Principal risks

Success Factors					Strategic priorities
Health, safety and environment	Human capital	Customer focus	Asset development	EVRAZ business system	● Development of product portfolio and customer base ● Retention of low-cost positions ● Prudent CAPEX strategy ● Regular dividends and proactive debt management

Risk	Related with	Description and impact	Mitigating/ risk management actions in 2017	Direction/ reason for change
1. **Global economic factors, industry conditions and cyclicality**	●●●● Customer focus; Asset development	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. The Group's operations involve substantial fixed costs, and global economic and industry conditions can impact the Group's operational performance.	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, further reducing and managing the cost base with the objective of being among the sector's lowest-cost producers, and balance sheet/gearing improvement.	—
2. **Product competition**	● Customer focus	Excessive supply on the global market and greater competition, mostly in the steel products market, mainly due to competitors' activity and introduction of new facilities. Low demand for construction products and increasing competition in this segment. Increasing competition in the rail product segment. Excessive supply of slabs on the global market and intensified competition.	Expand product portfolio and penetrate new geographic and product markets. Develop and improve loyalty and customer focus programmes and initiatives. Quality improvement initiatives. Focus on expanding the share of value-added products.	↓ Implementation of mitigating/risk management actions focused on product portfolio development and exploring market opportunities.
3. **Cost effectiveness**	●● Customer focus; Asset development; EVRAZ business system	Most of the Group's steel production remains sensitive to costs and prices. 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.	For both the mining and steelmaking operations, the Group is implementing cost-reduction projects to increase asset competitiveness. Focused investment policy aimed at reducing and managing the cost base. Further expansion and control of the Group's Russian steel distribution network. Development of high value-added products.	—

Risk	Related with	Description and impact	Mitigating/ risk management actions in 2017	Direction/ reason for change
4. **Treasury: availability of finance**		Impact from the possible introduction of limitations on repatriation of foreign currency export revenues, as well as additional regulations or limitations on cross-border capital flows. Potential government action, including economic sanctions impacting Russian entities, might increase the Group's capital market risk regarding additional funding. EVRAZ is subject to counterparty risk via receivables from commercial customers. The Group's current debt facilities include certain covenants in relation to net debt and interest expense. A breach of these covenants could result in certain of the Group's borrowing facilities becoming repayable immediately.	Action to extend the debt maturity profile and diversify sources of funding, as well as proactively manage the remaining portion of debt subject to maintenance covenants. Liquidity risk is managed by revisiting capital expenditure plans, cost optimisation programmes, and continued asset portfolio rationalisation. Counterparty risk with commercial customers is managed through a combination of letters of credit and, where creditworthiness is uncertain, by prepayments.	Extension of debt maturity profile on more favourable terms.
5. **Functional currency devaluation**		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.	EVRAZ works to reduce the amount of intergroup loans denominated in Russian roubles and Ukrainian hryvnias to limit the possible devaluation effect on its consolidated net income.	
6. **HSE: environmental**		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. Consequently, EVRAZ faces risks including regulatory fines, penalties, adverse impact on reputation and, in the extreme, the withdrawal of plant environmental licences, which would curtail operations indefinitely.	Environmental risks matrix is monitored on a regular basis. Respective mitigation activity is developed and performed in response to the risks. Implementation of air emissions and water use reduction programmes at plants. Waste management improvement programmes. 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. Participation in development of GHG emissions regulation in Russia. Reduction in GHG emissions as a positive side-effect of energy efficiency projects.	

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7. **HSE: health, safety**		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. 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.	Management KPIs place significant emphasis on safety performance and the standardisation of critical safety programmes. Implementing an energy isolation programme. Further development of a programme of behaviour safety observations which drives a more proactive approach to preventing injuries and incidents. A series of health and safety initiatives related to underground mining. Maintenance and repair modernisation programmes, downtime management system. Development of occupational safety risk assessment methodology. Analysis of effectiveness of corrective measures.	
8. **Potential government action**		New laws, regulations or other requirements could limit the Group's ability to obtain financing on international markets, sell its products and purchase equipment. Risk of capital controls that affect the Group in terms of free flow of capital. EVRAZ may also be adversely affected by government sanctions against Russian businesses or otherwise reducing its ability to conduct business with counterparties. Risk of adverse geopolitical situation in countries of operation.	While these risks are mostly outside the Group's control, EVRAZ and its executive teams are members of various national industry bodies. As a result, they contribute to the development of such bodies and, when appropriate, participate in relevant discussions with political and regulatory authorities. Procedures have been implemented and will be further developed to ensure that sanction requirements are complied with across the Group's operations.	
9. **Business interruption**		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. In addition, long-term business interruption may result in a loss of customers and competitive advantage, and damage to the Group's reputation.	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. 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.	
10. **Cybersecurity and IT infrastructure failure**		Information technology and information security risks have the potential to cause prolonged production delays or shutdowns.	Further development of a cybersecurity protection system, focused on: • isolation and protection of industrial networks; • antivirus software systems update; • upgrade and expansion of backup system; • implementation of incident monitoring systems; • and other measures.	Rising level of cybercrime globally combined with increasing reliance on IT.