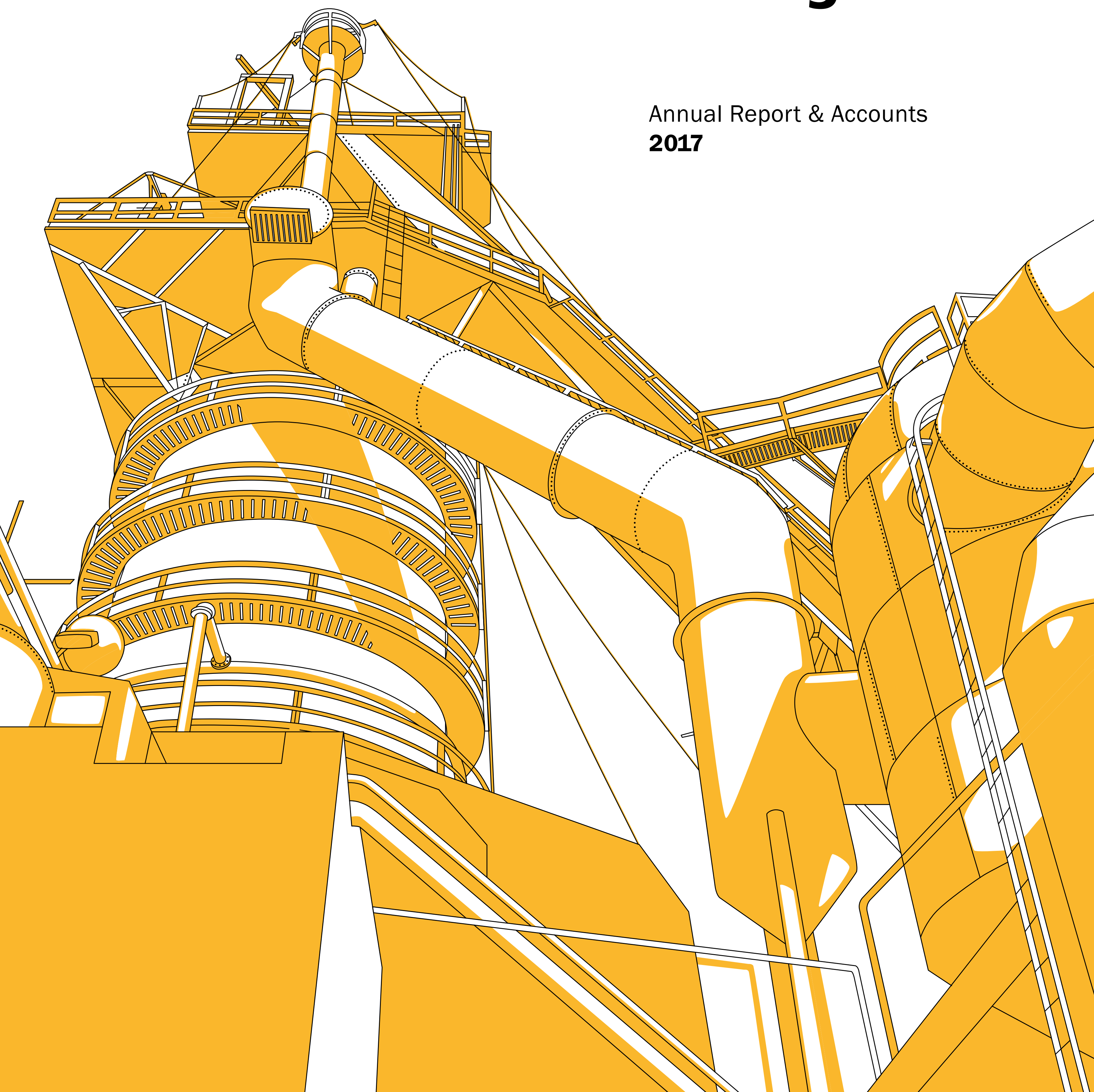
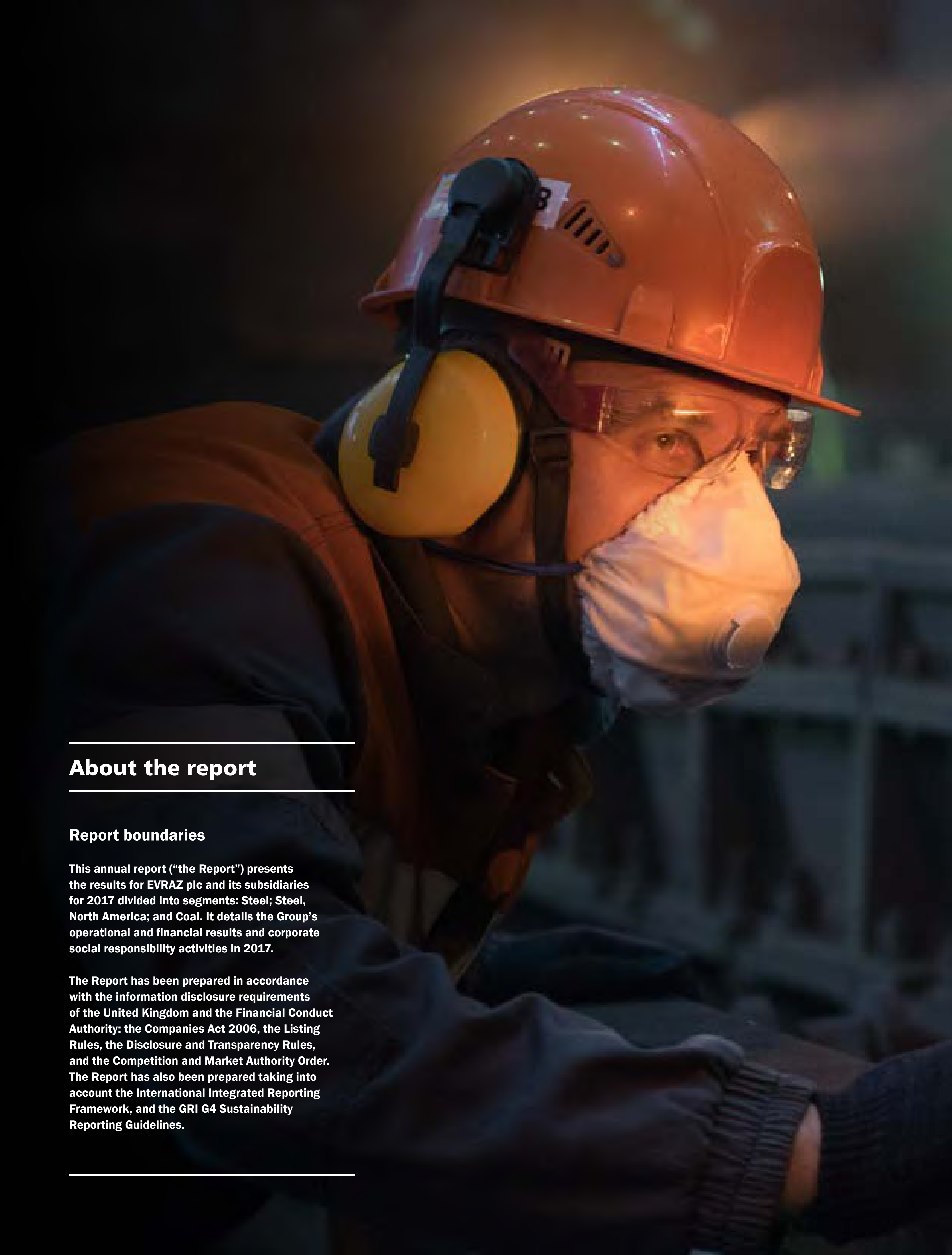
# Making the World Stronger.

Annual Report & Accounts
**2017**





## About the report

### Report boundaries

This annual report (“the Report”) presents the results for EVRAZ plc and its subsidiaries for 2017 divided into segments: Steel; Steel, North America; and Coal. It details the Group’s operational and financial results and corporate social responsibility activities in 2017.

The Report has been prepared in accordance with the information disclosure requirements of the United Kingdom and the Financial Conduct Authority: the Companies Act 2006, the Listing Rules, the Disclosure and Transparency Rules, and the Competition and Market Authority Order. The Report has also been prepared taking into account the International Integrated Reporting Framework, and the GRI G4 Sustainability Reporting Guidelines.

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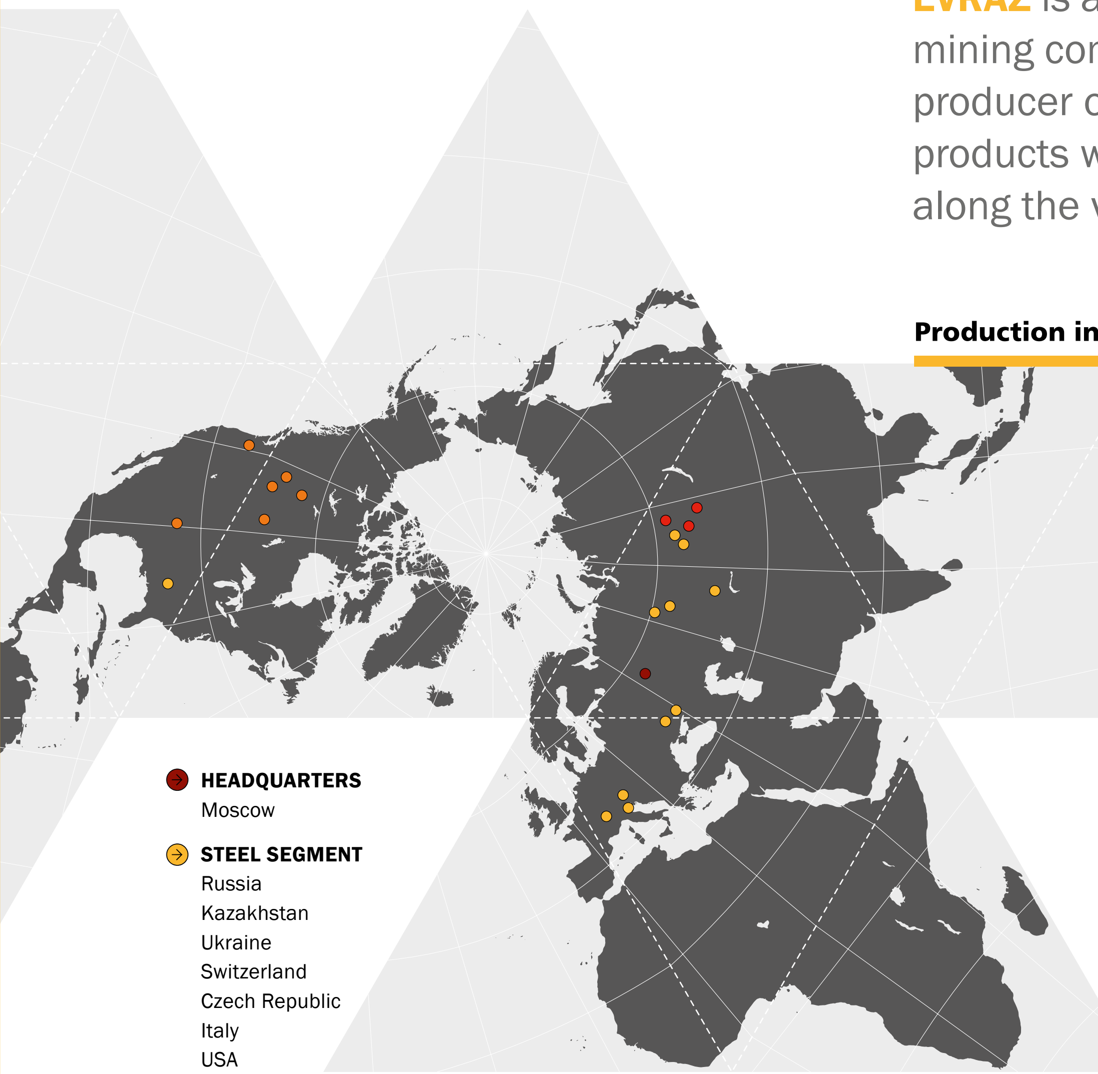
**Global footprint**

# Meet EVRAZ



**HEADQUARTERS**
Moscow

**STEEL SEGMENT**
Russia
Kazakhstan
Ukraine
Switzerland
Czech Republic
Italy
USA

**COAL SEGMENT**
Russia

**STEEL, NORTH AMERICA SEGMENT**
USA
Canada

**EVRAZ** is a global steel and mining company, the leading producer of infrastructure steel products with low-cost production along the value chain.

## Production in 2017

**18.0 mt** IRON ORE PRODUCTS

**23.3 mt** RAW COKING COAL

**14.0 mt** CRUDE STEEL

## LEADING POSITION

**RUSSIA'S LEADER** IN CONSTRUCTION AND RAILWAY PRODUCT MARKETS

**NORTH AMERICA'S No1** PRODUCER OF RAILS AND LARGE DIAMETER PIPES

**RUSSIA'S LARGEST** COKING COAL PRODUCER

## Our people

Our employees are an integral part of the Group's success. We hire the best people, nurture their development and provide career growth opportunities.

**70,186** employees in 2017

## Our customers

**in >70 countries**

| Product type | Customer type |
|---|---|
| Semi-finished steel products | Steel rolling facilities |
| Construction products | Wholesale companies, traders |
| Railway products | Railways, rail carriers |
| Industrial products | Industrial companies |
| Coking coal concentrate | Steelmaking facilities |
| Raw coking coal | Steelmaking facilities |
| Tubular products | Energy transmission operators |

# EVRAZ in figures

## Operating highlights

**CRUDE STEEL OUTPUT, kt**

2017 **14,033**
2016 13,513[2]
2015 14,351

**STEEL PRODUCTS OUTPUT[1], kt**

2017 **12,676**
2016 12,288[2]
2015 13,160

**IRON ORE PRODUCTS OUTPUT, kt**

2017 **18,042**
2016 19,907[2]
2015 20,445

**RAW COKING COAL PRODUCTION IN RUSSIA, kt**

2017 **23,306**
2016 22,257
2015 20,889

Consolidated crude steel production and steel product output, net of re-rolled volumes, increased mainly due to improved market demand in North America and higher crude steel production at EVRAZ ZSMK following the completion of planned capital repairs at its blast furnaces in 2016.

Iron ore products output dropped due to the disposal of Evraz Sukha Balka in June 2017.

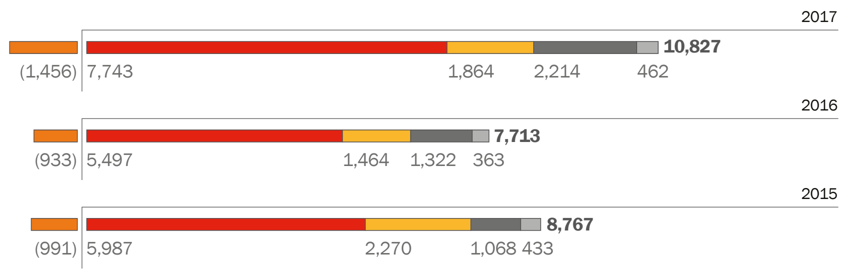
Raw coking coal production increase was driven by higher annual output at the Raspadskaya mine, Raspadskaya-Koksovaya mine and Mezhegeyugol amid improved productivity.

For more information, see **Business review section** on pages 42–79.

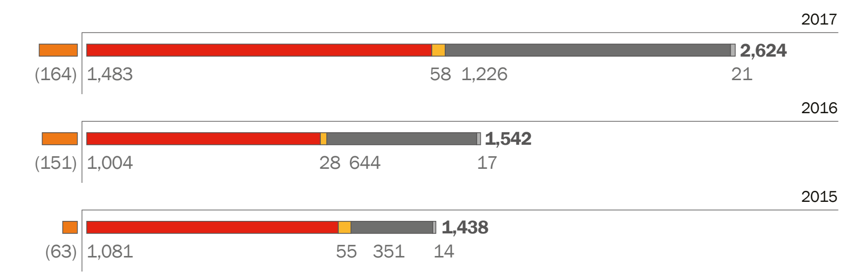
*[1]Net of re-rolled volumes.*
*[2]Change to the previously reported figures due to corrections of data.*

## Financial highlights

**CONSOLIDATED REVENUES BY SEGMENT, US$ million**




**CONSOLIDATED EBITDA BY SEGMENT, US$ million**




Steel Steel, NA Coal Other operations Unallocated and eliminations

**NET DEBT** –17.4% yoy

US$ **3,966** million

**CAPEX[3]** +40.9% yoy

US$ **603** million

**NET PROFIT**

US$ **759** million

*[3]Including payments on deferred terms recognised in financing activities and non-cash transactions.*

## CSR highlights

### LTIFR (excluding fatalities), per million hours

| | |
|---|---|
| 2017 | 1.90 |
| 2016 | 2.36 |
| 2015 | 2.18 |

For more information, see page 84.

### EVRAZ GHG EMISSIONS, $MtCO_2e$

| | |
|---|---|
| 2017 | 41.67 |
| 2016 | 40.83 |
| 2015 | 43.04 |

For more information, see page 90.

### KEY AIR EMISSIONS, kt

| | |
|---|---|
| 2017 | 137.11 |
| 2016 | 130.68 |
| 2015 | 134.17 |

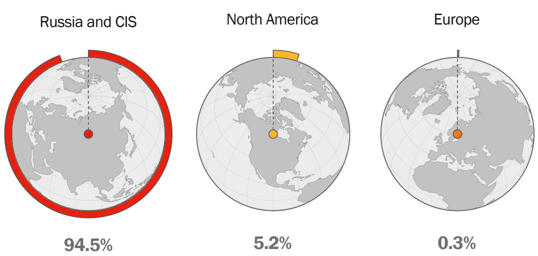
For more information, see page 90.

### FRESH WATER CONSUMPTION, million $m^3$

| | |
|---|---|
| 2017 | 319.43 |
| 2016 | 327.60 |
| 2015 | 340.23 |

For more information, see page 92.

### EMPLOYEES BY REGION IN 2017




**70.2 thousand people**

For more information, see page 98.

### DIVERSITY OF EMPLOYEES, SENIOR MANAGEMENT AND DIRECTORS, % (number of people)

| | Men | Women |
|---|---|---|
| Board | 88 (7) | 12 (1) |
| Senior management | 81 (75) | 19 (18) |
| Employees | 73 (50,815) | 27 (19,270) |

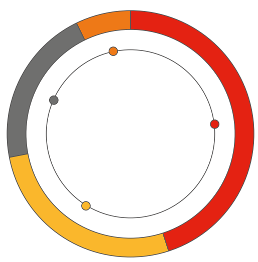
## Shareholder structure

### ULTIMATE BENEFICIAL OWNERS, % of voting rights[1]

| | |
|---|---|
| Roman Abramovich[2] | 30.76 |
| Alexander Abramov[4] | 21.09 |
| Alexander Frolov[3] | 10.53 |
| Gennady Kozovoy[4] | 5.85 |
| Alexander Vagin[4] | 5.79 |
| Eugene Shvidler[2] | 3.06 |
| Other | 22.92 |

*[1] The Group is aware of the following beneficiaries who have an interest in three percent or more of EVRAZ plc's share capital (in each case, except for Gennady Kozovoy, held indirectly).*
*[2] The number of shares as per TR-1 Form: Notification of major interest in shares dated 10 May 2017. Includes pro-rata shareholding held via Lanebrook and additional shares held outside Lanebrook.*
*[3] The number of shares as per PDMRs dealing notification dated 05 September 2017.*
*[4] The number of shares is as per TR-1 Form: Notification of major interest in shares dated 6 February 2013. For Mr Kozovoy, includes shares held directly.*

### GEOGRAPHIC DISPERSION (INSTITUTIONAL SHAREHOLDERS), %

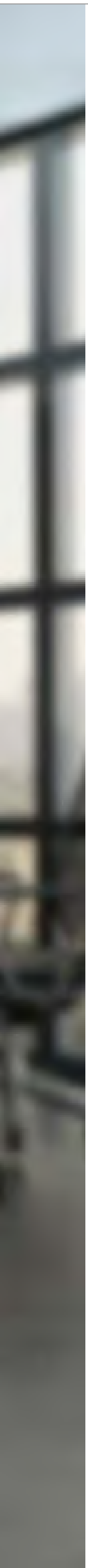


| | |
|---|---|
| United Kingdom | 45 |
| North America | 27 |
| Russia | 21 |
| Europe (excl. United Kingdom, Russia) | 7 |

For more information, see **Additional information section** on page 266

# Strategic report

# Chairman's introduction



**Dear shareholder,**

EVRAZ celebrated its 25th anniversary of operations in 2017, a year in which the Group delivered a robust performance. This was due to a combination of factors, which included improving market conditions and internal measures to make our company even stronger. With this in mind, it is my great pleasure to present EVRAZ' 2017 annual report.

