

Independent Auditor's report to the Members of EVRAZ plc

Our opinion on the Financial Statements

In our opinion:

- EVRAZ plc's Group financial statements and Parent Company financial statements (the "Financial Statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's and the Parent Company's profit for the year then ended;
- the Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Consolidated Financial Statements, Article 4 of the IAS Regulation.

We have audited the financial statements of EVRAZ plc which comprise:

| Group | Parent company |
|---|--|
| the Consolidated Statement of Operations, the Consolidated Statement of Comprehensive Income; | the Separate Statement of Comprehensive Income; |
| the Consolidated Statement of Financial Position; | the Separate Statement of Financial Position; |
| the Consolidated Statement of Cash Flows; | the Separate Statement of Cash Flows; |
| the Consolidated Statement of Changes in Equity; and | the Separate Statement of Changes in Equity; and |
| the related notes 1 to 34. | the related notes 1 to 11. |

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 34–37 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 35 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 153 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 38 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

| | |
|--------------------------|--|
| Key audit matters | <ul style="list-style-type: none"> Goodwill and non-current asset impairment Completeness of related party transactions |
| Audit scope | <ul style="list-style-type: none"> We performed an audit of the complete financial information of five components and audit procedures on specific balances for a further eight components. The 13 reporting components where we performed full or specific audit procedures accounted for 78% of the Group's EBITDA and 83% of the Group's revenue (with 68% and 75% respectively representing five full scope components and 10% and 8% respectively eight specific scope components). For the remaining 47 reporting components of the Group we have performed other procedures appropriate to respond to the risk of material misstatement. We have obtained an understanding of the entity-level controls of the Group which assisted us in identifying and assessing risks of material misstatement due to fraud or error, as well as assisting us in determining the most appropriate audit strategy. |
| Materiality | <ul style="list-style-type: none"> Overall Group materiality of \$110 million (2017: \$79 million) which represents approximately 3% (2017: 3%) of EBITDA. |

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

| Area of focus | Our audit approach | What we reported to the Audit Committee |
|--|--|---|
| <p>Goodwill and non-current asset impairment</p> <p>Refer to the Group Audit Committee report on page 112, the estimates and judgements on pages 157-158 and the disclosures of impairment in note 6 of the Consolidated Financial Statements</p> | <p>Our audit procedures were performed mainly by the Group audit team with the assistance of our valuation specialists with the exception of certain location specific inputs to management's models, which were assessed by the component teams.</p> <p>Our audit procedures included the evaluation of management's assumptions used in their impairment models. The assumptions to which the models were most sensitive and most likely to lead to further impairments were:</p> <ul style="list-style-type: none"> decreases in steel prices; increases in production costs; discount rates; and terminal growth rate. <p>We corroborated management's assumptions with reference to historical data and, where applicable, external benchmarks.</p> <p>We have reviewed and challenged management's assumptions that the North American tariffs will stay in place only until 2022. We assessed external market information and sought local specialist advice and have not identified evidence to suggest that management's assumptions on tariffs are unreasonable.</p> <p>We tested the integrity of models and carried out audit procedures on management's sensitivity calculations.</p> <p>We assessed the historical accuracy of management's budgets and forecasts, and sought appropriate evidence for any anticipated improvements in major assumptions such as production volumes or cost reductions. We corroborated previous forecasts with actual data.</p> <p>We tested the appropriateness of the related disclosures provided in the Consolidated Financial Statements. In particular we tested the adequacy of the disclosures regarding those CGUs with material goodwill balances and where a reasonably possible change in certain variables could lead to impairment charges.</p> | <p><i>Risk direction</i> ▲</p> <p>We consider management's estimates to be reasonable for the current year with assumptions within an acceptable range where appropriate. Management has also reflected known changes in the circumstances of each CGU in its forecasts for forthcoming periods, including their best estimate of the North American tariffs' impact.</p> <p>We concluded that the related disclosures provided in the Consolidated Financial Statements are appropriate.</p> |

| Area of focus | Our audit approach | What we reported to the Audit Committee |
|--|---|--|
| <p>Completeness of related party transactions</p> <p><i>Refer to the Group Audit Committee report on page 112 and note 16 of the Consolidated Financial Statements</i></p> | | |
| <p>At the end of 2015, management discovered historic transactions with a company controlled by a key management person had been erroneously omitted from the prior year's disclosures of related party transactions in the Consolidated Financial Statements, leading to us assessing the completeness of related party transactions as a significant risk.</p> <p>This view remained unchanged for the current year audit. We considered the elevated risk to be limited to the Russian entities within the Group where external business interests, especially in relation to local product suppliers, are more common amongst members of key management.</p> | <p>At both a component team and group level, we have understood and tested management's process for identifying related parties, and recording and disclosure of related party transactions.</p> <p>Across the Russian components we obtained an understanding of unusual or high value transactions with new counterparties. We also performed analytical reviews of transactions and balances with customers and suppliers to assess whether there are any significant changes in trading activity indicating undisclosed related parties.</p> <p>We selected all directors together with a sample of key management personnel and ran a search for any companies controlled by those individuals (the search was performed via an independent register of all companies based in the CIS and their directors or shareholders). We compared the results of the research made with the list of entities included in related party listing provided to us by management and investigated the differences between the listings.</p> <p>We assessed management's evaluation that the transactions are on an arm's length basis by reviewing a sample of agreements and comparing the related party transaction price to those quoted by comparable unrelated companies.</p> | <p><i>Risk direction</i> —</p> <p>Based on our procedures performed we have not identified any related party transactions or balances omitted from disclosure.</p> <p>We concluded that the related disclosures provided in the Consolidated Financial Statements are appropriate.</p> |

