

PROACTIVE RISK MANAGEMENT

Effective risk management enables us to make risk-based business decisions for delivering long-term value to our shareholders and fulfilling our obligations to other stakeholders.

We continue to develop our risk management function, introducing advanced risk management practices that help us make optimal corporate decisions and form an integral part of the overall corporate culture.

We define **risks** as the impact of uncertainty on our goals, while **risk management** is an organised activity to manage and control the company's risk-related operations.

Methodology

Risk management at SUEK is based on the methods developed by SUEK's Risk Committee under the CEO and approved by the Audit Committee of the Board of Directors. These methods factor in the specifics of each company of the Group, meet the requirements of ISO 31000 and COSO ERM Guidance.

RISK MANAGEMENT AND CONTROL

SUEK's Board of Directors oversees the risk management processes and annually evaluates the effectiveness of these activities.

SUEK's management conducts risk assessments when developing strategies and business plans. On this basis, it sets performance targets. At least once a quarter, the Risk Committee under the CEO holds meetings to address matters related to changes in controlled risks and, as necessary, makes adjustments to the risk management action plan and the risk management system. The Risk Committee under the CEO regularly submits risk-adjusted Group performance reports to the Audit Committee of the Board of Directors.

Our risk management team gives methodological advice for decision making, planning, budgeting and performance management. We regularly assess the effectiveness of our risk management techniques through financial testing based on historical data. Risk mitigation measures imply the selection of risk reduction options in the process of decision making/doing business and its further minimisation.

PROMOTING A RISK MANAGEMENT CULTURE

An important aspect of introducing a new approach to risk management is the development of a risk management culture. At all corporate levels, we train our managers in the specifics of decision-making in the context of uncertainty, risk-based planning and budgeting methods and other aspects.

ADAPTING TO A NEW REALITY

Q: What key risks can you name in 2020 and how did effective risk management help in their mitigation?

A: In response to the challenges of 2020, the Board of Directors initiated a revision of the company's risk management practices. The management enhanced the use of quantitative risk analysis in the decision-making process. This enabled us to respond proactively to COVID-19 and helped us to mitigate the pandemic's potential impact on our personnel, supply chain, liquidity and customers.

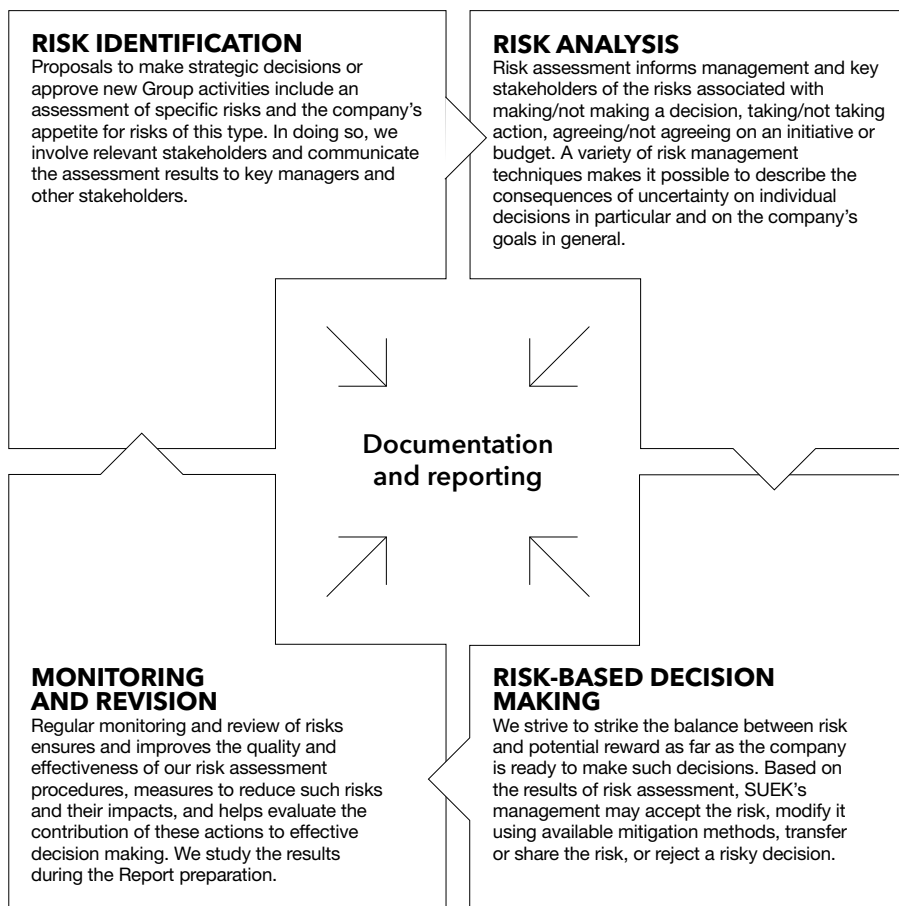
The company views the pandemic as a group of interrelated risks that require a quick response. In all countries where we operate we complied with the local regulations aimed at preventing the spread of the pandemic. We analysed the whole supply chain from our production to final customers and took measures to ensure business continuity. We double-checked with suppliers the schedule of parts and services delivery and accordingly adjusted the maintenance programme.