In 2017, many of the trends seen in the previous year continued, and even strengthened, including solid growth on the steel and bulk commodities markets. This was spurred by rising demand in major economies and significant capacity optimisations in China, which led to higher utilisation rates. These trends triggered a clear upward movement in steel, coal and iron ore prices, buoying margins worldwide and fuelling investors' confidence in the sector.

## Safety

Ensuring zero injuries and fatalities in the workplace has always been and remains of paramount importance for EVRAZ' executive management.

Sadly, despite every effort of the management, ten people lost their lives in 2017. Members of the Health, Safety and Environment Committee have worked closely with operational management to understand and address the root causes of these tragic events.

As in previous years, we have met with the management of each of the operations that experienced fatalities last year to discuss the incidents, and to ensure that appropriate lessons learned have been identified and shared throughout the organisation to prevent recurrence. The Board, and particularly its Health, Safety and Environment Committee under the chairmanship of Karl Gruber, has been engaging closely with chief executive Alexander Frolov and his management team to confront this challenge.

## Governance

The Board continues to ensure that the Group operates in line with global best practice and that the Board complies with the guidelines laid out in the UK Corporate Governance Code. In 2017, an externally conducted evaluation of Board performance was undertaken, which concluded that the Board's structure and processes were appropriate for the Group. Certain minor improvements were suggested and will be implemented. See page 116.

The Board continues to consider the business' long-term development and has a progressive policy to renew major production facilities where appropriate. As part of this process, during the year, the Board reviewed all the Group's assets, along with the most appropriate technological solution for each site. This enabled the Board to assess the level of capital investment needed in the medium to long term, and to estimate the potential returns that could be generated from that investment.

**Our strong performance in 2017 was testimony to the hard work and passion of EVRAZ' people.**

During 2017, the Board considered in detail the disposal of Evraz Nakhodka Trade Sea Port, located on Russia's Pacific coast. In accordance with the requirements of the Relationship Agreement in place between the Company and Lanebrook Ltd, outlined on page 139 and in compliance with the Listing Rules, the sale to a wholly-owned subsidiary of Lanebrook Limited was deemed a related-party transaction and duly approved at a shareholders' meeting at which Lanebrook did not vote. See page 114.

## Our people

Our strong performance in 2017 was testimony to the hard work and passion of EVRAZ' people.

The Board believes that the business' future growth lies in the development of its people. With this in mind, it has reviewed succession planning to ensure corporate strategy execution, and is focused on the need to look deeper into the Group for future leaders.

## Dividends

The Board recognises the importance of cash returns to shareholders.

An interim dividend of US$0.30 per share, totalling US$429.6 million, was declared in August 2017, marking a return to dividends. This decision followed a comprehensive review of EVRAZ' financial situation, which indicated that the Group is well placed to meet its current and future financial requirements. Other factors considered included the solid results for the first half of 2017 and the positive outlook for the full year.

The strength of the underlying cash flow generation and continuing success with deleveraging have allowed the Company to announce a formal dividend policy.

Going forward, the Company aims to declare dividends of a minimum amount of US$300 million per annum to be paid in semi-annual instalments of minimum 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 our 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 our existing capital allocation policy, no dividends will be paid out if Net Debt/EBITDA is above 3.0x.

Given the improving performance throughout 2017, EVRAZ has announced a second interim dividend. On 28 February 2018, the Board of Directors voted to disburse a total of US$429.6 million, or US$0.30 per share. The record date is 9 March 2018 and payment date is 29 March 2018. The move underscores the solid results delivered and free cash flow generated, which allowed the Group to spend US$836 million on reducing net debt as well as pay dividends. By the year-end, the Net Debt/EBITDA ratio had decreased to 1.5x.

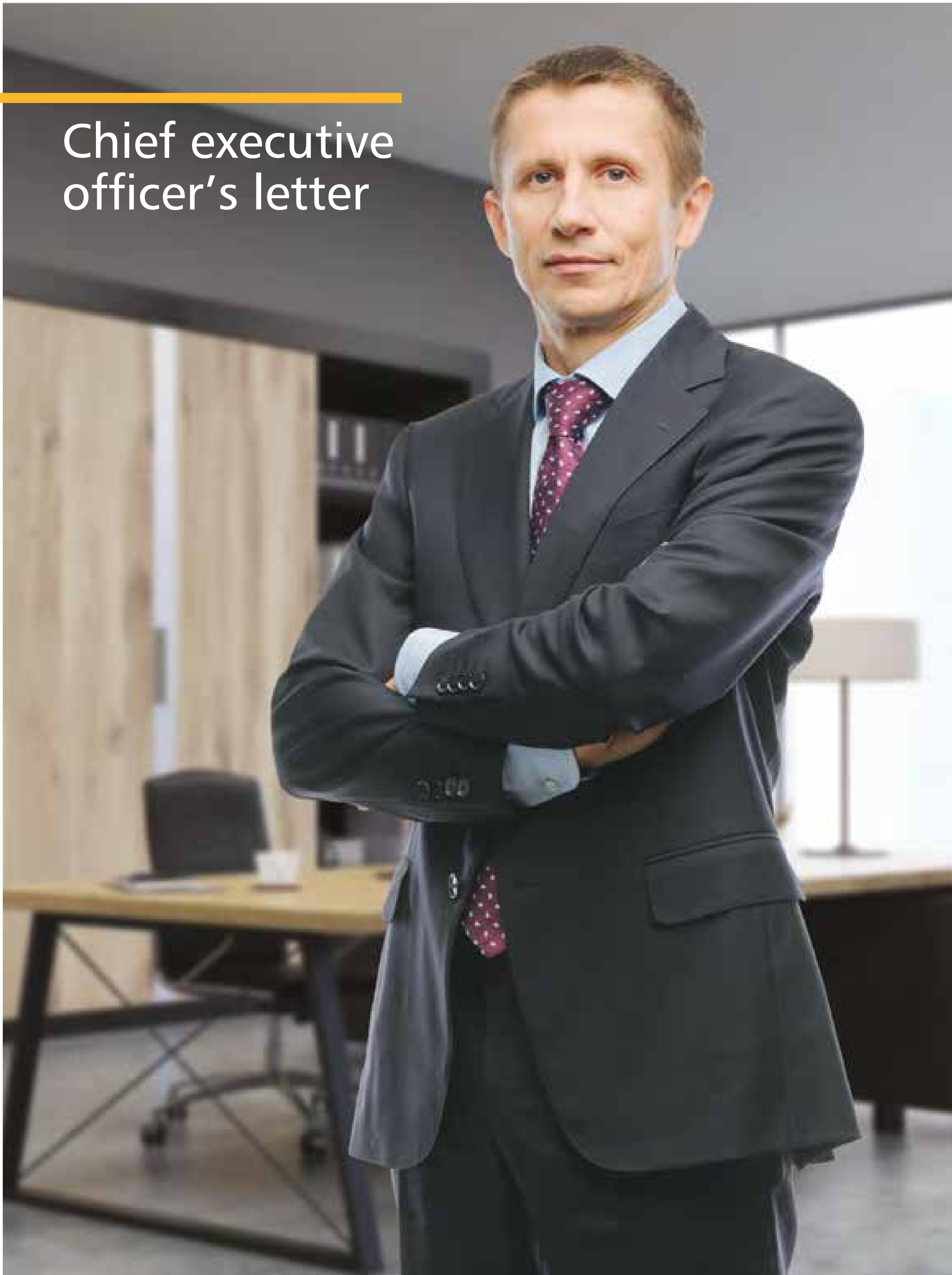
## Outlook

Looking to 2018, we are optimistic about our opportunities to further grow the business. While the global steel and mining industries will continue to be volatile, we have a clear view of the future and possess the right assets, strategy and people to continue to deliver on our strategic goals.

I am tremendously proud of EVRAZ' progress in 2017 and look forward to furthering the Group's journey as chairman of its Board. Thank you for your support.

**Alexander Abramov**
Chairman of the Board, EVRAZ plc

# Chief executive officer's letter



**EVRAZ benefited from an upswing on the global markets, as well as from ongoing strategic initiatives on cost-cutting and product development. These factors helped to generate strong EBITDA of US$2,624 million in 2017.**

**Dear shareholder,**

Last year was a turning point for both EVRAZ and global steel and raw material markets. The Group navigated a challenging period due to its clear strategic vision, bringing it to a new stage of sustainable and robust long-term development.

EVRAZ benefited from an upswing on the global markets, as well as from ongoing strategic initiatives on cost-cutting and product development. These factors helped to generate strong EBITDA of US$2,624 million in 2017. The Group's business model also attained a fundamentally new level of sustainability as the net debt/EBITDA ratio reached 1.5x.

Safety is EVRAZ' overriding priority. In 2017, the Group's lost-time injury frequency ratio fell to 1.90, from 2.36 in 2016, mainly following the improvements made and procedures adopted in recent years. Environmental protection is also an important part of our long-term sustainable development, and we implemented several projects to reduce our ecological footprint in 2017.

EVRAZ believes that expanding and diversifying its product portfolio is the foundation of robust development. To strengthen our positions, we have set ambitious targets in all core segments.

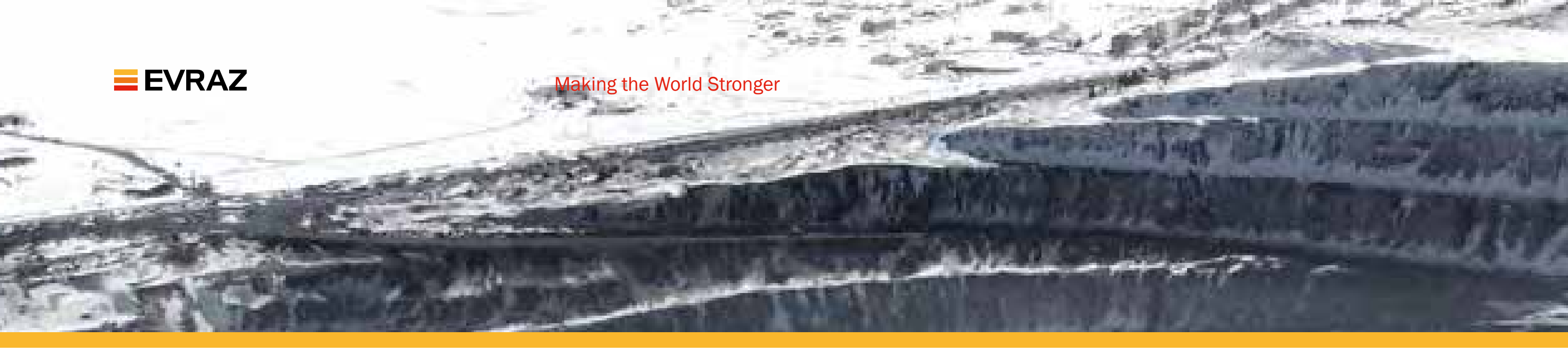
In the Steel segment, we are aiming to improve our product mix by increasing the share of finished products and to spur domestic demand by promoting steel construction. In the Coal segment, we are striving to expand volumes and reach full self-sufficiency in all coking coal grades by developing new projects, especially in the low- and mid-volatility coal grades. In the Steel, North America segment, the target is to strengthen our leadership positions in energy pipe and rail markets in North America by developing the product mix. In 2017, total sales volumes rose by 1.2% in the Steel, 4.6% in the Coal and 12.7% in the Steel, North America segments.

The Group plans to continue improving its cost base via a combination of 'top-down' and 'bottom-up' approaches to generating initiatives. Our 'employee-sourced' approach alone has identified a standalone potential annual effect of US$144 million, facilitated by EVRAZ Business System transformations. We expect to generate an even greater effect, as EVRAZ Business System transformations are implemented in 100% of our production shops. Overall in 2017, we delivered an EBITDA effect of US$267 million from our customer-focus and cost-cutting initiatives. We believe that these improvement processes are vital for our long-term competitiveness.

The Group's CAPEX strategy continues to concentrate on prudent investments. In 2017, our capital expenditures totalled US$603 million, of which US$236 million went on development projects and US$367 million on maintenance.

More than 50% of our development CAPEX was spent on constructing the blast furnace no.7 at EVRAZ NTMK and around 25% went towards various projects at EVRAZ North America. In 2018, we expect CAPEX to be around US$650 million, which we believe will provide sufficient resources for the strategic investments currently under consideration.

See more



**The Steel segment remains the core of EVRAZ' business model, allowing it to maintain top positions in the global rail and regional construction steel markets.**

EVRAZ has disposed of several non-core and less efficient assets, such as EVRAZ NMTP, Evraz Sukha Balka and Evraz Yuzhkoks in 2017, with the aim of focusing the business model and making it more consistent.

The Group delivered strong financial results and met its deleveraging targets in 2017. This allowed us to disburse US$429.6 million in interim dividends. EVRAZ also received a 'BB' credit rating from S&P in 2017. Combined with the reduction in total debt, this should positively influence interest payments going forward.

Looking ahead, EVRAZ' goal is to maintain healthy net leverage and keep net debt in the range of US$3–4 billion. Doing so would enable us to hold leading positions in terms of total returns to shareholders and to resume regular dividends going forward.

## Steel segment

The Steel segment remains the core of EVRAZ' business model, allowing it to maintain top positions in the global rail and regional construction steel markets. In 2017, the segment's EBITDA reached US$1,483 million, driven by the strong business model, favourable markets, synergies with the Coal division, and ongoing programme to improve efficiency.

One of the Steel segment's key strategic priorities is increasing the share of finished steel products. In 2017, we introduced successful initiatives to stimulate the demand for hot-rolled beams by substituting welded products, as well as promoting the use of steel in construction. This helped to boost the demand for H-beams by 6% in Russia.

Capital investment in the Steel segment totalled US$358 million for the period. We finalised the construction works for US$196 million project to build the blast furnace no. 7 at EVRAZ NTMK. This will allow us to conduct capital repairs on the blast furnace no. 6 without reducing pig iron production. We are also finalising EVRAZ NTMK's new 134 ktpa grinding ball mill, which we began building in 2016 and expect to launch in mid-2018.

Looking forward, we are considering projects to increase the share of finished steel in our portfolio, support iron ore mining volumes and maintain our current facilities to minimise risks. Next year, we are targeting 4.8 million tonnes of finished steel products output at our Russian plants, mostly in line with last years' figures.

The segment's strong financial performance in 2017 was also spurred by a 77% year-on-year surge in vanadium prices. With annual sales volumes of 15,672 mtV of finished vanadium products and a global market share of c.20%, our vanadium business generated additional US$200 million in revenues from ferrovanadium and chemicals last year.

## Coal segment

The Coal segment is EVRAZ' fastest-growing business. In 2017, coking coal production rose by 4.7% year-on-year to 23.3 million tonnes, securing the Group's leading positions on the Russian and global coking coal markets. The segment's EBITDA nearly doubled last year to US$1,226 million.

These positive results were underpinned by favourable market conditions amid a shortage of seaborne coking coal supplies. Prices climbed by 56% to an annual average of US$101 per tonne on an FCA basis.

In addition to the supportive external environment, the Group's strategic decisions also facilitated such a strong performance. This includes the launch of a new premium low-volatile coking coal open pit at Raspadskaya-Koksovaya mine with a capacity of more that 1 million tonnes per year. This increased the level of vertical integration in the Steel and Coal segments, bringing our self-sufficiency in coal to 50% in 2017. In addition, the Coal segment launched several efficiency improvement projects at Raspadskaya, aimed at improving the washing yield.

In 2018, EVRAZ aims to strengthen the Coal segment's positions by increasing mining volumes at existing operations to more than 24 million tonnes and considering brownfield or greenfield expansion options, as well as by seeking prudent domestic acquisitions.





The coking coal concentrate rouble cash cost is expected to improve by 2% next year.

The Group remains committed to improving safe working conditions at all the Coal segment's mines to minimise the probability of an accident occurring.

## Steel, North America segment

In 2017, EVRAZ North America delivered a better financial performance year-on-year, driven by the investment projects that it has implemented, as well as the recovery of oil prices and drilling activity in the US and Canada. The segment generated positive EBITDA of US$58 million, up 107% year-on-year.

This performance was supported by a rebound in the OCTG market, which drove sales volumes to 333 kt and a market share of 28% in Western Canada.

Other enhancements related to the North American rail market, where the Group sold 366 kt of rails and increased its market share to 34%.

“

**The Coal segment is EVRAZ' fastest-growing business. In 2017, coking coal production rose by 4.7% y-o-y to 23.3 million tonnes, securing the Group a leading position on the Russian and global coking coal markets.**

Last year, EVRAZ North America finalised two large investment projects in Regina, Canada, which helped to gain new capabilities to produce new products aimed at growing segments of large-diameter pipe market. These projects are already generating additional demand from clients and we can fully leverage this product development in 2018. We are also initiating two new investment projects in the US and Canada aimed at improving our OCTG product mix and strengthen cost position: heat treat capacities at the Red Deer ERW mill and threading at the Pueblo seamless pipe mill. We currently estimate total CAPEX for these projects at US$50 million.

In 2018, we forecast rolled steel production in North America to exceed 2 million tonnes, up c.10% year-on-year.

## Outlook for 2018

Regarding 2018, we expect demand to grow further on both the Russian and North American steel markets, with prices stabilising at relatively high levels.

After reaching our net debt target in 2017, we have approved a new dividend policy for the benefit of our shareholders. This policy is based upon a level of regular dividends, with the potential for additional distributions if the long term growth prospects of the business and our commitment to invest in our operations and maintain a strong capital base permit.

As we progress in 2018, we remain committed to our vision and believe that our pipeline of investment projects and operational efforts, combined with favourable market conditions will enable us to generate strong financial results and benefit all our stakeholders.

**Alexander Frolov**
Chief Executive Officer

# EVRAZ' business model

## Our vision

**EVRAZ is a global steel and mining company, the leading producer of infrastructure steel products with low-cost production along the value chain.**

## Global market trends

**In 2017, global steel and raw materials markets experienced a turnaround. Prices were mainly driven by the efficient steelmaking capacity optimisation programme in China, supply disruptions in the coal industry, and growing demand for steel products in all regions across the globe.**

For more information, see page 24.

## Success factors

**As part of its leadership drive, EVRAZ is implementing its strategy based on five key success factors.**

- **Health, safety and environment**
- **Human capital**
- **Customer focus**
- **Asset development**
- **EVRAZ business system**

## Strategic priorities

### Development of product portfolio and customer base

For more information, see page 26.

### Retention of low-cost position

For more information, see page 27.

### Prudent CAPEX strategy

For more information, see page 28.

### Regular dividends and proactive debt management

For more information, see page 29.

**EVRAZ' strategic priorities reflect current focus areas that are driven by market conditions and business fundamentals.**

**EFFICIENCY IMPROVEMENT PROGRAMME EFFECT IN 2017**

**c. US$ 267 million**

Include:

**104** **163**

- Customer focus initiatives, US$ million
- Cost-cutting initiatives, US$ million

See p. 52

Construction of the Blast Furnance #7 at EVRAZ NTMK

See p. 74

Regina steelmaking expansion and construction of the LDP mill

**NET DEBT/EBITDA (AS OF 31 DECEMBER 2017)**

**1.5x**

**DIVIDENDS PAID IN 2017**

**c. US$ 430 million**

**EVRAZ' business model has proven its efficiency during the ups and downs of the recent commodity cycle. We have now entered a period of stable development, ensured by our clear strategic vision and strong financial position.**

**Alexander Frolov**
Chief Executive Officer

## Business segments

**Operational model** is on the following page

### Steel

EVRAZ' Steel segment uses locally sourced raw materials to produce steel products in the CIS, which it sells for domestic infrastructure and construction projects while taking a flexible approach to exports.

For more information, see page 46.

### Coal

EVRAZ' Coal segment provides raw materials for the Group's steel mills, supplies coking coal to major domestic coke and steel producers, and exports its products to foreign customers.

For more information, see page 60.

### Steel, NA

The Steel, North America segment focuses on the premium Western US and Canada markets, offering high value added infrastructural, rail and LD/OCTG pipe steel products.

For more information, see page 70.

## Competitive advantages

**EVRAZ uses the synergies derived from its competitive advantages to ensure that its overall operations are able to generate, sustain and capture value over the long-term.**

For more information, see pages 26–27.

### Leader in infrastructure steel products

A premium portfolio of railway, construction and tubular products with firm footprint in Russian, North American and global markets.

### Strong position in coking coal market

The largest coking coal producer in Russia with an attractive portfolio of hard and semi-hard coking coal grades.

### Vertically integrated low-cost operations

A sound base of steel and coal assets in the first quartile of the global cost curve.

## The value we create

**Shareholders**
EVRAZ strives to act in shareholders' best interest by building an experienced management team and implementing corporate governance best practices.

**Employees**
EVRAZ is among the most sought-after employers in its regions of operation partly due to its staff development programmes and best-in-class working conditions.

**Customers**
EVRAZ generates value for its global clientele by prioritising value-added products, offering better shipping terms and running a client-oriented business model.

