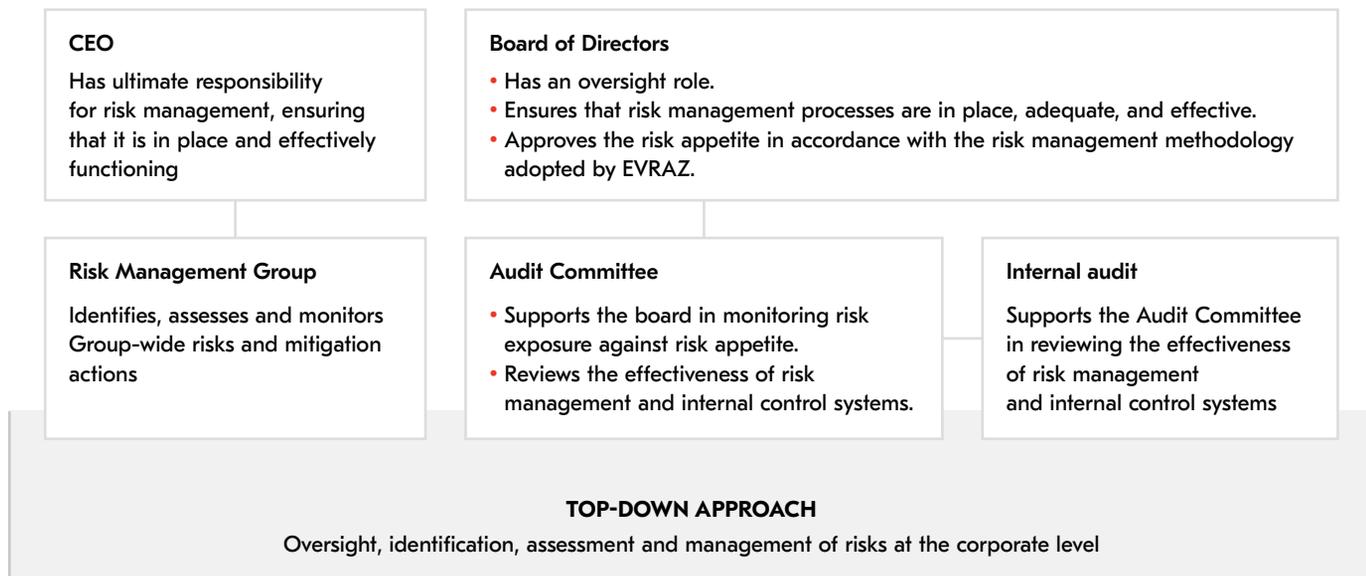


PRINCIPAL RISKS AND UNCERTAINTIES

RISK MANAGEMENT SYSTEM

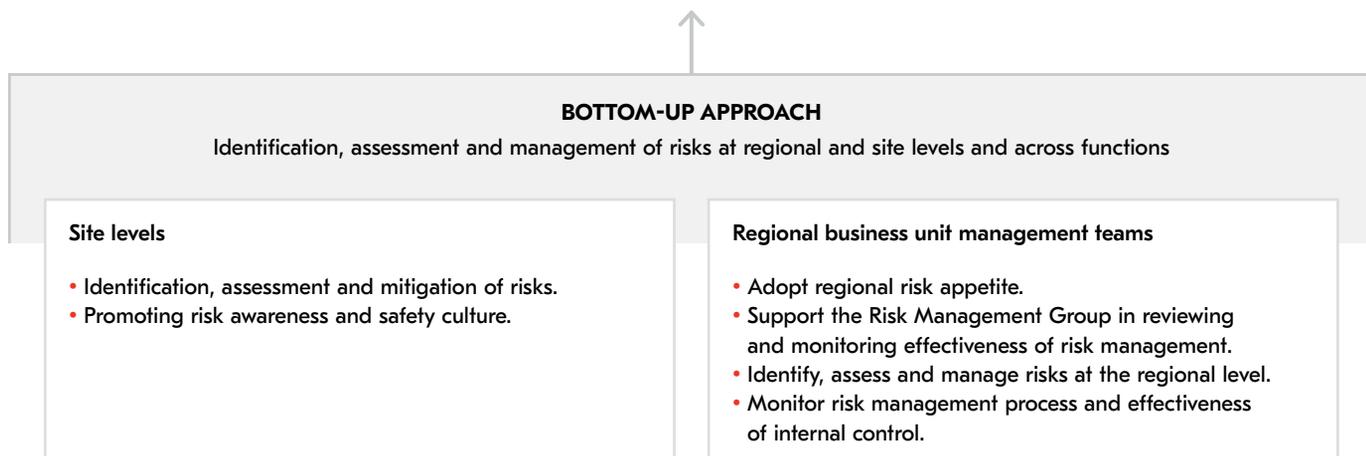
As a major international mining and steelmaking group, EVRAZ faces inherent business risks that have the potential to negatively impact its operations. Identifying and mitigating risks is one of the most important aspects of the Group’s strategy and daily activities. The basic risk management processes that EVRAZ follows are outlined below.



