimisation in order to maintain profitability and competitiveness in the global market.</p> <p>Furthermore, tighter environmental regulations following the Paris climate change agreement and an increase in the number of highly efficient coal-fired stations have increased demand for higher-quality coal.</p>	<p>Inefficient production processes can increase costs and decrease product quality, consequently diminishing the company's competitive advantages.</p>	<p>SUEK carries out modernisation programmes, substituting outdated equipment at mining and washing facilities and ports with more efficient and innovative kit. For example, in 2017 we launched a higher-capacity 400 m longwall in the Yalevskogo mine. We analysed business processes to make them more effective and efficient. Increasing the utilisation rate at existing plants enabled us to increase washing volumes by 12%. SUEK also paid particular attention to energy efficiency projects.</p> <p>As a result of these initiatives, in 2017 the productivity of our mining personnel increased by 9%. We also managed to keep costs in the lowest tercile of the global cost curve, and achieved record production levels of 107.8 Mt.</p>
<p><b>M6</b></p> <p><b>Corporate governance and risk management</b></p>	<p>Our key stakeholders in Russia and abroad have traditionally paid much attention to transparency, corporate governance and compliance procedures.</p>	<p>Lack of transparency in corporate governance, as well as non-compliance with national regulations, can lead to additional requests from state authorities, lenders and business partners; it can also impact the company's operations as claims to the company are extended.</p>	<p>We strive to consistently develop our corporate governance, relying on the best Russian and global practices.</p> <p>For example, most of the members of SUEK's Board of Directors are independent.</p> <p>In 2017, we completed the implementation of SUEK's compliance system, which ensured compliance with internal and external regulatory requirements at all levels.</p>