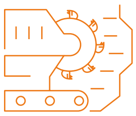
**Suppliers and business partners**
EVRAZ honours its position as a vital purchaser of auxiliary materials by fostering the advancement of its customers' industries and running fair, transparent tenders.

**Local communities**
EVRAZ believes that conducting its business in a sustainable manner helps to promote regional prosperity where it operates and strives to create healthier, happier local communities by sponsoring social and economic development programmes.

**Government**
EVRAZ is one of Russia's largest taxpayers and employers, and plays a valuable role for the state by providing construction and railway products for the development of infrastructure.

# Operational model

## INPUT



### Proved and probable reserves

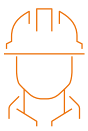
**10.0**
bln t of iron ore

**1.9**
bln t of coking coal

### Self-coverage

**81%**
in iron ore

**184%**
in coking coal



### Number of employees

(as of 31.12.2017)

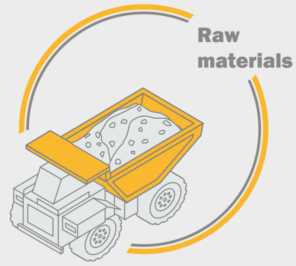
**49,123**
in Steel segment

**13,402**
in Coal segment

**3,578**
in Steel, NA segment

## OPERATIONS

### STEEL SEGMENT



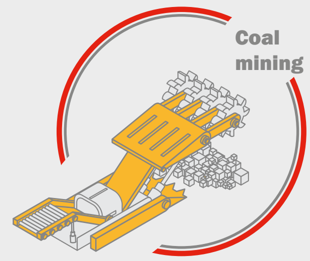


| | |
|---|---|
| Iron ore products consumption | 19,047 kt |
| *Internal consumption* | *13,198 kt* |
| *3rd parties' iron ore products purchases* | *5,849 kt* |
| 3rd parties scrap purchases | 1,668 kt |
| Coking coal products consumption | 9,668 kt |
| *Coal segment coal products* | *5,778 kt* |
| *3rd parties raw coal* | *1,622 kt* |
| *3rd parties concentrate* | *2,268 kt* |

| | |
|---|---|
| Pig iron production | 11,320 kt |
| Crude steel production | 12,285 kt |
| Vanadium slag production | 18,636 mtV |

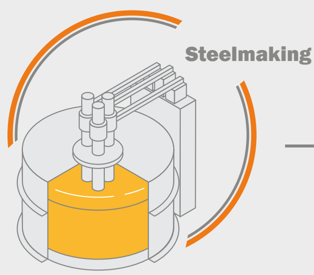
### COAL SEGMENT

EVRAZ' unique combination of reserves, operations, product quality and clients make its Coal segment a crucial pillar of the business model. The synergy between the steelmaking and coal operations, combined with a broad export client base, provides the opportunity for further development of the coal business.




| | |
|---|---|
| Total raw coking coal mined | 23,306 kt |
| *Sales to Steel segment* | *1,160 kt* |

### STEEL, NORTH AMERICA SEGMENT


| | |
|---|---|
| 3rd parties scrap puchases | 1,151 kt |
| Slab purchases[1] | 543 kt |

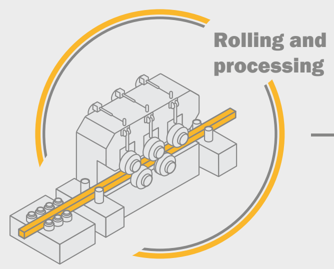
| | |
|---|---|
| Crude steel production | 1,748 kt |

[1] *Including 539 kt from Steel segment and 4 kt from 3rd parties.*



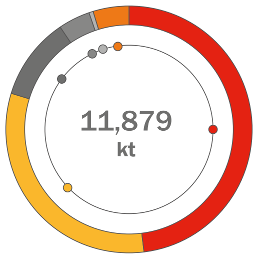
## SALES TO 3RD PARTIES

## EBITDA




| | |
|---|---|
| Steel products production | 11,263 kt |
| Vanadium in final products (production) | 11,359 mtV |

**STEEL PRODUCTS,** kt



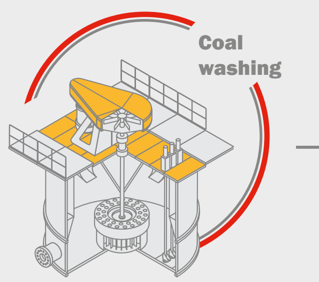

| | |
|---|---|
| Semi-finished products | 5,735 |
| Construction products | 3,750 |
| Railway products | 1,281 |
| Flat-rolled products | 511 |
| Tubular products | 51 |
| Other steel products | 551 |

| | |
|---|---|
| **IRON ORE PRODUCTS** | 2,932 kt |
| **VANADIUM PRODUCTS (SALEABLE)** | 15,672 mtV |

**The Steel segment's EBITDA** improved, reflecting higher steel and vanadium prices and the effects of cost-cutting initiatives implemented in 2017. This was partially offset by an increase in expenses in US dollar terms as a result of the rouble's strengthening impact on costs, as well as by rising prices for raw materials such as coal, iron ore and scrap.

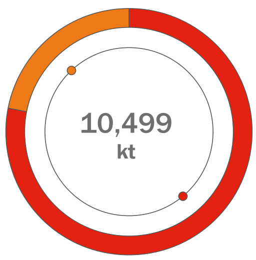
+47.7% yoy

**US$ 1,483 million**




| | |
|---|---|
| Total coking coal concentrate production | 13,060 kt |
| *Sales to Steel segment* | *4,618 kt* |

**COKING COAL PRODUCTS,** kt

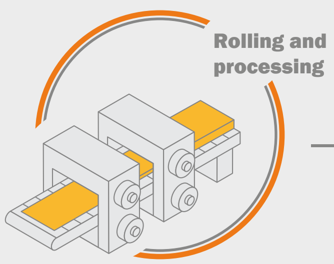



| | |
|---|---|
| Coking coal concentrate | 8,197 |
| Raw coal | 2,302 |

**The Coal segment's EBITDA** increased year-on-year largely driven by higher sales prices in line with global benchmarks.

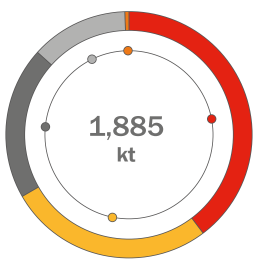
+90.4% yoy

**US$ 1,226 million**




| | |
|---|---|
| Steel products production | 1,851 kt |

**STEEL PRODUCTS,** kt




| | |
|---|---|
| Tubular products | 749 |
| Flat-rolled products | 512 |
| Railway products | 376 |
| Construction products | 241 |
| Semi-finished products | 7 |

**The Steel, North America segment's EBITDA** increased year-on-year, supported by greater revenues from sales of tubular, railway and flat-rolled products as well as higher expenses in prior year connected with suspension of production. This was partly offset by higher prices for scrap and purchased semi-finished products.

+107.1% yoy

**US$ 58 million**

# Success factors and KPIs

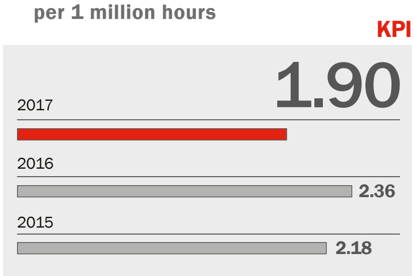
## HEALTH, SAFETY AND ENVIRONMENT

**Strategic goal**
One of EVRAZ' top priorities is protecting its employees' health and safety, as well as preserving the environment in its areas of operation. In 2017, the Group's strategic goal remains unchanged: achieving and maintaining a lost-time injury frequency rate (LTIFR) of below 1.0 by 2021. See page 84.

**Overview**
Implementing behaviour safety conversations and standard safe operating procedures are two major initiatives launched in 2017. During the year, the Group's employees conducted half a million safety conversations. We also made extra efforts to improve the quality of our safety reporting. On the ecological front, we completed three environmental projects and launched four new initiatives last year, mainly in the Urals and Siberia. See pages 89–92.

**Outlook**
In 2018, EVRAZ will begin to implement a contractor safety programme. We will also continue our ongoing efforts to improve the quality of safety conversations and standard safe operating procedures. Two major ecological issues that EVRAZ will proactively manage in 2018 are high sulphur content in iron ore and waste management.

**LTIFR (excluding fatalities),**
**per 1 million hours**

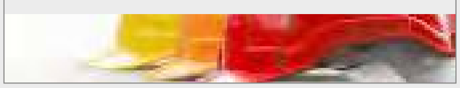


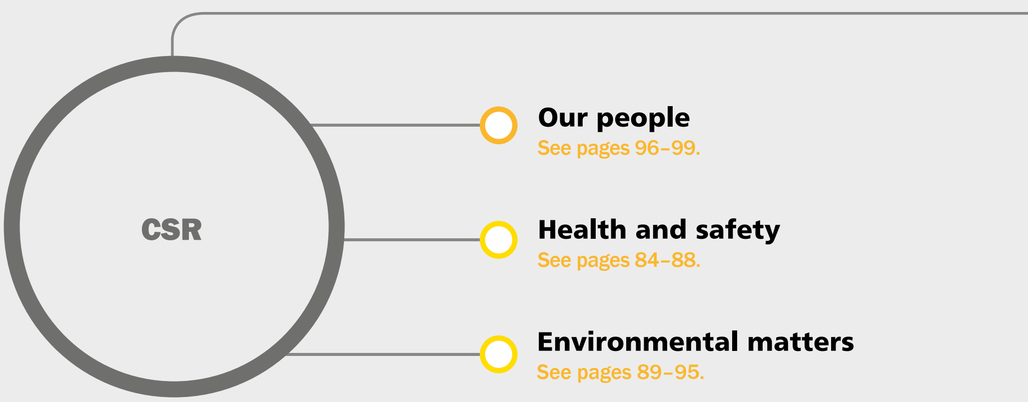

Despite the Group's efforts, there were ten fatalities (six employees and four contractors) at its sites in 2017, while the LTIFR dipped to 1.90, compared with 2.36 in 2016.

## CSR review

EVRAZ is a socially responsible company, addressing and monitoring all aspects of corporate social responsibility (CSR) that are relevant to the business.

The CSR section of the annual report **on pages 80–105** provides an overview of the Group's policies and performance in 2017 in key areas of CSR.





## HUMAN CAPITAL

**Strategic goal**

Engaged, motivated, loyal and competent employees are the key pillar of EVRAZ' business. We strive to continuously improve productivity and establish world-class HR practices. See page 96.

**Overview**

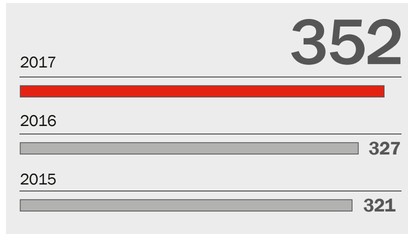
In 2017, the Group focused its human capital efforts on managing its employee engagement programme, developing the key competencies required for operations management, and centralising administrative functions in one shared service centre in Novokuznetsk, Siberia. Due to ongoing labour productivity improvements and asset divestments, total headcount decreased by more than 7,000 employees last year. During the year, we were also able to improve engagement by an average of 17% at key production sites. See page 98.

**Outlook**

In 2018, the Group will continue its efforts to improve employee engagement, develop a new team framework for specific complex projects at its plants, and implement changes in the staff motivation system.

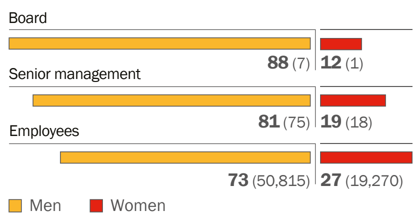
### LABOUR PRODUCTIVITY, STEEL, tonnes per person

KPI




The labour productivity per person for steel products grew by 7.6% to 352 tonnes per person in 2017, compared with 327 tonnes per person in 2016.

### DIVERSITY OF EMPLOYEES, SENIOR MANAGEMENT AND DIRECTORS, % (number of people)




EVRAZ sees diversity as a crucial business driver and strives to ensure that all employees' rights receive equal protection.

## Social and community matters

EVRAZ strives to adhere to international corporate social responsibility principles by making a meaningful contribution to local economies and supporting communities wherever it operates. Everywhere the Group operates, it seeks to build sustainable, positive partnerships with local governments and non-government organisations, as well as with business, media and other partners. See pages 100–103.

## Human rights

The Group's commitments are based on internationally recognised standards and respect for all human rights, including civil, political, economic, social and cultural rights. EVRAZ seeks to develop and maintain a work environment that is free from discrimination. Child labour, bonded labour, human trafficking and other forms of slavery (known as modern slavery) are strictly prohibited at all Group subsidiaries and by their suppliers. See page 82.

## Anti-corruption and anti-bribery

EVRAZ is fully committed to strict compliance with the Law of the Russian Federation no. 273 "On Preventing Corruption," the UK Bribery Act, the US Foreign Corrupt Practices Act and other relevant local legal equivalents. EVRAZ has implemented and further developed policies and procedures that define compliance managers' day-to-day efforts. See pages 104–105.

# Success factors and KPIs

## CUSTOMER FOCUS


### Strategic goals

- Increase the share of value-added products
- Strengthen the domestic market share in construction products in Siberia
- Secure a 70% market share in the Russian rails market

### Overview 2017

- Improved customer relations and realised debottlenecking initiatives at operations, leading to respective increases of 6% and 106% in the sales volumes of rails and wheels in Russia
- Enhanced demand for beams in Russia, helping to boost the total market volume by 6% from 771 thousand tonnes in 2016 to 819 thousand tonnes in 2017
- Developed new export geographies and product types, including selling rails to five new countries and developing nine new types of wheels
- Increased export shipments of rebars by 29 thousand tonnes and semi-fnished steel products by 20 thousand tonnes
- Achieved a combined EBITDA effect from these initiatives of US$68 million

### Outlook 2018

- Increase domestic and export sales of wheels by further debottlenecking efforts and certifying new types of products
- Retain the strategy for beam sales unchanged, driven primarily by engineering solutions for construction projects, shipment and flexible payment terms, as well as by lead-time improvements at EVRAZ NTMK
- Double export sales of rails by developing new profiles and reducing logistics costs


### Strategic goals

- Supply 100% of the coking coal needed at EVRAZ' steel plants in all coal grades
- Increase market shares in Russia and Ukraine
- Establish an export price formula based on hard coking coal benchmarks

### Overview 2017

- Expanded export sales volumes by shipping to new destinations (Indonesia, Europe) and applying a better price formula, driving total overseas sales up 28% year-on-year to 4.8 million tonnes
- Began mining a new premium low-vol HCC coal grade, helping sales to reach 0.3 million tonnes
- Increased internal coal use at EVRAZ' steel plants to 50%

### Outlook 2018

- Increase sales in Russia and Ukraine
- Seek new export supply routes through ports on the Baltic Sea
- Further develop overseas client base to accommodate the growth in volumes


### Strategic goals

- Strengthen EVRAZ' leading positions in energy pipe markets for LDP in North America and OCTG in Western Canada
- Achieve a 40% market share in the rail segment
- Maintain a leading position in the West Coast plate market

### Overview 2017

- Experienced a surge in OCTG volumes due to the premium product mix and increased drilling volumes, driving the market share for OCTG in Western Canada to 28% and increasing sales volumes by 306% to 333 thousand tonnes
- Expanded the rail product portfolio to benefit from the market upside, doubled the welding business with a new technology and sold 366 thousand tonnes of rails in North America
- Ramped up EVRAZ Regina's LDP mill, which produced its first thick-walled (1-inch) pipe in the reporting period
- Achieved a combined EBITDA effect from these initiatives of US$35 million

### Outlook 2018

- Upgrade the OCTG product portfolio through two projects: the heat treatment at EVRAZ Red Deer and the premium threading for seamless pipes at EVRAZ Pueblo
- Reach the targeted LDP volumes of 275 thousand tonnes at EVRAZ Regina due to participation in new pipeline projects
- Develop new high-value added products at EVRAZ Portland
- Asset development

KPI
For KPIs and detailed tracking, see page 26.

## ASSET DEVELOPMENT


**Strategic goal**

- Generate annual cost-reduction initiatives in the amount of 3% of the cost base at every business unit across the Steel segment

**Overview 2017**

- Implemented a programme to reduce pig iron production costs
- Finalised most of the construction work for EVRAZ NTMK's blast furnace no. 7
- Implemented an energy efficiency programme, generating an EBITDA effect of US$10 million
- Achieved a combined EBITDA effect from these initiatives of US$78 million

**Outlook 2018**

- Launch the blast furnace no. 7 and the new grinding ball mill at EVRAZ NTMK, as well as the boiler unit no. 9 at EVRAZ ZSMK
- Implement a programme to reduce steelmaking costs for BOF and EAF in the Urals and Siberia divisions
- Increase production volumes of finished steel and vanadium
- Perform capital repairs on EVRAZ NTMK's blast furnace no. 6


**Strategic goal**

- Generate annual cost-reduction initiatives in the amount of 3% of the cost base
- Remain in the first quartile of the global cost curve
- Reach a saleable annual product volume of 22 million tonnes

**Overview 2017**

- Improved degassing efficiency, tunnelling rates and operating time at longwall faces
- Launched open-pit mining at Raspadskaya-Koksovaya, producing 0.5 million tonnes of raw coal last year
- Launched commercial production at Mezhegeyugol, mining 0.9 million tonnes of raw coal last year
- Launched flotation at the third section of Raspadskaya's processing plant to increase concentrate output by 3%
- Achieved a combined EBITDA effect from these initiatives of US$73 million

**Outlook 2018**

- Increase coal mining volumes by 1 million tonnes through the ramp-up of operations at the Raspadskaya-Koksovaya open pit, the launch of the third longwall at the Raspadskaya mine and the introduction of additional equipment at the Raspadsky open pit
- Switch to low-ash seams and improve washing yields by 3–4%
- Use new flotation equipment at the first and second sections of Raspadskaya's processing plant


**Strategic goal**

- Become the lowest-cost producer of rails, LDP, OCTG and plate products when delivered to the Western US and Canada

**Overview 2017**

- Finalised EVRAZ Regina's steelmaking upgrade project
- Reduced conversion costs at EVRAZ Portland by US$5/t
- Improved the rail production yield to 92%
- Achieved a combined EBITDA effect from these initiatives of US$12 million

**Outlook 2018**

- Realise the full-year savings at EVRAZ Regina due to the degasser working for the whole year
- Increase the production volumes for all product groups
- Focus on optimising electrode consumption and improving yields



KPI

For KPIs and detailed tracking, see page 27.

# Digital transformation

EVRAZ digital transformation strategically addresses customer focus and asset development success factors.


## VISION

EVRAZ' digital transformation vision is to constantly monitor best practices and success stories, and to plan implementations in the Group when technology matures to an adequate level and can drive productivity gains, cost reductions and safety improvements.

### Results in 2017

**19** projects were implemented

**16** projects are planned or being implemented

**11** projects are being considered

CUSTOMER FOCUS

ASSET DEVELOPMENT

## Key projects in 2017

### STEEL SEGMENT

#### Machine learning

**Optimise vanadium slag output in converter shop**

EVRAZ NTMK
Stage 1 completed in Q4 2017

Semi-product converter produces two commercial products, vanadium slag and steel semi-product. A computer-aided model developed using machine learning algorithms calculates optimal values for manufacturing process parameters (oxygen, coolant, additives) and recommends them for the converter operator to use.

**Implementation effect**

- Increased vanadium slag output
- Optimised oxygen and coolant use
- Improved technological process stability

#### Industrial analysis and big data

**Digital model of all steel production stages**

EVRAZ ZSMK
Duration: 2017 – 2018

**Project scope includes:**

- Integrated optimisation of material flows at each production stage from raw materials to semi-finished products
- Optimisation of production plans for each process stage
- Scenario comparison and sensitivity analysis for production and financial parameters

**Implementation effect**

Adequate model accuracy is reached for the first two phases (washing plant, sinter plant, coal preparation plant and coke plant).

### MINING ASSETS

#### Advanced analysis and scenario modelling

**Mine planning and scheduling**

EVRAZ KGOK
Duration: 2017 – 2018

An integrated geological suite enables mining professionals to:

- quantify and evaluate iron ore deposits;
- plan the efficient extraction of reserves;
- produce long-term and medium-term mining schedules that meet capacity and ore quality targets.

**Implementation effect**

- Higher and more stable Fe content
- Ore concentrate output increased by 2% year-on-year
- Ore consumption reduced by 1-2% year-on-year

#### Remotely-controlled operations

**Mine fleet management system**

Razrez Raspadskiy
Launched in 2017

The system makes it possible to manage Razrez Raspadskiy's mine fleet (dump trucks, excavators and bulldozers) and to monitor vehicle speed, dump truck loading and fuel consumption. The software helps the dispatcher to optimise the distribution of dump trucks among excavators and unloading points given current production plans.

