Audit Committee report

Role and Responsibilities of the Audit Committee

The role and responsibilities of the Audit Committee are delegated by the Board and set out in the written terms of reference as follows:

1. To monitor the integrity of the financial statements of the Company including the annual and interim results and other financial announcements, reviewing significant financial reporting issues and judgements, and to report to the Board whether the Audit Committee considers the Annual Report, as a whole, to be fair, balanced and understandable;
2. To review the appropriateness of accounting policies, key judgements and management estimates;
3. To assess and monitor the scope and effectiveness of and compliance with internal controls and systems, and to report to the Board on the overall standing of the Group's internal controls;
4. To review and challenge the Company's assessment of the financial and non-financial risks of the business and to present the principal risks and uncertainties and Group's Risk Register to the Board;
5. To consider the Group's risk appetite and propose the appropriate level to the Board;
6. To review procedures for detecting, monitoring and managing the risk of fraud, bribery and regulatory non-compliance;
7. To monitor the effectiveness of the internal audit function and review its' material findings and recommendations; and
8. To oversee the relationship and effectiveness of the external auditor and to make recommendations to the Board regarding the appointment of the external auditor.

The Audit Committee minutes are tabled at the Board meeting for consideration, and the Chairman reports verbally on the committee proceedings, making recommendations on areas covered by its terms of reference if appropriate.

During the year, the Committee members undertook a self-assessment process to consider the performance and composition of the Committee, its duties and responsibilities, and access to management. The results of this assessment were judged satisfactory.

Committee Members and Attendance

The majority of Audit Committee members are Independent Non-Executive Directors. As disclosed in the Governance section on pages 104-107, Olga Pokrovskaya, a non-Independent Non-Executive Director, continues to be a member of the Audit Committee providing additional technical expertise and valuable regional expertise.

In June 2015, Terry Robinson stood down as Chairman of the Audit Committee and retired from the Board at the AGM. He has been replaced as Chairman by Deborah Gudgeon who joined the Board in May 2015. Terry Robinson continued to be an adviser to the Committee and attended meetings until March 2016. Sir Michael Peat also stood down from the Audit

Deborah Gudgeon
Independent non-executive Director,
Chairman of Audit Committee.

Chairman's Statement

Dear Shareholders,
I am pleased to present the Audit Committee Report for the financial year ended 31st December 2015. I was appointed Chairman on my appointment to the Board in June 2015; at this time, Terry Robinson stood down as Chairman and as a member of the Committee. On behalf of the Audit Committee, I would like to thank Terry for his significant contribution in the establishment of the Committee and over the period of his Chairmanship. I would also like to thank Sir Michael Peat for his contributions as a member of the Committee.

I would also like to extend the thanks of the Committee to the executive and financial management of the Company, the internal audit department and EY, EVRAZ external auditor, for their continuing diligence and valued contributions to the work of the Committee.

Deborah Gudgeon

Committee in June 2015 and was replaced by Alexander Izosimov. Duncan Baxter and Olga Pokrovskaya are standing down from the Board on 14th March 2016 and they will be replaced on the Audit Committee from that date by Karl Gruber.

Senior members of the Group's finance function, the head of Group Internal Audit (who acts as secretary to the Audit and the Risk Committees), and the external auditors also attend Committee meetings. Key members of the management team were also invited to attend Committee meetings; in 2015, these included the VP's of Strategy, Steel, Coal, IT, Security, Legal, Compliance and Personnel, and the Director of Investor Relations. Other members of the EVRAZ management team and the Internal Audit Function were also invited to attend Committee meetings as appropriate

The Audit Committee met 10 times during 2015 and 3 times in early 2016 before the publication of this Annual Report.

The Group confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

Activities and Work of the Committee during 2015

During 2015, the Audit Committee focused on the integrity of the Group's financial reporting, the related internal control framework and risk management, including finance, operations, regulatory compliance and fraud. These areas were comprehensively reviewed on an ongoing basis and the Committee received regular updates from the Company's financial and operational management, Internal Audit, the Compliance Officer and legal team, as well as the external auditors.