EFFECTIVE RISK MANAGEMENT

The risk management process aims to identify, evaluate and manage potential and actual threats to the Group’s ability to achieve its objectives

For more information, read risk management and internal control section of the corporate governance report on [pages 112-115](#) →



Risk assessment in 2020

Identifying and assessing risks, as well as developing measures to mitigate them and monitoring their implementation, are ongoing challenges for both management and internal audit function.

In 2020, management continued to actively manage the risks that the Group faces. The COVID-19 pandemic and heightened market volatility required EVRAZ to carefully monitor the risks that could negatively impact the business. The Group's financial and operating results for the period show that management effectively coped with the challenges posed by this increased uncertainty.

In summer 2020, EVRAZ updated its risk register to account for the current situation. While the composition of its principal risks did not change compared with the previous year, a detailed analysis of their impact and probability of negative consequences for the Group led to a recalibration in the assessment of some of the risks. The Audit Committee carefully reviewed this assessment on behalf of the Board.

The updated list includes risks associated with the possibility of a reduction in output due to increased rates of staff illness. To minimise the likelihood of such a negative turn of events, EVRAZ developed a system of measures aimed at both reducing the incidence of illness, as well as promptly identifying and isolating sick employees. The Group worked to quickly purchase all necessary equipment and materials, as well as to implement new rules and processes aimed at mitigating such risks throughout

its operations. To reduce the risk of illness, a significant portion of the office staff now work remotely. In addition, EVRAZ changed many of its internal processes to improve its efficiency in this new environment.

The assessment also included other risks that were not recognised as principal, eg HR and employee risks (including the risks of lack of skills, failure of succession planning, reduced productivity due to labour unrest or poor job satisfaction), taxation, compliance risks (including anti-corruption and anti-bribery matters), social and community risks, risks related to respect for human rights, and other risks. While the impact and probability analysis suggests that such risks could affect operations to some extent, management believes they are being adequately managed and does not consider them as being capable of seriously affecting the Group's performance, future prospects or reputation.

To enhance its focus and control over the Environmental, Social and Governance risks, in 2020, EVRAZ developed an Environmental Strategy, as well as a Human Rights Policy and a Diversity and Inclusion Policy. Additionally, management began to develop a Climate Change Strategy, the initial results of which were presented in the Climate Change Report published in October 2020. This will provide more transparency on how the Group addresses the related risks.

Discover more in the Climate Change Report: <https://www.evraz.com/en/sustainability/data-center/climate-change-reports/>

As the UK formally left the EU on 31 January 2020, the Group continues to closely monitor the situation and believes that Brexit will not significantly affect its business.

Key developments in 2020 and outlook for 2021

In 2020, EVRAZ continued to roll out the health and safety risk management tools that it has developed. The significant level of employee engagement in the process and heightened focus on safety were among the key aspects that contributed to a reduction in injury rates.

