

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 2019, in line 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. The 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 2019, 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 EVRAZ 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 the 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.

- The Group 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 EVRAZ 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.
- All acquired businesses are brought within the Group's system of internal control as soon as practicable.

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

The EVRAZ Business Security department is led by a senior 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 27 February 2019.

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 the 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 Group's internal controls.

During 2019, EVRAZ head of internal audit, as 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 the 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 2019, internal audit projects covered the following Group risks:

- Cost effectiveness
- Health, safety and environment
- Capital projects and expenditure
- Human resources
- Compliance laws and regulations
- Business interruption, and equipment and infrastructure downtime management
- Transportation, sourcing, raw materials and energy supply
- Digital effectiveness, and effective, efficient and continued IT service
- Fraud, security, bribery and corruption
- Quality

EVRAZ internal audit function is structured on a regional basis, reflecting the geographic spread of the Group's operations. The internal audit function aligns common internal audit practices throughout the Group via quality assurance and improvement programmes. Benchmarking with the leading internal audit functions in other companies is also being done in order to improve internal audit efficiency, effectiveness and value for the Group.

Components of the internal control system

Component	Basis for assurance	Action in 2019
Assurance framework – principal entity-level controls to prevent and detect error or material fraud, as well as to ensure 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, and risk and control framework 	In 2019, the internal audit function reviewed the result of the 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 overall effective 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 established management committee and subcommittees Reviewed by the internal audit function 	Continuous enhancement of procedures regarding quality and reporting control, as well as other elements of the project oversight process. In 2019, various activities were implemented in order to further increase the efficiency and effectiveness of the project management process, for example by including functional experts (HR, legal, procurement, IT, etc) in the project management teams.
Operating policies and procedures	<ul style="list-style-type: none"> Implemented, updated and monitored by the 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 has been started in 2019 and continue 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 executive management and approved by the Board.
Accounting policies and procedures as per the corporate accounting manual	<ul style="list-style-type: none"> Developed and updated by the reporting department Reviewed by the internal audit function 	Accounting policies and procedures were updated as part of the standard annual review process.

Approach to risk appetite

Risk appetite is an important part of the risk management process that serves as a measure of the risks that EVRAZ 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 the Group.

Risk appetite is considered in evaluating strategies and setting objectives within EVRAZ 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 Group's strategic objectives 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.

The 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 2019. Based on the results of the most recent review, the management concluded that the Group's risk-acceptance approach 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 February 2020.

Objectives for 2020

Further development of the risk management system and risk management practices is planned for 2020.

In 2019, the Group was focused on enhancing its health and safety risk management methodology; this work will continue in 2020.

In 2020, in addition to continuing to implement ongoing initiatives focused on improving risk management (in HSE, equipment maintenance and repairs, procurement and other processes), the Group plans to focus more on addressing climate-related risks. While environmental risk has always been a topic of focus for the management and is recognised as a principal risk for the Group, the management plans to increase its focus on the climate-related aspects of this risk.

In order to enhance its focus and control over the Environmental, Social and Governance risks, in 2020, the Group plans to initiate development of the related strategies and policies: Sustainability Strategy, Climate Change Strategy, Human Rights and Diversity Policy. This will provide more transparency on how the Group addresses the related risks.



Further information regarding EVRAZ internal control and risk management processes can be found on the Group's website.