The Committee reviewed and updated its own terms of reference, the internal audit charter and the Group Financial Reporting Procedures Manual ("FRP"). The effectiveness and status of the anti-corruption policy and sanctions risk compliance controls were reviewed throughout the course of the year, together with progress to meet the governance requirements of the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

At the request of the Board, the Audit Committee also considered the proforma Viability Statement and supporting analysis produced by management and reviewed by the Risk Committee.

Significant Financial Reporting Issues considered by the Audit Committee in 2015

The primary objective of the Audit Committee is to support the Board in ensuring the integrity of the Company's financial statements and Annual Report including review of:

- compliance with financial reporting standards and governance requirements;
- the material financial areas in which significant accounting judgements have been made;
- the critical accounting policies and substance, consistency and fairness of management estimates;
- the clarity of disclosures; and
- whether the annual report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model, strategy, principal risks and uncertainties.

Financial reporting standards and governance requirements | The Audit Committee considered a number of financial reporting issues in relation to the Interim Results for H1 2015 and the financial statements for 2015. These included the appropriateness of accounting policies adopted, disclosures and of management's estimates and judgements. The Committee considered papers produced by management on the key financial reporting judgements and reviewed reports by the external auditor on the full year and half year results which highlight any issues with respect to the audit work.

The full financial statements can be found on pages 161-249.

The financial statements continue to be materially impacted by the devaluation of the key functional currencies of the business (primarily the Russian rouble and, to a lesser extent, the Ukrainian hryvnia) against the US dollar, the presentation currency of the financial statements, as set out in Note 2. As a result, challenging the consistency and comparability of balances in the financial statements remains difficult but management separated out where appropriate the forex impact on areas of significant judgements and estimates.

The following financial reporting issues are considered significant.

Going concern (Note 2) and the viability statement | Many of these are outside the control of the Company. During 2015, global steel and coal prices deteriorated dramatically as a result of weak demand in key markets and continuing structural overcapacity in both raw material and steel supply, and the Russian economy continued to contract. The Audit Committee carefully considered management's going concern analysis which included both a base case and a flexed downside scenario. Given the uncertainties of the current global supply/demand environment and the sensitivity of the going concern analysis to the forward market prices of steel products and coal concentrate in Russia, the Committee focused on the pessimistic downside case. This is based upon forward pricing close to the low end of the range of current investment analyst forecasts, as set out in note 6, together with a further correlated devaluation of the Group's functional currencies and reduction to the level of budgeted capex.

EVRAZ is exposed to a range of risks and inherent uncertainties as set out on pages 30-31.

The Committee carefully considered the projected Use and Sources of Funds for the period to June 2017 which included scheduled loan repayments, new committed funding and free cash flow after capital expenditure. The implications of the pessimistic downside scenario on free cash flow and compliance with financial covenants were carefully considered, along with the proactive measures management had taken to address a potential breach of financial covenants. These include a covenant waiver from key funders through to the end of 2017 and an extension to the Group's committed standby facilities. Management's track record of successfully resolving similar matters and the continued availability of credit from both Russian and Western banks were also considered by the Committee.

Following these considerations, the Audit Committee resolved to recommend the going concern basis of preparation for the Financial Statements as at 31st December 2015 to the Board.

The Committee reviewed the scenarios and analysis supporting the viability statement over the course of 2015 and early 2016 before these were considered by the Board. The scenarios and assumptions were challenged and tested over the course of six months in light of the deteriorating price and demand environment, to reflect the mitigation plan developed by management and the measures put in place to support the going concern statement. The Committee also considered the proposed disclosures in the viability statement and the key assumptions underpinning the scenarios and analysis.

