

# Corporate governance report

## INTRODUCTION

EVRAZ is a public company limited by shares incorporated in the United Kingdom. It is a premium-listed company on the Main Market of the London Stock Exchange and is a member of the FTSE 100 Index. EVRAZ is committed to high standards of corporate governance and control.

## COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS

EVRAZ approach to corporate governance is primarily based on the UK Corporate Governance Code published by the Financial Reporting Council (FRC) in April 2016 and the Listing Rules of the UK Listing Authority. The Company complies with the UK Corporate Governance Code or, if it does not comply, explains the reasons for non-compliance. During 2018, the FRC published a revised Corporate Governance Code, which comes into force for the financial year commencing on 1 January 2019. The Board has reviewed the updated code and is introducing various changes of procedure and practice to be able to report fully on compliance with the updated Corporate Governance Code for the 2019 financial year.

During the year to 31 December 2018, EVRAZ complied with all the principles and provisions of the 2016 UK Corporate Governance Code (the Governance Code is available at [www.frc.org.uk](http://www.frc.org.uk)), with the following exception: Provision D.1.1.1 of the Governance Code requires that performance-related remuneration schemes should include malus and clawback provisions. The Company does not operate clawback arrangements. An explanation for this non-compliance is set out in the Remuneration Report on [page 120](#).

## BOARD RESPONSIBILITIES AND ACTIVITIES

The Board and management of EVRAZ aim to pursue objectives in the best interests of EVRAZ, its shareholders and other stakeholders, and particularly to create long-term value for shareholders.

The EVRAZ Board is responsible for the following key aspects of governance and performance:

- Financial and operational performance
- Strategic direction
- Major acquisitions and disposals
- Overall risk management
- Capital expenditure and operational budgeting
- Business planning
- Approval of internal regulations and policies

During the year to 31 December 2018, the Board considered a wide range of matters, including:

- The critical success factors for strategic development of the Group's competitive advantages
- HSE updates, including key initiatives and responses to significant incidents
- The performance of key businesses, including commercial initiatives to improve operational performances and revenues, with particular emphasis on North America
- The Group's consolidated budget and budgets of individual business units
- The interim and full-year results, and the 2017 annual report
- The appropriateness of the going concern basis of financial reporting
- The assumptions, stress-test scenarios and mitigating actions used in preparing the Company's viability statement
- A revised dividend policy for the Group, and approval of three interim dividends during the year
- Investment project reviews
- Disposal of non-core businesses
- Appointment of a new non-executive director and changes to the composition of various Board committees
- The length of tenure of the Company's external auditor and the Audit Committee's decision to retain Ernst & Young as auditor until 2020
- Implementation throughout the Group over the next five years of the EVRAZ Business System to promote an operational culture of values and behaviours that support the drive for continuous improvement and business change
- Linking succession planning to corporate strategy execution, and the need to look deeper into the Group for future leaders
- Compliance with the Market Abuse Regulation in relation to managing inside information, share dealing by insiders and online training of all insiders
- A review of the findings of the internally facilitated Board evaluation exercises and action plans resulting therefrom

During the year, the Board agreed a dividend policy, which aims to declare dividends of at least US\$300 million per annum, subject

to the financial performance of the business, to be paid in semi-annual instalments of at least US\$150 million each following interim and full year results. Based upon the financial performance of the business, the Board may consider a higher distribution level, taking into account the outlook for the Group's major markets, the Board's view of the long-term growth prospects of the business and future capital investment requirements, as well as the Company's commitment to maintain a strong balance sheet. In line with the Company's existing capital allocation policy, no dividends will be paid out if Net Debt/EBITDA is above 3.0x.

The Board also discussed the proposals to pay: an interim dividend of US\$0.13 per ordinary share, totalling US\$187.6 million, on 22 June 2018; a second interim dividend of US\$0.40 per share, totalling US\$577.34 million, to be paid on 6 September 2018; and a third interim dividend of US\$0.25 per share, totalling US\$360.8 million, to be paid on 21 December 2018. The level of distributable reserves within the balance sheet was considered at each distribution, noting that it was sufficient to enable the dividend to be paid. The dividends paid were in line with the dividend policy previously agreed by the Board.

