

# Sustainability risk management

## APPROACH TO MANAGING SUSTAINABILITY RISKS

GRI 102-11

Risk management plays a crucial role in the process of EVRAZ achieving our strategic goals and objectives. Our risk management approach covers all business processes and is adopted in all daily operations. The Group has elaborated a single framework for identifying, assessing, and managing risks at both corporate and operational level. We also apply the same approach to managing financial and non-financial risks. Risk management consists of the timely identification, analysis, and assessment of risks and implementing appropriate measures. The Group takes actions to manage not only strategic and financial risks, but also risks related to sustainable development: environmental, social, and economic.

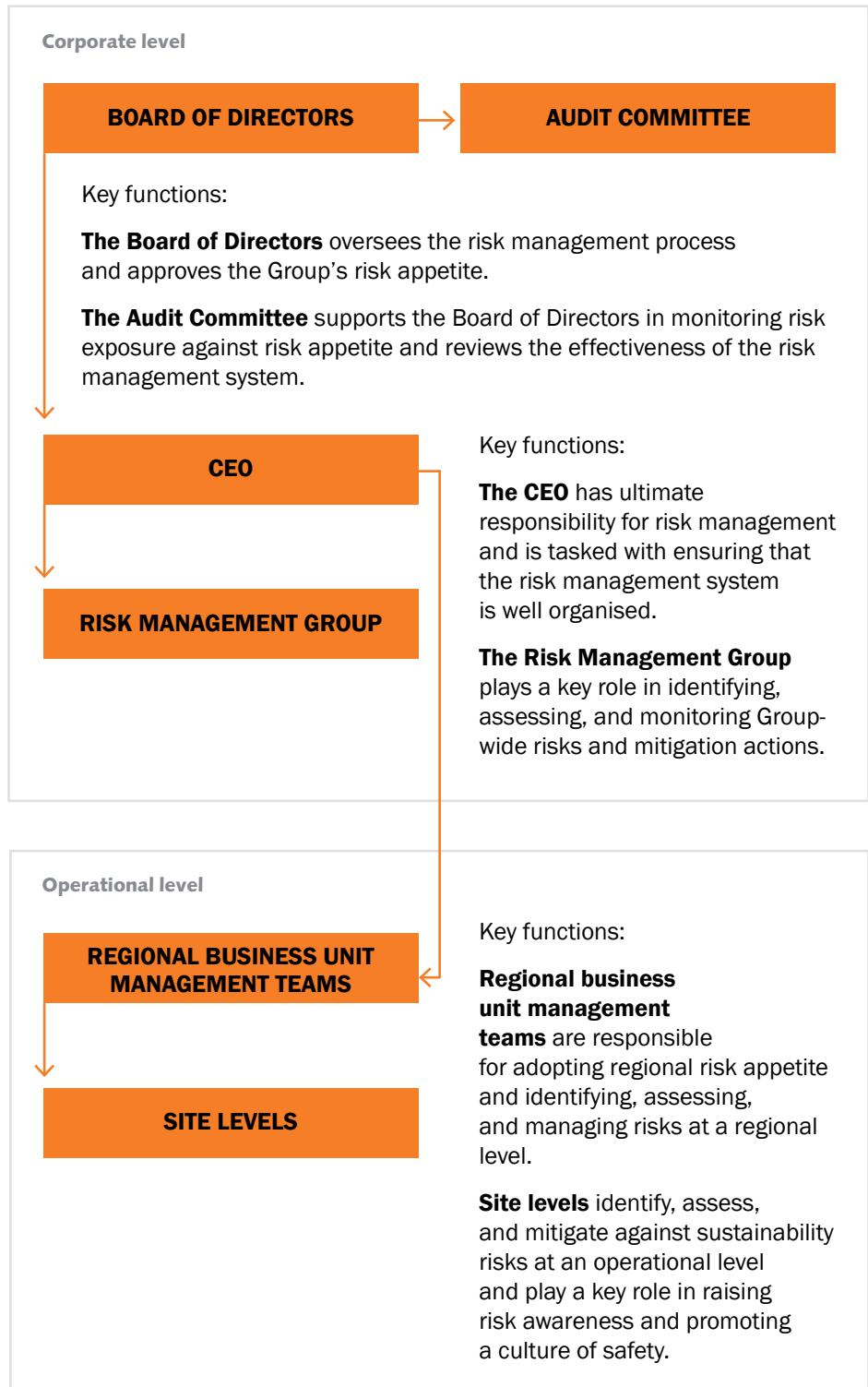
EVRAZ annually reassesses all risks in order to ensure that they are duly recorded and that appropriate risk management measures have been developed.

The Group identifies risks and divides them into two categories: principal and non-principal. Principal risks are characterised by having the highest speed of impact and volatility, while non-principal risks are considered those that do not seriously impact the Group's performance or prospects. EVRAZ closely monitors principal risks and also monitors non-principle ones.