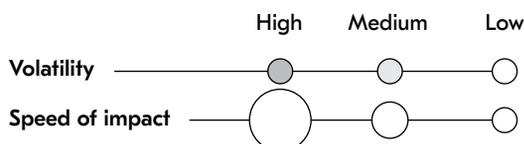
The Group worked to accelerate and strengthen its IT security more quickly after a computer virus impacted its assets in North America in spring 2020. The EVRAZ Information Security Operations Centre also proved its ability to quickly process information about potential information security threats and act promptly to eliminate them.

Given the heightened market uncertainty, the Group revised its investment plans to ensure that its risk exposure did not exceed the established risk appetite. In addition, as part of an ongoing programme to improve project management practices, the risk management approach was revised, the investment project risk register was regularly updated and appropriate employee training was conducted. These measures are intended to ensure more predictable results when implementing investment projects.

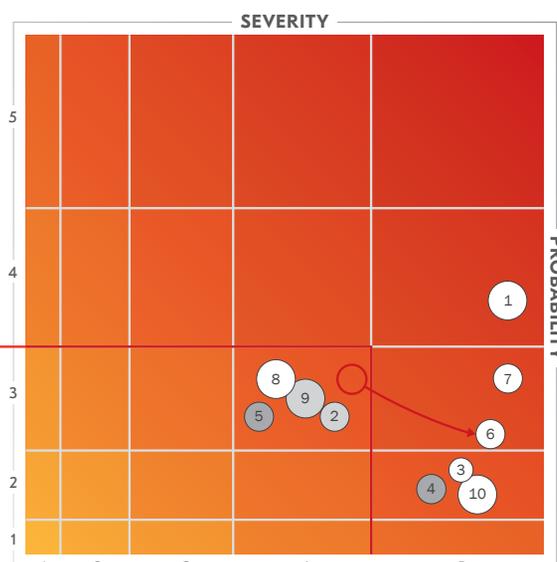
Principal risks and uncertainties heat map in 2020

- 1. Global economic factors, industry conditions and cyclical
- 2. Product competition
- 3. Cost effectiveness
- 4. Potential regulatory actions by Governments, incl. trade, anti-monopoly, anti-dumping regulation, sanctions regimes, and other laws and regulations
- 5. Functional currency devaluation
- 6. HSE: environmental
- 7. HSE: health, safety
- 8. Business interruption
- 9. Digital effectiveness, effective, efficient and continued IT service
- 10. Capital projects and expenditure

Risk appetite level



Risk migration, yoy



During the preparation of the Climate Change Strategy in 2020, EVRAZ performed scenario analysis, as well as identified and assessed climate risks and opportunities. The transitional and physical risks that were identified have not yet had any impacts on the Group's operations and do not currently pose a critical risk to its business, as currently projected.

Discover more in the Climate Change Report:
<https://www.evraz.com/en/sustainability/data-center/climate-change-reports/>

Environmental risk has always been a topic of focus for management and is recognised as a principal risk for EVRAZ. The Group mitigates the environmental risk by implementing air emission reduction programmes at all plants, participating in developing greenhouse gas emission regulations in Russia, implementing energy efficiency projects and, as a result, reducing greenhouse gas emissions.

The COVID-19 pandemic did not have a material impact on the risk management processes in use at EVRAZ in 2020. Overall, the Group's financial and operating results indicate that it implemented effective measures to overcome the uncertainty seen during the period.

Emerging risks

In addition to principal risks, management pays particular attention to threats that could become significant over a certain time, known as emerging risks. The Group defines these as events that could meaningfully impact EVRAZ' activities and results,

but have a lower likelihood of materialising in the next three to five years. They include:

- Climate change.
- Liabilities incurred due to environmental impairments.

The management works continuously to monitor and manage emerging risks and devise mitigation measures.

