

# Directors' report

## INTRODUCTION

In accordance with section 415 of the Companies Act 2006, the Directors of EVRAZ plc present their report to shareholders for the financial year ending 31 December 2017, which they are required to produce by applicable UK company law. The Directors' Report comprises

the Directors' Report section of this report, together with the sections of the annual report incorporated by reference. As permitted by legislation, some of the matters normally included in the Directors' Report have instead been included in other sections of the annual report, as indicated below.

The Company was incorporated under the name EVRAZ plc as a public company limited by shares on 23 September 2011 under registered number 7784342. EVRAZ plc listed on the London Stock Exchange in November 2011 and is a member of the FTSE 100 Index.

<b>Dividends</b>	<p>The strength of the underlying cash flow generation and continuing success with deleveraging have allowed the Company to announce a formal dividend policy. Please <a href="#">see page 7</a> for details.</p> <p>The Company paid an interim dividend of US\$0.30 per ordinary share, totalling US\$429.6 million, on 8 September 2017 to shareholders on the register as at 18 August 2017.</p> <p>The Board of Directors has declared a second interim dividend of US\$0.30 per share, totalling US\$429.6 million, to be paid on 29 March 2018 to shareholders on the register as of 9 March 2018.</p>
<b>Share capital</b>	<p>Details of the Company's share capital are set out in <a href="#">Note 20</a> to the Consolidated Financial Statements, including details on the movements in the Company's issued share capital during the year.</p> <p>As of 31 December 2017, the Company's issued share capital consisted of 1,506,527,294 ordinary shares, of which 74,473,951 are held in treasury. Therefore, the total number of voting rights in the Company is 1,432,053,343.</p> <p>The Company's issued ordinary share capital ranks pari passu in all respects and carries the right to receive all dividends and distributions declared, made or paid on or in respect of the ordinary shares. There are currently no redeemable non-voting preference shares or subscriber shares of the Company in issue.</p>
<b>Authority to purchase own shares and transfer of treasury shares to Company's Employee Share Trust</b>	<p>Details of the Company's authority to purchase its own shares, which will be sought at the Company's forthcoming annual general meeting (AGM), will be set out in the notice of meeting for that AGM.</p> <p>On 3 May 2017, the Company transferred 12,541,215 ordinary shares out of treasury to the Company's Employee Share Trust, which represented 0.83% of the Company's issued share capital.</p> <p>Details are set out in <a href="#">Note 20</a> to the Consolidated Financial Statements.</p>
<b>Directors</b>	<p>Biographies of the directors who served on the Board during the year are provided in the Governance section <a href="#">on pages 108-111</a>.</p>
<b>Directors' appointment and re-election</b>	<p>The Board has the power at any time to elect any person to be a director, but the number of directors must not exceed the maximum number fixed by the Company's Articles of Association.</p> <p>Any person so appointed by the directors will retire at the next AGM and then be eligible for election. In accordance with the UK Corporate Governance Code, the directors are subject to annual re-election by shareholders.</p> <p>For additional information about directors' appointment and resignation, see the Corporate Governance Report <a href="#">on page 115</a>.</p> <p>All of the continuing directors will stand for re-election at the 2018 AGM to be held on 19 June 2017.</p>
<b>Directors' interests</b>	<p>Information on share ownership by directors can be found in this Report and in the Remuneration Report <a href="#">on page 133</a>.</p>
<b>Directors' indemnities and director and officer liability insurance</b>	<p>As at the date of this report, the Company has granted qualifying third-party indemnities to each of its directors against any liability that attaches to them in defending proceedings brought against them, to the extent permitted by the Companies Act. In addition, directors and officers of the Company and its subsidiaries have been and continue to be covered by director and officer liability insurance.</p>
<b>Powers of directors</b>	<p>Subject to the Company's Articles of Association, UK legislation and to any directions given by special resolution, the business of the Company is managed by the Board, which may exercise all the powers of the Company. The Articles of Association contain specific provisions concerning the Company's power to borrow money and provide the power to make purchases of any of its own shares.</p> <p>The directors have the authority to allot shares or grant rights to subscribe for or to convert any security into shares in the Company. Further details of the proposed authorities are set out in the Notice of the AGM.</p>
<b>Major interests in shares</b>	<p>Notifiable major share interests of which the Company has been made aware are set out in this Directors' Report.</p>
<b>Research and development</b>	<p>EVRAZ is constantly engaged in process and product innovation. EVRAZ research and development centres located at the Company's production sites improve and develop high-quality steel products to better meet customers' needs and to ensure that the Company remains competitive in the global and local markets.</p> <p>For examples of the Company's efforts in research and development in different operations, please refer to the Business Review <a href="#">on pages 42-79</a>.</p>