We introduced the necessary sanitary measures at operational facilities and in our offices, including social distancing, regular COVID-19 testing. We started

monitoring daily the situation at key commodities and financial markets taking necessary actions. We kept close interaction with our customers to adjust coal and heat supplies according to their requests. We strengthened our IT infrastructure to meet the increased demand due to distant work for the major part of office employees.

Another important project in 2020 was an in-depth analysis of SUEK's heating oil, hot water and hazardous chemicals storage facilities after an accident at one of Norilsk Nickel's assets. Our analysis showed that there were no significant risks.

RISK-BASED DECISION MAKING



2021 PLANS

We continuously improve risk-based company management in order to quickly identify external and internal risks in line with the changing external environment and ongoing business diversification.

Key development areas in 2021:

- Further integration of risk management into strategic and operational planning
- Further integration of the quantitative risk analysis methodology into our new investment projects (analysing the risks of non-compliance with the schedule and budget overrun)
- Participation in risk analysis and strategic selection when planning and developing strategic programmes for Divisions and Corporate Functions
- Developing a risk culture by:
 - Building competencies in quantitative risk analysis and decision-making in risk management, audit, compliance and project management teams
 - Improving the quality of information on risk management published on SUEK's intranet portal
 - Adding training courses on risk-based decision-making to the corporate distance learning platform
 - Raising awareness and disseminating information on risk management
 - Conducting onsite face-to-face risk management training at our plants

Q: How does the company transform its risk management?

A: The Group is introducing stochastic risk analysis into the processes of strategic planning and investment decision making. We test hypotheses, improve our understanding of the key parameters, calculate the goal achievement probability, stress test project portfolios, strategically assess risks and enhance our strategic decision-making. Automating this feature enables risk-adjusted key indicators to be checked on request. Through regular backtesting we test and continually increase the effectiveness of various risk analysis methods used.

Q: What risks do you expect to increase in 2021, and how is the company preparing for them?

A: The company defines emerging risks as uncertainties that arise from known or previously unconsidered sources, but which are not clearly visible, understood or available for end-to-end assessment. Among others, we distinguish such risks as climate change, sustainable development of the company's business, cyber risks and the impact of the pandemic.

Michael Baumgärtner,
CHAIRMAN OF THE AUDIT COMMITTEE



OVERVIEW OF KEY STRATEGIC RISKS

Risk description Changes over 2020 Actions to mitigate the risk 2021 forecast

MARKET RISKS

Risk of reduction in coal demand and prices

The company's financial and operational performance may be affected by a reduction in coal demand and prices in the export market in the face of oversupply or growing demand for other types of energy.

FOR MORE DETAILS, SEE COAL MARKET REVIEW ON PP. 52-53



Lower electricity demand amid the coronavirus pandemic and low gas prices in the first half of the year exerted more pressure on key coal indices.

We regularly update our forecast for commodity prices based on in-depth supply and demand analysis and, if necessary, adjust accordingly our strategy for long-term contracts. In 2020, control over key macro parameters was exercised every day. Own processing and logistics facilities enable us to consistently supply demanded high-quality products to international markets.

