

# 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 250 Index. EVRAZ is committed to high standards of corporate governance and control.



Further information on the Company's Corporate Governance policies and principles are available on the Company's website: [www.evraz.com](http://www.evraz.com). The UK Corporate Governance Code is available at [www.frc.org.uk](http://www.frc.org.uk).

## 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 the year to 31 December 2016, 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 exceptions:

- Provision D.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 and an explanation for this non-compliance is set out in the Remuneration Report on pages 120-129.

- Contrary to provision C.3.1 of the UK Corporate Governance Code, Olga Pokrovskaya was a member of the Audit Committee until her cessation as a Board member on 14 March 2016, but did not meet the independence criteria set out in the UK Corporate Governance Code. More than 50% of EVRAZ' activities and operations are based in the Russian Federation and Olga Pokrovskaya's technical

and regional experience and qualification, as a past senior audit manager at Arthur Andersen and as head of corporate finance at Russian oil company Sibneft, continues to be of value to the Committee. Accordingly, she is invited to attend Board meetings in an advisory capacity and to attend Audit Committee meetings as an observer. Since 14 March 2016, the Audit Committee has consisted 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.

## Board responsibilities and performance

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 ended 31 December 2016, the Board considered a wide range of matters, including:

- the critical success factors for strategic development of the Company's competitive advantages
- the performance of key businesses, including commercial initiatives to improve operational performances and revenues, with particular emphasis on North America
- consolidated group budget and budgets of individual business units
- the interim and full-year results, and the 2015 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
- HSE updates

- investment project reviews
- changes to the composition of various Board committees
- 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.

## 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 day-to-day management of the Company and its subsidiaries. The Company's CEO is Alexander Frolov.

The CEO is supported by the executive team.

## Board meetings, composition and AGM

EVRAZ plc held 10 scheduled Board meetings and two ad-hoc meetings held in the form of conference calls during 2016. In 2017, up to the date of this report's publication, two Board meetings were held.

The chief financial officer and the senior vice president (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 below sets out the attendance of each current director at scheduled EVRAZ plc Board and Board Committee meetings in 2016.

As at 31 December 2016, the Board comprised the chairman, one executive director, and six non-executive directors, including a senior independent director. On 14 March 2016, Duncan Baxter and Olga Pokrovskaya stood down as directors, and Terry Robinson (who retired as a director on 18 June 2015) ceased to be an adviser to the Board. This change was agreed following a review of the composition of the Board, to enable financial savings to be achieved without compromising the quality of the Group's governance. Olga Pokrovskaya is invited to attend Board meetings in an advisory capacity and to attend Audit Committee meetings as an observer.

As a result, a number of changes were made to Board Committees: Alexander Izosimov assumed the chairmanship of the Remuneration Committee, Deborah Gudgeon and Sir Michael Peat joined the Remuneration Committee, and Karl Gruber stepped down

from the Remuneration Committee. In addition, Karl Gruber joined the Audit Committee.

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

### Boardroom diversity



	%
Independent Non-Executive Directors	50
Non-Executive Directors	25
Chairman, Non-Executive	12.5
Executive Director	12.5

### 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>3</b>	<b>2</b>	<b>9</b>	<b>2</b>	<b>1</b>
Alexander Abramov	9/10	-	-	-	2/2	1
Alexander Frolov	10/10	-	2/2	-	-	1
Karl Gruber	10/10	1/1	2/2	6/6	2/2	1
Deborah Gudgeon	10/10	2/2	-	9/9	-	1
Alexander Izosimov	10/10	3/3	-	8/9	2/2	1
Sir Michael Peat	10/10	2/2	-	-	2/2	1
Eugene Shvidler	10/10	-	-	-	2/2	1
Eugene Tenenbaum	10/10	-	-	-	-	1

<sup>1</sup> In addition to the ten scheduled Board meetings held in 2016, two meetings were held by conference call to consider specific financing proposals. Mr Abramov and Mr Izosimov were each unable to attend one Board or Committee meeting due to a prior commitment or illness.

The following changes were made to the composition of the Board and its Committees with effect from 14 March 2016:

• Olga Pokrovskaya stepped down from the Board and the Audit Committee but continued as a non-executive member of the Health, Safety and Environment Committee. Her meetings attendance during the year was Board 3/3, Audit Committee 3/3, and HSE Committee 2/2.

• Duncan Baxter stepped down from the Board, the Remuneration Committee and the Audit Committee. His meetings attendance during the year was Board 3/3, Remuneration Committee 1/1, and Audit Committee 3/3. Alexander Izosimov was appointed chairman of the Remuneration Committee (succeeding Duncan Baxter), Sir Michael Peat and Deborah Gudgeon joined the Remuneration Committee, and Karl Gruber stepped down from the Remuneration Committee and joined the Audit Committee.

