

AUDIT COMMITTEE REPORT



I am pleased to present the Audit Committee Report for the year ended 31 December 2020.

Deborah Gudgeon
Independent Non-Executive Director,
Chairman of Audit Committee

The emergence of COVID-19 at the beginning of the financial year impacted the committee's work in certain ways. From March 2020, all meetings were held virtually and it was not possible to hold a meeting at one of the operations, as originally scheduled. The impact of the pandemic on all aspects of the committee's responsibilities and work was regularly evaluated throughout the year.

I would like to extend the thanks of the committee to the executive and financial management of the Group, the internal audit department and our external auditor, EY, for their continuing diligence and valued contribution to the work of the committee during this challenging year.

ROLE AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

The work of the committee is determined by its terms of reference. These were reviewed and updated in August 2020 and can be accessed at: www.evraz.com.

The Audit Committee minutes are tabled at Board meetings for consideration and the chairman updates the Board orally on the committee proceedings, making recommendations on areas covered by its terms of reference, if appropriate.

The Audit Committee reviews the Group's governance, risk and control environment annually, together with the risk register and risk appetite proposed by the management, before they are considered by the board.

I confirm, on behalf of the Group, its compliance during the financial year commencing 1 January 2020 with the provisions of the Competition

and Markets Authority Order 2014 on mandatory tendering and audit committee responsibilities.

COMMITTEE MEMBERS AND ATTENDANCE

The Audit Committee members are all independent non-executive directors and, between them, have a wide range of skills and experience. Deborah Gudgeon has recent and relevant financial experience and Alexander Izosimov provides key strategic expertise. Laurie Argo has extensive commercial and financial experience in the North American market. As disclosed in the Corporate Governance report on **page 110**, Olga Pokrovskaya attends Audit Committee meetings by invitation, providing additional technical expertise and valuable regional knowledge.

The CFO and senior members of the Group's finance function, the head of internal audit and the external auditors attend all committee meetings.

During the year, key members of the executive management and Risk Management Group are invited to attend Audit Committee meetings to present on specific matters. During 2020, these included the CEO and the vice presidents of strategy, commerce and business development, HSE, IT, legal, human relations and the Group's compliance officer.

Other members of the management team and internal audit function are invited to attend committee meetings as appropriate.

The committee met nine times during 2020 and three times in early 2021 prior to the publication of this Annual Report. Due to the COVID-19 pandemic, only two meetings were in person. Eight of these meetings were held by video conference and two by a telephone conference.

ACTIVITIES AND WORK OF THE COMMITTEE DURING 2020

The Audit Committee has continued to focus on the integrity of the Group's financial reporting, the related internal control framework and risk management, including finance, operations, regulatory compliance and fraud. These areas were comprehensively reviewed and the committee received regular updates from the Group's financial and operational management, internal audit, compliance officer and vice president of legal affairs, as well as the external auditor.

The committee's continuing focus on the IT security of the Group was strengthened following the cyberattack on the North American operations in March 2020. The committee reviewed a detailed report on the attack in June 2020, together with the recommendations from Accenture in respect of the IT security architecture and emerging risks, and considered the implications for the whole business. Progress against the updated North American mitigation plan was monitored throughout the year. The risk mitigation plan for the Russian business was also updated and expanded to reflect the experience in North America, emerging risks and the results of the EY assessment in November 2019. The committee recommended that a common IT governance structure be implemented across the business and welcomed the establishment of the Information Security Committee headed by the CEO. Given the significance of IT security to the Group's risk profile and resilience, and the level of digital transformation throughout the business,

this will remain an area of focus for the Audit Committee in 2021 and beyond.

Ahead of the implementation of ISA (UK) 570 (revised), the Audit Committee requested the external auditor to perform certain agreed procedures on the 2019 reporting process and year end position to undertake certain of the additionally required procedures of the new standard and so provide the Committee with some assurance as to the Group's readiness for the new standard. The management controls and processes underpinning the going concern assumption were reviewed, challenged and benchmarked against examples of best practice. The Group's process for evaluating a severe but plausible downside scenario over the going concern period was also considered. In June 2020, the Audit Committee reviewed the EY report and accepted the limited recommendations made by the external auditor.

During 2020, the committee reviewed progress on a number of ongoing projects. These included the repair and maintenance transformation project, the standardisation of the procurement contract process, as well as the project to improve inventory and product shipment controls at one of the operations. The committee also reviewed the Group's management of working capital.