Areas of significant accounting judgement and management estimates

1 **Impairment of goodwill and assets (Notes 5 and 6):** the Committee considered management's impairment recommendations in the context of the current trading environment and future uncertainties detailed above. As a result of the continued decline of the rouble, the carrying values of Russian cash generating units have declined materially in US dollar terms and are largely not challenged by the value in use comparisons used to determine impairment, even in the current negative pricing environment. Of the $441 million impairment charge in 2015, US$251 million relates to the goodwill impairment of operations in North America which have been particularly affected by the impact of declining oil prices on key OCTG demand, reduced margin spreads and contract delays. The balance ($190 million) relates to specific impairment of PPE at the cash generating units including charges in respect of the closure of a mine field at Raspadskaya Koksovaya 1 and further charges in respect of the idled EVRAZ Palini e Bertoli and Yuzhny Stan.

2 **PraxAir contract (Note 2):** the Committee reviewed the accounting treatment of the Group's 20 year non-exclusive agreement with PraxAir for the supply of oxygen and other industrial gases from a new air separation plant constructed by them. Supply under this agreement commenced during 2015 and the PraxAir contract was renegotiated to increase the volume of nitrogen supplied, extend the contract term to 25 years and reduce the level of fixed payment over the life of the contract. The Committee considered management's judgement that the commitments under the supply agreement did not constitute a lease and concurred with the treatment. This judgement was based upon the non-exclusive nature of the supply agreement, the current and forecast level of third party sales and the importance of these third party sales to the profitability of the PraxAir plant. Details of the contractual commitment under the agreement are included in note 30 to the financial statements.

Other matters | In preparing the 2015 financial results, management identified an undisclosed related party transaction in respect of the prior year. Although the transaction itself was not material, management have initiated a review of the process for capturing, monitoring and approving related party transactions to ensure the timeliness, accuracy and completeness of future disclosure. This review will be considered by the Audit Committee in 2016.

A further error in the disclosure of the Cost of Inventories recognised as expense in note 7 to the 2014 IFRS financial statements of EVRAZ plc was also identified. Although the disclosure error is not considered material, the error and its correction is set out in Note 7 to these financial statements.

Social and charitable expenditure has been excluded from the definition of EBITDA in the segmental reporting as management believe such expenditure to be largely discretionary in nature and to more closely align the EBITDA treatment of such costs to the Company's Russian peers. The Committee reviewed the implications of the change and the adequacy of the disclosure and were satisfied. The implications of the change in definition are set out in Note 3.

Matters specifically considered in respect of the Interim Results

Deconsolidation of EVRAZ Highveld Steel and Vanadium Limited (EHSV) (Note 4) | As a result of continuing trading difficulties and local economic conditions in South Africa, the Board of EHSV resolved to place the company under voluntary business rescue procedures to protect shareholders and creditors on 14th April 2015. Business rescue practitioners were appointed on that day to pursue the refinancing and restructuring of EHSV and, in the event that this could not be achieved, to supervise an orderly liquidation. Based upon the financial and market position of EHSV, management did not anticipate any material return to the Group as a result of the business rescue procedures and concluded that the Group had lost control of EHSV and was unlikely to regain control in the future, and EHSV was deconsolidated from 14th April 2015. The Committee considered the legal process of business rescue procedures in South Africa and the specific facts relating to EHSV and concurred with the treatment proposed by management. The deconsolidation resulted in a loss in the statement of operations of $167 million in the Interim Results representing the net assets of EHSV at the date of deconsolidation, the 75% write down of an intercompany loan and the reclassification of historic exchange losses. As a result of the ongoing difficulties of the business rescue procedure, the outstanding 25% balance of the intercompany loan was written off during the third quarter.