Principal risks and uncertainties

Our basis	Strategic priorities	Direction of risk change
Sustainable development EVRAZ Business System	<input type="checkbox"/> Debt management and stable dividends <input type="checkbox"/> Prudent CAPEX <input type="checkbox"/> Retention of low-cost position <input type="checkbox"/> Development of product portfolio and customer base	— No changes ▲ Increased ▼ Decreased

Risk	Description and impact	Risk owner(s)	Mitigating/risk management actions in 2020	Direction/reason for change
1. Global economic factors, industry conditions and cyclicity 	<p>The operations of EVRAZ are dependent on the global macroeconomic environment, as well as economic and industry conditions, eg the global supply and demand balance for steel, iron ore and coking coal, which affect both product prices and volumes across all markets.</p> <p>The Group's operations involve substantial fixed costs, and global economic and industry conditions can impact its operational performance.</p> <p>New capacities and lower demand amid the economic recession put significant pressure on prices.</p>	CEO, Strategy Committee, Management Committee, Budgeting Committee and other levels	<p>This is an external risk that is mostly outside the control of EVRAZ; however, it is partly mitigated by exploring new market opportunities, focusing on expanding the share of value-added products, further downscaling inefficient assets, suspending production in low-growth regions, reducing and managing the cost base with the objective of being among the sector's lowest-cost producers, and improving the balance sheet/gearing.</p> <p>In 2020, the COVID-19 pandemic brought additional market uncertainties. At the same time, management's actions reduced the impact of this risk on the Group's business and operations.</p>	—
2. Product competition 	<p>EVRAZ faces excessive supply on the global market and greater competition, mostly in the steel products market, primarily due to competitors' activity and the introduction of new facilities.</p> <p>Other risks include low demand for construction products and increasing competition in this segment.</p> <p>Competition is rising in the rail product segment. The Group also faces excessive supply of slabs on the global market and intensified competition.</p>	VP Sales, VPs of business units	<p>EVRAZ mitigates this risk by expanding its product portfolio and penetrating new geographic and product markets.</p> <p>It continuously develops and improves its loyalty and customer focus programmes and initiatives.</p> <p>The Group also implements quality improvement initiatives and strives to increase the share of value-added products.</p>	—

Risk	Description and impact	Risk owner(s)	Mitigating/risk management actions in 2020	Direction/reason for change
3. Cost effectiveness  	<p>Most of the Group's steel production remains sensitive to costs and prices.</p> <p>Given the substantial product share of commodity semi-finished, which requires less customer service and is more cost driven, maintaining a low-cost position is a key business objective for EVRAZ in steelmaking, as well as in the iron ore and coking coal mining businesses.</p> <p>Digitalisation is having a significant impact on the sector, as companies seek to use new technology to support efforts to improve productivity and margins across the value chain. Failure to find digital solutions for the most urgent business problems could reduce operational flexibility and cost advantage.</p>	VPs of business units, SVP Commerce and Business Development	<p>For both the mining and steelmaking operations, EVRAZ is implementing cost-reduction projects to increase asset competitiveness.</p> <p>The Group's focused investment policy is aimed at reducing and managing the cost base.</p> <p>EVRAZ also seeks to mitigate this risk through the control of its Russian steel distribution network, the development of high value-added products, and the implementation of EVRAZ Business System transformation projects focused on increasing efficiency and effectiveness.</p> <p>In addition, the Group's digital projects help to reduce risks associated with primary equipment and to improve effectiveness. This includes the Advanced Analytics programme, which it launched in 2020 to drive operational efficiency.</p>	—
4. Potential regulatory actions by governments, incl. trade, anti-monopoly and anti-dumping regulations, sanctions regimes, as well as other laws and regulations 	<p>New laws, regulations or other requirements and regimes could limit the Group's ability to obtain financing on international markets, sell its products and purchase equipment.</p> <p>EVRAZ may also be adversely affected by government sanctions against Russian businesses or otherwise reducing its ability to conduct business with counterparties.</p> <p>There is a risk of adverse geopolitical situations in the countries where the Group operates.</p> <p>Other risks include the possibility that EVRAZ could fail to adapt to new market conditions, or could incur losses connected with existing contracts in case of additional sanctions implementation.</p>	VP Compliance and Security, VP Legal, VP Sales, VP Strategy and others	<p>EVRAZ and its executive teams are members of various national industry bodies.</p> <p>As a result, they contribute to the development of such bodies and, when appropriate, participate in relevant discussions with political and regulatory authorities.</p> <p>The Group seeks to monitor potential legislative changes before their introduction, at the point when new laws are being drafted.</p> <p>EVRAZ has implemented and will further develop procedures to ensure that sanctions requirements are complied with across its operations.</p> <p>While the Group's internal compliance controls address the associated risks, the general uncertainty in the area increases management's focus on this risk.</p> <p>EVRAZ also continuously monitors changes in temporary legislation related to the COVID-19 pandemic.</p>	—
5. Functional currency devaluation 	Any significant fluctuation in subsidiaries' functional currencies relative to the US dollar could have a significant effect on the Group's financial accounts, which might impact its ability to borrow.	CFO	<p>While this external risk is mostly outside the Group's ability to control, management works to mitigate its potential impact through proper disclosure and monitoring.</p> <p>EVRAZ also works to reduce the amount of intergroup loans denominated in Russian rubles to limit the possible devaluation effect on its consolidated net income.</p>	—