In order to support the dividend policy for future years and create additional distributable reserves, the Board recommended to shareholders that a Court-approved capital reduction be approved at the annual general meeting held on 19 June 2018 to reduce the Company's nominal share capital. Following such shareholder approval and confirmation by the High Court of England and Wales, the nominal value of each ordinary share in the Company was reduced from US\$1.00 per share to US\$0.05 per share.

In August 2018, following a recommendation from the Nominations Committee, the Board appointed Ms Laurie Argo as an independent non-executive director. Ms Argo's biographical details are disclosed [on page 102](#). The Board was of the opinion that she not only had sufficient relevant experience to assist the Board but also that she had sufficient time to devote to the Board's duties.

In December 2017, the Company's indirect wholly owned subsidiary, EVRAZ Mezhdurechensk, entered into management contracts with nine companies owned by Sibuglemet, involved in mining, processing and trading coal. The management contracts required the Company to enter into a guarantee of EVRAZ Mezhdurechensk's obligations and, due to its size, the proposed guarantee constituted a "class 1 transaction" for the Company under the Listing Rules. The Board requested shareholders'

approval of the transaction. At a general meeting of the Company held on 19 June 2018, shareholder approval was duly given.

In September 2018, the Company was notified by Lanebrook Limited, a major shareholder of the Company and with whom the Company had previously entered into a relationship agreement, that Lanebrook Limited had distributed all of its shares in the Company to its direct shareholders in proportion to their holdings in Lanebrook Limited. The relationship agreement between Lanebrook Limited and the Company was terminated as a result of Lanebrook Limited no longer being a shareholder of the Company. Following a detailed review of the transaction, the independent non-executive directors approved the entry into new relationship agreements with its new controlling shareholders (Crosland Global Limited and Greenleas International Holdings Ltd.) on terms and conditions that were substantively the same as those that had been entered into with Lanebrook Limited.

In December 2018, the Company was notified by Crosland Global Limited, a major shareholder of the Company and with whom the Company had previously entered into a relationship agreement as described above, that Crosland Global Limited had transferred a certain number of ordinary shares in the Company to Abiglaze Ltd. Following a detailed review of the transaction, in the period between the end of the 2018 financial year and the date of this report, independent non-executive directors approved the entry into a revised relationship agreement with Crosland Global Limited and a new relationship agreement with Abiglaze Ltd on terms and conditions that were substantively the same as those that had been entered into with Crosland Global Limited previously.

[Full details of the relationship agreements currently in place are disclosed on page 131.](#)

In keeping with the requirements of the relationship agreements in place between the Company and its major shareholders, the independent non-executive directors of the Company have conducted an annual review to consider the continued good standing of the relationship agreements and are satisfied that the terms of the relationship agreements are being fully observed by all parties. In accordance with LR 9.8.4R (14), it is confirmed that:

- The Company has complied with the independence provisions of the relationship agreements;
- So far as the Company is aware, Greenleas International Holdings Ltd., Abiglaze Ltd and Crosland Global Limited (or any of their associates) have complied with the independence provisions of the relationship agreements; and

- So far as the Company is aware, Greenleas International Holdings Ltd., Abiglaze Ltd and Crosland Global Limited have complied with the procurement obligations in the relationship agreements

## Stakeholders

The Board has considered in detail the Company's business model outlined [on pages 14 and 15](#) of this report, which identifies the Company's stakeholders as:

- Shareholders
- Employees
- Customers
- Suppliers and business partners
- Local communities, and
- Government

The Board considers the interests of all stakeholders by taking a long-term view of how the business needs to develop within its economic market. The Board has considered the technological developments in the market to ensure that its assets are improved to remain competitive, and that the necessary financing requirements will be available over the medium to long term to implement strategic projects. When development plans for projects are in their early stages, the management engages key customers to ensure that the products produced meet their specific requirements.