We expand our presence in emerging coal markets.

We also constantly improve production efficiency to maintain profitability.

The negative impact of the coronavirus pandemic on industrial production and electricity consumption may continue in 2021 to some extent.

Strategic priorities

- Efficient growth
- Maintaining a robust balance sheet

Material matters

- Financial stability and development
- High-quality products
- Operational efficiency

Risk of reduction in power plant load and electricity prices in the wholesale electricity market

SUEK's operations may be affected by a decrease in the load of thermal power plants and a drop in electricity prices in the wholesale market due to market (lower demand, excess supply), weather (high water level, average annual temperature), regulatory and general economic factors (global crisis, etc.).

FOR MORE DETAILS, SEE ENERGY MARKET REVIEW ON P. 40



The risk increased due to market, economic and natural factors:

- Record-breaking utilisation rates at hydroelectric power plants in Siberia because of high water flows
- Due to the pandemic and warmer weather at the beginning of the year, electricity consumption in Siberia decreased year-on-year by 2.4 billion kWh (-1%)

SUEK continuously improves methods of operational planning and market forecasting and increases the loading efficiency of power plants.

We also cooperate with infrastructure organisations of the wholesale electricity and capacity market regarding changes in the regulatory documents affecting pricing and plant loading procedures.

The increased risk will remain due to the expected high utilisation rates at hydroelectric power plants to deplete significant water reserves accumulated in 2020 and in view of the ongoing reduction in electricity demand due to the pandemic. The risk can be partially offset by an increase in electricity consumption following the commissioning of the Taishet aluminium smelter.

Strategic priorities

- Efficient growth
- Maintaining a robust balance sheet

Material matters

- Financial stability and development

Risk of reduction in demand and prices in the capacity market

SUEK's activities may be affected by lower than expected growth rates in capacity demand due to the failed commissioning of large industrial facilities in Siberia, a background decrease in capacity consumption because of general economic factors (global crisis, etc.), alongside regulatory changes.



The risk increased due to a background decrease in capacity consumption and lower capacity consumption by oil companies amid the global crisis caused by the coronavirus pandemic.

We monitor market demand, interact with infrastructure organisations in the wholesale electricity and capacity market in terms of improving regulatory documents that affect the volume and cost parameters of the capacities market. SUEK honours all commitments to bring existing and newly commissioned capacity to the market, minimising the risk of receiving fines for non-compliance.

The increased risk will remain due to a sliding capacity demand in the context of the global crisis caused by the pandemic.

Strategic priorities

- Efficient growth
- Maintaining a robust balance sheet

Material matters

- Financial stability and development

Risk description

Changes over 2020

Actions to mitigate the risk

2021 forecast

REGULATORY AND LEGAL RISKS

Regulatory risk

Our operations are governed by laws and regulations, covering natural resource management, industrial safety, transportation, heat and power industries.

Mining licences can be suspended or left unrenewed upon expiry because of the decisions made by Russian regulating and supervisory agencies (Rosnedra, Rosprirodnadzor) holding inspections.

In Russia, changes in legislation can relate to foreign exchange regulations, securities market law, anti-monopoly and corporate law and judicial practices.

The Group may be materially affected by decisions of state authorities in relation to tariffs, quotas, tax and customs regulations, subsidies, anti-monopoly policy, prohibition on trade and financial transactions in foreign jurisdictions when foreign authorities impose economic sanctions against the Group's counterparties, alongside specific economic measures that may be introduced by Russian authorities in respect to the Group's counterparties.

In foreign jurisdictions, changes can involve additional controls on selling and using coal that can result in special conditions for importing goods and services to Russia.

International sanctions against Russian individuals and legal entities, as well as industry sanctions, can also restrict certain sectors of the Russian economy.



We constantly monitor proposed projects to amend legislation in Russia and other countries of operation, and review law enforcement practices, taking into consideration the company's activities. This enables us to quickly adapt our business processes and organisational structure to any changes in the legislative environment, and to operate in full compliance with the current regulatory and legal framework.

