

SUSTAINABILITY RISK MANAGEMENT

APPROACH TO MANAGING SUSTAINABILITY RISKS

Sustainability risks are managed and reviewed in a systematic manner. The approach to risk management at EVRAZ covers all the Group's business processes and is adopted in all its operations. It allows the timely identification, assessment, and management of risks at both the corporate and operational level and to arrange preventive measures

when required. The Group does not differentiate between financial and non-financial risks and takes all required actions to manage sustainability risks (environmental, social, economic, and other related risks).

The current geopolitical situation may significantly affect the sustainable development of the Group in the future.

On the part of the Company's management, all necessary actions are taken to minimise the negative impact of ongoing changes on the achievement of the Company's sustainability goals.

The Group's systematic approach towards managing risks is presented in the table below¹.

Principal risks and uncertainties

RISK	DESCRIPTION AND IMPACT	RISK OWNER(S)	RISK MANAGEMENT ACTIONS IN 2021
Global economic factors, industry conditions, industry cyclicity	EVRAZ' operations are dependent on the global macroeconomic environment, as well as economic and industry conditions, for example, global supply and demand balance for steel, iron ore and coking coal, which affect both product prices and volumes across all markets. The Group's operations involve substantial fixed costs, and global economic and industry conditions can impact its operational performance. New capacity and lower demand amid the economic recession put significant pressure on prices.	Corporate Strategy and Performance Management	This is an external risk that is largely beyond 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 goal of being among the sector's lowest-cost producers, and improving the balance sheet/gearing.
Product competition	Increased competition in the global market for various products of the Group, mostly slabs and other steel products. Without mitigation activities, excess steelmaking capacities all over the world with lowered demand for some products may affect the Company's performance in a number of segments.	VP of Sales and Logistics, VPs of business units	<ul style="list-style-type: none"> ● EVRAZ drives improvements in its product portfolio and quality and endeavours to enter new regions and product segments ● The Group is committed to building and maintaining customer trust and loyalty and to implementing customer focus programmes and initiatives ● EVRAZ works on new value-added offers and increasing the share of the existing ones in its product mix

1. This table is based on the disclosure made in the Group's Annual report 2021. Updated list of principal risks will be disclosed in due course.

RISK	DESCRIPTION AND IMPACT	RISK OWNER(S)	RISK MANAGEMENT ACTIONS IN 2021
Cost effectiveness: cost position vs competitors	Most product groups in the steel industry are highly cost competitive and this is particularly relevant to the Group's key markets in Russia and North America. The majority of the Group's steel production remains cost and price sensitive. EVRAZ is increasingly moving its products to semi-finished commodities, which requires less customer service and is more cost driven. Steelmaking is a high capital cost industry and the impact of lower plant utilisation increases the underlying cost per tonne of crude and rolled steel, reducing any profit margin. Digital transformation is having a significant impact in the sector as companies seek to use new technologies to support efforts to improve productivity and margin across the value chain. The failure to employ and use digital transformation to solve the most urgent business problems could lead to the diminished flexibility of operations and cost advantage. Mining production is a high capital cost industry. Inefficiency in mining costs contributes to higher production costs both for mining and steel products.	VPs of business units	For both the mining and steelmaking operations, EVRAZ is implementing cost reduction projects to increase asset competitiveness. The Group's focused investment policy aims to reduce and manage the cost base. 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 that focus on increasing efficiency and effectiveness. In addition, the Group's digital projects help to reduce risks associated with primary equipment and improve effectiveness.
Potential regulatory actions by governments, including trade, antimonopoly, anti-dumping regulation, sanctions and other laws and regulations	Changes in the regulatory environment may affect the Group's ability to obtain financing on global markets, sell its products or purchase equipment. EVRAZ may also be adversely affected by government sanctions against Russian businesses that may deteriorate its ability to conduct business with counterparties. There remains a risk of adverse geopolitical situations in the countries where the Group operates. EVRAZ could also fail to adapt to new market regimes or conditions or could suffer losses on the existing contracts in case of additional sanctions.	CEO, CFO, Legal VP, VP of Sales and Logistics, VPs of business units	<ul style="list-style-type: none"> • To contribute to the development of national and international industry associations, EVRAZ and its executives actively participate in the work of such organisations and discussions with industry counterparts, political and regulatory authorities as appropriate. The Group seeks to monitor potential legislative changes before their introduction, at the point when new laws are being drafted • EVRAZ constantly reviews and enhances its policy and procedures to ensure full compliance with the sanctions. While the Group's internal compliance controls address the associated risks, the general uncertainty in the area increases management's focus on this risk • EVRAZ also continuously monitors changes in temporary regulations on the COVID-19 pandemic

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Functional currency devaluation	The devaluation of functional currencies leads to foreign exchange losses (included in the consolidated statement of operations) on US dollar borrowings, as well as exchange losses on intercompany loans between entities with different functional currencies. In times of severe devaluation, while the Group's EBITDA and cash generating capacity may increase (at least in the medium term) because a large proportion of sales are priced in dollars, its profit and retained earnings may decrease significantly.	CFO	This is an external risk which is largely beyond the Group's control, however management is reducing the risk through proper disclosure and monitoring.
HSE: Environmental	The mining and metals industry heavily depends on natural resources and ecosystems, and its processes may have a profound impact on the environment, including the quality of water, air, soils, and community satisfaction. The risks for the Company include regulatory fines and penalties, up to and including suspended operations and revoked licenses, and reputational damage. Among the environmental issues, the material topics for EVRAZ are climate change, eco-efficiency in all our activities, and biodiversity.	Sustainability Committee under the Board of Directors and management level	<p>EVRAZ takes following actions to minimise environmental risks:</p> <ul style="list-style-type: none"> • The specialised environmental risk matrix that is continuously monitored helps EVRAZ handle environmental risks, identify and implement mitigation actions in response to these risks. In addition, senior executives monitor environmental risk trends and factors on a monthly basis • The Group implements special projects and programmes to decrease GHG emissions, water usage, and waste at its facilities • EVRAZ has developed an environmental strategy until 2030 and updated its list of projects in accordance with the strategy to achieve its strategic goals regarding emissions and waste. The strategy is being implemented through dedicated programmes in each division • Most of business operations have ISO 14001 certificates. EVRAZ takes all effort to bring all of its facilities in compliance with the standard • The Group is also compliant with REACH regulation (Regulation (EC) №1907/2006 as amended) • EVRAZ continues working on its Climate Change Strategy that includes several scenarios, identifying applicable risks and challenges and ways to handle them • EVRAZ is also an active participant in drafting the Russian regulations for GHG emissions