The committee updated its own terms of reference and undertook a self-assessment to consider the performance of the committee.

The Group's financial reporting procedures (FRP) manual was also reviewed and updated. The effectiveness and status of the anti-corruption policy and sanctions risk compliance controls were reviewed throughout the course of the year, together with progress to meet the recommendations of the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

At the request of the Board, the Audit Committee reviewed the pro forma Viability Statement and supporting analysis, which was produced by the management and reviewed by the Risk Management Group. The Audit Committee considered the scenarios being tested in the context of the updated risk register, current operating environment and the Group's strategy. The assumptions and mitigating actions underpinning each scenario and the capital required for the effective operation of the business were also reviewed. The scenario testing of the Group's resilience to a cyberattack was updated to reflect the real-world experience gained in 2020. The committee also considered the emerging risks that EVRAZ faces, primarily climate change. These risks were extensively assessed during development of the Climate Change Strategy in 2020 and found not to currently pose a critical risk to the business over the period of the viability testing. The Audit Committee will review this annually.

SIGNIFICANT FINANCIAL REPORTING ISSUES CONSIDERED IN 2020

The Audit Committee's primary objective is to support the Board in ensuring the integrity of the Group's financial statements and Annual Report, including review of:

- Compliance with financial reporting standards and governance requirements.
- The material financial areas in which significant accounting judgements have been made.
- The critical accounting policies and substance, consistency and fairness of management estimates.
- The clarity of disclosures.
- Whether the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model, strategy, principal risks and uncertainties.

The Audit Committee considered several financial reporting issues in relation to the interim results for H1 2020 and the financial results

for the year ended 31 December 2020. These included the appropriateness of the accounting policies adopted, disclosures and management's estimates and judgements. The committee considered papers produced by the management on the key financial reporting judgements and reviewed reports by the external auditor on the audit process for the full-year and interim results.

The financial statements are impacted by fluctuations in the key functional

currencies of the business (primarily the Russian rouble) against the US dollar, the presentation currency of the financial statements, as set out in Note 2. As a result, the analysis of balance movements in the financial statements between reporting periods can be difficult, although the management separately reports the forex impact for key movements.

Going concern (Note 2)

EVRAZ is exposed to a wide range of risks and inherent uncertainties as set out on **pages 90-95**, many of which are outside the control of the Group. While the onset of the COVID-19 pandemic in early 2020 resulted in a significant fall in the demand for steel products across the world, there was a material rebound in EVRAZ's key markets during the second half of the year. The Audit Committee reviewed management's going concern analysis which tested three scenarios: a base case; a flexed downside scenario based upon pricing close to the bottom of the range of current investment analyst forecasts; and an additional stressed downside scenario based upon the 2009 reported results of the Group, the lowest since the Group listed in 2005, which assumed prices for steel, coal and iron ore significantly below management's current forecasts. The Committee challenged management to validate the additional stressed downside scenario given the changes in the Group's asset base and steel capacity since 2009 and accepted the analysis produced which demonstrated that some low –performing assets in South Africa, Ukraine, North America and the Czech Republic had been disposed and replaced by more profitable operations in the Russian Federation. In addition, management tested a potential scenario in which the coal assets are demerged in the going concern period.

The committee carefully considered the projected use and sources of funds for the period to June 2022, which includes scheduled loan repayments, new committed funding, free cash flow after committed capital expenditure and the dividend policy. Given the volatility of the global supply and demand environment in which EVRAZ operates and the continuing pandemic, the committee focused on the flexed downside scenario and the implications for free cash flow and compliance with financial covenants. Although COVID-19

has had a limited impact on the Group's business to date and with the signs of recovery in key markets, the committee also considered the additional stressed downside scenario and the reverse stress testing undertaken by EY. The implications of the potential coal demerger was also considered.

Following these detailed considerations, the Audit Committee resolved to recommend the going concern basis of preparation for the Financial Statements as at 31 December 2020 to the Board.

Significant accounting judgements and management estimates

Impairment of goodwill and non-current assets (Note 7)

The committee considered the management's impairment assessment for the financial year in the context of the current and future trading environment for the Group, including assumptions as to the continuation of tariffs and duties in North America and their impact on the recoverable amount of the affected assets. Impairment testing was undertaken at 30 September 2020 and reassessed at 31 December 2020, when no further impairment triggers were identified.