**Implementation effect**

- Increased mine fleet productivity
- Reduced equipment downtime
- Reduced equipment wear and tear and fuel consumption

### SALES AND CORPORATE FUNCTIONS

#### Integrated e-commerce

**Online services for clients**

EVRAZ Trading Company
Launched in 2017

Online services are available for EVRAZ clients via a website optimised for PCs and mobile devices. An intuitive dashboard displays an overview of a client's operations, encompassing order management, financial statements, payments and shipments (including railway tracking).

**Implementation effect**

- Higher customer satisfaction and loyalty
- Labour costs generated by routine communications with a customer are reduced

#### Lean and paperless back office

**Robotic process automation**

EvrazHolding
Launched in 2017

Robotic process automation (RPA) is a technology that has emerged to simplify business process delivery and perform repetitive mundane tasks instead of office clerks. The pilot project executed for several back-office processes has proved the maturity of RPA software and its capability for the EVRAZ Shared Services Centre (ESCC).

**Conclusions derived from proof of concept**

- RPA is applicable for the majority (60%) of ESCC processes
- Roll-out roadmap is prepared: all ESSC processes can be robotised with 2-3 years

# Success factors and KPIs

## EVRAZ BUSINESS SYSTEM

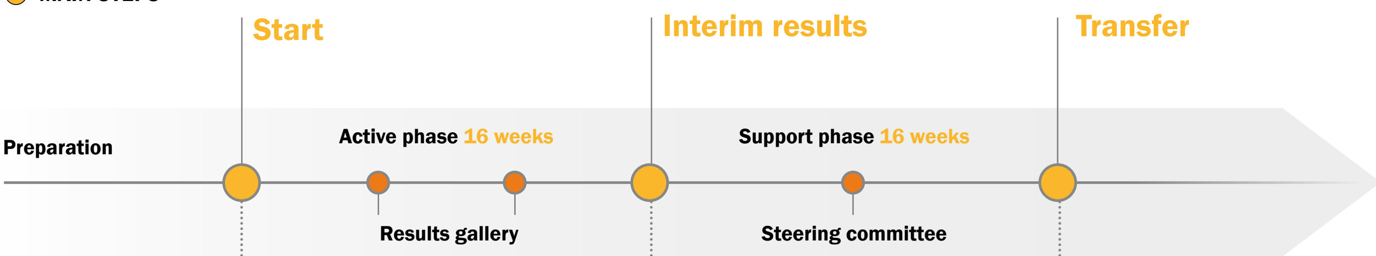
**Strategic goal**
The EVRAZ Business System (EBS) is a combined approach to the Group's operations. The key elements are setting targets, developing staff, improving processes, supporting management systems, fostering our corporate culture, and implementing necessary infrastructure improvements. The deployment of EBS is realised through a series of EBS-Transformations (EBS-T) with the aim to cover all main operations by the end of 2020. This approach is targeted to reach 100% employee engagement and help to generate initiatives with the effect of 3% from the cost base.

**Overview**
In 2017, EVRAZ executed several production-shop transformation projects in Siberia, which were focused on bottom-line costs reduction via EBS tools and were supported by full employee engagement. EBS teams were also formed last year to roll out EBS Transformation (EBS-T) to other divisions. Overall, we have identified a total potential economic effect of US$144 million from EBS initiatives.

**Outlook**
The key focus for 2018 will be on rolling out EBS transformations to other divisions, such as the Urals and Coal segments, using the special EBS teams that were formed in 2017, as well as on continuing the transformation process in Siberia. All told, the programme envisages completing up to 31 EBS transformations throughout these business units by the end of the year.

## EBS Transformation

**MAIN STEPS**




Create working groups, collect preliminary information, plan working steps.

Improve, set goals, develop activities, plan and implement. Department staff attend training, conduct improvement measures and form a plan for further site development.

Finish initiatives that have been started and document the result, fully transfer updated processes to production personnel.

All initiatives transferred to production personnel with support from EBS development team.

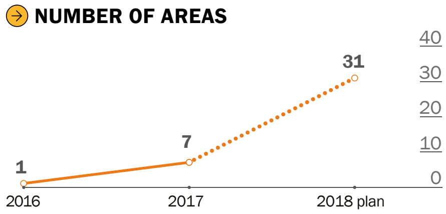
**KEY APPLIED TOOLS**

- **The idea factory** is a programme aimed at collecting ideas from staff. A technical council reviews the ideas every two weeks, staff receive a monetary award for each idea that is accepted, and the best ideas are entered into a quarterly contest for valuable prizes.
- **The problem-solving board** is a simple and accessible tool for gathering comments and problems from staff. It triggers a mechanism to quickly solve safety problems and improve working conditions.
- **The A3 thinking algorithm** is a problem-solving approach, applied by EBS-T teams.
- **The improvement cycle** is an analogue of rapid improvement event tool which helps to find solutions for previously unresolved problems using high level of interaction between employees.

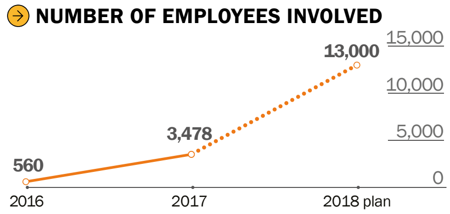
# Key developments and KPIs

EBS Transformation KPIs are used in areas involved in the EBS-T project. In 2016 and 2017, this included the EVRAZ ZSMK and Evrazruda, while in 2018, it will expand to the EVRAZ NTMK and the Raspadskaya Coal Company.

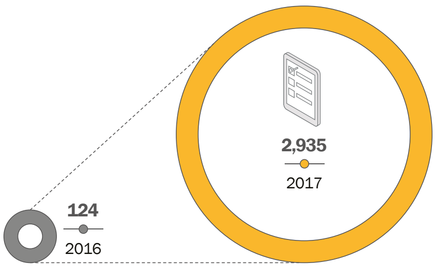
**NUMBER OF AREAS**




**NUMBER OF EMPLOYEES INVOLVED**




**NUMBER OF INITIATIVES (Idea factory)**




**EXAMPLES OF INITIATIVES GENERATED BY EMPLOYEES IN 2017 AND POTENTIAL EBITDA EFFECT,** US$ million

**Implementation of new sampling device**

+ US$ 2.5 million

**Usage of one railcar for various cargo**

+ US$ 0.5 million

**Mill set-up process improvement**

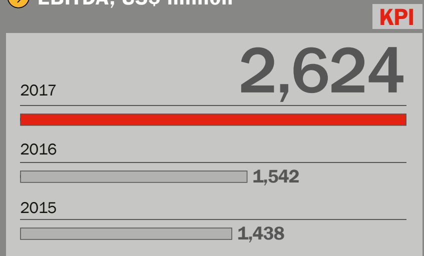
+ US$ 0.4 million

# 2017 FINANCIAL RESULTS

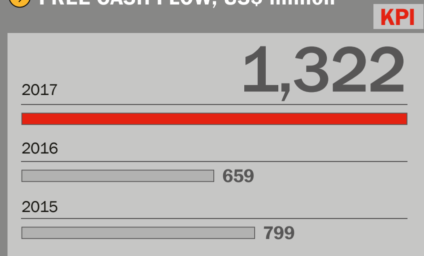
Last year's cost-cutting initiatives delivered the EBITDA effect of US$163 million. Combined with a US$104 million gain from customer-focus efforts, EVRAZ' total EBITDA effect from initiatives was US$267 million in 2017.

In 2017 EBITDA reached US$2,624 million, up 70.2% from US$1,542 million in 2016, boosting the EBITDA margin from 20.0% to 24.2% and increasing free cash flow to US$1,322 million.

**EBITDA, US$ million**




**FREE CASH FLOW, US$ million**

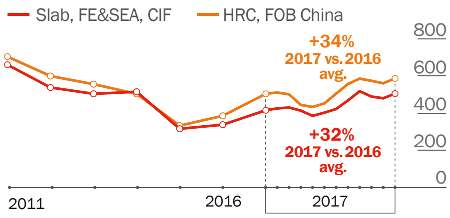


# Market Overview

## Global picture

In 2017, the positive trends seen in prices for steel and raw materials were supported by the ongoing supply optimisation, mainly in China, and by growing demand for steel and raw materials globally.

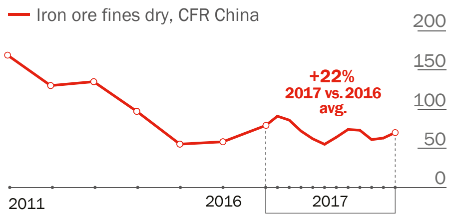
**STEEL PRICES,** US$ per tonne




In 2017, steel prices surged by 32% year-on-year to an average of US$446 per tonne, based on Slab CIF FE&SEA contracts. Prices peaked at US$430 per tonne in March, gradually retreated to a bottom of US$402 per tonne in June, and then quickly recovered to a new high of US$518 per tonne in September. Such substantial growth was mainly driven by Chinese steel capacity optimisations and strong domestic demand. It was also supported by positive consumption trends in other global steel consumption markets, such as Europe, North America and Asia, which were up by an average of 3% during the year.

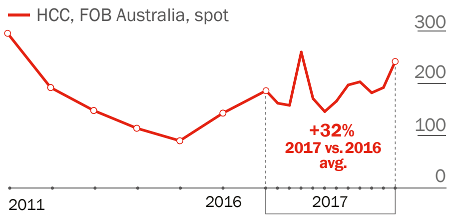
Steel sector optimisation in China presumed steel capacity cuts of 40 million tonnes in 2017, continuing the trend that the local government launched a year ago. Additional substantial capacity cuts of 120 million tonnes were related to shutdowns of induction furnaces, shipments from which were not previously reported in the official statistics. Meanwhile, Chinese steel demand continued to recover, with 730 million tonnes consumed during 2017, up 5% year-on-year due to strong property sales and stable infrastructure spending. Consequently, net Chinese steel export volumes fell by 29% to 71.7 million tonnes and the capacity utilisation rate surged by 6 percentage points to 76.9%. Chinese ecological regulations and shutdowns of inefficient production facilities have also elevated prices for products related to the steel industry, such as electrodes and refractory materials.

**IRON ORE PRICES,** US$ per tonne



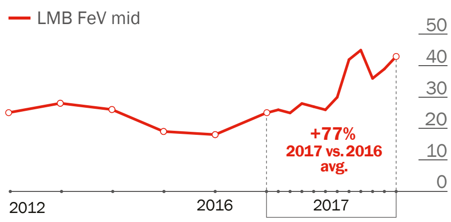

For the iron ore market, 2017 has been a period of high volatility. The 62% Fe CFR China price surged twice during the year, reaching US$91 per tonne in February and US$74 per tonne in August, pushing the average price up 22% year-on-year to US$71 per tonne. Local price peaks were driven by a sharp increase in iron ore demand after closures of induction furnaces in China and by overall positive consumption sentiment. The peaks were also supported by delays in launching investment projects caused by suppliers' value-over-volume strategy. Booming profitability at steel mills, where margins on billet reached US$177 per tonne in August, has supported demand for high-grade and direct charge iron ore, leading to a 5% climb in China's iron ore imports. A similar trend was seen in the seaborne pellet market, where the BF pellet premium reached US$45 per tonne in Q3 2017.

**COKING COAL PRICES,** US$ per tonne




The positive trend on the coking coal market continued in 2017, leading to an average price of US$189 per tonne for hard coking coal spot FOB Australia contracts, up 32% year-on-year. In H1 2017, the hard coking coal price peaked at US$260 per tonne in April then dipped back to US$146 per tonne in June. During H2 2017, prices remained within the borders of US$160–250 per tonne. The latter was due to supply disruptions caused by the ongoing optimisation programme in China's domestic steam and coking coal industry that started in 2016 with an aim to close 4,300 small and inefficient mines, in addition to a ban on new coal mine approvals. Another coal supply disruptor was bad weather conditions, including Cyclone Debbie, which curtailed 13 million tonnes of Australian coking coal shipments, or about 3% of global shipments last year. Supply disruptions were partially substituted by higher-cost shipments from North America and other non-traditional suppliers. Additionally, Chinese imports grew 20% year-on-year to 71 million tonnes in 2017. As a result, a market balance squeeze was seen among major coal grades, especially premium ones.

**VANADIUM PRICES,** US$ per kgV




In 2017, the LMB FeV price surged to US$33 per kgV, up 77% from US$18.5 per kgV in 2016. This was spurred primarily by the ban on vanadium slag imports in China and the closure of small producers in few provinces due to environmental checks. Another demand driver was China's announcement to revise rebar standards, which could introduce higher vanadium content for rebar products. These changes positively influenced global demand for the commodity and the supply response was limited due to the scarcity of vanadium production facilities.

# TRENDS IN EVRAZ' CORE MARKETS

### Steel

Russian construction steel markets recovered by 5% from the low levels of 2015-2016 due to favourable macroeconomic conditions, such as the 1.5% GDP growth and 21% rebound in oil prices. Another driver was substantial government expenditures on construction, including the ongoing modernisation of public transport systems (for example, US$3.1 billion was spent to develop Moscow's metro and suburban train systems), as well as infrastructure and residential construction programmes.

### Coal

Russian coking coal demand remained stable with concentrate consumption levels at 38 million tonnes, essentially flat year-on-year. The high-vol grades segment continued to be profitable, as the depletion of several large mines in Russia compensated for increased competition among these grades. Export shipments continued to grow due to favourable market conditions, rising by 3% year-on-year to 22 million tonnes.

### Steel, North America

In 2017, US steel demand rebounded by 6.7% year-on-year to 97 million tonnes due to positive trends in the manufacturing, machinery and energy industries. About 50% of the increase in apparent steel consumption has been captured by finished steel imports, which were up 3.2 million tonnes. The remaining half of the increased domestic demand has been met by higher domestic shipments.

## Long-term prospects

### Global urbanisation

***Urbanisation in developing countries, as well as continued development of advanced economies, remains the largest demand driver for steel and other commodities.***

According to United Nations data, an estimated 55% of the world's population lived in urban settlements in 2017. By 2030, urban areas are projected to house 60% of people globally. This rise will require significant investments in housing and infrastructure construction, which will lead to an increase in steel demand.

As a clear example, increasing urbanisation in China over the last 15 years has led to an upturn in steel consumption per capita from around 100 kilogrammes per capita in the beginning of 2000, to some 543 kilogrammes per capita in 2017, compared with 388 kilogrammes per capita in developed countries. Apart from organic growth, in cooperation with other countries, China can also add about 150 million tonnes to global steel demand by implementing its "belt and road" initiative, a long-term plan to develop infrastructure and rebuild ancient land and sea trading routes from China to Europe. Another country with strong steel demand growth potential is India, which in recent years has delivered steady economic growth and had steel consumption of only c. 65 kilogrammes per capita in 2015.

### Russian construction industry to regain growth

***Russia's construction industry is expected to grow at an annual average rate of 1.8%, reaching US$301 billion in 2021 due to the ongoing modernisation of public infrastructure, government construction programmes, and residential construction growth.***

Russia has extremely high potential in terms of steel usage intensity in construction, as less than 10% of its buildings are constructed using steel frames, compared with more than 70% in developed countries such as the UK and US. During the last two years, EVRAZ has been working to promote beam demand in Russia by collaborating with project institutions, as well as improving product availability to clients.

The ongoing modernisation of public infrastructure will be a key source of support for growth in construction activity. Under the railway development strategy for 2030, the government plans to lay 20,000 kilometres of track at a cost of US$62.5 billion. Other projects envisage building 78 new metro stations and 160 kilometres of new track, and renovating dilapidated airport infrastructure through an investment of US$3.4 billion by 2020.

Russia's construction industry has tremendous potential due to the current low level of residential property per capita and the extremely low mortgage activity when compared with developed countries. Russia has only 20-25 square metres of housing per capita, compared with 44 square metres per capita in the UK and 70 square metres per capita in the US. The government's focus on the development of affordable housing for middle- and low-income groups is expected to drive market growth. Moscow's renovation programme entails spending roughly US$58 billion on residential housing construction in the next five years. Additionally, declining lending interest rates will contribute even more to residential construction growth across the country.

### North America

***The upgrade of and significant investments into US and Canadian infrastructure will support demand for steel products in the region.***

The American Society of Civil Engineers says that the US needs massive investments in all essential infrastructure, from bridges and airports to dams and railways. The government's current investment programme views US infrastructure as an opportunity for accelerated economic growth, targeting spending US$1 trillion on new investments by private institutions over 10 years. That programme will provide transportation, water, telecommunications and energy infrastructure needed to enable new economic development in the country.

Infrastructure construction is very steel-intensive, which should support the demand for major steel products for several years, especially in structural steel, rails, tubes and plates.

# Strategic priorities

## Development of product portfolio and customer base

Premium infrastructure steel products, a wide range of coking coal grades, and modernised large-scale production sites make EVRAZ the leader in the markets where it operates.

### PRODUCTION IN KEY MARKETS 2017, mt

**Rails**

| Russia | |
|---|---|
| EVRAZ | 0.9 |
| Peer 1 | 0.4 |

| North America | |
|---|---|
| EVRAZ | 0.4 |
| Peer 1 | 0.2 |
| Peer 2 | 0.1 |

**Long steel**

| Russia | |
|---|---|
| EVRAZ | 3.8 |
| Peer 1 | 2.5 |
| Peer 2 | 2.2 |
| Peer 3 | 1.8 |
| Peer 4 | 1.7 |

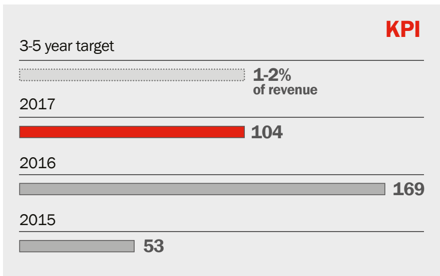
**Raw coking coal**

| Russia | |
|---|---|
| EVRAZ | 22.6 |
| Peer 1 | 14.4 |
| Peer 2 | 9.2 |
| Peer 3 | 9.0 |
| Peer 4 | 6.2 |

**LDP**

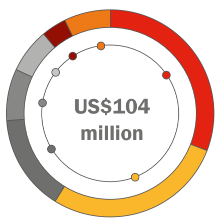
| North America | |
|---|---|
| EVRAZ | 0.2 |
| Avg. peer | 0.1 |

### CUSTOMER FOCUS PROGRAMME[1], US$ million




In 2017, our customer focus programme brought an additional EBITDA effect of US$104 million.

### BREAKDOWN OF CUSTOMER FOCUS PROGRAMME EFFECT IN 2017, %

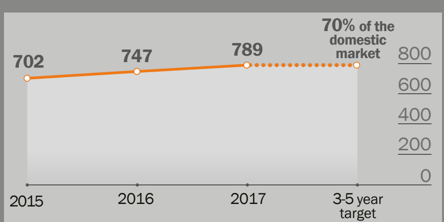



| | |
|---|---|
| Tubular | 31 |
| Wheels | 28 |
| Structurals | 15 |
| Rail | 8 |
| Beam | 7 |
| NPD | 4 |
| Other | 7 |

Most of the efforts were aimed at expanding the sales of wheels, structural products, beams and rail products in Russia, as well as OCTG products in North America.

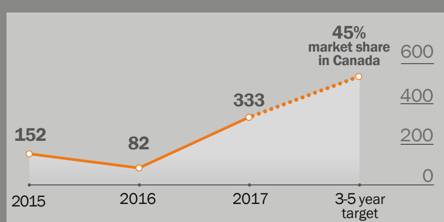
## KEY DRIVERS

### RAILS SALES VOLUMES IN RUSSIA, kt



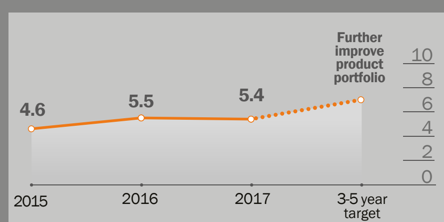

Sales of rails on the Russian market remain stable throughout the cycle. With its key client, Russian Railways, EVRAZ aims to secure a leading market share despite the increase in domestic competition.

### OCTG SALES IN NORTH AMERICA, kt




In 2017, EVRAZ' OCTG sales rose four-fold year-on-year given the strong drilling activity and a leading market position in Canada.

### HARD COKING COAL SALES, mt



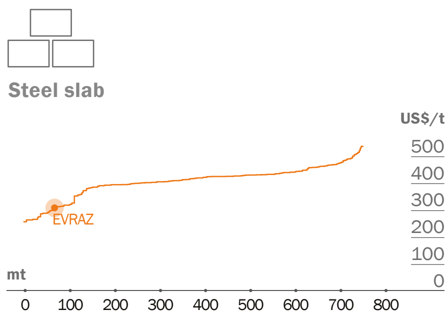

EVRAZ has solid positions in key HCC grades, which are being developed through the brownfield expansion of current operations and potential investments in new projects.