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enable us to form an opinion on the Consolidated Financial Statements. We take into account size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

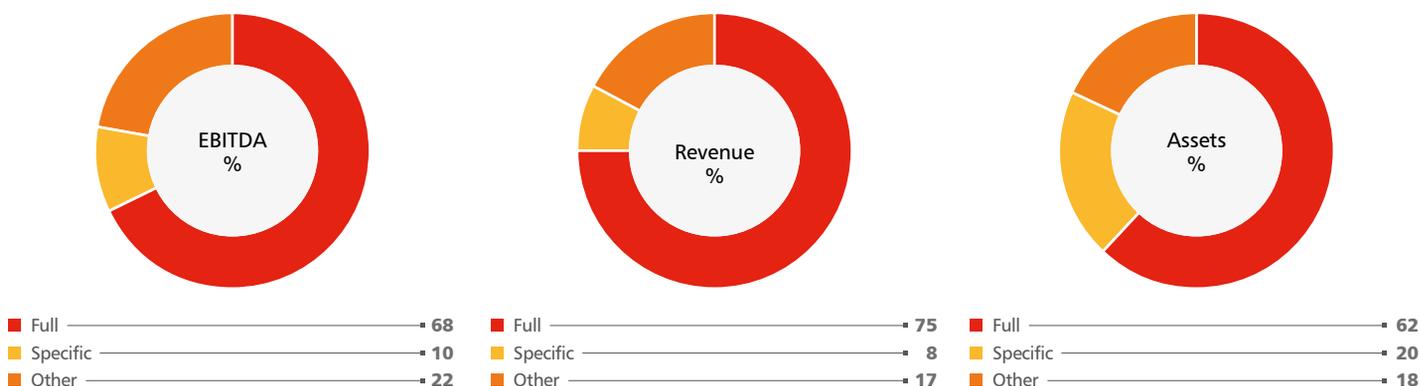
The EVRAZ Group has centralised processes and controls over the key areas of our audit focus with responsibility lying with group management for the majority of estimation processes and significant risk areas. We have tailored our audit response accordingly and thus for the majority of our focus areas, audit procedures were undertaken directly by the Group audit team with testing undertaken by the component audit teams on the verification of operational data and other routine processes.

In assessing the risk of material misstatement to the Consolidated Financial Statements, and to ensure we had adequate quantitative coverage of significant accounts, of the 60 reporting components of the Group we selected 13 components covering entities within Russia, Switzerland, Canada, Luxembourg, the UK and the USA, which represent the principal business units within the Group.

Of the 13 components selected, we performed an audit of the complete financial information of five components (full scope components), which were selected based on their size or risk characteristics. For the remaining eight selected components (specific scope components) we performed audit procedures on specific accounts within the component that we considered had the potential for the greatest impact on the amounts in the Consolidated Financial Statements either because of the size of these accounts or their risk profile. The extent of our audit work on the specific scope accounts was similar to that for a full scope audit.

The 13 reporting components where we performed full or specific scope procedures accounted for 78% (2017: 75%) of the Group EBITDA, 83% (2017: 90%) of the Group's revenue and 82% (2017: 82%) of the Group's total assets. For the current year, the full scope components contributed 68% (2017: 55%) of the Group EBITDA, 75% (2017: 77%) of the Group's revenue and 62% (2017: 58%) of the Group's Total assets. The specific scope components contributed 10% (2017: 20%) of the Group EBITDA, 8% (2017: 13%) of the Group's revenue and 20% (2017: 24%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. A further breakdown of the size of these components compared to key metrics of the Group is provided below.

Audit scope



For the remaining 47 components of the Group we performed other procedures, including analytical review, review of internal audit reports, testing of consolidation journals, cross check of the related party list against journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential significant risks of material misstatement to the Consolidated Financial Statements.

We have obtained an understanding of the entity-level controls of the Group as a whole which assisted us in identifying and assessing risks of material misstatement due to fraud or error, as well as assisting us in determining the most appropriate audit strategy.