<b>Sustainable development</b>	The Corporate Social Responsibility section of this report focuses on the health and safety, environmental and employment performance of the Company's operations, and outlines the Company's core values and commitment to the principles of sustainable development and development of community relations programmes. Details of the Company's policies and performance are provided in the Corporate Social Responsibility section → on pages 80–105.
<b>Payments to governments</b>	EVRAZ published its report on payments to governments in June 2017. The report provides citizens, authorities and independent users with information on payments made to governments where the Company conducts its extractive activities. The report is prepared in accordance with the requirements of the Disclosure and Transparency Rules Instrument 2014 "Report on payments to governments", issued by the UK Financial Conduct Authority. The report is available on the Company's website at <a href="http://www.evraz.com">www.evraz.com</a> .
<b>Political donations</b>	No political contributions were made in 2017.
<b>Greenhouse gas emissions</b>	In 2017, in accordance with the requirements of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013, EVRAZ undertook to assess full emissions of greenhouse gases (GHGs) from facilities under its control. Details can be found in the Corporate Social Responsibility section → on page 91.
<b>Employees</b>	Information regarding the Company's employees can be found in the Our People section → on pages 96–99.
<b>Overseas branches</b>	EVRAZ does not have any branches. A full list of the Group's controlled subsidiaries is disclosed in Note 34 of the Consolidated Financial Statements.
<b>Financial risk management and financial instruments</b>	Information regarding the financial risk management and internal control processes and policies, as well as details of hedging policy and exposure to the risks associated with financial instruments, can be found in Note 29 to the Consolidated Financial Statements, the Corporate Governance, Risk Management and Internal Control section → on pages 117–119, and the Financial Review → on pages 30–35.
<b>Going concern</b>	The financial position and performance of the Group and its cash flows are set out in the Financial Review section of the report → on pages 30–35. Based on the currently available facts and circumstances the directors and management have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. More details are provided in Note 2 to the consolidated financial statements → on page 161.
<b>Auditor</b>	The Audit Committee conducted a tender for the external audit of the Group in July 2016. Ernst and Young LLP were selected to undertake the audits for the financial years ending December 2017 and 2018 (subject to shareholder approval at the respective AGM). The Board has agreed that subject to satisfactory commercial terms being agreed with Ernst & Young LLP, no re-tender will take place until the conclusion of the 2020 financial year. A decision on whether to retender will be taken thereafter. Ernst and Young LLP have indicated their willingness to continue in office and a resolution seeking to re-appoint them will be proposed at the forthcoming AGM.
<b>Future developments</b>	Information on the Group and its subsidiaries' future developments is provided in the Strategic Report → on pages 04–41.
<b>Events since the reporting date</b>	The major events after 31 December 2017 are disclosed in Note 33 to the Consolidated Financial Statements → on page 244.
<b>Annual general meeting (AGM)</b>	The 2018 AGM will be held on 19 June 2018 in London. At the AGM, shareholders will have the opportunity to put questions to the Board, including the chairmen of the Board committees. Full details of the AGM, including explanatory notes, are contained in the Notice of the AGM, which will be distributed at least 20 working days before the meeting. The Notice sets out the resolutions to be proposed at the AGM and an explanation of each resolution. All documents relating to the AGM are available on the Company's website at <a href="http://www.evraz.com">www.evraz.com</a> .
<b>Electronic communications</b>	A copy of the 2017 annual report, the Notice of the AGM and other corporate publications, reports and announcements are available on the Company's website at the following links: <a href="http://www.evraz.com/investors/information/general_meeting/">http://www.evraz.com/investors/information/general_meeting/</a> <a href="http://www.evraz.com/investors/annual_reports/">http://www.evraz.com/investors/annual_reports/</a> Shareholders may elect to receive notification by email of the availability of the annual report on the Company's website instead of receiving paper copies.
<b>Corporate governance statement</b>	The Disclosure and Transparency Rules (DTR 7.2) require certain information to be included in a corporate governance statement set out in a company's Directors' Report. In common with many companies, EVRAZ has an existing practice of issuing, within its annual report, a Corporate Governance Report that is separate from its Directors' Report. The information that fulfils the requirement of DTR 7.2 is located in the EVRAZ Corporate Governance Report (and is incorporated into this Directors' Report by reference), with the exception of the information referred to in DTR 7.2.6, which is located in this Directors' Report.