## Boardroom diversity

EVRAZ recognises the importance of diversity both at the Board level and throughout the whole organisation. The Company remains committed to increasing diversity across 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. For more detailed information, see the Nominations Committee report on pages 116-117 and CSR report on pages 72-95.

The Company believes that the Board structure provides an appropriate balance of skills, knowledge and experience. The 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.

## 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 develop strategy proposals. Most of the directors have been in post since the date of EVRAZ plc incorporation in October 2011.

## 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.

## Performance evaluation

An internally facilitated annual Board evaluation was conducted in December 2016. As in the previous year, the review was carried out with the initiative and 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) between the members of the Nominations Committee, (ii) between Sir Michael Peat (as chairman of the Nominations Committee) and Alexander Abramov (as chairman of the Board) and (iii) between the Board as a whole. Board performance was deemed to be satisfactory, notwithstanding the reduction in Board membership from 10 to 8 in 2016, and in overall terms the review was encouraging and useful. The Company undertakes regular performance evaluations of the Board in line with the requirements of the UK Corporate Governance Code and an externally facilitated review is planned for 2017.

### Board composition as of 31 December 2016

Name	Position	Committee membership	Years of tenure
<b>Executive Director</b>			
Alexander Frolov	CEO	HSEC - member	5
<b>Non-Executive Directors</b>			
Alexander Abramov	Chairman	NC - member	5
Eugene Shvidler	Director	NC - member	5
Eugene Tenenbaum	Director	None	5
<b>Non-Executive Independent Directors</b>			
Karl Gruber	Director	HSEC - chairman AC - member NC - member	5
Deborah Gudgeon	Director	AC - chairman RC - member	1
Alexander Izosimov	Director	RC - chairman NC - member AC - member	4
Sir Michael Peat	Senior Independent Director	NC - chairman RC - member	5

NC - Nominations Committee, HSEC - Health, Safety and Environment Committee, AC - Audit Committee, RC - Remuneration Committee

## Board committees

The Board is supported in its work by the following principal committees: 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 terms of reference for each Committee are available on the Company's website: [www.evraz.com](http://www.evraz.com).

## The role and composition of each committee

Committee name	Function	Composition
Audit Committee	Audit, financial reporting, risk management and controls	All 3 members are independent non-executive directors <a href="#">See pages 110-115</a>
Nominations Committee	Selection and nomination of Board members	All 5 members are non-executive directors, of which 3 are independent <a href="#">See pages 116-117</a>
Remuneration Committee	Remuneration of Board members and top management	All 3 members are independent non-executive directors <a href="#">See pages 120-129</a>
HSE Committee	HSE issues	2 of the 3 members <sup>1</sup> are non-executive with an independent chairman who is also a non-executive director of the Company. <a href="#">See pages 118-119</a>

<sup>1</sup> The members of the Health, Safety and Environment Committee at 31 December 2016 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.

## 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 2016. 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 achieving its objectives.

EVRAZ' Enterprise Risk Management (ERM) process is designed to identify, quantify, respond to and monitor the consequences of these threats. The management maintains a risk register that encompasses both internal and external critical threats. The level of risk appetite approved by the Board is used to identify particular risks and uncertainties that require specific Board oversight. In 2016, regarding principal risks and uncertainties, this process was consistent with the UK Corporate Governance Code, the FRC Guidance on the Strategic Report issued in June 2014, and the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued in September 2014.

The executive management is responsible for introducing the agreed internal controls and mitigating actions related to risk management throughout EVRAZ' business and operations, as well as at all levels of management and supervision. 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 business management team is primarily responsible for ERM and accountable for all risks assumed in the operations.
- The Board is responsible for assessing the optimum balance of risk (risk appetite) through the alignment of business strategy and risk tolerance on an enterprise-wide basis. In addition, the Board oversees risks above the Group's defined risk appetite and internal control weaknesses measured in excess of the risk appetite.
- A reporting process involving business unit management teams and other relevant bodies at major enterprises has been established. Its aim is to identify, evaluate and establish management actions for risk

mitigation at a regional level, as well as at EVRAZ' major steel and mining operations. The Risk Management Group maintains a corporate risk register representing a summary of this information. Business unit management teams and other relevant bodies are accountable to the Risk Management Group by way of membership of the latter (vice presidents of business units and functions).

- All acquired businesses are brought within the Group's system of internal control as soon as practicable.



For additional information about principal risks and uncertainties see Strategic report [on pages 32-36](#)