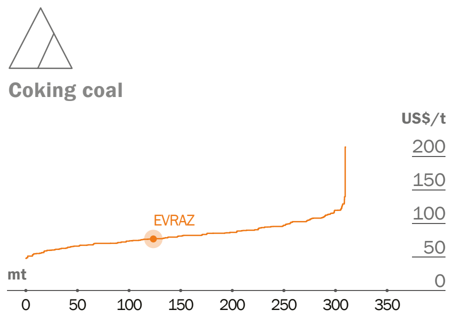
[1] Please see page 268 for details.

## Retention of low-cost position

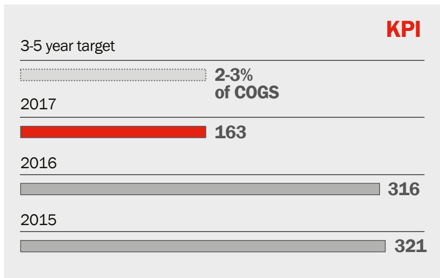
EVRAZ' assets are in the first quartile of global cost curves in semi-finished steel products and coking coal concentrate.

### GLOBAL COST CURVE, FOB IN 2017, US$/t



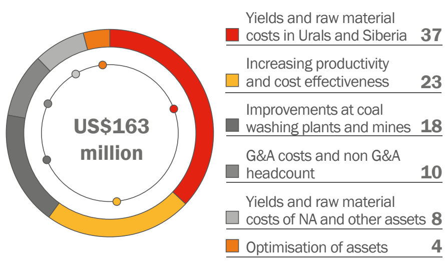




### COST-CUTTING PROGRAMME[1], US$ million




The average annual EBITDA effect from cost-cutting initiatives totalled US$163 million. The plan is to maintain the current pace of improvement with an annual cost-cutting programme at the level of at least 2-3% of the cost base.

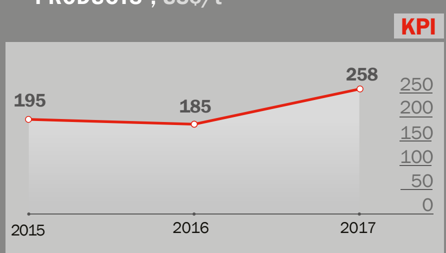
### BREAKDOWN OF COST-CUTTING PROGRAMME EFFECT IN 2017, %




Cost savings in 2017 were focused on improving operations, optimising the usage of materials and services, as well as reducing headcount to improve productivity.

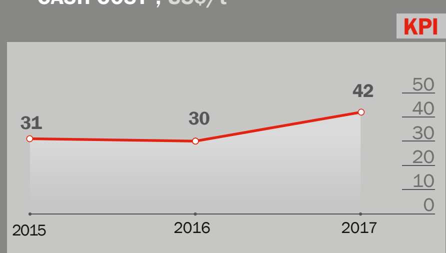
## KEY DRIVERS

### CASH COST OF SEMI-FINISHED PRODUCTS[1], US$/t



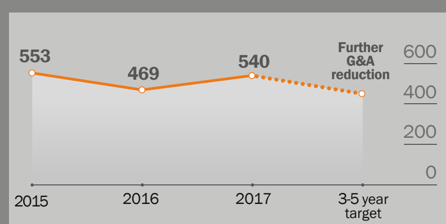

Cash costs of semi-finished products totalled US$258 per tonne in 2017, mainly due to the surge in raw materials prices and the strengthening of the rouble.

### COKING COAL CONCENTRATE CASH COST[1], US$/t




The Coal segment's cash cost was US$42 per tonne in 2017, mainly due to the currency factor and geological conditions.

### G&A EXPENSES, US$ million




G&A expenses were up by 15% in dollar terms in 2017. This was mainly due to the strengthening rouble's effect on costs. Reducing administrative costs remains a priority and EVRAZ was able to achieve substantial synergies in the divisions during the year. Further administrative cost reduction and simplification of the management structure are in the pipeline for the next couple years.

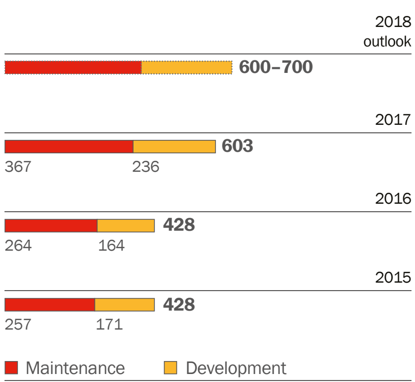
[1] Please see page 268 for details.

# Strategic priorities

## Prudent CAPEX strategy

The Group's investment projects are aimed at further developing its competitive advantages, while maintenance investments are focused on supporting the sustainability of EVRAZ' operations.

**ANNUAL CAPEX BREAKDOWN BY MAINTENANCE AND DEVELOPMENT,** US$ million




## REALISED INVESTMENT PROJECTS

### Construction of an LDP mill at Regina

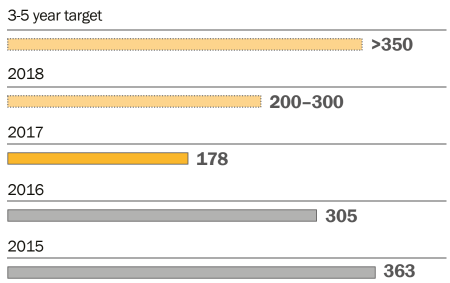
**Launched in 2017**

- Produce 1 inch X70 pipe
- Reduce conversion cost by US$14 million annually
- Add 250 thousand tonnes of welding and 160 thousand tonnes of finishing capacity

**Total CAPEX**

US$ **74** million

**EVRAZ NORTH AMERICA LDP SALES,** kt




## ONGOING INVESTMENT PROJECTS

### Construction of the blast furnace no. 7 at EVRAZ NTMK

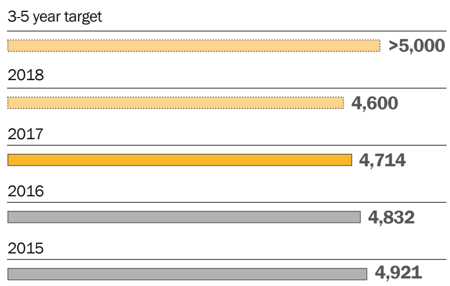
**Will be launched in 2018**

The new blast furnace no. 7 is slated to be launched in Q1 2018 with pig iron capacity of 2.5 mtpa to maintain stable volumes during the capital repair of blast furnace no. 6 in 2018-19. In 2018, pig iron production volumes could be lower due to the repairs, but they will reach more than 5 mtpa in the medium term.

**Total CAPEX**

US$ **196** million

**EVRAZ NTMK PIG IRON PRODUCTION,** kt




### Grinding ball mill construction at EVRAZ NTMK

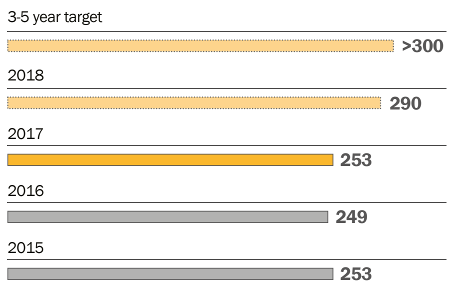
**Will be launched in 2018**

A new grinding ball mill with 134 ktpa capacity. EVRAZ grinding ball production is expected to increase to more than 300 ktpa.

**Total CAPEX**

US$ **19** million

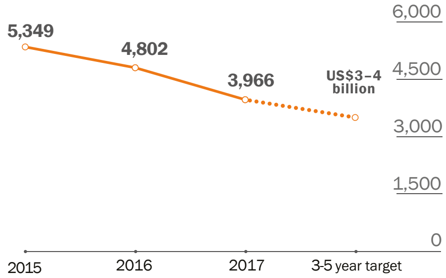
**EVRAZ GRINDING BALL SALES,** kt



# Regular dividends and proactive debt management

EVRAZ was consistent in its deleveraging strategy for the last three years and reached its target figures in 2017. Going forward the Group plans to keep a moderate net debt level and resume regular dividend payments depending on the financial results.

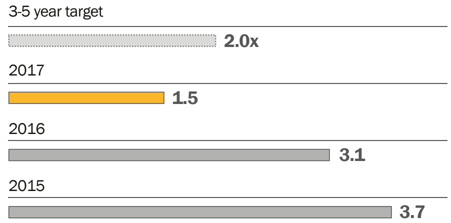
**NET DEBT, US$ million**



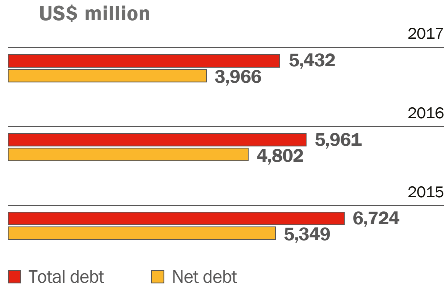

**DIVIDENDS AND SHARE BUYBACKS, US$ million**

| | 2015 | 2016 | 2017 |
|---|---|---|---|
| Dividends | 0 | 0 | 430 |
| Share buybacks | 336 | 0 | 0 |
| **Total** | **336** | **0** | **430** |

**NET DEBT/EBITDA**

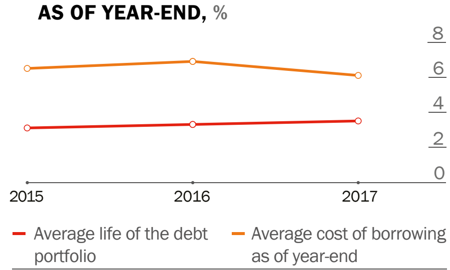



**TOTAL DEBT AND NET DEBT, US$ million**

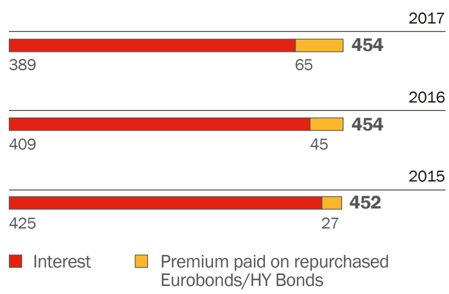



In 2017, the Group continued to focus on deleveraging and reduced its total debt by US$529 million through the repayment of maturities scheduled for current and closest years. Robust free cash flow of US$1,322 million allowed EVRAZ to significantly decrease its net debt to US$3,966 million. Together with improved EBITDA, this resulted in a net leverage ratio of 1.5 times. At the year-end, liquidity was strong with US$1,466 million in cash on hand.

**AVERAGE COST OF BORROWING AS OF YEAR-END, %**




**INTEREST PAYMENTS (including premium), US$ million**




During 2017, EVRAZ focused on reducing its debt service costs. The Group repriced and refinanced several credit facilities and issued new Eurobonds due in 2023 to fund a tender offer for notes with shorter maturities. These measures reduced the weighted average cost of the outstanding borrowings and extended the duration of the debt portfolio.

Cash spent on interest, net of interest income and interest gains from swaps, continued to decrease in the reporting period, driven by the overall reduction in debt and lower interest rates. In addition, to reduce interest expense, the Group prepaid US$953 million in Eurobonds and US$350 million in high-yield bonds, paying a premium of US$65 million over the par value of bonds in these transactions.

# Financial review

## Statement of operations

In its full-year financial results for 2017, EVRAZ reported an increase of 40.4% year-on-year in consolidated revenues, which were US$10,827 million compared with US$7,713 million in 2016. This performance was driven partially by higher volumes but mostly by an upswing in prices for steel and coal products amid more favourable market trends.

In 2017 EBITDA increased significantly mainly driven by improved market conditions in steel and coal markets as well as efficiency initiatives. In 2017 EBITDA reached US$2,624 million, up 70.2% from US$1,542 million in 2016, boosting the EBITDA margin from 20.0% to 24.2% and increasing free cash flow to US$1,322 million.

The Steel segment's revenues (including inter-segment) increased by 40.9% year-on-year to US$7,743 million, or 63.0% of the Group's total before elimination. The growth was mainly attributable to higher revenues from sales of steel products, which rose by 39.8% year-on-year, largely due to an upturn in average sales prices of 38.6% that was underpinned by favourable market conditions. Steel product sales volumes remained strong in 2017 (+1.2% y-o-y).

The Steel, North America segment's revenues grew by 27.3% year-on-year. Prices rose by 18.7% and volumes climbed by 12.7%, boosting the segment's revenues from sales of steel products by 31.4%. The key drivers of this growth were an improved demand for oil country tubular goods (OCTG) following a recovery in oil prices and a stronger demand for railway products.

The Coal segment's revenues surged by 67.5% year-on-year, supported largely by higher sales prices, which grew by 62.9% amid an upward trend in global benchmarks. Volumes rose by 4.6% due to the stable demand and the improved productivity at mines.

The Steel segment's EBITDA improved, reflecting higher steel and vanadium prices and the effects of cost-cutting initiatives implemented in 2017. This was partially offset by an increase in expenses in US dollar terms as a result of the the rouble's strengthening impact on costs, as well as by rising prices for raw materials such as coal, iron ore and scrap.

The Steel, North America segment's EBITDA increased year-on-year, supported by greater revenues from sales of tubular, railway and flat-rolled products as well as higher expenses in prior year connected with suspension of production. This was partly offset by higher prices for scrap and purchased semi-finished products.

The Coal segment's EBITDA increased year-on-year largely driven by higher sales prices in line with global benchmarks.

Eliminations mostly reflect unrealised profits or losses that relate to the inventories produced by the Steel segment on the Steel, North America segment's balance sheet, and coal inventories produced by the Coal segment on the Steel segment's balance sheet.

**Nikolay Ivanov**
Chief Financial Officer

**In 2017 EBITDA increased significantly mainly driven by improved market conditions in steel and coal markets as well as efficiency initiatives.**

**REVENUES,** US$ million

| Segment | 2017 | 2016 | Change | Change, % |
|---|---|---|---|---|
| Steel | 7,743 | 5,497 | 2,246 | 40.9 |
| Steel, North America | 1,864 | 1,464 | 400 | 27.3 |
| Coal | 2,214 | 1,322 | 892 | 67.5 |
| Other operations | 462 | 363 | 99 | 27.3 |
| Eliminations | (1,456) | (933) | (523) | 56.0 |
| **Total** | **10,827** | **7,713** | **3,114** | **40.4** |

**REVENUES BY REGION,** US$ million

| Segment | 2017 | 2016 | Change | Change, % |
|---|---|---|---|---|
| Russia | 4,255 | 3,080 | 1,175 | 38.1 |
| Americas | 2,201 | 1,722 | 479 | 27.8 |
| Asia | 2,162 | 1,372 | 790 | 57.6 |
| CIS (excl. Russia) | 812 | 630 | 182 | 28.9 |
| Europe | 1,128 | 640 | 488 | 76.3 |
| Africa and rest of the world | 269 | 269 | – | – |
| **Total** | **10,827** | **7,713** | **3,114** | **40.4** |

**EBITDA,** US$ million

| Segment | 2017 | 2016 | Change | Change, % |
|---|---|---|---|---|
| Steel | 1,483 | 1,004 | 479 | 47.7 |
| Steel, North America | 58 | 28 | 30 | 107.1 |
| Coal | 1,226 | 644 | 582 | 90.4 |
| Other operations | 21 | 17 | 4 | 23.5 |
| Unallocated | (131) | (109) | (22) | 20.2 |
| Eliminations | (33) | (42) | 9 | (21.4) |
| **Total** | **2,624** | **1,542** | **1,082** | **70.2** |

**For more information on the definition of EBITDA, please** see page 267.

The following table details the effect of the Group's cost-cutting initiatives.

### EFFECT OF GROUP'S COST-CUTTING INITIATIVES IN 2017, US$ million

| | |
|---|---|
| **Improving yields and raw material costs, including** | **104** |
| Improving yields and raw material costs of Urals and Siberia divisions | 61 |
| Various improvements at coal beneficiating plants and mines | 30 |
| Improving yields and raw material costs of North American assets and vanadium operations | 13 |
| **Increasing productivity and cost effectiveness** | **37** |
| **Others, including** | **22** |
| Reduction of general and administrative (G&A) costs and non-G&A headcount | 16 |
| Optimisation of asset portfolio | 6 |
| **Total** | **163** |

### REVENUES, COST OF REVENUE AND GROSS PROFIT BY SEGMENTS, US$ million

| | 2017 | 2016 | Change, % |
|---|---|---|---|
| **Steel segment** | | | |
| Revenues | 7,743 | 5,497 | 40.9 |
| Cost of revenue | (5,795) | (4,068) | 42.5 |
| Gross profit | 1,948 | 1,429 | 36.3 |
| **Steel, North America segment** | | | |
| Revenues | 1,864 | 1,464 | 27.3 |
| Cost of revenue | (1,656) | (1,243) | 33.2 |
| Gross profit | 208 | 221 | (5.9) |
| **Coal segment** | | | |
| Revenues | 2,214 | 1,322 | 67.5 |
| Cost of revenue | (973) | (701) | 38.8 |
| Gross profit | 1,241 | 621 | 99.8 |
| **Other operations** – gross profit | 104 | 85 | 22.4 |
| **Unallocated** – gross profit | (8) | (7) | 14.3 |
| **Eliminations** – gross profit | (151) | (157) | (3.8) |
| **Total** | **3,342** | **2,192** | **52.5** |

In 2017, selling and distribution expenses increased by 15.1%, mostly due to the stronger rouble and higher sales volumes. General and administrative expenses rose by 15.1%, primarily because of the effect that the rouble appreciation had on costs.

Foreign exchange losses amounting to US$54 million mainly related to intra-group loans denominated in roubles payable by Evraz Group S.A. to the Russian subsidiaries.

The appreciation of the Russian rouble against the US dollar in 2017 led to exchange losses recognised in income statement of non-Russian subsidiaries, which are not offset with the exchange gains recognised in equity of the Russian subsidiaries.

Interest expenses incurred by the Group decreased, mainly due to the reduction in total debt and the efforts undertaken to refinance existing facilities during the reporting period.

The interest expense for bank loans, bonds and notes dropped to US$394 million in 2017, compared with US$439 million a year earlier.

Losses on financial assets and liabilities amounted to US$57 million and were mostly related to premiums on early repurchases of bonds denominated in US dollars.

The net loss of US$360 million on disposal groups classified as held for sale was caused mostly by a reclassification to the statement of operations of accumulated losses on translation of the net assets of the sold subsidiaries into presentation currency (US dollars) in the amount of US$741 million. Subsidiaries with net assets of US$134 million were sold for consideration of US$515 million net of transaction costs.

For the reporting period, the Group had an income tax expense of US$396 million, compared with US$96 million a year earlier. The change reflects the Group's better operating results and income tax on the sale transaction of Evraz Nakhodka Trade Sea Port in the amount of US$60 million.