## Major shareholdings

The Company's issued share capital as of 31 December 2017 and 28 February 2018 was 1,506,527,294 ordinary shares, of which 74,473,951<sup>1</sup> are held in treasury. Thus, the total voting rights are 1,432,053,343 ordinary shares.

As of 31 December 2017 and 28 February 2018, the following significant holdings of voting rights in the Company's share capital were disclosed to the Company under Disclosure and Transparency Rule 5.

	Number of ordinary shares	% of voting rights
Lanebrook Ltd <sup>2</sup>	905,487,416	63.23
Kadre Enterprises Ltd <sup>3</sup>	83,751,827	5.85
Verocchio Enterprises Ltd <sup>4</sup>	82,887,014	5.79

<sup>1</sup>The number of shares differs from figure in the Financial statements for the amount of shares held in Trust.

<sup>2</sup>Lanebrook Ltd (the major shareholder) is a limited liability company incorporated under the laws of Cyprus on 16 March 2006. Its beneficiaries are Roman Abramovich, Alexander Abramov, Alexander Frolov, and Eugene Shvidler.

<sup>3</sup>Includes shares held by Gennady Kozovoy, Kadre's shareholder, both indirectly through Kadre and directly. The number of shares is as per TR-1 Form: Notification of major interest in shares dated 6 February 2013.

<sup>4</sup>Verocchio Ltd is owned by Alexander Vagin. The number of shares is as per TR-1 Form: Notification of major interest in shares dated 6 February 2013.

The Company is aware of the following individuals who each have a beneficial interest in three percent or more of EVRAZ plc's issued

share capital (in each case, except for Gennady Kozovoy, held indirectly) as of 31 December 2017 and 28 February 2018:

	Number of ordinary shares	% of voting rights
Roman Abramovich	440,528,063	30.76
Alexander Abramov	302,068,451	21.09
Alexander Frolov	150,837,368	10.53
Gennady Kozovoy	83,751,827	5.85
Alexander Vagin	82,887,014	5.79
Eugene Shvidler	43,805,030	3.06

## Listing rule disclosures

For the purposes of LR 9.8.4CR, the information required to be disclosed by LR 9.8.4R can be found in the following locations:

### Interest capitalised

➔ Note 9 to the Consolidated Financial Statements

### Waiver of future emoluments by a director

⊖ None

### Contract of significance in which a director is interested

⊖ None

### Shareholder waiver of future dividends

⊖ None

### Publication of unaudited financial information

⊖ Not applicable

### Non pre-emptive issues of equity for cash

⊖ None

### Contracts of significance with a controlling shareholder

➔ Relationship Agreement section on page 139

### Agreements with controlling shareholder

➔ Relationship Agreement section below

### Detail of long-term incentive schemes

➔ Note 21 to the Consolidated Financial Statements, Remuneration Report

### Non pre-emptive issues of equity for cash in relation to major subsidiary undertakings

⊖ None

### Provision of services by a controlling shareholder

⊖ None

### Waiver of emoluments by a director

⊖ None

### Parent participation in a placing by a listed subsidiary

⊖ None

### Shareholder waiver of dividends

⊖ None

## Significant contractual arrangements

### Relationship agreement

The Controlling Shareholder and the Company have entered into a Relationship Agreement that regulates the on-going relationship between them, ensures that the Company is in compliance with the provisions of the Listing Rules and capable of carrying on its business independently of the Controlling Shareholder, and ensures that any transactions and relationships between the Company and the Controlling Shareholder are at arm's length and on normal commercial terms. This Agreement was last amended and restated in December 2014 in order to comply with certain changes to the Listing Rules.

This Agreement terminates if the Controlling Shareholder ceases to own or control (directly or indirectly) in aggregate at least 30% of the issued Ordinary Shares in the Company (or at least 30% of the aggregate voting rights in the Company), or if the Controlling Shareholder ceases to have a larger interest in the Company than the interest of any other shareholder of the Company.

Under the Relationship Agreement, the Controlling Shareholder and the Company agree that:

- the Controlling Shareholder has the right to appoint the maximum number of Non-Executive Directors that may be appointed while ensuring that the composition of the Board remains compliant with the UK Corporate Governance Code for so long as it holds an interest of 30% or more of the Company (or holds 30% or more of the aggregate voting rights in the Company) with each appointee being a "Shareholder Director";
- the Controlling Shareholder and its Associates shall not take any action that would have the effect of preventing the Company from complying with its obligations under the Companies Act, the Listing Rules and the Disclosure and Transparency Rules;
- neither the Controlling Shareholder nor any of its Associates will propose or procure the proposal of any shareholder resolution that is intended or appears to be intended to circumvent the proper application of the Listing Rules;
- transactions, relationships and agreements between the Company and/or its subsidiaries

(on the one hand) and the Controlling Shareholder or a member of the Controlling Shareholder Group (on the other) shall be entered into and conducted on arm's length terms and on a normal commercial basis, unless otherwise agreed by a committee comprising the Non-Executive Directors of the Company whom the Board considers to be independent in accordance with paragraph B.1.1 of the UK Corporate Governance Code (the "Independent Committee");

- the Controlling Shareholder shall, insofar as it is legally able to do so, exercise its powers, and shall procure that each member of the Controlling Shareholder Group does the same, so that the Company is managed in accordance with the principles of good governance set out in the UK Corporate Governance Code, save as agreed in writing by a majority of the Independent Committee;
- the Controlling Shareholder will, and will procure (as far as is reasonably possible) that each member of the Controlling Shareholder Group will, treat as confidential all information (subject to certain exceptions) acquired relating to the Company and its subsidiaries;
- the provision of, access to and use of information pursuant to the Relationship Agreement is governed by applicable laws relating to insider information and the disclosure rules of the Financial Conduct Authority;
- the Controlling Shareholder shall not, and shall procure, insofar as it is legally able to do so, that each member of the Controlling Shareholder Group shall not, take any action that precludes or inhibits the Company and/or any of its subsidiaries from carrying on its business independently of the Controlling Shareholder or any member of the Controlling Shareholder Group;
- the quorum for any Board meeting of the Company shall be two, of which at least one must be a Director other than a Controlling Shareholder Director and/or a Director who has (or had, in the 12 months prior to the relevant date) any business or other relationship with the Controlling Shareholder or any member of the Controlling Shareholder Group that could materially interfere with the exercise of his or her independent judgement in matters concerning the Company ("Lanebrook Director");
- the Controlling Shareholder shall not, and shall procure, insofar as it is legally able to do so, that each member of the Controlling Shareholder Group shall not, subject to specified exceptions, take any action (or omit to take any action) to prejudice the Company's status as a listed company, or its suitability for listing, or its on-going compliance with the Listing Rules and Disclosure and Transparency Rules;
- the Controlling Shareholder shall not, and shall procure, insofar as it is legally able to do so, that each member of the Controlling Shareholder Group shall not, exercise any of its voting or other rights and powers to procure any amendment to the Memorandum and Articles that would be inconsistent with, undermine or breach any of the provisions of the Relationship Agreement, and will abstain from voting on, and will procure that the Lanebrook Directors abstain from voting on, any resolution to approve a transaction with a related party (as defined in the Listing Rules) involving the Controlling Shareholder or any member of the Controlling Shareholder Group;
- in any matter that, in the opinion of an independent Director, gives rise to a potential conflict of interest between the Company and/or any of its subsidiaries (on the one hand) and the Lanebrook Directors, the Controlling Shareholder or any member of the Controlling Shareholder Group (on the other), such matter must be approved at a duly convened meeting of the Independent Committee or in writing by a majority of the Independent Committee;
- for so long as the Controlling Shareholder holds an interest of 50% or more in the Company, the Controlling Shareholder undertakes that it will not and will use its reasonable endeavours to procure that no other member of the Controlling Shareholder Group becomes involved in any competing business (subject to certain exceptions) in Russia, the Ukraine or the CIS without giving the Company the opportunity to participate in the relevant competing business.