Risk	Description and impact	Risk owner(s)	Mitigating/risk management actions in 2020	Direction/reason for change
6. HSE: environmental 	<p>Steel and mining production carry an inherent risk of environmental impact and incidents relating to issues as diverse as water usage, quality of water discharged, waste recycling, tailing management, air emissions (including greenhouse gases) and community satisfaction.</p> <p>Consequently, EVRAZ faces risks including regulatory fines, penalties, adverse reputational impact and, in the extreme, the withdrawal of plant environmental licences, which would curtail operations indefinitely.</p> <p>Globally, there is an increase in regulatory scrutiny and pressure, as well as investor and customer expectations.</p>	HSE Committee at the Board of Directors level, as well as at management level	<p>EVRAZ monitors its environmental risk matrix on a regular basis, and it develops and implements mitigation measures in response to these risks. The top management also devotes greater attention to monthly monitoring of environmental risk trends and factors.</p> <p>The Group implements programmes to reduce air emissions and water use at its plants, as well as to improve its waste management practices.</p> <p>EVRAZ has developed an environmental strategy and has updated its list of projects in accordance with it to achieve strategic goals regarding emissions and waste. The strategy is being implemented through dedicated programmes in each division.</p> <p>Most of the Group's operations are certified under ISO 14001 and work is ongoing to bring the remaining plants in compliance with this international standard. EVRAZ is currently compliant with REACH requirements.</p> <p>The Group has begun to develop a Climate Change Strategy, including performing various scenario analyses and identifying appropriate risks.</p> <p>EVRAZ also participates in the development of GHG emissions regulation in Russia. In addition, the Group has achieved reductions in GHG emissions as a positive side-effect of its energy efficiency projects.</p>	^ Risk level was increased due to a noted increase in regulatory scrutiny and pressure resulting in a heightened risk impact in 2020.
7. HSE: health and safety 	<p>Inherent HSE risks include the potential danger of fire, explosions and electrocution, as well as risks specific to individual mines, where elevated methane levels, rock falls and other accidents could lead to loss of personnel, outage or production delays, loss of material, equipment or product, or extensive damage compensation.</p> <p>In addition, the breach of any HSE laws, regulations and standards may result in fines, penalties and adverse reputational impacts and, in the extreme, the withdrawal of mining operational licences, thereby curtailing operations for an indefinite period.</p> <p>There is also the risk of infection with COVID-19, which may be associated with the need for a mass quarantine of workers.</p>	HSE Committee at the Board of Directors level, as well as at management level	<p>To mitigate these risks, EVRAZ ensures that its management KPIs place significant emphasis on safety performance and the standardisation of critical safety programmes.</p> <p>The Group is implementing an energy isolation programme, further developing a programme of behaviour safety observations to drive a more proactive approach to preventing injuries and incidents, as well as launching a series of health and safety initiatives related to underground mining.</p> <p>Other measures include implementing maintenance and repair modernisation programmes, launching a downtime management system, further developing the occupational safety risk assessment methodology, as well as analysing the effectiveness of corrective measures.</p> <p>In addition, the Group conducts mass testing of personnel for COVID-19 and has introduced reliable barriers to prevent carriers of the virus from entering its facilities.</p>	-