The recoverable amount of all cash generating units tested in 2020 were determined by their value-in-use. In 2019, the recoverable amount for large diameter pipes was determined on the basis of fair value less cost of disposal, as the management considered that it provided a more reliable result and could be compared to a recent relevant open market transaction. The relative weakness of the rouble means that the carrying value of Russian cash-generating units remains low in US dollar terms; but they remain largely unchallenged by value-in-use comparisons, even if the pricing outlook is assumed to deteriorate.

An impairment charge of US\$310 million is recorded in the financial statements for 2020. This primarily relates to the large diameter pipe business in Canada, where a charge of US\$234 million is recognised

(goodwill US\$65 million, intangibles US\$16 million and PPE US\$153 million) and the oil country tubular goods cash generating unit, where a goodwill impairment of US\$67 million has been recorded. The committee considered the management's reassessment of demand for steel, oil and commodities in the US and Canada, which it is assumed will only partially recover in 2022, together with the continuing implications of trade barriers and the long-term outlook for these businesses, and accepted the management's proposed impairment charges.

Recovery of deferred tax assets

Given the management's reassessment of North American demand, the Audit Committee considered the recoverability of the net deferred tax assets, most of which relate to EVRAZ North America, together with tax planning strategies available to the Group. As a result, the committee is satisfied that the deferred tax assets are recoverable.

Other matters

The potential demerger of the Group's coal assets

Further to the Company's announcement on 26 January 2021, management is currently considering the strategic merits of. The consolidated coal assets constitute a major business segment to be treated as a discontinued operation if the demerger meets IFRS 5 requirements. However, as at 31 December 2020 and the date of the annual report, there was no certainty as to whether the demerger would proceed. The Committee considered the accounting treatment and concluded that, given the uncertainties, the Coal segment should not be treated as a discontinued operation in the 2020 financial statements.

Reverse factoring

In 2020, certain suppliers sold their accounts receivable from the Group to a bank under non-recourse factoring contracts. Trade payables subject to these arrangements are payable in 60-180 days enhancing the Group's management of working capital. Management analysed these reverse factoring arrangements and, as they do not contain a financing element, determined that they should continue to be presented as trade

payables in the financial statements. At 31 December 2020, US\$188 million was outstanding and included in trade payables. The Audit Committee reviewed and agreed with this treatment.

Fair, balanced and understandable

In considering whether the Annual Report is fair, balanced and understandable, the committee reviewed the information it had received, discussions held with the management throughout the year and the preparation process adopted. The management agreed the key overall

messages of the Annual Report at an early stage to ensure a consistent message in both the narrative and financial reporting. Regular meetings were held to review the draft Annual Report and for the management and committee members to provide comments, and detailed reviews of the appropriate draft sections were undertaken by the relevant directors and external advisers. In particular, the committee considered whether the description of the business, principal risks and uncertainties, strategy and objectives were consistent with the understanding of the Board, and whether the controls

over the consistency and accuracy of the information presented in the Annual Report are robust.

Taking into account the disclosure implications of the issues discussed in this report, the committee recommended to the Board that, taken as a whole, it considers the Annual Report to be fair, balanced and understandable. The Audit Committee recommended approval of the Group's 2020 Consolidated Financial Statements by the Board. Both recommendations were accepted by the Board.

OTHER MATTERS

UKBA

During 2020, the Group extended its policies relating to anti-corruption through the addition of policies relating to conflict of interest situations and charity and sponsorship, as set out on **page 80-83**. Using the updated framework for monitoring compliance with EVRAZ' anti-corruption policies and identifying risk, compliance during 2020 was tested and the results reported to the Audit Committee in February 2021. The testing indicated further progress in reducing risk.

Anti-corruption training is online and, as a result, was not impacted by the pandemic. In 2020, a total of 2,200 managers completed the course developed by Thomson Reuters. In addition, several bespoke training modules were developed in-house by the EVRAZ compliance team. This approach will be developed further in 2021 to create a total internal programme covering anti-corruption, significantly extending the capacity to provide both initial and refresher training across the Group.

Sanctions compliance controls

The committee continued to monitor compliance with the current sanctions regime during 2020, including the control processes, procedures and reporting framework. The implications of the United Kingdom's departure from the European Union upon the sanctions regime is currently under investigation and will be reviewed by the Audit Committee in 2021, along with any other changes.

RISK MANAGEMENT AND INTERNAL CONTROL

This should be read in conjunction with the Risk Management and Internal Control section on pages 112-115.