### GROSS PROFIT, EXPENSES AND RESULTS, US$ million

| Item | 2017 | 2016 | Change | Change, % |
|---|---|---|---|---|
| **Gross profit** | **3,342** | **2,192** | **1,150** | **52.5** |
| Selling and distribution costs | (717) | (623) | (94) | 15.1 |
| General and administrative expenses | (540) | (469) | (71) | 15.1 |
| Impairment of assets | 12 | (465) | 477 | n/a |
| Foreign exchange gains/(losses), net | (54) | (48) | (6) | 12.5 |
| Other operating income and expenses, net | (57) | (124) | 67 | (54.0) |
| **Profit from operations** | **1,986** | **463** | **1,523** | **n/a** |
| Interest expense, net | (423) | (471) | 48 | (10.2) |
| Share of profits/(losses) of joint ventures and associates | 11 | (23) | 34 | n/a |
| Loss on financial assets and liabilities, net | (57) | (9) | (48) | n/a |
| Loss on disposal groups classified as held for sale, net | (360) | – | (360) | n/a |
| Other non-operating losses, net | (2) | (52) | 50 | (96.2) |
| **Profit/(loss) before tax** | **1,155** | **(92)** | **1,247** | **n/a** |
| Income tax benefit/(expense) | (396) | (96) | (300) | n/a |
| **Net profit/(loss)** | **759** | **(188)** | **947** | **n/a** |

### CASH FLOW, US$ million

| Item | 2017 | 2016 | Change | Change, % |
|---|---|---|---|---|
| Cash flows from operating activities before changes in working capital | 2,111 | 1,343 | 768 | 57.2 |
| Changes in working capital | (154) | 160 | (314) | n/a |
| **Net cash flows from operating activities** | **1,957** | **1,503** | **454** | **30.2** |
| Short-term deposits at banks, including interest | 7 | 4 | 3 | 75.0 |
| Purchases of property, plant and equipment and intangible assets | (595) | (382) | (213) | 55.8 |
| Proceeds from sale of disposal groups classified as held for sale, net of transaction costs | 412 | 27 | 385 | n/a |
| Other investing activities | 9 | 11 | (2) | (18.2) |
| **Net cash flows used in investing activities** | **(167)** | **(340)** | **173** | **(50.9)** |
| **Net cash flows used in financing activities** | **(1,479)** | **(1,369)** | **(110)** | **(8.0)** |
| Effect of foreign exchange rate changes on cash and cash equivalents | (2) | (10) | 8 | (80.0) |
| **Net increase/(decrease) in cash and cash equivalents** | **309** | **(216)** | **525** | **n/a** |

**CALCULATION OF FREE CASH FLOW,** US$ million

| Item | 2017 | 2016 | Change | Change, % |
|---|---|---|---|---|
| EBITDA | 2,624 | 1,542 | 1,082 | 70.2 |
| **EBITDA excluding non-cash items** | **2,627** | **1,549** | **1,078** | **69.6** |
| Changes in working capital | (154) | 160 | (314) | n/a |
| Income tax accrued | (485) | (183) | (302) | n/a |
| Social and social infrastructure maintenance expenses | (31) | (23) | (8) | 34.8 |
| **Net cash flows from operating activities** | **1,957** | **1,503** | **454** | **30.2** |
| Interest and similar payments | (453) | (454) | 1 | (0.2) |
| Capital expenditures, including recorded in financing activities and non-cash transactions | (603) | (428) | (175) | 40.9 |
| Proceeds from sale of disposal groups classified as held for sale, net of transaction costs | 412 | 27 | 385 | n/a |
| Other cash flows from investing activities | 9 | 11 | (2) | (18.2) |
| **Free cash flow** | **1,322** | **659** | **663** | **100.6** |

In 2017, net cash flows from operating activities **increased by 30.2% year-on-year.** Free cash flow for the period was **US$1,322 million.**

**For more information on the definition of free cash flow, please** see page 267.

## CAPEX and key projects

In 2017, EVRAZ' capital expenditure increased to US$603 million, compared with US$428 million a year earlier, due to significant expenses on major projects and the strengthening of the rouble exchange rate against the US dollar. EVRAZ NTMK continued to implement its two main construction projects during 2017, the blast furnace no. 7 and the new grinding ball mill, both of which are scheduled to be launched in Q1 2018. In 2017, the degasser was installed at EVRAZ Regina's steel mill. This was the last important module of the upgrade project, making it possible to achieve the project's full planned effect.

Capital expenditures (including those recognised in financing activities) for 2017 in millions of US dollars can be summarised as follows.

**CAPITAL EXPENDITURES IN 2017,** US$ million

| | |
|---|---|
| **Blast furnace no. 7**<br>The construction of EVRAZ NTMK's blast furnace no. 7 has been in progress since Q3 2016. It is due to be launched in Q1 2018. | 133 |
| **Steel mill upgrade**<br>The upgrade of EVRAZ Regina's steel mill has been in progress since Q2 2015. The aim is to improve steel quality, increase the capacity for casting by 110 kt and rolling by 250 kt, and result in a crown yield saving from 0.75% to 1.1%. The project was completed in 2017. | 45 |
| **Grinding ball mill construction**<br>The construction of EVRAZ NTMK's new grinding ball mill has been in progress since Q2 2015. It is due to be completed in Q1 2018 and is expected to increase ball production to more than 300 kt by 2019. | 8 |
| **Boiler modernisation**<br>The modernisation of EVRAZ ZSMK's boiler unit no. 9 has been in progress since Q3 2016. It was launched in Q4 2017, making it possible to achieve the project's planned effect. | 7 |
| Other development projects | 43 |
| **Maintenance** | **367** |
| **Total** | **603** |

## Financing and liquidity

EVRAZ began 2017 with total debt of US$5,961 million. Throughout the year, the Group prepaid and refinanced several of its bank financing facilities, further reducing its financial leverage and debt service costs.

In two transactions, amounting to US$110 million in January and US$270 million in July, EVRAZ prepaid the remaining outstanding principal of its US$500 million syndicated pre-export financing facility. The Group also prepaid its UniCredit Bank and Nordea Bank loans in the amounts of US$44 million and US$13 million, respectively.

In August, the Group partially repaid and refinanced the remainder of its loan from Gazprombank. This transaction reduced the outstanding balance, converted the rouble-denominated part into US dollars, repriced the facility and extended the final maturity to 2022. Upon completion of this transaction, the loan from Gazprombank consists of a tranche denominated in US dollars of US$152 million and a euro-denominated tranche of EUR180 million.

In September, EVRAZ prepaid US$99 million toward one of its outstanding loans from VTB.

To fund the prepayments, the Group raised several new bank loans: a six-year, US$200 million credit from Alfa-Bank, as well as two-, three-, and five-year tranches totalling US$300 million from Sberbank. In November, it also borrowed US$100 million from ING DiBa with final maturity in 2022.

In October, EVRAZ' North American subsidiaries entered into a new US$450 million asset-based lending facility maturing in 2022, which was arranged by JP Morgan Chase Bank N.A. and a syndicate of banks. This agreement is intended to finance the North American operations' working capital needs and has replaced a similar facility that would have matured in 2019.

During 2017, EVRAZ was also active on capital markets completing several transactions.

In March, Evraz Group S.A. issued a US$750 million Eurobond due in 2023 with a semi-annual coupon of 5.375%, which is the lowest rate in the Group's history. The proceeds were used to fund the tender offer for the Eurobonds due in 2018 and 2020. The Group partially repurchased the 9.50% notes due in 2018 (US$50 million), the 6.75% notes due in 2018 (US$332 million) and the 6.50% bonds due in 2020 (US$300 million). The total cash outflow was US$726 million, including the premium paid over the nominal value.

In October, Evraz Group S.A. completed an early redemption, at the make-whole price, of its 9.5% notes due in 2018 with a principal amount of US$75 million and its 6.75% notes due in 2018 with a principal amount of US$196 million. The total cash outflow was US$285 million, including the premium paid over the nominal value.

In May, Evraz Inc NA Canada called US$345 million of its 7.50% senior secured notes due in 2019. In September, it called the remaining US$5 million outstanding of these notes in full. These two transactions resulted in a total cash outflow of US$364 million, including the premium paid over the nominal value.

These activities, as well as scheduled drawings and repayments of bank loans, brought the Group's total debt down by US$529 million to US$5,432 million as at 31 December 2017. Net debt dropped by US$836 million to US$3,966 million, compared with US$4,802 million as at 31 December 2016.

Mainly due to decreasing total debt and the Group's efforts to refinance existing facilities during 2017, interest expenses accrued in respect of loans, bonds and notes decreased to US$394 million for the reporting period, compared with US$439 million a year earlier.

Net debt to EBITDA stood at 1.5 times, compared with 3.1 times as at 31 December 2016.

At the year-end, the Group had a total outstanding principal of around US$1,772 million on debt with financial maintenance covenants, comprised of various bilateral facilities. The maintenance covenants under these facilities include the two key ratios that are calculated based on EVRAZ plc's consolidated financial statements: a maximum net leverage and a minimum EBITDA interest coverage ratio. As of the year-end, EVRAZ was in full compliance with its financial covenants.

As at 31 December 2017, the Group had accumulated US$1,466 million of cash and cash equivalents. It had additional liquidity sources available in the form of US$131 million in committed and US$1,251 million in uncommitted credit facilities.

At the year-end, short-term loans and the current portion of long-term loans totalled US$148 million. Cash on hand and committed credit facilities were more than sufficient to cover all of EVRAZ' debt principal maturing in 2018 and 2019.

## Key recent developments

In February 2018, EVRAZ repaid two US$100 million loans from Alfa Bank due 2019, a US$200 million loan from Alfa Bank due 2023 and a US$100 million loan from Sberbank due 2020. The Group financed these repayments with a combination of its cash balances and a new 5-year US$300 million term loan from Alfa bank. These transactions resulted in an extension of maturity profile and reduction of interest charges.

# Principal risks and uncertainties

## Risk management system

The risk management process aims to identify, evaluate and manage potential and actual threats to the Group's ability to achieve its objectives.

For more information, see **risk management and internal control section of the corporate governance report** on pages 117–119.

### CEO

Has ultimate responsibility for risk management, ensuring that it is in place and effectively functioning

### Board of Directors

- Has an oversight role
- Ensures that risk management processes are in place, adequate, effective
- Approves a risk appetite in accordance with the risk management methodology adopted by EVRAZ

### Risk Management Group

Identifies, assesses and monitors Group-wide risks and mitigation actions

### Audit Committee

- Supports the board in monitoring risk exposure against risk appetite
- Reviews the effectiveness of risk management and internal control systems

### Internal audit

Supports the Audit Committee in reviewing the effectiveness of risk management and internal control systems

**TOP-DOWN APPROACH**

**Oversight, identification, assessment and management of risks at the corporate level**

## Effective Risk Management

**Identification, assessment and management of risks at regional and site levels and across functions**

**BOTTOM-UP APPROACH**

### Site levels

- Identification, assessment and mitigation of risks
- Promoting risk awareness and safety culture

### Regional business unit management teams

- Adopt regional risk appetite
- Support the Risk Management Group in reviewing and monitoring effectiveness of risk management
- Identify, assess and manage risks at the regional level
- Monitor risk management process and effectiveness of internal control

# Risk migration in 2017 and robust assessment

In 2017, management carried out a robust reassessment of the principal risks facing the Group. The Audit Committee has carefully reviewed this assessment on behalf of the Board.

The assessment focused on the risks that could adversely affect the Group's strategies. It included an evaluation of risks identified at the operational level to consider their relevance and significance for the Group, as well as a detailed assessment of some specific areas where new risks have been identified or the risk profile has changed significantly. As a result, the principal risks have been updated. Management also considered the speed of impact of each risk in their assessment.

In addition, a reassessment of the cybersecurity and IT infrastructure failure risk has led to the identification of this as a principal risk, mostly due to the rising level of cybercrime globally and the increasing reliance on IT systems. On 27 June 2017, a computer virus attacked many major companies around the world, including EVRAZ.

The assessment included other risks that were not recognized as principal, eg HR and employee risks, taxation, compliance risks (including anti-corruption and anti-bribery matters), social and community risks, risks related with respect for human rights, and other risks. While the impact and probability analysis suggests that such risks could affect the Group's operations to some extent, the management believes they are being adequately managed and does not consider them as being capable of seriously affecting the Group's performance, future prospects or reputation. EVRAZ activity in these areas is described in more detail on pages 82–105.

All the EVRAZ IT systems and data affected by the virus attack have been quickly recovered. Although no significant damage has been caused by the cybersecurity incident to date and no financial data was affected or manipulated, the management continues to implement additional measures to minimise similar risks.

While the composition of the Group's principal risks has not changed substantially compared with the previous year, a detailed analysis of their impact and probability of negative consequences for the Group has led to a recalibration in the assessment of some of the risks.

The Group closely monitors the impact of the UK referendum result in favour of leaving the EU and continues to believe that it will not significantly affect its business.

## Key developments in 2017

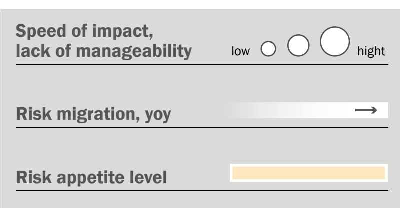
Risk management training for the Group's top management took place in early 2017. In addition to inducting new members of the top management team into the corporate risk management process and practices, this training session supported the improved risk management reporting procedure that was introduced as part of the transformation of the Risk Committee into the Risk Management Group at the end of the prior year.

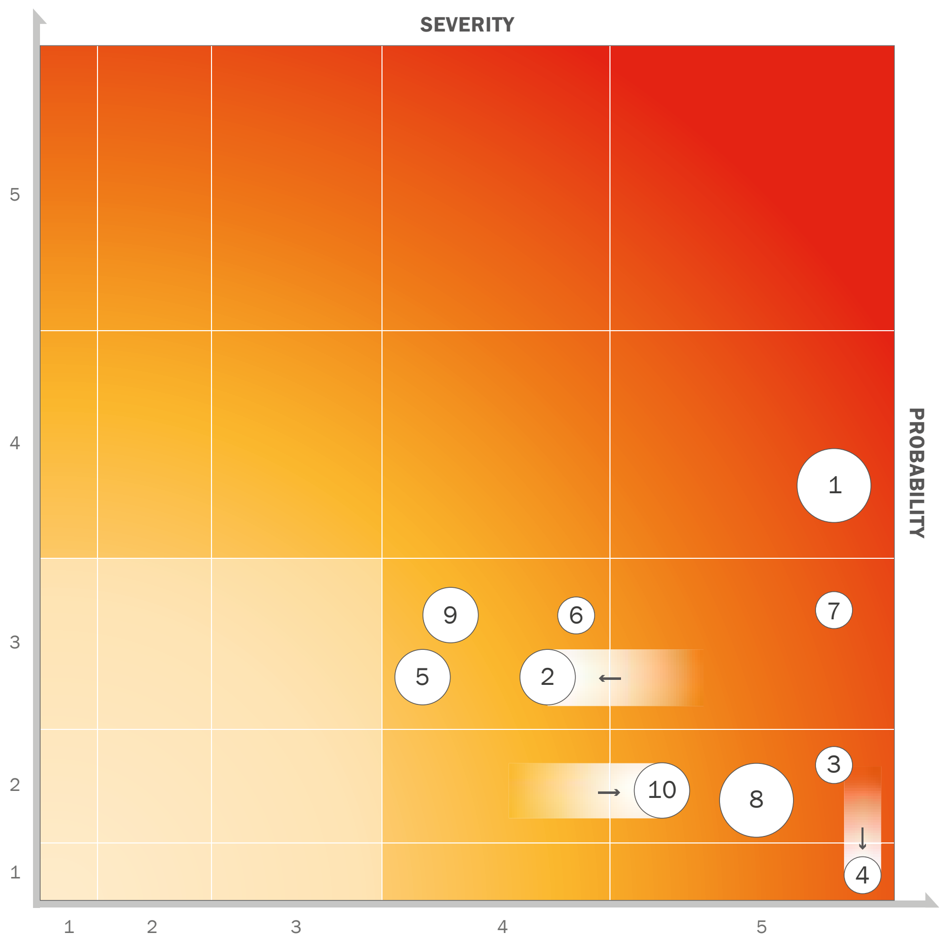
To enhance the depth of analysis for individual process risks, the Group began to update its occupational safety risk assessment methodology in 2017.

The internal control self-assessment and risks analysis performed by line managers at plants has been extended to ensure increased coverage and a more comprehensive result. The major purpose is to increase the depth of involvement of management and employees in the process of improving internal control and risk management.

### PRINCIPAL RISKS AND UNCERTAINTIES HEAT MAP IN 2017

1. Global economic factors, industry conditions and cyclicality
2. Product competition
3. Cost effectiveness
4. Treasury: availability of finance
5. Functional currency devaluation
6. HSE: environmental
7. HSE: health, safety
8. Potential action by governments
9. Business interruption
10. Cybersecurity and IT infrastructure failure



# Principal risks

**Success Factors**

- Health, safety and environment
- Human capital
- Customer focus
- Asset development
- EVRAZ business system

**Strategic priorities**

- Development of product portfolio and customer base
- Retention of low-cost positions
- Prudent CAPEX strategy
- Regular dividends and proactive debt management

| Risk | Related with | Description and impact | Mitigating/ risk management actions in 2017 | Direction/ reason for change |
|---|---|---|---|---|
| **1.** **Global economic factors, industry conditions and cyclicality** | | EVRAZ' operations are dependent on the global macroeconomic environment, as well as economic and industry conditions, eg the global supply and demand balance for steel, iron ore and coking coal, which affect both product prices and volumes across all markets.<br>The Group's operations involve substantial fixed costs, and global economic and industry conditions can impact the Group's operational performance. | This is an external risk that is mostly outside the Group's control; however, it is partly mitigated by exploring new market opportunities, focusing on expanding the share of value-added products, further downscaling inefficient assets, suspending production in low-growth regions, further reducing and managing the cost base with the objective of being among the sector's lowest-cost producers, and balance sheet/gearing improvement. | |
| **2.** **Product competition** | | Excessive supply on the global market and greater competition, mostly in the steel products market, mainly due to competitors' activity and introduction of new facilities.<br>Low demand for construction products and increasing competition in this segment.<br>Increasing competition in the rail product segment.<br>Excessive supply of slabs on the global market and intensified competition. | Expand product portfolio and penetrate new geographic and product markets.<br>Develop and improve loyalty and customer focus programmes and initiatives.<br>Quality improvement initiatives.<br>Focus on expanding the share of value-added products. | Implementation of mitigating/risk management actions focused on product portfolio development and exploring market opportunities. |
| **3.** **Cost effectiveness** | | Most of the Group's steel production remains sensitive to costs and prices.<br>Given the substantial product share of commodity semi-finished, which requires less customer service and is more cost driven, maintaining a low-cost position is one of EVRAZ' key business objectives in steelmaking, as well as in the iron ore and coking coal mining businesses. | For both the mining and steelmaking operations, the Group is implementing cost-reduction projects to increase asset competitiveness.<br>Focused investment policy aimed at reducing and managing the cost base.<br>Further expansion and control of the Group's Russian steel distribution network.<br>Development of high value-added products. | |

| Risk | Related with | Description and impact | Mitigating/ risk management actions in 2017 | Direction/ reason for change |
|---|---|---|---|---|
| **4.** **Treasury: availability of finance** | | Impact from the possible introduction of limitations on repatriation of foreign currency export revenues, as well as additional regulations or limitations on cross-border capital flows.<br><br>Potential government action, including economic sanctions impacting Russian entities, might increase the Group's capital market risk regarding additional funding.<br><br>EVRAZ is subject to counterparty risk via receivables from commercial customers.<br><br>The Group's current debt facilities include certain covenants in relation to net debt and interest expense. A breach of these covenants could result in certain of the Group's borrowing facilities becoming repayable immediately. | Action to extend the debt maturity profile and diversify sources of funding, as well as proactively manage the remaining portion of debt subject to maintenance covenants.<br><br>Liquidity risk is managed by revisiting capital expenditure plans, cost optimisation programmes, and continued asset portfolio rationalisation.<br><br>Counterparty risk with commercial customers is managed through a combination of letters of credit and, where creditworthiness is uncertain, by prepayments. | Extension of debt maturity profile on more favourable terms. |
| **5.** **Functional currency devaluation** | | Any significant fluctuation in subsidiaries' functional currencies relative to the US dollar could have a significant effect on the Group's financial accounts, which might impact its ability to borrow. | EVRAZ works to reduce the amount of intergroup loans denominated in Russian roubles and Ukrainian hryvnias to limit the possible devaluation effect on its consolidated net income. | |
| **6.** **HSE: environmental** | | Steel and mining production carry an inherent risk of environmental impact and incidents relating to issues as diverse as water usage, quality of water discharged, waste recycling, tailing management, air emissions (including greenhouse gases), and community satisfaction.<br><br>Consequently, EVRAZ faces risks including regulatory fines, penalties, adverse impact on reputation and, in the extreme, the withdrawal of plant environmental licences, which would curtail operations indefinitely. | Environmental risks matrix is monitored on a regular basis. Respective mitigation activity is developed and performed in response to the risks.<br><br>Implementation of air emissions and water use reduction programmes at plants. Waste management improvement programmes.<br><br>Most of EVRAZ' operations are certified under ISO 14001 and the Group continues to work towards bringing the remaining plants to ISO 14001 requirements. EVRAZ is currently compliant with REACH requirements.<br><br>Participation in development of GHG emissions regulation in Russia. Reduction in GHG emissions as a positive side-effect of energy efficiency projects. | |

| Risk | Related with | Description and impact | Mitigating/ risk management actions in 2017 | Direction/ reason for change |
|---|---|---|---|---|
| **7.**<br>**HSE: health, safety** | | Potential danger of fire, explosions and electrocution, as well as risks specific to individual mines: methane levels, rock falls and other accidents could lead to loss of personnel, outage or production delays, loss of material, equipment or product, or extensive damage compensation.<br>Breach of any HSE laws, regulations and standards may result in fines, penalties and adverse reputational impacts and, in the extreme, the withdrawal of mining operational licences, thereby curtailing operations for an indefinite period. | Management KPIs place significant emphasis on safety performance and the standardisation of critical safety programmes.<br>Implementing an energy isolation programme.<br>Further development of a programme of behaviour safety observations which drives a more proactive approach to preventing injuries and incidents.<br>A series of health and safety initiatives related to underground mining.<br>Maintenance and repair modernisation programmes, downtime management system.<br>Development of occupational safety risk assessment methodology.<br>Analysis of effectiveness of corrective measures. | – |
| **8.**<br>**Potential government action** | | New laws, regulations or other requirements could limit the Group's ability to obtain financing on international markets, sell its products and purchase equipment.<br>Risk of capital controls that affect the Group in terms of free flow of capital.<br>EVRAZ may also be adversely affected by government sanctions against Russian businesses or otherwise reducing its ability to conduct business with counterparties.<br>Risk of adverse geopolitical situation in countries of operation. | While these risks are mostly outside the Group's control, EVRAZ and its executive teams are members of various national industry bodies.<br>As a result, they contribute to the development of such bodies and, when appropriate, participate in relevant discussions with political and regulatory authorities.<br>Procedures have been implemented and will be further developed to ensure that sanction requirements are complied with across the Group's operations. | – |
| **9.**<br>**Business interruption** | | Prolonged outages or production delays, especially in coal mining, could have a material adverse effect on the Group's operating performance, production, financial condition and future prospects.<br>In addition, long-term business interruption may result in a loss of customers and competitive advantage, and damage to the Group's reputation. | The Group has defined and established disaster recovery procedures that are subject to regular review.<br>Business interruptions in mining mainly relate to production safety. Measures to mitigate these risks include methane monitoring and degassing systems, timely mining equipment maintenance, and employee safety training.<br>Detailed incident cause analysis is performed in order to develop and implement preventative actions. Records of minor interruptions are reviewed to identify any more significant underlying issues. | – |
| **10.**<br>**Cybersecurity and IT infrastructure failure** | | Information technology and information security risks have the potential to cause prolonged production delays or shutdowns. | Further development of a cybersecurity protection system, focused on:<br>• isolation and protection of industrial networks;<br>• antivirus software systems update;<br>• upgrade and expansion of backup system;<br>• implementation of incident monitoring systems;<br>• and other measures. | ↑<br>Rising level of cybercrime globally combined with increasing reliance on IT. |

# Viability statement

As a global steel and mining group, EVRAZ is exposed to a range of risks and inherent uncertainties that are explained more fully in this section. The Group's principal risks and its approach to managing them, together with the latest financial forecasts and five-year strategic plan, have formed the basis of this long-term viability assessment. EVRAZ believes that a five-year period is optimal for the viability analysis, as it corresponds to the period used in the Group's strategic planning and therefore reflects the information available to management regarding the future performance of the business. Visibility of performance and risks beyond the strategic planning cycle is limited and scenarios beyond this five-year period have not been analysed for the purposes of the viability statement.