**For more detailed information about principal risks, their impact, and risk management actions read the Principal risks and uncertainties section of the 2019 Annual report.**

### Organisational structure of sustainability risk management



The table below describes the Group's sustainability related risks and provides an overview of the Group's measures to manage them.

## The Group's sustainability risks

Risk	Description	Risk management actions
<b>HSE: environment</b>	<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. 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>	<ul style="list-style-type: none"> <li>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</li> <li>Implementation of air emissions and water use reduction programmes at plants. Waste management improvement programmes</li> <li>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</li> <li>Participation in development of GHG emissions regulation in Russia. Reduction in GHG emissions as a positive side-effect of energy efficiency projects</li> <li>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</li> </ul>
<b>HSE: health, safety</b>	<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>	<ul style="list-style-type: none"> <li>Management KPIs place significant emphasis on safety performance and the standardisation of critical safety programmes. Implementation of an energy isolation programme</li> <li>Further development of a programme of behaviour safety observations which drives a more proactive approach to preventing injuries and incidents</li> <li>A series of health and safety initiatives related to underground mining</li> <li>Maintenance and repair modernisation programmes, downtime management system</li> <li>Further development of occupational safety risk assessment methodology</li> <li>Analysis of effectiveness of corrective measures</li> <li>In 2019, there were noted cases indicating risk realisation. However, the management focus on measures addressing the risk is especially high</li> </ul>
<b>Business interruption</b>	<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. 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>	<ul style="list-style-type: none"> <li>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</li> <li>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</li> </ul>
<b>Potential regulatory actions by governments, including trade, antimonopoly, antidumping regulation, sanctions regimes, and other laws and regulations</b>	<p>Potential regulatory actions by governments, incl. trade, antimonopoly, antidumping regulation, sanctions regimes, and other laws and regulations.</p>	<ul style="list-style-type: none"> <li>EVRAZ and its executive teams are members of various national industry bodies</li> <li>As a result, they contribute to the development of such bodies and, when appropriate, participate in relevant discussions with political and regulatory authorities</li> <li>Procedures have been implemented and will be further developed to ensure that sanction requirements are complied with across the Group's operations</li> <li>Ongoing control over regulatory compliance, monitoring regulatory changes and developing necessary controls</li> <li>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</li> </ul>
<b>Product competition</b>	<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. 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.</p>	<ul style="list-style-type: none"> <li>Expand product portfolio and penetrate new geographic and product markets</li> <li>Develop and improve loyalty and customer focus programmes and initiatives</li> <li>Quality improvement initiatives</li> <li>Expand the share of value-added products</li> </ul>

Risk	Description	Risk management actions
<b>HR and employee risks</b>	Risks related to a lack of skills, a lack of succession planning, and reduced productivity due to labour unrest or low job satisfaction levels.	<ul style="list-style-type: none"> <li>• Monitoring changes and compliance with applicable labour laws and regulations</li> <li>• Implementing staff training and development programmes and initiatives.</li> <li>• Regular meetings with trade union representatives</li> <li>• Introducing a grading system and remuneration management principles.</li> <li>• Implementing a human capital development programme</li> <li>• Collaborating with universities and colleges to enhance educational programmes</li> <li>• Analysing employee engagement levels and how they can be improved</li> </ul>
<b>Social and community risks</b>	Risks related to socio-economic instability in the regions where the Group operates, deteriorations in relations with local communities and authorities, and loss of the Group's "social licence" to operate.	<ul style="list-style-type: none"> <li>• Taking part in social projects in our regions of operation</li> <li>• Supporting social, infrastructure, sport, educational, and cultural programmes</li> <li>• Stakeholder engagement and collaborations with cities and regional authorities</li> <li>• Local urban infrastructure improvement</li> </ul>
<b>Climate change risks</b>	Risks related to climate change and extreme weather events that could lead to business disruptions, resource shortages, and damage to the supply chain, equipment, and reputation.	<ul style="list-style-type: none"> <li>• Implementing energy efficiency projects and, as a result, lowering greenhouse gas emissions</li> <li>• Supporting global programmes to reduce greenhouse gas emissions</li> <li>• Participating in drawing up greenhouse gas emission regulations in Russia</li> </ul>
<b>Human rights risks</b>	Risks related to violations of human rights.	<ul style="list-style-type: none"> <li>• Informing employees about the principles set forth in the Group's Code of Business Conduct</li> <li>• Compliance with all applicable laws and regulations</li> <li>• Annual disclosure of a Modern Slavery Transparency Statement</li> <li>• Inserting a framework clause in contracts that obliges Group suppliers to comply with the Group's Code of Business Conduct and which allows the Group to unilaterally terminate a contract if a supplier engages in modern slavery</li> <li>• Running whistleblowing hotlines</li> </ul>
<b>Quality</b>	Risks related to product quality.	<ul style="list-style-type: none"> <li>• Regular monitoring of customer satisfaction levels</li> <li>• Meetings and feedback sessions with clients/EVRAZ management</li> <li>• Site visits to production assets</li> <li>• Production and quality improvement programmes</li> </ul>