SUEK's representatives are actively involved in governmental policy panels for the power and transportation industries.

Our compliance system identifies and mitigates risks in the field of HSE management, anti-monopoly regulation and licensing, and monitors existing international sanctions.

In 2020, we introduced a new priority compliance area: ensuring compliance with anti-epidemic restrictions as the business continued uninterrupted operations.

In all regions where SUEK operates, our compliance division was in charge of monitoring and informing our assets' managers about local statutory regulation.

In 2021, we expect the active enforcement of Russian federal laws passed to reform supervisory activities.

This process will be linked to intense rule making (setting new requirements to replace those cancelled by the 'regulatory guillotine') and reshaping the entire state control (supervision) mechanism.

In this regard, the company will be required to take various and large-scale organisational measures in order to adapt its activities to new regulatory requirements, including SUEK's participation in the digitalisation of several state controls aimed at health and environmental safety.

Strategic priorities

- Efficient growth
- Operational efficiency
- Robust balance sheet
- Sustainable development

Material matters

- Financial stability and development
- Industrial safety and emergency preparedness
- Environmental impact of the company's operations
- Corporate governance, risk management and compliance system

Risk of changes in electricity tariffs for residential customers and heat tariffs

The company's operations may be affected by heat and power tariffs set below our production costs and by non-fulfilment of obligations to raise heat tariffs as part of the 'alternative boiler' model by municipal authorities.



According to the Russian law 'On heat supply', the heat tariff includes the price for an 'alternative boiler' and the current forecast of macro parameters. As a result, the price determined in mid-2020 for the second half of 2021 for one of our cities of presence, Barnaul, turned out to be lower than the current price because of a low macro forecast which affected the calculation of capital costs for the 'alternative boiler' construction.

We monitor the situation and cooperate with regulators regarding changes in tariff setting methods, with switching to long-term tariffs as top priority.

We expect the risk to be mitigated after making amendments to the Russian Government Decree 1562 'On heat supply', which provide for:





1. Setting the tariff change limits not lower than the current price with account for the consumer price index +2% and not higher than the 'alternative boiler' price
2. Obliging regulators to reconsider the decisions taken for 2021 regarding the selling price