In accordance with provision C.2.2 of the UK Corporate Governance Code 2016, the Board has assessed the Group's prospects over the period of the current strategic plan to December 2022 and consider it possible to form a reasonable expectation of the Group's viability over this five-year period. The assessment included consideration of the stress-testing detailed below, with particular attention paid to the forecast cash position and compliance with financial maintenance covenants in each scenario, as well as the mitigation plan developed by the management.

The assessment was underpinned by scenarios that encompass a wide spectrum of potential outcomes. These scenarios are designed to explore the Group's resilience to the significant risks set out on pages 38–40, and combinations of correlated risks. The key scenarios can be summarised as:

- Base scenario:
  - the key assumptions as disclosed in Note 6 to the financial statements under Impairment of assets on pages 190–193;
  - future pricing of steel and raw materials is within the range of the external analyst forecasts set out in Note 6;
  - annual steel volumes are assumed to exceed the 2017 level by 2.4% to 14.1% over the five-year period to December 2022;
- Global economic decline:
  - steel and raw material prices and exchange rates during 2018 and future periods are at the lower end of the external analyst forecast set out in Note 6;
  - sales volumes are assumed to decrease by 3.0% in comparison with the base scenario;
- Increased conversion costs in the CIS;
- Limited access to capital markets;
- Appreciation of local operating currencies;
- Cybersecurity failure resulting in production delays or shutdowns;
- Business interruption, leading to lost production and restoration costs;
- Combinations of correlated risks/scenarios.

The scenarios are designed to be severe but plausible. They take full account of the potential actions available to mitigate the occurrence and impact of the risk, and the likely effectiveness of such action. The process makes certain assumptions about the normal level of capital recycling likely to occur and considers whether additional financing facilities will be required and available in each scenario. EVRAZ considers this assessment of its prospects based on stress-testing to be reasonable, given the risks and inherent uncertainties facing the business.

The directors confirm that their assessment of the principal risks facing the Group is robust. Based upon this robust assessment and the stress-testing of Group prospects across several risk-related scenarios, the directors have a reasonable expectation that EVRAZ will be able to continue in operation and meet its liabilities as they fall due over the five-year period to December 2022.

In making this statement, the directors have made the following key assumptions:

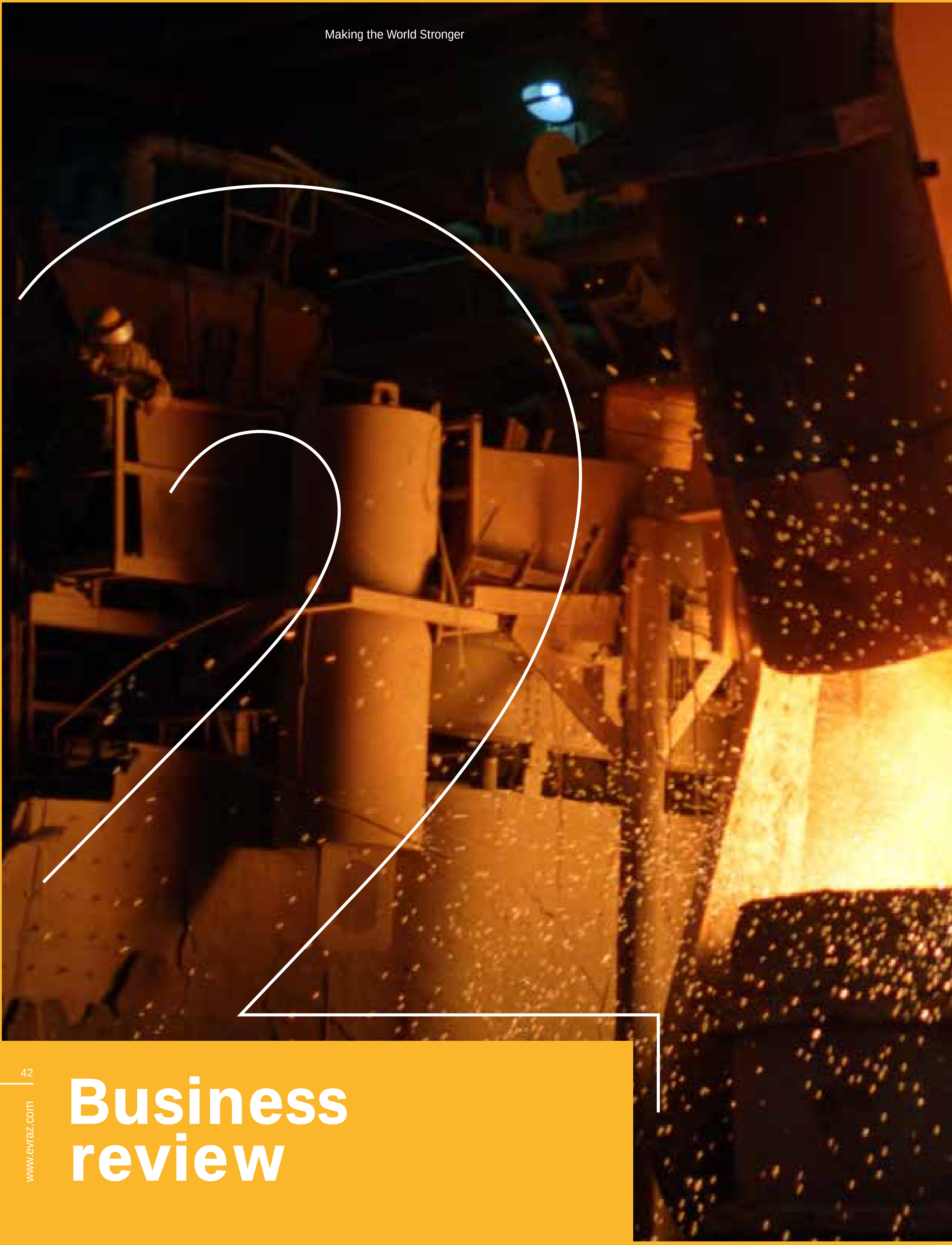
- the continued availability of funding or refinancing, by way of capital markets, bank debt, and asset financing, of up to one-half of the current debt level in all the scenarios considered;
- selling prices remain in line with prevailing market assumptions.

EVRAZ' Strategic Report, as set out on pages 4–41 inclusive, has been reviewed and was approved by the Board of Directors on 28 February 2018.

By the order of the Board

**Alexander Frolov**
Chief Executive Officer
EVRAZ plc

28 February 2018





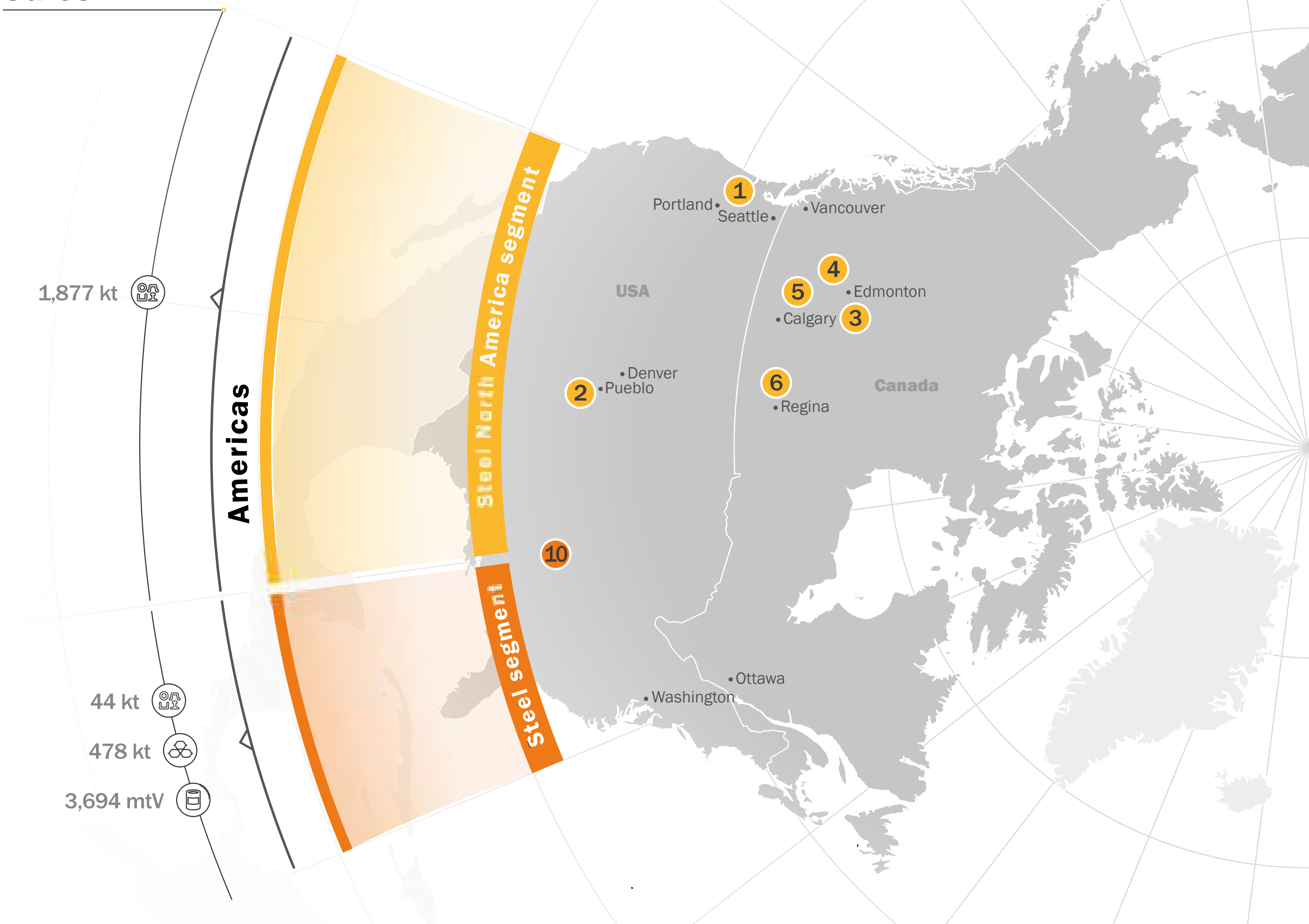


# Business review

# Key production assets and markets

PLEASE SEE INTERACTIVE MAP
ON ANNUAL REPORT WEB-SITE
https://ar2017.evraz.com/en/business-review/map

## Sales[1]




**Steel, NA segment**

1. EVRAZ Portland
2. EVRAZ Pueblo
3. EVRAZ Red Deer
4. EVRAZ Calgary
5. EVRAZ Camrose
6. EVRAZ Regina

**Steel segment**

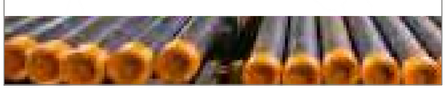
1. EVRAZ ZSMK
2. Evrazruda
3. EVRAZ KGOK
4. EVRAZ NTMK
5. Evraz Caspian Steel
6. EVRAZ Vanady-Tula
7. EVRAZ DMZ
8. EVRAZ Nikom
9. EVRAZ Palini e Bertoli
10. EVRAZ Stratcor

**Coal segment**

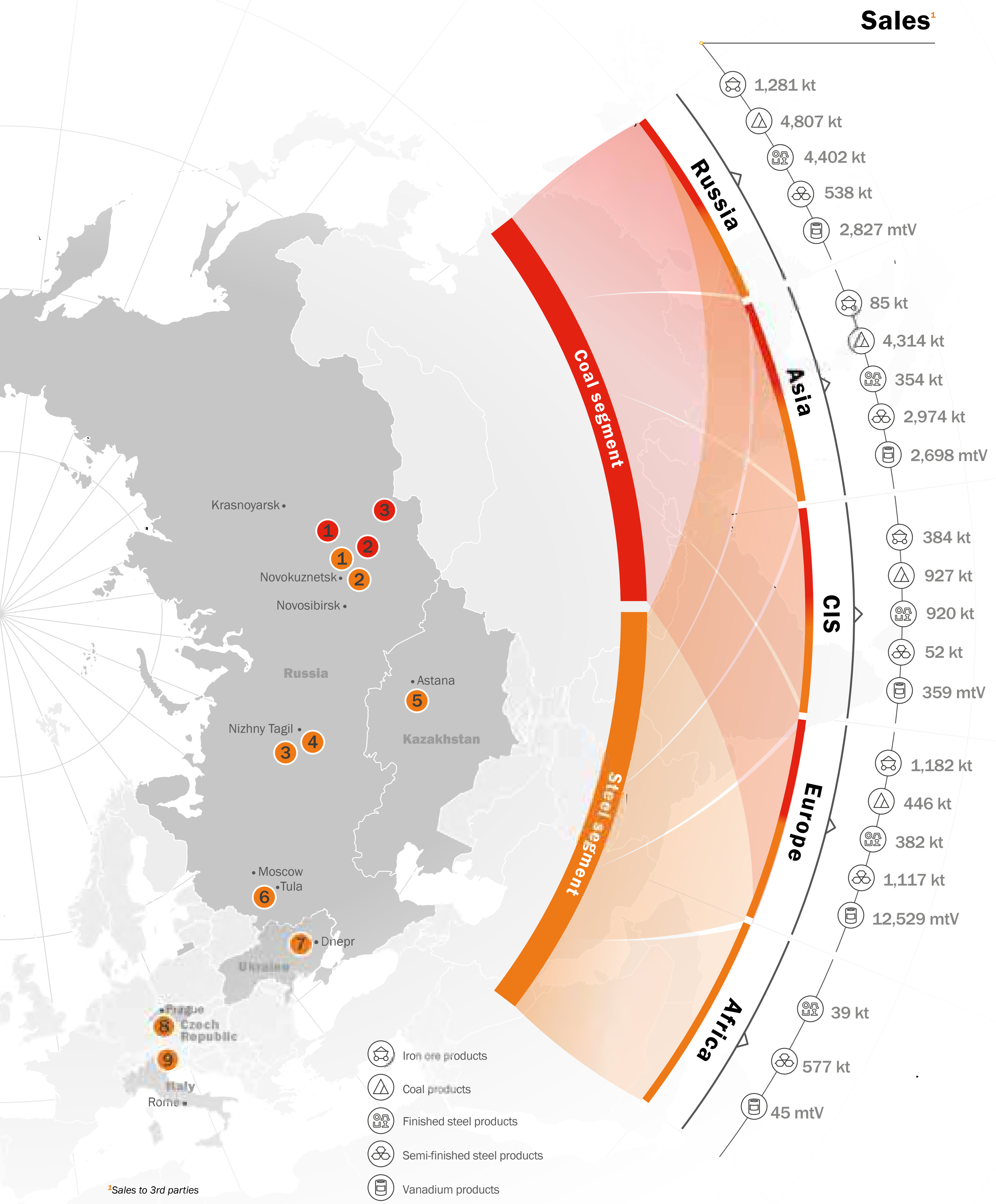
1. Yuzhkuzbassugol
2. Raspadskaya
3. Mezhegeyugol

**For the data on mineral reserves,** please see page 268.

For data on sales, please see **Sales review,** on pages 54, 68, 78.



## Sales[1]




[1]Sales to 3rd parties

# Steel segment

## Introduction and highlights

### OUR VISION

- **Be a world leader in rail production**
- **Be a leader on the Russian construction steel market**
- **Be an efficient producer of premium products for infrastructure projects**

EVRAZ is No 1 among rail suppliers and the leader in the construction steel market in Russia. The Steel segment's primary focus is producing steel in the CIS from closely located raw materials to serve the domestic infrastructure and construction market while maintaining export flexibility.

## Financial highlights

| | |
|---|---|
| **REVENUES** | **EBITDA MARGIN** |
| US$ 7,743 million (+40.9% yoy) | 19.2% |
| **EBITDA** | **CAPEX** |
| US$ 1,483 million (+47.7% yoy) | US$ 358 million (+119.6% yoy) |

## Production highlights

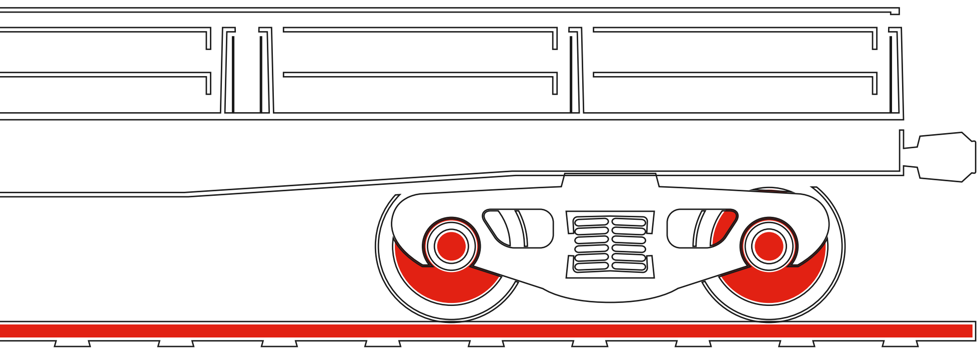
| | |
|---|---|
| Crude steel | 12,285 kt |
| Steel products | 11,263 kt |
| Iron ore products | 18,042 kt |
| Vanadium products (saleable) | 11,359 mtV |

## Sales highlights (sales to 3rd parties only)

| | |
|---|---|
| Semi-finished products | 5,735 kt |
| Finished products | 6,143 kt |
| Iron ore products | 2,932 kt |
| Vanadium products (saleable) | 15,672 mtV |

# Strategic priorities

## Development of product portfolio and customer base



### Expansion of railway product portfolio

**Railway wheels**

**Key developments in 2017**

- Optimised the product mix and increased production capacity for wheels, allowing EVRAZ to meet customers' increasing needs and boost sales volumes to the Russian and CIS markets by 96% year-on-year;
- Developed nine new wheel profiles, including:
  - four types of locomotive wheels for General Electric (US);
  - passenger wheels for Deutsche Bahn: EVRAZ began to fulfil a three-year contract to manufacture and supply BA220 wheels for Deutsche Bahn's Regio Dosto 2003 double-decker trains, which travel at speeds up to 160 kilometres per hour;
  - cargo wheels for Turkey and Slovenia;
  - a new type of cargo wheel for Europe (to replace an outdated model) that is widely used in the rail network;
  - cargo wheels for Austrian railways.

**Outlook for 2018**

- To meet rising demand for wheels, EVRAZ plans to increase shipments by around 13% by expanding machining capacity;
- Develop and certify two types of cargo wheels for Europe, as well as cargo wheels for Turkey, India, Deutsche Bahn and Greece.

**Rails**

**Key developments in 2017**

- Expanded export geography for rails (Mozambique, Poland, Serbia, Greece and Guinea);
- Developed and received TSI certification for 49E5 and 54E4 European rail profiles, for future delivery to Deutsche Bahn;
- EVRAZ ZSMK delivered type 60E1 rails manufactured to meet the Indian IRST standard for the metro system in Nagpur, one of India's largest cities.