EVRAZ has an integrated approach to risk management to ensure that the review and consideration of current and emerging risks inform the management of the business at all levels, the design of internal controls and the internal audit process. The Group's financial reporting procedures, internal controls, risk management systems and activities are documented in a comprehensive FRP manual. The manual was updated and reviewed by the Audit Committee in December 2020.

The risk profile was reviewed and updated in July 2020 to incorporate the effects of COVID-19 and the Group's response. The Risk Management Group and the Audit Committee further reviewed the Group's risk profile in November 2020 and finalised the assessment in January 2021. The assessment includes the Risk Management Group's recommendation on the level of risk appetite of the Group and how that appetite is applied to strategic and operational business decisions. This was reviewed by the Audit Committee, along with the draft Statement of Principal Risks and Uncertainties to be included in the Annual Report, prior to the Board's consideration.

Internal audit findings on control issues that exceed the Group's risk appetite are reported to the Board by the Audit Committee and followed up by the Group's Management Committee. Progress on the timely and effective resolution of issues is monitored regularly by the committee.

The Audit Committee receives quarterly updates on whistleblowing reports, together with a bi-annual security report on the progress of follow-up investigations and resulting actions in relation to fraud and theft. Any significant whistleblowing report is reported to the committee on an ad hoc basis when it arises.

Assessment of the Group's Risk Profile and Control Environment

Internal audit evaluates the overall effectiveness of the Group's governance, risk and control environment annually and this is considered by the Risk Management Group and the Audit Committee. The chairman of the Audit Committee tables the internal audit report assessment of the governance, risk and control environment with the Board.

The Audit Committee monitors the internal control environment throughout the year and engages with the executive management to ensure the resolution of any deficiencies identified by internal audit.

The mitigation of health and safety risks across the business continued to be an area of focus during 2020. The committee reviewed reports from both internal audit and the industrial safety team, in addition to regular updates from the management. Following the cyberattack at EVRAZ North America in March 2020, the committee was regularly updated on the deficiencies exposed by the attack, the mitigation plan developed by the management and progress against this plan. The Audit Committee also continued to review information security risks across the business by way of updated annual assessments and consideration of initiatives to mitigate the evolving risk environment. Progress on projects to automate payment processes and to standardise procurement

contract documentation were also considered. Other areas reviewed were the repair and maintenance transformation project across the Russian assets, as well as the ongoing project to optimise product inventory and shipment control at one of the plants. The Audit Committee considered whether any of these matters had implications for the risk and control environment of the Group.

INTERNAL AUDIT

The Audit Committee receives quarterly internal audit reports detailing significant findings, progress on the timely and effective resolution of outstanding findings, the status of ad hoc projects and any revisions to the current year audit plan. The internal audit plan for 2021 was reviewed by the Audit Committee and revisions proposed to reflect the updated risk profile of the business and the continuing pandemic, as well as to prioritise

key business cycles and controls from a risk perspective. Overall, the committee considers the current internal audit resource to be adequate for the internal control and risk management assurance requirements.

The Audit Committee reviewed the Internal Audit Charter in January 2021 and concluded that no changes were required. The key performance indicators for the internal audit function were also

reviewed and updated in January 2021. An annual assessment of the effectiveness, independence and quality of the internal audit function by committee members, the management and the external auditor was undertaken and was again found to be satisfactory. Deloitte undertook an external assessment of internal audit in Russia, the CIS and Europe in 2020 and found that the function fully complies with internal audit standards with no significant findings.

EXTERNAL AUDIT

The Audit Committee is responsible for monitoring the ongoing effectiveness and independence of the external auditor, as well as making recommendations to the Board on the re-appointment of the external auditor.

During 2020, the Financial Reporting Council Audit Quality Review (AQR) team undertook a review of EY's audit of the financial statements of EVRAZ for the year ended 31 December 2019. As part of this review, the AQR team interviewed the chairman of the Audit Committee. The review scope included

the key audit matters identified by EY in their 2019 report, as well as certain other audit areas, the quality of communication with the Audit Committee and matters related to planning, completion, ethics and quality control. The report was completed in November 2020 and shared with the chairman of the Audit Committee. The AQR found that only limited improvements in the audit were required, primarily relating to the provision of sufficient documentation in audit files to evidence certain assumptions and procedures relating to some key audit matters. The committee discussed

the report with the external audit team, reviewed the actions proposed by EY to remedy the matters raised by the AQR and was satisfied that the deficiencies identified were being addressed. The Financial Reporting Council intend to publish the inspection report in 2022, after the forthcoming Consultation Document on the government's approach to reform of corporate reporting and audit.