Assisted by the Nominations Committee, the Board regularly reviews the management's development plans and the Group's overall HR policy, including the current HR initiatives in place. The vice president of human resources is invited to attend Board meetings to present the outcome of the annual employment engagement survey, and to discuss the findings and actions planned as a result. The Board's HSE Committee is charged with fostering a safety culture for employees throughout the Group's operations and monitoring the implementation of the Group's environmental policy.

In preparation for the introduction of the 2018 UK Corporate Governance Code (in effect from 1 January 2019), the Remuneration Committee has been working alongside management to develop procedures so that principle D of the revised code is met, and the views of employee stakeholders are fully considered.

## Chairman and chief executive

The Board determines the division of responsibilities between the chairman and the chief executive officer (CEO).

The chairman's principal responsibility is the effective running of the Board, ensuring

that the Board as a whole plays a full and constructive part in the development and determination of the Group's strategy and overall commercial objectives. The Board is chaired by Alexander Abramov.

The CEO is responsible for leading the Group's operating performance, as well as for the day-to-day management of the Company and its subsidiaries. The Group's CEO is Alexander Frolov.

The CEO is supported by the executive team.

## Board meetings and composition

EVRAZ plc held 10 scheduled Board meetings during 2018. In 2019, up to the date of this report's publication, two Board meetings were held.

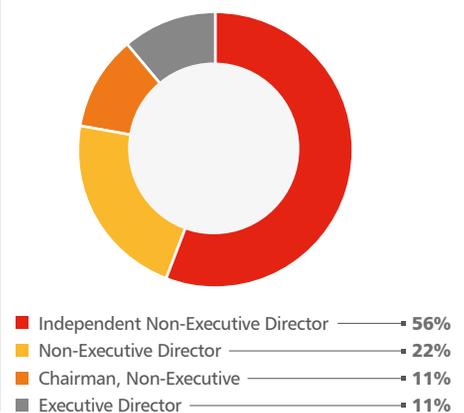
The chief financial officer and the senior vice president for commerce and business development attended all Board meetings, with other members of senior management attending meetings by invitation to deliver presentations on the status of projects and performance of business units.

The table on the next page sets out the attendance of each current director at scheduled EVRAZ plc Board and Board committee meetings in 2018.

As at 31 December 2018, the Board comprised the chairman, one executive director, and seven non-executive directors, including a senior independent director. Olga Pokrovskaya, a former non-executive director, is invited to attend Board meetings in an advisory capacity and to attend Audit Committee meetings as an observer.

The Board considers that five non-executive directors (Laurie Argo, Karl Gruber, Deborah Gudgeon, Alexander Izosimov, Sir Michael Peat) are independent in character and judgement,

### Board composition



and free from any business or other relationship that could materially interfere with the exercise of their independent judgement, in compliance with the UK Corporate Governance Code.

The independent non-executive directors comprise the majority (excluding the Health, Safety and Environment Committee) on and chair all Board Committees.

The Board has also satisfied itself that there is no compromise to the independence of, or existence of conflicts of interest for, those directors who serve together as directors on the boards of outside entities.

## Board expertise

The Board has determined that, as a whole, it has the appropriate skills and experience necessary to discharge its functions. Executive and non-executive directors have the experience required to contribute meaningfully to the Board's deliberations and resolutions. Non-executive directors assist the Board by constructively challenging and helping to develop strategy proposals. While most of the directors have been in post since the incorporation of EVRAZ plc in October 2011, the recruitment of new independent non-executive directors in recent years has strengthened the Board's technical expertise and widened the skills base.

of the Board); and (iii) among the members of the Board as a whole.

Board performance was deemed to be satisfactory. At its January 2019 meeting, the Board agreed an action plan for 2019 that would allow the Board to continue developing its involvement in reviewing and considering management's strategy proposals and to enhance its focus not only on the commercial issues but also on safety, environmental and other CSR issues, as well as on HR policy.