Fair, balanced and understandable

In considering whether the Annual Report is fair, balanced and understandable, the Committee reviewed the information it had received, discussions throughout the year and the preparation process adopted. Management agreed the key overall messages of the Annual Report at an early stage to ensure a consistent message in both the narrative and financial reporting. Regular meetings were held to review the draft Annual Report and for management and Committee members to provide comments, and detailed review of the appropriate draft sections were undertaken by the relevant Directors. The Committee particularly considered whether the description of the business, principal risks and uncertainties, strategy and objectives were consistent with the understanding of the Board, and whether the controls over the consistency and accuracy of the information presented in the Annual Report are robust.

Taking into account the disclosure implications of the issues discussed in this report, the Committee recommended to the Board that, taken as a whole, it considers the Annual Report to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Company`s performance, business model and strategy. The Audit Committee recommended approval of the Group's 2015 Consolidated Financial Statements by the Board.

Other Matters

UK Bribery Act ("UKBA") | The Committee continued to monitor the status of the procedures, controls and data collection of the Group's anti-corruption policy and Code of Conduct, including the regulation of interaction with state authorities introduced by the Company in November 2014 and progress in respect of the areas for improvement and implementation by the external audit in 2014. During 2015, the Internal Audit department tested the effectiveness of the UKBA compliance system and concluded that the risk had been significantly reduced as a result of the implementation of the majority of the recommendations from the audit. A list of outstanding measures has been finalised together with a timeline for their implementation in the first half of 2016 and a programme of extended and ongoing training of personnel.

The Committee monitored the development of the framework for recording and approving all interactions with state officials, and the implementation and associated training across the Group, to comply with the Reports on Payments to Governments of the 2013 EU Accounting Directive.

Sanctions Compliance Controls | Following the legal advice and risk assessment undertaken 2014, the Audit Committee reviewed and monitored the progress on implementation of the recommended control processes, procedures and reporting to minimise the risk of breaching any sanction. The controls and processes established for monitoring compliance are being regularly updated to incorporate the latest guidance from the Group's external legal advisers and there is a process of continuing education of compliance personnel and executive management.

This should be read in conjunction with Risk Management and Internal Control section on pages 115-117.

Risk Management and Internal Control

EVRAZ has an integrated approach to risk management to ensure that the review and consideration of risks inform the internal audit process, design of internal controls and management of the business.

The Group's financial reporting procedures, internal controls, risk management systems and activities are documented in a comprehensive Financial Reporting Procedures Manual (FRP). The manual was updated in December 2015 and reviewed by the Audit Committee in February 2016.

The Audit Committee reviews the recommendations of the Risk Committee, including the Group's Risk Register and level of Risk Appetite, and the draft Statement of Principal Risks and Uncertainties to be included in the Interim Statement and Annual Report, prior to the Board's consideration.

Internal Audit findings on control issues that exceed the Group's risk appetite are reported to the Board by the Audit Committee, followed up by the Group's Management Committee and the progress on resolution is monitored.

The Audit Committee continues to receive quarterly updates on whistleblowing reports together with a security report on the progress of follow-up investigations and resulting actions in relation of fraud and theft. Any significant whistleblowing report is reported to the Committee on an ad hoc basis when it arises.

Assessment of the Group's risk profile and control environment | Internal Audit reviews the Group's risk and control environment bi-annually and this is considered by the Risk Committee and the Audit Committee. The Chairman of the Audit Committee tables the Internal Audit report judgement on the risk and control environment to the Board.

During 2015, the Group continued to assess its risk in relation to IT security by way of an external assessment. A Group risk mitigation strategy was approved in October 2015 and is in the process of being implemented. An external risk reassessment will be undertaken during 2016.

The level and economic terms of external insurance cover was considered by the Risk Committee and the Audit Committee during 2015 and agreed by the Board. The Risk Register was amended to acknowledge the level of self-insurance by the Group.

Internal Audit

The Audit Committee reviewed the internal audit plans for 2016 and recommended a number of revisions in view of the challenging macroeconomic environment, risk profile of the business and further retrenchment in personnel. The plan was revised to reflect the updated risk analysis, prioritise key business cycles and controls from a risk perspective and eliminate certain duplications with the HSE team. The Committee considers the current Internal Audit resource to be adequate for the internal control and risk management assurance requirements.

