

RISK MANAGEMENT AND INTERNAL CONTROL

EVRAZ maintains a comprehensive financial reporting procedures (FRP) manual detailing the Group's internal control and risk management systems and activity. The manual was last updated in November 2020 to reflect changes in internal processes. The document was prepared in accordance with the Financial Reporting Council (FRC) Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued in September 2014. The aim of the risk management process is to identify, evaluate and manage potential and actual threats to the Group's ability to achieve its objectives.

The EVRAZ Enterprise Risk Management (ERM) process is designed to identify, quantify and respond to these threats, as well as to monitor the Group's prevention and mitigation system. Management maintains a risk register that encompasses both internal and external threats. The level of risk appetite approved by the Board is used to identify particular risks and uncertainties that require specific Board oversight. In 2020, the process in relation to principal risks and uncertainties was consistent with the UK Corporate Governance Code, the FRC Guidance on the Strategic Report issued in July 2018 and the abovementioned FRC guidance issued in September 2014.

Executive management is responsible for both internal controls in place and mitigating actions related to risk management throughout the Group's business and operations. This serves to encourage a risk-conscious business culture.

EVRAZ applies the following core principles to identifying, monitoring and managing risk throughout the organisation:

- Risks are identified, documented, assessed and monitored, and their profile is communicated to the relevant levels

of management team, regularly.

The business management team is primarily responsible for ERM and accountable for all risks assumed in the operations.

- The Board is responsible for assessing the optimum balance of risk (risk appetite) through the alignment of business strategy and risk tolerance on an enterprise-wide basis. In addition, the Board oversees and approves risks above the Group's defined risk appetite and reviews any significant internal control weaknesses.
- EVRAZ has established a reporting process involving business unit management teams and other relevant bodies at major enterprises. Its aim is to identify, evaluate and establish management actions for risk mitigation at a regional level, as well as at the Group's major steel and mining operations. The Risk Management Group maintains a corporate risk register representing a summary of this information. Business unit management teams and other relevant bodies are accountable to the Risk Management Group, which consists of business unit and function vice presidents.

The Board has delegated primary oversight of the internal control process at EVRAZ to the Audit Committee, which discusses any major internal control findings exceeding the Board's risk appetite.

The EVRAZ Business Security department is led by a vice president and has specific responsibility for preventing and detecting business fraud and malpractice, including fraudulent behaviour by employees, customers and suppliers. Robust internal controls help to minimise the risk, and the EVRAZ Business Security department ensures that appropriate processes are in place to protect the Group's interests.

Internal audit

Internal audit is an independent appraisal function established by the Board to evaluate the adequacy and effectiveness of controls, systems and procedures at EVRAZ, which helps to reduce business risks to an acceptable level in a cost-effective manner. The Board approved the latest version of the internal audit charter on 22 January 2020.

The internal audit function's role in the Group is to provide an independent, objective, innovative, responsive and effective value-added internal audit service. This is achieved through a systematic and disciplined approach based on assisting management in controlling risks and monitoring compliance, as well as improving the efficiency and effectiveness of internal control systems and governance processes. Once a year, the function provides an opinion of the overall effectiveness of the internal controls in place at EVRAZ.

During 2020, the Group's head of internal audit and the secretary of the Audit Committee attended all the committee's meetings and addressed any reported deficiencies in internal control as required by the committee.

The internal audit planning process starts with the Group's strategy; includes the formal risk assessment process, consideration of the results of management's internal control self-assessment, and the identification of management concerns based on the results of previous audits; and ends with an internal audit plan, which the Audit Committee approves.

Audit resources are predominantly allocated to areas of higher risk and, to the extent considered necessary, to financial and business controls

and processes, with appropriate resource reservation for ad hoc and follow-up assignments.

In 2020, internal audit projects covered the following risks of the Group:

- Cost effectiveness.
- HSE: health and safety.
- Capital projects and expenditure.
- Human resources.
- Potential regulatory actions by governments.