Strategic priorities

- Efficient growth
- Robust balance sheet

Material matters

- Financial stability and development

Risk description	Changes over 2020	Actions to mitigate the risk	2021 forecast		
FINANCIAL RISKS					
Foreign exchange and interest rate risks					
<p>Changes in market indicators, such as currency exchange and interest rates, can have an adverse effect on SUEK's financial performance. They can also impact our debt burden and the value of the financial instruments on the company's balance sheet.</p>		<p>SUEK analyses the risks relating to changes in currency exchange and interest rates on a regular basis. We strive to keep these risks within acceptable limits and to achieve optimal profitability where possible.</p> <p>We also make use of 'natural hedging', as a significant part of the company's revenue and the majority of our loans are denominated in US Dollars or hedged. We hedge risks using forward exchange transaction instruments as well.</p> <p>In 2020, the company refinanced its major loan obligations at lower rates.</p>	<p>We do not expect risk changes.</p> <p>During 2021, the rouble is likely to strengthen due to the recovery of the global economy and oil demand. This strengthening will not have a material impact on SUEK's loan portfolio, given the hedging policy in use.</p> <p>In 2021, regulators are expected to adhere to a soft monetary policy, which will positively affect interest rates, as they will remain at current low levels.</p> <table border="0"> <tr> <td data-bbox="1002 808 1214 891"> Strategic priorities <ul style="list-style-type: none"> • Efficient growth • Robust balance sheet </td> <td data-bbox="1214 808 1445 891"> Material matters <ul style="list-style-type: none"> • Financial stability and development </td> </tr> </table>	Strategic priorities <ul style="list-style-type: none"> • Efficient growth • Robust balance sheet 	Material matters <ul style="list-style-type: none"> • Financial stability and development
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Inflation risk					
<p>The rise in inflation in Russia may lead to higher rouble expenses for personnel and the purchase of equipment and services.</p>		<p>We mitigate inflation risks by developing a balanced procurement strategy, using derivatives and investing available cash in stable foreign currencies.</p> <p>Most export contracts for coal are concluded in US Dollars, which largely compensates for the effect of inflation in Russia on the Group's EBITDA.</p>	<p>The risk will persist, as a potential cut in the key refinancing rate will accelerate inflation.</p> <table border="0"> <tr> <td data-bbox="1002 1043 1214 1126"> Strategic priorities <ul style="list-style-type: none"> • Efficient growth • Robust balance sheet </td> <td data-bbox="1214 1043 1445 1126"> Material matters <ul style="list-style-type: none"> • Financial stability and development </td> </tr> </table>	Strategic priorities <ul style="list-style-type: none"> • Efficient growth • Robust balance sheet 	Material matters <ul style="list-style-type: none"> • Financial stability and development
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Credit risk					
<p>Increase in overdue receivables under domestic coal, heat and power supply contracts, and the transition of overdue receivables to problematic or collectible accounts can result in direct losses for the company and restricted access to debt capital markets.</p>	 <p>The risk increased due to a poorer payment discipline of end consumers in the context of the global crisis caused by the coronavirus pandemic.</p>	<p>We focus on liaising with the financial departments of regional governments in the regions where we supply coal. Our goal is to ensure timely payments by housing and public utility companies. When relevant, we include upfront payment clauses in supply contracts.</p> <p>SUEK's priority is pre-judicial recovery. The company always negotiates with its customers, enquires about the reasons for debt and offers options for milestone or instalment payments.</p> <p>In 2020, the company mitigated the risk with respect to electricity supply receivables by settling relationships with suppliers of last resort with poor payment discipline, in addition to introducing a mechanism that stabilised settlements on the wholesale electricity and capacity market.</p>	<p>The increased risk will remain due to possible bankruptcies of energy supply companies amid the global crisis caused by the coronavirus pandemic.</p> <p>A decrease in the solvency of heat consumers during the pandemic might also cause debts of utility companies purchasing heat.</p> <table border="0"> <tr> <td data-bbox="1002 1408 1214 1487"> Strategic priorities <ul style="list-style-type: none"> • Operational efficiency • Robust balance sheet </td> <td data-bbox="1214 1408 1445 1487"> Material aspects <ul style="list-style-type: none"> • Financial stability and development </td> </tr> </table>	Strategic priorities <ul style="list-style-type: none"> • Operational efficiency • Robust balance sheet 	Material aspects <ul style="list-style-type: none"> • Financial stability and development
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Liquidity risk					
<p>Liquidity risk is directly related to cash turnover. It arises if the company cannot fulfil its payment obligations on time. It is often linked to the effects of inflation, foreign exchange and interest rate risks. The effective management of liquidity risk requires maintaining an adequate level of cash and cash equivalents while ensuring the prompt raising of funds using available lines of credit.</p>		<p>We continuously monitor loan covenants and use a comprehensive forecasting system to ensure compliance. At present, the amount of credit lines provided to SUEK fully covers our financing needs.</p> <p>The adoption by European banks of coal policies reduces the amount of available borrowing in the pre-export lending market. At the same time, SUEK diversifies its funding sources.</p> <p>In particular, in 2020, we continued our large-scale borrowing programme in the Russian bond market and raised additional RUB 44bn (\$600m).</p>	<p>Risk will not change significantly. On the part of international banks, a gradual tightening of green policies is possible, which SUEK will be able to offset by increasing borrowings from Russian banks and in the bond market.</p> <table border="0"> <tr> <td data-bbox="1002 1901 1214 1980"> Strategic priorities <ul style="list-style-type: none"> • Efficient growth • Robust balance sheet </td> <td data-bbox="1214 1901 1445 1980"> Material matters <ul style="list-style-type: none"> • Financial stability and development </td> </tr> </table>	Strategic priorities <ul style="list-style-type: none"> • Efficient growth • Robust balance sheet 	Material matters <ul style="list-style-type: none"> • Financial stability and development
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Risk description	Changes over 2020	Actions to mitigate the risk	2021 forecast
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OPERATIONAL RISKS

Production risk (energy generation)