The Audit Committee reviewed and updated the Internal Audit Charter during 2015. An annual assessment of the effectiveness, independence and quality of the Internal Audit function was undertaken by way of a questionnaire to Committee members, management and the external auditors and was again found to be very satisfactory. An external assessment was undertaken during 2015 and confirmed that the Internal Audit function in the Russian Federation, CIS and Europe conformed to the International Standards for the Professional Practice of Internal Auditing, Code of Ethics and Definition of Internal Audit of the Institute of Internal Auditors.

The Head of Internal Audit Committee is secretary to the Audit and Risk Committee and prepares the minutes of both committees.

External Audit

The Audit Committee is responsible for monitoring the ongoing effectiveness and independence of the external auditor, and making recommendations to the Board as to the re-appointment of the auditor.

Effectiveness and Independence | The Audit Committee has an established framework through which it monitors the effectiveness, independence, objectivity and compliance with ethical, professional and regulatory requirements. These include:

- review and approval of the external audit programme for the interim review and year-end audit, including consideration of the audit scope, key audit risks and audit materiality measures, and compliance with best practice;
- review and approval of the external auditor's engagement letter;
- review of the FRC's Quality Inspection Report (May 2015) and EY's response;
- consideration of the external auditors report on the Interim Review and Annual Report and Representation Letters; and
- reviewing the external auditors management letter on the 2014 audit with management, considering management's response and proposed actions, and requesting that Internal Audit undertake a follow-up audit of key areas.

http://www.frc.org.uk/Our-work/Publications/Audit-Quality-Review/Audit-Quality-Inspection-Annual-Report-2015-15.pdf

During 2015, the Committee gave particular consideration to the implications of the 2015 financial reporting timetable on the external audit process and the resulting early hard close, acceleration of substantive procedures and year-end roll forward procedures.

Following completion of the 2014 audit, management and members of the Audit Committee completed a questionnaire to assess the effectiveness and independence of the external audit process.

The Audit Committee holds regular meetings with the external auditor at which management are not present to consider the appropriateness of the Company's accounting policies and audit process. During 2015, the external auditor confirmed that these policies and processes were appropriate. The Committee Chairman also meets the Senior Statutory Auditor regularly outside of Audit Committee meetings.

Engagement of the external auditor for non-audit services is managed in accordance with the Group's policy which can be found on the Company's website: www.evraz.com. This policy identifies a range of non-audit services which are prohibited on the basis that they might compromise the independence of the external auditor, establishes threshold limits for the level of non-audit fees relative to audit fees and authorisation processes for the approval of all audit and non-audit fees. During 2015, non-audit fees totalled $268,000 and were primarily in relation to capital market transactions. Non- audit fees were 5.7% of the 2015 audit fee of $4.7 million. Irrespective of prior approval of the CFO and Audit Committee Chairman, all fees are reported to the Audit Committee for noting and comment.

Re-appointment of the external auditor

The Audit Committee considered the UK Governance Code guidance on re-appointment of the external auditor as well as the EU legislation on audit regulation, and reviewed the continuing engagement of Ernst & Young LLP ("EY"). EY were auditor to the predecessor group of companies from which Evraz was formed and the audit was last tendered in 2009. Mr Ken Williamson was appointed Senior Statutory Auditor in 2011 and will rotate off following this annual report, with Mr Steve Dobson fulfilling the role for the 2016 Interim Review and Annual Report.

The Audit Committee continues to consider EY to be effective and independent in their role as auditor and has provided the Board with its recommendation to the shareholders that EY be re-appointed as external auditor for the year ended 31st December 2016. However, in view of the regulatory guidance, the Audit Committee has resolved that an audit tender process will be undertaken in due course to allow for an appointment for the year ended 31st December 2017.