At the request of the committee, the external auditor provided a detailed assessment of the impact of COVID-19 on their audit approach in 2020,

particularly with regard to significant risks and fraud risks. The assessment concluded that the requirement to undertake some work remotely was mitigated by EY's digital approach, the involvement of forensic specialists in the identification and response to fraud risks, the high degree of continuity in the group audit team and coordinated efforts from both EY and the management. The Audit Committee reviewed and accepted the assessment of the external auditor.

Effectiveness and Independence

The Audit Committee has an established framework through which it monitors the effectiveness, independence, objectivity and compliance of the external auditor with ethical, professional and regulatory requirements. These include:

- Review and approval of the external audit plan for the interim review and year-end audit, including consideration of the audit scope, key audit risks, audit materiality and compliance with best practice.
- Review and approval of the external auditor's engagement letter.
- Review of the FRC's annual Quality Inspection Report of July 2020 and the EY response.
- Consideration of EY's reports on the interim review, annual report and representation letters.
- Review of the EY management letter on the 2019 audit, consideration of the management's response and proposed actions.

The committee is updated on the key risk areas throughout the audit process by both the external auditor and the management, providing transparency and allowing the committee to assess the assumptions underpinning each position, as well as the robustness and level of the challenge provided by EY to the management in arriving at an agreed position.

The committee has continued to monitor the enquiries into the independence of audit firms, the effectiveness of the audit process during 2020 and the EY response. There continues to be a constructive

engagement with the external auditor to determine the implications of recommendations on the EVRAZ audit process both in current and future years.

The management and members of the Audit Committee completed a questionnaire to assess the effectiveness and independence of the 2019 external audit process during 2020, which was found to be satisfactory.

Although the Audit Committee has not been able to meet with the external auditor in person since February 2020 due to COVID-19, there has been a regular virtual dialogue without the management to consider the appropriateness of the Group's accounting policies and audit process. During 2020, the external auditor confirmed that these policies and processes were appropriate. The committee chairman also had regular virtual meetings with the Senior Statutory Auditor outside of committee meetings.

Engagement of the external auditor for non-audit services is managed in accordance with the Group's policy, which can be found on the website www.evraz.com. This policy identifies a range of non-audit services, which are prohibited on the basis that they might compromise the independence of the external auditor. It also establishes threshold limits for the level of non-audit fees relative to audit fees and authorisation processes for the approval of fees.

During 2020, non-audit fees totalled US\$521,000 and included US\$465,000 in respect of the interim review (in 2019, the total was US\$1,178,000, including US\$543,000 in respect of the interim review). The balance in 2020 included US\$39,000 in respect of the Group's Sustainability Report and US\$14,000 for the provision of verification services for a financing facility. Non-audit fees were 19% of the 2020 audit fee of US\$2.8 million, compared to 40% of the audit fee in 2019. Irrespective of the prior approval of the CFO and Audit Committee chairman, all fees are reported to the Audit Committee for noting and comment.

Re-appointment of the external auditor

Following a tender process in 2016, the committee recommended the re-appointment of Ernst & Young LLP (EY) as external auditor for the years ended 31 December 2017 and 2018. After consideration of the UK Corporate Governance Code, EU legislation on audit regulation and the performance of EY, the committee recommended in 2017 that, subject to the agreement of appropriate terms, a further tender be deferred until the year ended 31 December 2021, with the process being undertaken in the summer of 2020 to allow for an orderly and effective rotation. Given the exigencies of the COVID-19 pandemic and travel restrictions, the committee determined that a fair and effective tender process could not be undertaken in 2020 and that the tender should be further deferred until these criteria could be met. The committee will monitor the situation during 2021 to determine the most appropriate time to reschedule the tender process. The latest regulatory guidance, the terms agreed with EY in respect of the year ended 31 December 2021 and the performance of EY were all considered by the committee in reaching this decision.

EY was appointed as external auditor of EVRAZ plc in 2011. The current audit engagement partner, Steve Dobson, assumed the role for the year ended 31 December 2016 and will step down following the conclusion of the audit for the year ended 31 December 2020 and be replaced by Danny Trotman.

The Audit Committee continues to consider EY to be effective and independent in its role as auditor and has provided the Board with its recommendation to the shareholders that EY be re-appointed as external auditor for the year ended 31 December 2021.