<p>The main factors affecting the generation and sales of electricity and heat are the physical wear and obsolescence of equipment, including heat networks, its downtime, underestimation of the impact of possible failures, non-fulfilment by suppliers and contractors of their obligations, etc.</p>	<p style="text-align: center;">↑</p> <p>The risk increased following delays in the supply of spare parts with the onset of the pandemic and the resulting programme underperformance. The increase in risk was also influenced by the integration of new major assets into the company, as the actual condition of their equipment required additional analysis for assessment purposes.</p>	<p>We use a maintenance strategy and develop a programme for prioritising repairs and managing production risks. In addition, we employ a monthly reporting procedure based on KPIs, and ERP system for our management to promptly assess the performance of SUEK and the entire segment.</p>	<p>The increased risk will persist due to an industry-wide decline in the reliability of suppliers of parts and services. We will also continue to integrate new assets and develop a programme for the maintenance and modernisation of equipment.</p> <table border="0"> <tr> <td data-bbox="1050 734 1268 817"> <p>Strategic priorities</p> <ul style="list-style-type: none"> • Efficient growth • Operational efficiency </td> <td data-bbox="1268 734 1505 907"> <p>Material matters</p> <ul style="list-style-type: none"> • Financial stability and development • Industrial safety and emergency preparedness • Operational efficiency </td> </tr> </table>	<p>Strategic priorities</p> <ul style="list-style-type: none"> • Efficient growth • Operational efficiency 	<p>Material matters</p> <ul style="list-style-type: none"> • Financial stability and development • Industrial safety and emergency preparedness • Operational efficiency
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#risk management #gas-fired generation

OUR PROMPT RESPONSE TO EMERGENCIES

SUEK’s Novokuznetskaya Gas Turbine Power Plant (GTPP) is the first greenfield generation facility built in Siberia after 1991. Its commercial operation began in 2014 and investments exceeded \$200m.

The Novokuznetskaya GTPP is unique for the Siberian energy system, as it can quickly gain power in emergencies, which cannot be achieved at other generation facilities. South Kuzbass is an energy-deficient, densely populated and industrialised region. Power grid restrictions make it impossible to

respond promptly and adequately to surges in electricity demand, which may be triggered by various factors and cannot be always predicted by the System Operator.

Therefore, the efficiency of our gas turbine power plant is measured not by its operating time, but instead by **the ability to activate promptly and at full capacity** when the Russian grid operator requests to do so.



Each activation occurred when there were no alternative solutions to supply South Kuzbass consumers.




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URGENT ACTIVATION REQUESTS IN 2020