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HSE: Health, safety	Our HSE policy also covers workplace hazards for our employees, including the matters of their safety (potential danger of fire, explosions, electrocution, falls etc.), ergonomics and work organisation. Workplace accidents with elevated methane levels, rock falls etc. may result in personal injuries and even loss of life, as well as production delays, loss of materials and equipment, operations suspension or shutdown, or extensive damage compensation. Moreover, in many of the regions where we operate, any HSE violations are punishable by fines, penalties, and, in the extreme, the withdrawal of mining licenses, and the reputational damage may be severe. In 2021, the risk COVID-19 infection remained high. In addition, there is a risk of employees being infected with COVID-19, which could lead to the mass quarantine of workers.	Sustainability Committee under the Board of Directors and management level	<p>To mitigate these risks, EVRAZ is taking the following actions:</p> <ul style="list-style-type: none"> • Safety ranks very high among our priorities, which can be seen in the management KPIs and the standardised critical safety approaches and programmes • EVRAZ has a programme to isolate all power lines and further enhances its behaviour-based safety audits to prevent injuries and incidents • The Group has launched a series of health and safety initiatives for the underground mining in the past few years • In 2021, EVRAZ continued mass testing of employees for COVID-19 and implemented reliable barriers to prevent the virus spreading • Other measures include maintenance and repair upgrades, a downtime management system, further elaboration of the occupational safety risk assessment methodology, as well as monitoring the corrective measures and analysing their effectiveness
Business interruption	Business interruptions due to any materialised risks, including natural disasters, pandemic outbreak, machinery malfunctions, and human factors, may severely delay production and affect both the Group's financial performance and reputation affecting its future sustainable development.	VPs of business units	<ul style="list-style-type: none"> • The Group maintains and regularly reviews defined and established disaster recovery procedures. Measures to mitigate business interruptions at EVRAZ facilities include methane monitoring and degassing systems, regular maintenance of all mining equipment, as well as employee safety training • EVRAZ analyses incidents in detail searching for root causes in order to prevent their reoccurrence in the future. Various preventive initiatives are being implemented, and minor interruptions are reviewed on a regular basis to identify any more significant underlying issues
Digital effectiveness and effective, efficient and uninterrupted IT service	As the business become increasingly dependent on digital effectiveness, they face cybersecurity risk, automation risk, resiliency risk, data privacy risk and many others. Information technology and information security risks have the potential to cause prolonged production delays or shutdowns. However, losing the technological edge may become even more harmful and make a company less competitive and successful in today's world.	VPs of business units, VP of IT and IT Architecture Committee	<ul style="list-style-type: none"> • Digital Transformation is an integral part of the Group's IT strategy • Assisted by independent consultants, EVRAZ continuously assesses and monitors information security risks and implements mitigation measures • The Group conducts regular continuity testing for the most critically important IT systems • Successful mitigation measures include launching the IT Security Operation Centre, conducting security awareness training for employees, and effectively organizing remote work for staff during the COVID-19 pandemic

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Capital projects and expenditures	The Group's development plans largely rely on capital projects and depend on their economic viability, efficiency and effective execution, as well as the availability and cost of capital to finance capital expenditures. Economic issues outside of those factored into the Group's business plans, including regulatory approvals, may also impact anticipated free cash flow and cause certain components of the planned capital expenditures to be re-phased, deferred or abandoned with a consequential impact on the Group's planned future performance. In addition, the profitability of new projects may 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. An ambitious corporate investment programme may cause a shortage of qualified project staff.	CFO, Strategy Committee, Investment Committee, VPs of business units	EVRAZ reviews all proposed capital projects on a risk return basis. The current list of projects has been reviewed and updated. Each project is presented for approval against the Group's risk matrix to assess its potential downside and any possible mitigating actions. EVRAZ has created a list of typical project risks and a database of lessons learned. Project delivery is closely monitored against project plans, which allows for high-level action to manage project investment for both timely delivery and planned project expenditures. New mine development and the definition of feasibility plans are reviewed and signed off by independent mining engineers. The Group regularly revisits key assumptions for its main investment projects and performs scenario analyses, which may result in the suspension and/or postponement of certain projects. 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. The project management system's transformation is ongoing. A pilot project is being conducted at one mine on a long-term detailed planning of LOM (life of mine) using a 3D model and restrictions on air, gas and sinking.
Decarbonisation	Possible introduction of different carbon emission control systems on the domestic and sales markets (most likely selling of carbon credits).	Sustainability Committee under the Board of Directors and management level	<ul style="list-style-type: none"> ● Setting an internal carbon price ● GHG emissions reduction ● Scope 1, 2, 3 emissions monitoring <p>For more information on Climate change risks, see the section Tackling climate change, p 44.</p>