The Board is satisfied that the Company is capable of carrying on its business independently of the Controlling Shareholder and that the Board makes its decisions in a manner consistent with its duties to the Company and stakeholders of EVRAZ plc.

### Other agreements

The change of control provisions contained in several loan agreements with a total principal amount of US\$1,245 million outstanding as of 31 December 2017 specify that if a change of control occurs, each lender under these agreements has a right to cancel their commitments and request prepayment of their portion of the respective loans.

## Articles of Association

The Company's Articles of Association were adopted with effect from June 2012 and contain, among others, provisions on the rights and obligations attaching to the Company's shares, including the redeemable non-voting preference shares and the subscriber shares. The Articles of Association may only be amended by special resolution at a general meeting of the shareholders.

## Share rights

Without prejudice to any rights attached to any existing shares, the Company may issue shares with rights or restrictions as determined by either the Company by ordinary resolution or, if the Company passes a resolution, the Directors. The Company may also issue shares that are, or are liable to be, redeemed at the option of the Company or the holder and the directors may determine the terms, conditions and manner of redemption of any such shares.

## Voting rights

There are no other restrictions on voting rights or transfers of shares in the Articles other than those described in these paragraphs. Details of deadlines for exercising voting rights and proxy appointment will be set out in the Notice of the 2018 AGM.

At a general meeting, subject to any special rights or restrictions attached to any class of shares on a poll, every member present in person or by proxy has one vote for every share that he or she holds.

A proxy is not entitled to vote where the member appointing the proxy would not have been entitled to vote on the resolution had he or she been present in person. Unless the directors decide otherwise, no member shall

be entitled to vote either personally or by proxy or to exercise any other right in relation to general meetings if any sum due from him or her to the Company in respect of that share remains unpaid.

The trustee of the Company's Employee Share Trust is entitled, under the terms of the trust deed, to vote as it sees fit in respect of the shares held on trust.

## Transfer of shares

The Company's Articles provide that transfers of certificated shares must be effected in writing, and duly signed by or on behalf of the transferor and, except in the case of fully paid shares, by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the Register of Members in respect of those shares. Transfers of uncertificated shares may be effected by means of CREST unless the CREST Regulations provide otherwise.

The directors may refuse to register an allotment or transfer of shares in favour of more than four persons jointly.

## Audit information

Each of the Directors who were members of the Board at the date of the approval of this report confirms that:

- So far as he or she is aware, there is no relevant audit information of which the Company's auditors are unaware.
- He or she has taken all the reasonable steps that he or she ought to have taken as a Director to make him or herself aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The EVRAZ Directors' Report has been prepared in accordance with applicable UK company law and was approved by the Board on 28 February 2018.

By the order of the Board

**Alexander Frolov**

Chief Executive Officer  
EVRAZ plc



28 February 2018