<p>Cyber risk</p> <p>Effective management of risks related to cyber attacks and employee errors helps us minimise and avoid the leakage of confidential information, network security breaches, system recovery costs, cyber extortions, protection costs associated with regulatory requirements, etc.</p>	<p style="text-align: center;">↑</p> <p>The risk increased because of the mass transition to remote work during the pandemic and the widespread use of corporate information systems outside the company perimeter.</p>	<p>Strict control of compliance with IT security standards made it possible to mitigate the risk even under increased load. We restrict access to our IT systems, timely upgrade our IT infrastructure and bring it in line with best practices. SUEK raises user awareness of information security issues and develops preventive measures to neutralise threats.</p>	<p>The increased risk will remain, as some employees will continue to work remotely.</p> <table border="0"> <tr> <td data-bbox="1050 1899 1268 1960"> <p>Strategic priorities</p> <ul style="list-style-type: none"> • Operational efficiency </td> <td data-bbox="1268 1899 1505 1960"> <p>Material matters</p> <ul style="list-style-type: none"> • Operational efficiency </td> </tr> </table>	<p>Strategic priorities</p> <ul style="list-style-type: none"> • Operational efficiency 	<p>Material matters</p> <ul style="list-style-type: none"> • Operational efficiency
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Risk description	Changes over 2020	Actions to mitigate the risk	2021 forecast
Risk of restricted infrastructure availability			
<p>Reduced access to railway and port infrastructure, electricity networks and water facilities can result in higher operational costs because of downtime at our production units. Certain infrastructure is operated by state-owned monopolies and is subject to tariff regulation, which can affect the availability and quality of their services. A number of SUEK's facilities operate in regions where extreme weather can influence power supply and transportation. Availability of infrastructure is also dependent, to a significant degree, on whether our service providers meet their obligations. Refusal to provide services can result in forced suspension of production and affect our financial performance.</p>		<p>We are committed to building long-term relations with infrastructure providers. When signing contracts, we pay special attention to the technical conditions and servicing of railway tracks at connecting stations, railway and port-loading facilities, electrical substations, power and heat networks.</p> <p>We also invest heavily in developing our own infrastructure that is critical to our business, such as the Vanino Bulk Terminal, Murmansk Commercial Seaport, our railcar fleet, generating companies, etc.</p>	<p>In December 2020, a number of Baikal-Amur Mainline facilities were put into operation, which may improve the throughput of Russian Railways towards eastern ports.</p> <p>However, given the growth in container and other cargo traffic to the east, restrictions on coal export from Kuzbass and Khakassia will remain.</p> <p>Strategic priorities</p> <ul style="list-style-type: none"> • Efficient growth • Operational efficiency <p>Material aspects</p> <ul style="list-style-type: none"> • Financial stability and development • Operational efficiency
Production risk (coal)			
<p>Various internal (downtime, adverse geology, low coal quality) or external factors (higher prices of materials and services, failure of suppliers and contractors to fulfil their obligations, natural and other factors) can hinder the achievement of our production targets. This may require additional expenses, resulting in an increase in production costs, and cause accidents and emergencies at our production facilities.</p>		<p>At our coal units, we use Life of Mine (LoM) deposit development models.</p> <p>They enable each production unit to check its budgeted and actual expenses with LoM on a regular basis. As part of this process, we pay special attention to operational efficiency projects. Moreover, we use monthly KPIs enabling management to regularly assess the performance and, if necessary, adjust the plans in time.</p> <p>As for emergencies, we continuously monitor hazardous situations at all stages of our operations, caring about compliance with safety requirements at our production sites and geological characteristics at all mining facilities. All emergencies and off-normal situations are thoroughly investigated with the involvement of sectoral experts.</p>	<p>We do not expect risk changes.</p> <p>Strategic priorities</p> <ul style="list-style-type: none"> • Efficient growth • Operational efficiency <p>Material matters</p> <ul style="list-style-type: none"> • Financial stability and development • Industrial safety and emergency preparedness • Operational efficiency

SUSTAINABILITY RISKS

Health and safety risk			
<p>Mining, processing, energy generation and transportation are associated with an elevated risk of accidents and emergencies, which can occur due to geological factors, technical conditions and the action or inaction of individuals.</p> <p>Major accidents can lead to investigations from state watchdogs resulting in the suspension of production, as well as a possible increase in reputational risk, the discontinuation of business partnerships or claims from the company's lenders for early loan repayments.</p>		<p>Every meeting of the Board of Directors and the Nomination and Compensation Committee starts with a review of health and safety issues. In February 2021, the Board launched a dedicated Health, Safety and Environment Committee.</p> <p>Our policies undergo regular internal and external audits, including by international agencies.</p> <p>We provide training for our personnel and regularly monitor the knowledge of our employees in industrial and labour safety. We analyse every injury sustained at our sites by our employees or contractors and propose actions to prevent similar accidents in the future.</p> <p>All Group's facilities maintain general liability insurance against possible damage to life, health and the property of third parties.</p>	<p>The risk will not change.</p> <p>Strategic priorities</p> <ul style="list-style-type: none"> • Sustainable development <p>Material matters</p> <ul style="list-style-type: none"> • Industrial safety and emergency preparedness