Arising from the 2018 action plan, the Board noted that its members had been given more exposure to senior management below Board level. In 2019, further consideration will be given to succession planning and ensuring that appropriate induction programmes are in place for Board members.

The Company will continue to undertake regular performance evaluations of the Board in line with the requirements of the UK Corporate Governance Code.

## Board and AGM attendance by each director<sup>1</sup>

	Board	Remco	HSEco	Auditco	Nomco	AGM
<b>Total number of meetings</b>	<b>10</b>	<b>4</b>	<b>2</b>	<b>8</b>	<b>4</b>	<b>1</b>
Alexander Abramov	10/10				4/4	1
Alexander Frolov	10/10		2/2			1
Laurie Argo (appointed 8 August 2018)	5/5			2/2 <sup>1</sup>		n/a
Karl Gruber	10/10		2/2	6/6 <sup>1</sup>	4/4	1
Deborah Gudgeon	10/10	4/4		8/8		1
Alexander Izosimov	10/10	4/4		8/8	4/4	1
Sir Michael Peat	10/10	4/4			4/4	1
Eugene Shvidler	9/10 <sup>2</sup>				4/4	-2
Eugene Tenenbaum	10/10					1

## Board committees

The following principal committees support the Board in its work: the Audit Committee, the Remuneration Committee, the Nominations Committee, and the Health, Safety and Environment Committee.

Each committee has written terms of reference, approved by the Board, summarising its role and responsibilities. The committees review their respective terms of reference each year and submit any recommended changes to the Board for approval. All terms of reference for the committees are available on the Group's website: [www.evraz.com](http://www.evraz.com).

The Audit Committee consists of three non-executive directors, all independent, which complies with the Code, and the Board considers that, as a whole, the committee has competence relevant to the industry sector in which the Group operates. Specifically, Deborah Gudgeon has relevant recent financial experience.

## Shareholder engagement

The Company continues to encourage shareholder engagement. The annual general meeting was held on 19 June 2018 and all directors, with the exception of one non-executive director, including all committee chairs, were in attendance. All shareholders are welcomed to attend, ask questions and discuss issues with individual directors.

## Boardroom diversity

EVRAZ recognises the importance of diversity both at the Board level and organisation-wide. The Group remains committed to increasing diversity throughout its global operations and takes diversity into account during each recruitment and appointment process, working to attract outstanding candidates with diverse backgrounds, skills, ideas and culture. As stated in the CSR report, EVRAZ sees diversity as a crucial business driver and strives to ensure that all employees' rights receive equal protection, regardless of race, nationality, gender or sexual orientation. People with disabilities are given full consideration both during the recruitment process and once employed, to ensure that their unique aptitudes and abilities are taken into account.

For more detailed information, see the Nominations Committee report and the CSR report. The Company believes that the Board composition provides an appropriate balance of skills, knowledge and experience. The Board members comprise a number of different nationalities with a wide range of skills, capabilities and experience from a variety of business backgrounds. Biographies of the Board members are provided in the Board of Directors section.

## Induction and professional development

The chairman is responsible for ensuring that there is a properly constructed and timely induction for new directors upon joining the Board. Directors have full access to a regular supply of financial, operational, strategic and regulatory information to help them discharge their responsibilities. For more detailed information, see the Nominations Committee report on [pages 116-117](#).

## Performance evaluation

In 2017, Lintstock LLP conducted an externally facilitated annual Board evaluation. Building on that review, in October 2018, the company secretary undertook an internally facilitated review at the initiative and with the participation of the Company's Nominations Committee. Questionnaires were distributed to all Board directors for their response and comment.

The results were discussed at three levels: (i) among the members of the Nominations Committee; (ii) between Sir Michael Peat (as chairman of the Nominations Committee) and Alexander Abramov (as chairman

<sup>1</sup> On 8 August 2018, Karl Gruber stood down from the Audit Committee and Laurie Argo was appointed in his place.

