

RISK MIGRATION IN 2018 AND ROBUST ASSESSMENT

In 2018, management carried out a robust reassessment of the principal risks facing the Group. The Audit Committee has carefully reviewed this assessment on behalf of the Board.

The assessment focused on the risks that could adversely affect the Group's strategies. It included an evaluation of risks identified at the operational level and their relevance and significance for the Group, as well as a detailed assessment of some specific areas where new risks have been identified or the risk profile has changed significantly. The management also considered the speed of impact and volatility of each risk in their assessment. As a result, the principal risks have been updated.

International groups operate in the context of tariff and sanctions regimes and significant changes could have a material impact on the Group's operations. Plans and mitigating measures are put in place to the extent possible and reasonable but these matters are largely outside the Group's control. The risk of compliance with trade, anti-monopoly and anti-dumping regulations, as well as sanctions regimes were reassessed during 2018 to reflect increased government activity and other external factors on the sector. As a result this has been classified as a principal risk. While the Group's internal compliance

controls address these risks and associated areas, general uncertainty in the area heightens the management's focus on this risk.

While the risk of availability of finance remains one of the Group's key focus areas, after the reassessment in 2018 this is no longer considered a principal risk as a result of the Group's actions to extend its debt maturity profile.

The assessment 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 of climate change, risks related with respect for human rights, and other risks. While the impact and probability analysis suggests that such risks could affect the Group's operations to some extent, the 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. EVRAZ activity in many of these areas is described in greater detail in the CSR Report section on pages 72-97.

While the composition of the Group's principal risks has not changed substantially compared with the previous year, a detailed analysis of their impact and probability of negative consequences for the Group has led to a recalibration in the assessment of some of the risks.

The Group closely monitors the impact of the UK referendum vote to leave the EU and continues to believe that it will not significantly affect its business.

Key developments in 2018 and outlook for 2019

In 2018, the Group analysed the adequacy of its risk management practices and identified gaps in key business processes. While the maturity of EVRAZ risk management process was generally assessed as fair, there were areas identified that require additional management focus and implementation or improvement of risk management instruments or practices. An action plan for each gap was developed and will be introduced. EVRAZ activity in this area is described in more detail in the Corporate Governance section of this report.

Principal risks and uncertainties heat map in 2018

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|---|---|
| 1. Global economic factors, industry conditions and cyclicity | 6. HSE: environmental |
| 2. Product competition | 7. HSE: health, safety |
| 3. Cost effectiveness | 8. Potential government action |
| 4. Compliance with trade regulations and sanctions regimes | 9. Business interruption |
| 5. Functional currency devaluation | 10. Cybersecurity and IT infrastructure failure |

Risk appetite level



Volatility

Speed of impact

High

High

Medium

Medium

Low

Low

Risk migration, yoy