- Business interruption, as well as equipment and infrastructure downtime management.
- Transportation, sourcing, raw materials and energy supply.
- Digital effectiveness, as well as effective, efficient and continuous IT service.

The internal audit function at EVRAZ is structured on a regional basis, reflecting its geographic spread of operations. The internal audit function aligns common internal audit practices throughout

the Group via quality assurance and improvement programmes.

In 2020, EVRAZ engaged an independent party to ensure that the internal audit function's activities are in compliance with the requirements of the Institute of Internal Auditors (IIA), as well as the IIA's Code of Ethics and best international practices in internal audit. The Group's internal audit function received the highest rating in the independent review.

Components of the internal control system

Component	Basis for assurance	Action in 2020
Assurance framework — principal entity-level controls to prevent and detect error or material fraud, as well as to ensure the effectiveness of operations and compliance with principal external and internal regulations	<ul style="list-style-type: none"> • Annual self-assessment by management at all major operations of the internal control system using the EVRAZ Assurance Framework. • Review of the self-assessment by the internal audit function. • Assessment of the overall effectiveness of the governance, risk and control framework. 	In 2020, the internal audit function reviewed the results of management's internal control self-assessment and evaluated the overall effectiveness of the governance, risk management and internal control system. All major production sites were certified as having effective overall governance, risk management and internal control.
Investment project management	<ul style="list-style-type: none"> • Effectiveness of project management and management of project risks is monitored by an established management committee and subcommittees. • Reviewed by the internal audit function. 	In 2020, various activities were implemented to further improve the efficiency and effectiveness of the project management process, for example by creating a project risk register and training more than 50 project managers and project team members.
Operating policies and procedures	<ul style="list-style-type: none"> • Implemented, updated and monitored by management. • Reviewed by the internal audit function. 	Operating policies and procedures are updated as per the internal initiatives by the operational management and in response to recommendations from the internal audit function. The process of improving the internal regulation framework began in 2019 and continued in 2020.
Operating budgets	<ul style="list-style-type: none"> • Approved by the Board. • Monitored by the controlling unit. • Reviewed by the internal audit function. 	Operating budgets are prepared by the executive management and approved by the Board.

Approach to risk appetite

Risk appetite is an important part of the risk management process that serves as a measure of the risks that management is willing to accept in pursuit of value. The Board has approved a risk appetite in accordance with the risk management methodology adopted by EVRAZ.

Risk appetite is considered in evaluating strategies and setting objectives within the Group's strategic and budgeting cycle, in decision making and in developing risk management actions and methods, as well as in identifying particular risks and uncertainties that require specific Board oversight. The strategic objectives set by EVRAZ are aligned with, and risk mitigation actions are reflective of, the risk appetite approved by the Board. The Group adopts a robust approach in relation to risk management. Risk appetite for some specific business processes (eg health and safety,

fraud, security, bribery and corruption) is assessed, defined and evaluated separately from the rest of the processes.

Management reassesses the risk appetite at least annually via the Risk Management Group, which reports on the analysis performed to the Audit Committee. The committee then makes recommendations to the Board regarding the level of risk appetite. The Risk Management Group and the Audit Committee last reviewed the Group's risk profile in November 2020.

Based on the results of the most recent review, management concluded that the risk-acceptance approach employed by EVRAZ had not changed and that the risk appetite remained the same as in the prior year. An appropriate recommendation regarding the level of risk appetite was made to the Audit Committee and to the Board on 26 January 2021.

Objectives for 2021

Further development of the risk management system and risk management practices is planned for 2021.

In 2020, the Group was focused on enhancing its health and safety risk management methodology, including the risk of mass quarantine of workers due to COVID-19; this work will continue in 2021.

In 2021, in addition to continuing to implement ongoing initiatives focused on improving risk management (in HSE, equipment maintenance and repairs, IT projects and other processes), the Group plans to focus more on addressing environmental risks, which have always been a topic of focus for management and are recognised as principal risks for the Group.