Risk	Description and impact	Risk owner(s)	Mitigating/risk management actions in 2020	Direction/reason for change
8. Business interruption 	<p>Prolonged outages or production delays, especially in coal mining, could have a material adverse effect on the Group's operating performance, production, financial condition and future prospects.</p> <p>In addition, any long-term business interruption may result in a loss of customers and competitive advantage, as well as damage to the Group's reputation.</p>	VPs of business units	<p>The Group has defined and established disaster recovery procedures that are subject to regular review. Business interruptions in mining mainly relate to production safety. Measures to mitigate these risks include methane monitoring and degassing systems, timely mining equipment maintenance, as well as employee safety training.</p> <p>EVRAZ performs detailed incident cause analyses to develop and implement preventative actions. Records of minor interruptions are reviewed to identify any more significant underlying issues.</p>	—
9. Digital effectiveness, as well as effective, efficient and continuous IT service 	<p>A failure to proactively use IT opportunities to increase the efficiency of business operations could result in a loss of competitive advantage and margins.</p> <p>Information technology and information security risks have the potential to cause prolonged production delays or shutdowns.</p> <p>At the same time, increased digital transformation and the convergence of IT and operational technology make companies more vulnerable.</p>	VPs of business units, VP IT, IT Architecture Committee	<p>Digital Transformation is a part of the Group's IT strategy.</p> <p>EVRAZ continuously assesses and monitors information security risks, and it implements mitigation measures upon completion of external assessments by an independent advisor.</p> <p>The Group conducts regular continuity testing for the most critically important IT systems.</p> <p>Successful mitigation measures include launching the IT Security Operation Centre, conducting security awareness training for employees and effectively organising remote work for staff during the COVID-19 pandemic.</p>	—
10. Capital projects and expenditure 	<p>The Group's development plans largely rely on capital projects and depend on its economic viability, efficiency and effectiveness of execution, as well as the availability and cost of capital to finance capital expenditure.</p> <p>Economic issues outside those factored into the Group's business plans, including regulatory approvals, also may negatively impact anticipated free cash flow and cause certain elements of the planned capital expenditure to be re-phased, deferred or abandoned with consequential impact on the Group's planned future performance.</p> <p>In addition, the profitability of new projects could be impacted by higher than expected operating and life of mine costs due to variables such as lower than expected coal and iron ore quality, coal seam economics, as well as technical processing and engineering factors.</p>	CFO, Strategy Committee, Investment Committee, VPs of business units	<p>EVRAZ reviews all proposed capital projects on a risk return basis. The current list of projects has been reviewed and updated.</p> <p>Each project is presented for approval against the Group's risk matrix to assess its potential downside and any possible mitigating actions.</p> <p>EVRAZ has created a list of typical project risks and a database of lessons learned.</p> <p>Project delivery is closely monitored against project plans resulting in high-level action to manage project investment for both timely delivery and planned project expenditure.</p> <p>New mine development and definition of feasibility plans are reviewed and signed off by independent mining engineers.</p> <p>The Group regularly revisits the key assumptions for its main investment projects and performs scenario analyses, which may result in the suspension and/or postponement of certain projects.</p> <p>EVRAZ also uses financial modelling to define the strategy of each individual asset and the enterprise in general for the purpose of long-term FCF forecasting, including investment projects.</p> <p>The project management system's transformation is ongoing.</p>	—