

# 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 2016, 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 250 Index.

<b>Dividends</b>	The Company's current dividend policy was adopted on 8 April 2014. It allows payment of regular dividends only when the net leverage (net debt/EBITDA) target of below 3.0x is achieved and the Company records a net profit. No dividends were paid in 2016. No dividend is recommended for the year ended 31 December 2016.
<b>Share capital</b>	Details of the Company's share capital are set out in Note 20 to the Consolidated Financial Statements, including details on the movements in the Company's issued share capital during the year. As of 31 December 2016, the Company's issued share capital has consisted of 1,506,527,294 ordinary shares, of which 87,015,166 ordinary shares are held in treasury. Therefore, the total number of voting rights in the Company is 1,419,512,128. 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.
<b>Authority to purchase own shares and transfer of treasury shares to Company's Employee Share Trust</b>	Details of the Company's authority to purchase its own shares, which will be sought at the Company's forthcoming Annual General Meeting, will be set out in the notice of meeting for that AGM. On 20 May 2016, the Company transferred 11,368,416 ordinary shares out of treasury to the Company's Employee Share Trust, which represented 0.76% of the Company's issued share capital. Details are set out in Note 20 to the Consolidated Financial Statements.
<b>Directors</b>	Biographies of the directors who served on the Board during the year are provided in the Governance section <a href="#">on pages 100-101</a> . In addition, Duncan Baxter and Olga Pokrovskaya served as directors until 14 March 2016.
<b>Directors' appointment and re-election</b>	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. 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. For additional information about directors' appointment and resignation, see the Corporate Governance Report <a href="#">on page 105</a> . All of the continuing directors will stand for re-election at the 2017 AGM to be held on 20 June 2017.
<b>Directors' interests</b>	Information on share ownership by directors can be found in this Report and in the Remuneration Report <a href="#">on page 127</a> .
<b>Directors' indemnities and director and officer liability insurance</b>	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.
<b>Powers of directors</b>	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 also provide the power to make purchases of any of its own shares. 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.
<b>Major interests in shares</b>	Notifiable major share interests of which the Company has been made aware are set out in this Directors' Report.

<b>Research and development</b>	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. For examples of the Company's efforts in R&D in different operations, please refer to the Business Review <a href="#">on pages 38-71</a> .
<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 CSR Report <a href="#">on pages 74-94</a> .
<b>Payments to governments</b>	EVRAZ published its report on payments to governments in June 2016. 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 2016.
<b>Greenhouse gas emissions</b>	In 2016, 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 CSR Report <a href="#">on pages 80-81</a> .
<b>Employees</b>	Information regarding the Company's employees can be found in the Our People section <a href="#">on pages 86-89</a> .
<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 <a href="#">on pages 107-109</a> , and the Financial Review <a href="#">on pages 24-29</a> .
<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 <a href="#">on pages 24-29</a> . The Directors have considered the Group's debt maturity and cash flow projections and an analysis of projected debt covenants compliance for the period to the end of June 2018. The Board is satisfied that the Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group will continue in operation for the foreseeable future and has neither the intention nor the need to liquidate or materially curtail the scale of its operations. For this reason the Group continues to adopt the going concern basis in preparing its financial statements. More details are provided in Note 2 to the consolidated financial statements <a href="#">on page 155</a> .
<b>Auditor</b>	The Audit Committee conducted a tender for the external audit of the Group in July 2016. In November, the Board approved the Committee's recommendation to re-appoint Ernst & Young LLP as the Company's auditor. Details of the tender process are set out in the Audit Committee Report <a href="#">on page 115</a> . Ernst & 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 <a href="#">on pages 8-37</a> .
<b>Events since the reporting date</b>	The major events after 31 December 2016 are disclosed in Note 33 to the Consolidated Financial Statements <a href="#">on page 237</a> .
<b>Annual general meeting (AGM)</b>	The 2017 AGM will be held on 20 June 2017 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 2016 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 2016 and 28 February 2017 was 1,506,527,294 ordinary shares, of which 87,015,166 ordinary shares are held in treasury. Thus, the total voting rights are 1,419,512,128 ordinary shares.

As of 31 December 2016 and 28 February 2017, 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 issued ordinary shares
<b>Lanebrook Ltd.<sup>1</sup></b>	905,487,416	63.79
<b>Lanebrook Ltd. Affiliates</b>	33,960,653	2.39
<b>Kadre Enterprises Ltd.<sup>2</sup></b>	83,751,827	5.90
<b>Verocchio Enterprises Ltd.<sup>3</sup></b>	82,887,014	5.84

<sup>1</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>2</sup> Includes shares held by Gennady Kozovoy, Kadre's shareholder, both indirectly through Kadre and directly

<sup>3</sup> Verocchio Ltd. is owned by Alexander Vagin.

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 2016 and 28 February 2017:

	Number of ordinary shares	% of issued share capital
<b>Roman Abramovich</b>	440,528,063	31.03
<b>Alexander Abramov</b>	303,541,958	21.38
<b>Alexander Frolov</b>	151,573,018	10.68
<b>Gennady Kozovoy</b>	83,751,827	5.90
<b>Alexander Vagin</b>	82,887,014	5.84
<b>Eugene Shvidler</b>	43,805,030	3.09

## 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:

Item	Location
Interest capitalised	Note 9 to the Consolidated Financial Statements
Publication of unaudited financial information	Not applicable
Detail of long-term incentive schemes	Note 21 to the Consolidated Financial Statements, Remuneration Report
Waiver of emoluments by a director	None
Waiver of future emoluments by a director	None
Non pre-emptive issues of equity for cash	None
Non pre-emptive issues of equity for cash in relation to major subsidiary undertakings	None
Parent participation in a placing by a listed subsidiary	None
Contract of significance in which a director is interested	None
Contracts of significance with a controlling shareholder	Relationship Agreement section <b>on pages 133-134</b>
Provision of services by a controlling shareholder	None
Shareholder waiver of dividends	None
Shareholder waiver of future dividends	None
Agreements with controlling shareholder	Relationship Agreement section below

## 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 whilst 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.

The Independent Non-Executive Directors of the Company have conducted an annual review to consider the continued good standing of the Relationship Agreement and are satisfied that the terms of the Relationship Agreement are being fully observed by both parties. In accordance with LR 9.8.4R (14) it is confirmed that:

- the Company has complied with the independence provisions of the Relationship Agreement;
- so far as the Company is aware, the Controlling Shareholder (or any of its associates) has complied with the independence provisions of the Relationship Agreement; and
- so far as the Company is aware, the Controlling Shareholder has complied with the procurement obligations in the Relationship Agreement.

## Other agreements

The 9.50% per annum notes due 2018, issued by Evraz Group S.A. on 24 April 2008, contain change of control provisions. If a change of control occurs under the terms of these notes, note holders will have the option to require Evraz Group S.A. to redeem notes together with interest accrued, if any. At 31 December 2016, the principal amount of these notes amounted to US\$125 million.

The US\$350 million high-yield bonds issued by Evraz Inc NA Canada on 7 November 2014 contain change of control provisions. If a change of control occurs under the terms of these notes, the Issuer should make an offer to purchase all outstanding notes together with accrued interest, if any.

The change of control provisions contained in several loan agreements with a total principal amount of US\$1,088 million outstanding as of 31 December 2016 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, amongst 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 2017 Notice of the 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 2017.

By the order of the Board



**Alexander Frolov**

Chief Executive Officer, EVRAZ plc

28 February 2017