Changes from the prior year

Our scope allocation in the current year is broadly consistent with 2017 in terms of overall coverage of the Group and the number of full and specific scope entities except for Evraz Metal Inprom Group component which was assessed as specific scope in prior year and moved to review scope in the current year as it is not significant in terms of risk/size and no specific risks allocated to the component in the prior and current years. This led to the decreased revenue coverage for full and specific scope components as indicated above.

Integrated team structure

The overall audit strategy is determined by the senior statutory auditor. The senior statutory auditor is based in the UK but, since Group management and many operations reside in Russia, the Group audit team includes members from both the UK and Russia. The senior statutory auditor visited Russia five times during the current year's audit and members of the Group audit team in both jurisdictions work together as an integrated team throughout the audit process. Whilst in Russia, he focused his time on the significant risks and judgemental areas of the audit. He attended management's going concern, impairment and significant estimates and judgements presentations to the Audit Committee. During the current year's audit he reviewed key working papers and met, or held conference calls, with representatives of the component audit team for all Russian based full scope components including internal valuation specialists used in the audit to discuss the audit approach and issues arising from their work.

Involvement with component teams

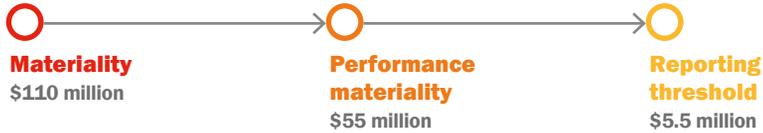
In establishing our overall approach to the Group audit we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team or by component auditors from other EY global network firms operating under our instruction. Of the five full scope components, audit procedures were performed on all of these by the relevant component audit team. Of the eight specific scope components selected, audit procedures were performed on five of these directly by the primary audit team. For the components where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the current year's audit cycle visits were undertaken by the primary audit team to component teams in Russia and the USA. The senior statutory auditor visited Russia and the USA. These visits involved discussing the audit approach with the component teams and any issues arising from their work. The primary audit team participated in key discussions, via conference calls with all full and specific scope locations. The primary audit team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at group level, gave us appropriate audit evidence for our opinion on the Consolidated Financial Statements.

Our application of materiality

The scope of our work is influenced by materiality. We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

As we develop our audit strategy, we determine materiality at the overall level and at the individual account level (referred to as our 'performance materiality').



Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate could reasonably be expected to influence the economic decisions of the users of the Financial Statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be \$110.0 million (2017: \$79.0 million), which is set at approximately 3.0% (2017: 3%) of EBITDA. Materiality is assessed on both quantitative and qualitative grounds. With respect to disclosure and presentational matters, amounts in excess of the quantitative thresholds above may not be adjusted if their effect is not considered to be material on a qualitative basis.

We determined materiality for the Parent Company to be £19.3 million (2017: £36.4 million), which is 2.0% (2017: 1.5%) of Equity. We reverted to using 2% which we had previously used due to the return to a more favourable business environment and the resulting improved strength in the company's performance, outlook and financial position.

Rationale for Group basis

We have used an earnings based measure as our basis of materiality. It was considered inappropriate to calculate materiality using Group profit or loss before tax due to the historic volatility of this metric. EBITDA is a key performance indicator for the Group and is also a key metric used by the Group in the assessment of the performance of management. We also noted that market and analyst commentary on the performance of the Group uses EBITDA as a key metric. We therefore, considered EBITDA to be the most appropriate performance metric on which to base our materiality calculation as we considered that to be the most relevant performance measure to the stakeholders of the entity.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgment was that given the number and monetary amounts of individual misstatements (corrected and uncorrected) identified in prior periods as well as the nature of the misstatements, overall performance materiality for the Group should be 50% (2017: 50%) of materiality, namely \$55.0 million (2017: \$39.5 million).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year the range of performance materiality allocated to components was \$11.0 million to \$35.8 million.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of \$5.5 million (2017: \$4.0 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 133, including the Strategic report, Business review, CSR report and Corporate Governance sections (including Corporate governance report, Remuneration report, Directors' Report and Directors' Responsibility statement), other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out** [on page 133](#) – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out** [on page 112](#) – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out** [on page 133](#) – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 133, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the report framework (IFRS, the Companies act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in Russia.
- We have considered the impact of the sanctions against Russia on the group's operations, customer base and credit risk as well as the possibility of further more restrictive sanctions being imposed and nothing has come to our attention to suggest that the operations or the liquidity of the group have been adversely affected directly by the current political and economic situation other than the negative impact on capital markets and the financing options available to management. We reviewed management's assessment of the sanctions impact on the group's operations and the external advice received by the Group.
- We understood how EVRAZ plc is complying with those legal and regulatory frameworks by making enquiries to management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it is considered there was a susceptibility of fraud. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programs and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free of fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company in 2011 to audit the financial statements for the year ended 31 December 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is seven years, covering periods from our initial appointment in 2011 through to the year ended 31 December 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Steven Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

27 February 2019

Notes:

- 1) The maintenance and integrity of the EVRAZ plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
- 2) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.