<sup>2</sup> Eugene Shvidler was unable to attend the meeting on the day of the AGM due to a business commitment that arose unexpectedly.

An additional general meeting was held on 19 June 2018 to approve the issuance of a guarantee of the obligations of EVRAZ Mezhdureshensk under management contracts with nine companies owned by Sibuglemet.

The CEO, supported by the chief financial officer and the vice president of investor relations,

brief analysts and institutional investors fully after the publication of the Company's half-year and full-year results.

In October 2018, an investor day was held for analysts and institutional investors, where key members of the management team gave presentations to explain the Group's

operations and performance. Sir Michael Peat, the senior independent non-executive director and chairman of the Nominations Committee, attended and presented on the Company's corporate governance structure as well as meeting with investors, as did Deborah Gudgeon, an independent non-executive director and chairman of the Audit Committee.

## Board composition as of 31 December 2018

Name	Position	Committee Membership	Years of tenure
<b>Executive director</b>			
Alexander Frolov	CEO	HSEC - member	7
<b>Non-executive directors</b>			
Alexander Abramov	Chairman	NC - member	7
Eugene Shvidler	Director	NC - member	7
Eugene Tenenbaum	Director	None	7
<b>Independent non-executive directors</b>			
Laurie Argo	Director	AC - member	Less than 1
Karl Gruber	Director	HSEC - chairman, NC - member	7
Deborah Gudgeon	Director	AC - chairman, RC - member	3
Alexander Izosimov	Director	RC - chairman, NC - member, AC - member	6
Sir Michael Peat	Senior independent director	NC - chairman, RC - member	7

## Role and composition of each committee

Committee name	Function	Composition	Link to committee report
Audit Committee	Audit, financial reporting, risk management and controls	All three members are independent non-executive directors	<a href="#">See on pages 112-115</a>
Nominations Committee	Selection and nomination of Board members	All five members are non-executive directors, of which three are independent	<a href="#">See on pages 116-117</a>
Remuneration Committee	Remuneration of Board members and top management	All three members are independent non-executive directors	<a href="#">See on pages 120-127</a>
HSE Committee	HSE issues	Two of the three members are non-executive with an independent chairman who is also a non-executive director of the Company <sup>3</sup>	<a href="#">See on pages 118-119</a>

## RISK MANAGEMENT AND INTERNAL CONTROL

EVRAZ maintains a comprehensive financial reporting procedures (FRP) manual detailing the Group's internal control and risk management systems and activity. The manual was last updated in December 2018, in line with the Financial Reporting Council (FRC) Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued in September 2014. The aim of the risk management process is to identify, evaluate

and manage potential and actual threats to the Group's ability to achieve its objectives.

The EVRAZ' Enterprise Risk Management (ERM) process is designed to identify, quantify, and respond to these threats; and monitor the Group's prevention and mitigation system. Management maintains a risk register that encompasses both internal and external threats. The level of risk appetite approved by the Board is used to identify particular risks and uncertainties that require specific Board oversight. In 2018, the process in relation to principal risks and uncertainties was consistent with the UK Corporate Governance Code, the FRC Guidance on the Strategic Report

issued in June 2014, and the abovementioned FRC guidance issued in September 2014.

Executive management is responsible for both internal controls in place and mitigating actions related to risk management throughout EVRAZ business and operations. This serves to encourage a risk-conscious business culture.

EVRAZ applies the following core principles to identifying, monitoring and managing risk throughout the organisation:

- Risks are identified, documented, assessed and monitored, and their profile is communicated to the relevant levels of the management team, regularly. The

<sup>3</sup> The members of the Health, Safety and Environment Committee at 31 December 2018 were Karl Gruber (chairman), Alexander Frolov and Olga Pokrovskaya, who has continued as a non-executive member of the HSE Committee following her cessation as a Board member of the Company on 14 March 2016. With more than 50% of EVRAZ operations based in the Russian Federation, the committee continues to value the contribution she brings in terms of her technical and regional experience.