









PRINCIPAL RISKS AND UNCERTAINTIES

<p>OUR BASIS</p> <p>Sustainable development</p> <p>EBS EVRAZ Business System</p>	<p>Strategic priorities</p> <ul style="list-style-type: none"> ■ Debt management and stable dividends ■ Prudent CAPEX ■ Retention of low-cost position ■ Development of product portfolio and customer base 	<p>Direction of risk change</p> <ul style="list-style-type: none"> — No changes ▲ Increased ▼ Decreased
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Risk	Description and impact	Risk owner(s)	Mitigating/risk management actions in 2019	Direction/ reason for change
<p>1.</p> <p>Global economic factors, industry conditions and cyclicality</p> <p>■ ■ ■ ■</p>	<p>EVRAZ operations 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 the Group's operational performance.</p>	<p>The risk is monitored at the level of CEO, as well as by the Strategy Committee, Management Committee, Budgeting Committee and at other levels</p>	<p>This is an external risk that is mostly outside the Group's control; 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 balance sheet/gearing improvement.</p> <p>In 2019, there were noted indicators of risk realisation. At the same time, the management actions noted reduced the impact of the risk on the Company's business and operations.</p>	<p>—</p>
<p>2.</p> <p>Product competition</p> <p>■</p>	<p>Excessive supply on the global market and greater competition, mostly in the steel products market, primarily due to competitors' activity and introduction of new facilities.</p> <p>Low demand for construction products and increasing competition in this segment.</p> <p>Increasing competition in the rail product segment. Excessive supply of slabs on the global market and intensified competition.</p>	<p>VP Sales</p>	<p>Expand product portfolio and penetrate new geographic and product markets.</p> <p>Develop and improve loyalty and customer focus programmes and initiatives.</p> <p>Quality improvement initiatives.</p> <p>Expand the share of value-added products.</p>	<p>—</p>

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<p>3.</p> <p>Cost effectiveness</p> <p></p> <p></p>	<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 one of EVRAZ key business objectives 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>	<p>VPs of business units, VP Commerce and Business Development</p>	<p>For both the mining and steelmaking operations, the Group is implementing cost-reduction projects to increase asset competitiveness.</p> <p>Focused investment policy aimed at reducing and managing the cost base.</p> <p>Control of the Group's Russian steel distribution network.</p> <p>Development of high value-added products.</p> <p>EVRAZ Business System transformation projects focused on increasing efficiency and effectiveness.</p>	<p>—</p>
<p>4.</p> <p>Potential regulatory actions by governments, incl. trade, anti-monopoly, anti-dumping regulation, sanctions regimes, and other laws and regulations</p> <p></p>	<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>Risk of adverse geopolitical situations in countries of operation.</p> <p>Risks of the Group's failure to adapt to new market conditions and to take losses connected with existing contracts in case of additional sanctions implementation.</p>	<p>VP Compliance and Security, VP Legal, VP Sales, VP Strategy and others</p>	<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>Procedures have been implemented and will be further developed to ensure that sanction requirements are complied with across the Group's operations.</p> <p>Ongoing control over regulatory compliance, monitoring regulatory changes and developing necessary controls.</p> <p>While the Group's internal compliance controls address the associated risks, the general uncertainty in the area increases the management's focus on this risk.</p>	<p>▼</p> <p>Decreased due to enhancement of internal compliance control in 2019 to address the associated risks</p>
<p>5.</p> <p>Functional currency devaluation</p> <p></p>	<p>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.</p>	<p>The risk is monitored at the level of the CFO</p>	<p>EVRAZ works to reduce the amount of intergroup loans denominated in Russian roubles to limit the possible devaluation effect on its consolidated net income.</p>	<p>—</p>

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<p>6.</p> <p>HSE: environmental</p> 	<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>	<p>HSE Committee at the Board of Directors level, as well as at the management level</p>	<p>The environmental risk matrix is monitored on a regular basis. Respective mitigation activity is developed and performed in response to the risks. Increased focus of the top management on monthly monitoring of environmental risk trends and factors.</p> <p>Implementation of air emissions and water use reduction programmes at plants. Waste management improvement programmes.</p> <p>Most of EVRAZ operations are certified under ISO 14001 and the Group continues to work towards bringing the remaining plants to ISO 14001 requirements. EVRAZ is currently compliant with REACH requirements.</p> <p>Participation in development of GHG emissions regulation in Russia. Reduction in GHG emissions as a positive side-effect of energy efficiency projects.</p> <p>While there was a noted increase in regulatory scrutiny and pressure resulting in a heightened risk impact in 2019, the management focus and mitigation activity keeps the risk level unchanged.</p> <p>Read pages 81 for more details.</p>	<p>—</p>
<p>7.</p> <p>HSE: health, safety</p> 	<p>Potential danger of fire, explosions and electrocution, as well as risks specific to individual mines: 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>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>HSE Committee at the Board of Directors level, as well as at the management level</p>	<p>Management KPIs place significant emphasis on safety performance and the standardisation of critical safety programmes.</p> <p>Implementation of an energy isolation programme.</p> <p>Further development of a programme of behaviour safety observations which drives a more proactive approach to preventing injuries and incidents.</p> <p>A series of health and safety initiatives related to underground mining.</p> <p>Maintenance and repair modernisation programmes, downtime management system.</p> <p>Further development of occupational safety risk assessment methodology.</p> <p>Analysis of effectiveness of corrective measures.</p> <p>In 2019, there were noted cases indicating risk realisation. However, the management focus on measures addressing the risk is especially high.</p> <p>Read pages 78 for more details.</p>	<p>—</p>

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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, and employee safety training.</p> <p>Detailed incident cause analysis is performed in order to develop and implement preventative actions. Records of minor interruptions are reviewed to identify any more significant underlying issues.</p>	—
9. Digital effectiveness, effective, efficient and continued IT service	<p>A failure to proactively use IT opportunities to increase the efficiency of business operations can 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 makes companies more vulnerable.</p>	VPs of business units, VP IT, IT Architecture Committee	<p>Digital Transformation is a part of the IT strategy.</p> <p>Assessment and monitoring of risks of information security, implementation of related mitigation activity. Implementation of mitigation measures upon completion of external assessment by independent advisor.</p> <p>IT continuity regular testing for the most critically important IT systems.</p> <p>IT Security Operation Centre launched.</p>	▼ Decreased due to enhancement of information security controls in 2019. In addition, a Digital Transformation strategy was developed and made a part of the IT strategy.
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 the Group's capital expenditure.</p> <p>Economic issues outside those factored into the Group's business plans including regulatory approvals, also may negatively impact the Group's 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, and technical processing and engineering factors.</p>	CFO, Strategy Committee, Investment Committee, VPs of business units	<p>Review all proposed capital projects on a risk return basis.</p> <p>Each project is presented for approval against the Group's risk matrix to assess the downside in respect of each project and any potential mitigating actions.</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>Regularly revisit key assumptions of the main investment projects and perform scenario analysis, which may result in the suspension and/or postponement of certain projects.</p> <p>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>	▲ Increased to reflect expanded portfolio of capital projects being executed by the Group