Risk description	Changes over 2020	Actions to mitigate the risk	2021 forecast				
Human resource risk							
<p>Failure to recruit and retain qualified personnel can result in missed production targets and increased costs. A decline in birth rates and underdeveloped housing infrastructure in the regions where we operate, plus a shortage of vocational training institutions and low levels of professional skills among graduates, complicate recruitment.</p>		<p>SUEK has a system of employees training and professional development. We pay attention to motivation issues and fair remuneration.</p> <p>We also support talented vocational college and university students, providing them with employment opportunities at SUEK's facilities.</p> <p>Besides, we implement projects aimed at social development, including improving housing conditions in the regions where we operate.</p>	<p>We do not expect risk changes.</p> <table border="1"> <thead> <tr> <th>Strategic priorities</th> <th>Material matters</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> Sustainable development </td> <td> <ul style="list-style-type: none"> Fair remuneration and social support for employees Human resources policy and labour relationships Staff training, including training for new jobs </td> </tr> </tbody> </table>	Strategic priorities	Material matters	<ul style="list-style-type: none"> Sustainable development 	<ul style="list-style-type: none"> Fair remuneration and social support for employees Human resources policy and labour relationships Staff training, including training for new jobs
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<ul style="list-style-type: none"> Sustainable development 	<ul style="list-style-type: none"> Fair remuneration and social support for employees Human resources policy and labour relationships Staff training, including training for new jobs 						
Environmental risk							
<p>The environmental risks related to coal mining, washing, processing, transportation and coal-fired power generation imply environmental damage, including contamination of soil and water, land disturbance by mining activities.</p> <p>In the event of their realisation, possible claims from supervisory bodies may affect the operational and financial performance of the company.</p>		<p>SUEK carefully monitors compliance with all environmental norms set by law in the countries where we operate and sell our products. Our policies are regularly audited, including by international agencies.</p> <p>We take every effort to reduce environmental impact, pollutant emissions and waste.</p> <p>We install electrostatic precipitators with efficiency over 99% and tall stacks at our power plants, ensure safe ash and slag disposal, utilise mine methane and waste, rehabilitate disturbed lands, employ state-of-the-art anti-dust measures at ports and build closed water circulation systems at our production facilities.</p> <p>We also increase coal washing to reduce the environmental and carbon impact of our products during their transportation and use.</p>	<p>We do not expect risk changes.</p> <table border="1"> <thead> <tr> <th>Strategic priorities</th> <th>Material aspects</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> Sustainable development </td> <td> <ul style="list-style-type: none"> Environmental impact of the company's operations </td> </tr> </tbody> </table>	Strategic priorities	Material aspects	<ul style="list-style-type: none"> Sustainable development 	<ul style="list-style-type: none"> Environmental impact of the company's operations
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POSSIBLE RISKS AND OPPORTUNITIES

When assessing risks, we compile a list of possible risks and opportunities, the impact of which is currently not determined. Potentially the most significant ones are shown in the table below. We control these risks in accordance with our risk management process.

Context	Actions to mitigate the risk
Climate agenda	
<p>The tightening climate agenda in the countries consuming SUEK's products may lead to a drop in demand for coal and coal-fired generation.</p> <p>In 2020, the EU started discussions around a possible carbon tax for Russian-imported goods. Japan announced its 2050 carbon neutrality strategy, which includes measures such as eliminating sales of new gasoline-powered vehicles by the mid-2030s, shifting to electric vehicles and the co-burning of ammonia at coal-fired power generating plants. South Korea also pledged net zero emissions by 2050 and is developing the respective measures.</p>	<p>We closely monitor changes in climate and environmental regulation.</p> <p>We run programmes to improve the energy efficiency of our mining, generating and logistics businesses and reduce CO₂ emissions.</p> <p>In particular, we maximise the share of cogenerated heat and electricity, which saves up to 50% of fuel for generating heat, compared to the separate generation of electricity and heat. By 2025, alone our programme to replace boiler houses with cogeneration heat will reduce CO₂ emissions by 1 Mt per year, and we are working to quantify the effect of our other climate-related projects.</p> <p>Meanwhile, the accelerating electrification of vehicles may require additional electricity demand, which could be satisfied by coal-fired power generation.</p>
COVID-19 pandemic	
<p>In 2020, COVID-19 had a certain negative impact on industrial production and electricity consumption. As there is no clear forecast regarding the end of the epidemic and potential restrictive measures, pressure on consumption may continue.</p>	<p>The company closely monitors market developments and optimises sales and costs.</p> <p>At the same time, we are making every effort to ensure the safety of our employees and help our regions in the fight against the pandemic.</p>