**Outlook for 2018**

- EVRAZ plans to grow rail exports by around 170 thousand tonnes through the development of new rail profiles and active work to reduce logistics costs;
- Develop and certify three profiles to meet South Korean standards.

**Railcars**

**Outlook for 2018**

- Develop new beam profiles and channels for railcars.

### Improving beam consumption

**Key developments in 2017**

- EVRAZ continued to implement its strategy to expand the beam market:
  - optimised the distribution system;
  - launched a program to ensure shipment within 30 days;
  - set up a project sales department to market beams to large infrastructure projects;
  - EVRAZ NTMK developed 18 new I-beam profiles and began developing bridge steels;
  - EVRAZ began the first stage of developing a line of prefabricated buildings using its 390 and 440 steel beams;
  - began R&D work for using rolled beams in load-bearing structures for bridge construction, as well as in contact-line support structures;
- These initiatives coupled with the organic market growth made a significant contribution to the 6% rise in beam consumption in Russia in 2017;
- To expand sales into new segments, EVRAZ worked to develop new federal standards with Russia's Federal Agency on Technical Regulating and Metrology (Russian abbreviation: Rosstandart).

**Outlook for 2018**

- Use the project sales department to boost beam sales to major infrastructure projects (to c.40 thousand tonnes) by replacing welded analogues;
- EVRAZ NTMK plans to develop 10 new I-beam profiles;
- Develop new steel profiles for bridge construction and the electric power sector;
- Launch new line of prefabricated buildings using EVRAZ' hot-rolled beams;
- When new I-beam standards come into effect, market new I-beam profiles to software systems for engineers.





## Development of the construction product portfolio

**Key developments in 2017**

- Developed and certified new types of rebar at EVRAZ ZSMK for export delivery to:
  - Netherlands;
  - Poland;
  - British standard for South-East Asia;
  - Singapore;
- On the domestic market, developed four rebar profiles to meet the new federal standard at EVRAZ ZSMK, four new channels at EVRAZ NTMK, and three new steel profiles at EVRAZ DMZ;
- Expanded the market for tongue-and-groove sheets by participating in new projects.

**Outlook for 2018**

- If favourable markets continue, EVRAZ plans to expand rebar exports by roughly 60% by developing new profiles to meet European and US standards;
- Develop new structural steel profiles, new types of rebar to meet the new federal standards at EVRAZ ZSMK, and three new angled profiles at EVRAZ NTMK;
- Further develop the market for tongue-and-groove sheets by seeking new applications;
- Market steel profiles, including specialised rebar for oil and gas storage facility construction in the Arctic.

## Expansion of the customer base for value-added semis

**Key developments in 2017**

- Operating efficiency efforts to debottleneck the production line helped to grow round billet sales by around 40%;
- The start of 430-mm diameter OS steel grade round bars deliveries for railroad axle production.

**Outlook for 2018**

- Renew contracts for round billet.

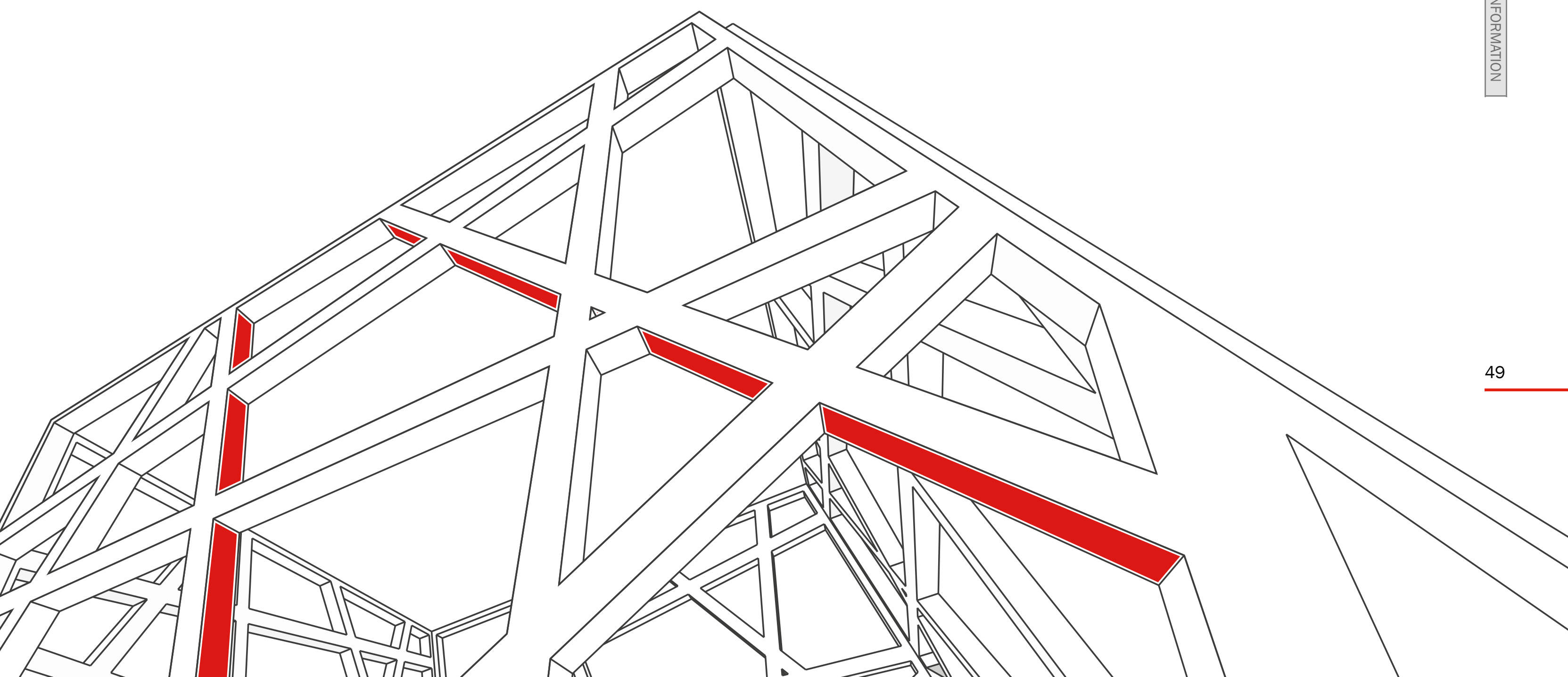
## Marketing

**Key developments in 2017**

- Launching the loyalty programme allowed EVRAZ to increase its domestic market share in Siberia by 9 percentage points for structural steel (to 74%) and by 3 percentage points for rebar and rolled steel (to 84%);
- To increase customer satisfaction, EVRAZ Metall Inprom and Trade Company EvrazHolding launched an online account service to allow customers to view order status and warehouse stocks in real time, to make it possible for retail orders to be placed online, and to improve the documentation workflow.

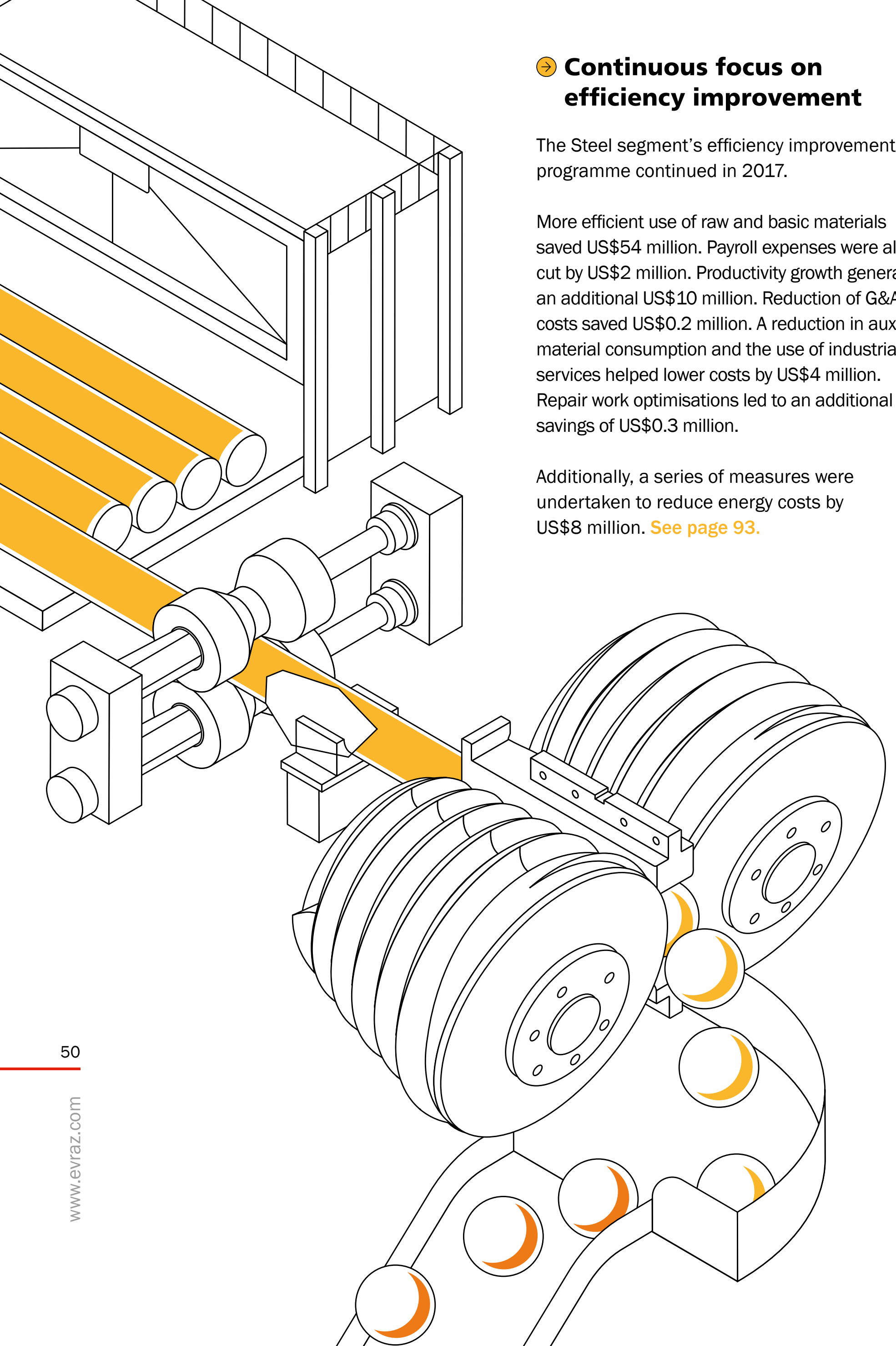
**Outlook for 2018**

- Create a new online platform for beam sales via EVRAZ Metall Inprom;
- Begin manufacturing and marketing stronger grinding balls at EVRAZ NTMK to improve competitive position (lower customer costs by optimising total cost of ownership).



# Strategic priorities

## Retention of low-cost position



### Continuous focus on efficiency improvement

The Steel segment's efficiency improvement programme continued in 2017.

More efficient use of raw and basic materials saved US$54 million. Payroll expenses were also cut by US$2 million. Productivity growth generated an additional US$10 million. Reduction of G&A costs saved US$0.2 million. A reduction in auxiliary material consumption and the use of industrial services helped lower costs by US$4 million. Repair work optimisations led to an additional cost savings of US$0.3 million.

Additionally, a series of measures were undertaken to reduce energy costs by US$8 million. See page 93.

### Main cost-reduction programmes

**Reduction of pig iron production costs by 5% (combined initiative at EVRAZ NTMK and EVRAZ KGOK)**

**Status**
Improved the quality of coking coal and sinter (relative to 2016), which allowed the blast furnace shop to optimise coking coal usage and adjust the total carbon level.

**Productivity improvement at the EVRAZ NTMK's wheel-bandage shop**

**Status**
Reduced development cycle for wheels by optimising software and testing new cutting tools.

**Reduction of pig iron production costs by 5% (combined initiative at EVRAZ ZSMK and Evrazruda)**

**Status**
Optimised the coal charge and increased the use of Fe-containing waste.

**Continuous casting machine (CCM) reconstruction at EVRAZ ZSMK**

**Status**
The development of a new continuous casting technology made it possible to reduce refractory brick and metal consumption.

# Prudent CAPEX strategy

## Key investment projects

### Steelmaking

**Construction of blast furnace no. 7 at EVRAZ NTMK**

The project aim is to maintain stable pig iron production volumes during the capital repair of blast furnace no. 6 in 2018-2019.

**Status**

- The concrete work was finished at all installations;
- Installation of metal structures is completed at the central unit, charge feed unit, air heater block and gas cleaning unit, and 70% complete at the aspiration unit;
- Equipment installation is 100% complete at the charge feed unit, 100% at the air heater block, and 100% at the gas cleaning unit, foundry yards – 90%;
- Refractory masonry work at the central unit is 90% complete, lining of gas and air lines – 90%, installation of cable routes – 40%, installation of electrical equipment – 60%.

| CAPEX in 2017 | US$133 million |
|---|---|

**Grinding ball mill construction at EVRAZ NTMK**

The project aim is to construct the new grinding ball mill in order to increase production and sales volumes.

**Status**

- Completed: project documentation, foundation work, partial delivery of primary and auxiliary equipment;
- Construction and installation work is under way for the primary and auxiliary equipment.

| CAPEX in 2017 | US$8 million |
|---|---|

**Wheel resurfacing capacity expansion**

The project aim is to expand the wheel resurfacing capacity in order to balance production capacity in 2019-2022 and increase production volumes.

**Status**

- Technical and engineering documentation has been completed, a construction site has been prepared;
- Working documentation is being developed and four machines for full-profile wheel resurfacing are being manufactured.

| CAPEX in 2017 | US$2 million |
|---|---|

**Optimisation of electric arc furnace shop at EVRAZ ZSMK**

The project aim is to intensify melting at the electric arc furnace no. 2.

**Status**

The warranty testing has been completed and the technology is being fine-tuned.

| CAPEX in 2017 | US$3 million |
|---|---|

**Transfer of the EVRAZ ZSMK's boiler no. 9 to the secondary gas combustion**

The project aim is to rebuild the boiler no.9 in order to transfer it to the secondary gas combustion and decommission two boilers from the steam-air station.

**Status**

- Main construction and pre-commissioning work have been completed;
- Process flow tests are under way on the boiler no. 9, and the gas pipeline for blast furnace gas is being tested.

| CAPEX in 2017 | US$7 million |
|---|---|

### Mining

**Evrazruda's Tashtagolsky deposit life extension until 2020**

The project aim is to increase ore production at the Tashtagolsky deposit to 3.25 million tonnes per year and partially transition to sub-floor caving technology using self-propelled equipment.

**Status**

- The project documentation executor and some suppliers for the main process equipment have been selected. Part of the research work has been developed, engineering surveys of the construction site have been carried out. The mining exploration work is 50% complete for the Zapadny site;
- The transition to 100% self-propelled mining equipment is being completed.

| CAPEX in 2017 | US$0.5 million |
|---|---|

## Key maintenance projects

**EVRAZ ZSMK**

EVRAZ ZSMK conducted planned capital repairs of the BOF converter no. 5 in April-June and the blast furnace no. 2 in June.

**ERVAZ KGOK**

EVRAZ KGOK continues to reconstruct and modernise its tailings facilities. This project will allow the Group to maintain its current level of in-house iron ore raw material supplies.

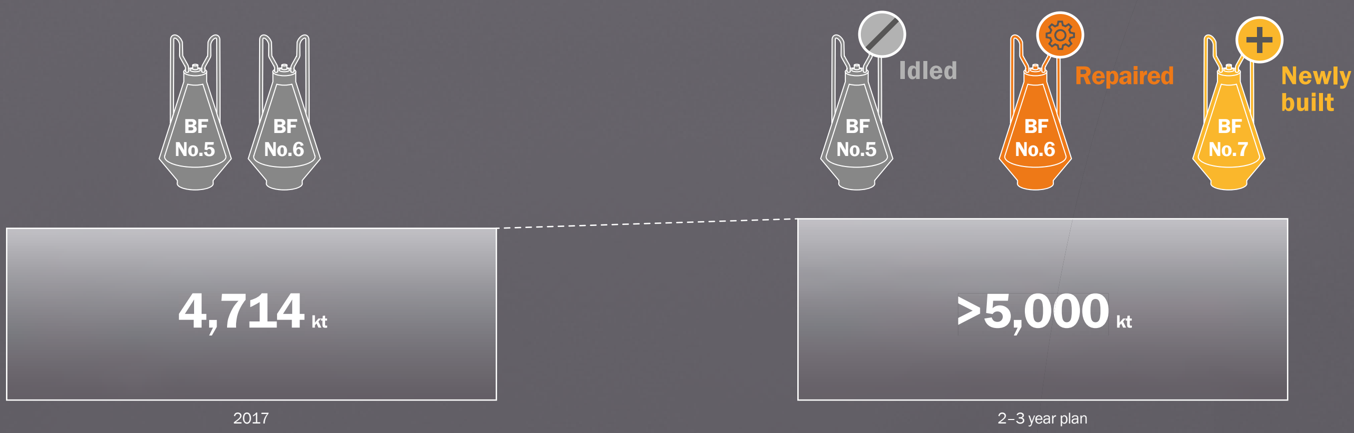
## CONSTRUCTION OF THE BLAST FURNACE No. 7

**To be launched in Q1 2018**

**EVRAZ NTMK**

EVRAZ NTMK's blast furnaces no. 5 and no. 6 each currently have an effective operating volume of 2,200 m$^3$. They are known as the most productive and efficient blast furnaces in Russia and Europe. Building the new blast furnace no. 7 provides alternative capacity while the blast furnace no. 6 is taken off-line for a major overhaul.

**PIG IRON PRODUCTION, kt**




# How we plan to maintain stable pig iron production at EVRAZ NTMK

## Characteristics of the blast furnace no. 7

Volume

**2,200 m³**

Production capacity

**2.5 mtpa of pig iron**

**The new technology will allow to reduce the environmental effect significantly and will improve working conditions in the blast furnace shop.**

## Technology

- two fully enclosed casting yards
- automated furnace filling and external cooling systems
- high-capacity aspiration systems and stoves
- every tap spout near tap holes is equipped with over-head exhaust hoods and efficient bag filters, which improve air filtration by 2.5 times
- the main slag discharge runner's upgraded design prevents closed-circuit water leaks

# Market review

## Russian steel market

Russia's economy embarked on a growth path in 2017 with GDP increasing by 1.5%. Positive trends in housing statistics and a broader economic recovery supported demand for steel products, which rose by 5% to 38.1 million tonnes. The demand for long steel climbed by 7%, 5% for flat steel and 2% for tubular products. In the railway segment, the demand for wheels surged by 96% due to the new cycle in railcar construction, and the rail consumption improved by 10%. In construction steel, the beam market grew by 6%, while demand for rebar and structural products was up a respective 3% and 5%.

Russian export volumes were in line with the previous year's figure of 24.2 million tonnes, mainly driven by the combination of a stronger rouble and solid domestic demand. Total crude steel production in Russia rose by 2% to 71.6 million tonnes.

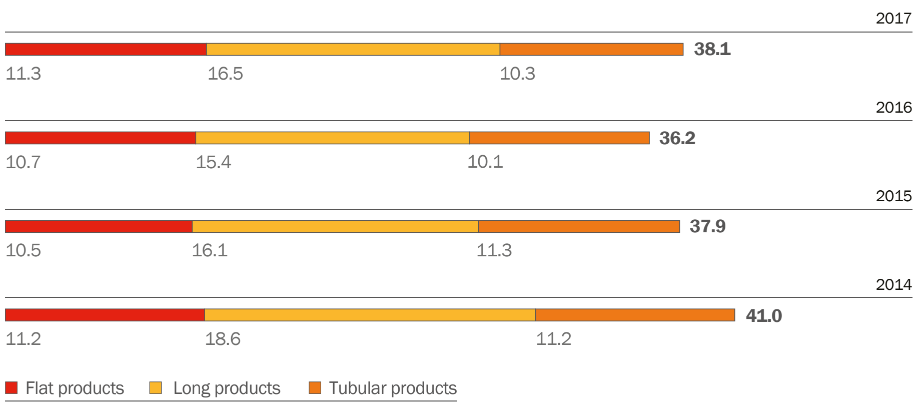
In 2017, Russian steel prices rode the wave of stronger global benchmarks and domestic demand. The CPT Moscow rebar price averaged US$444 per tonne, up 15% from US$387 per tonne in 2016. The price for channels performed even better, growing by 49% to US$622 per tonne. Hot-rolled coil averaged US$563 per tonne CPT Moscow, up 31% from US$431 per tonne in 2016. Plates averaged US$555 per tonne, up 31% from US$423 per tonne in 2016.

## Other steel markets

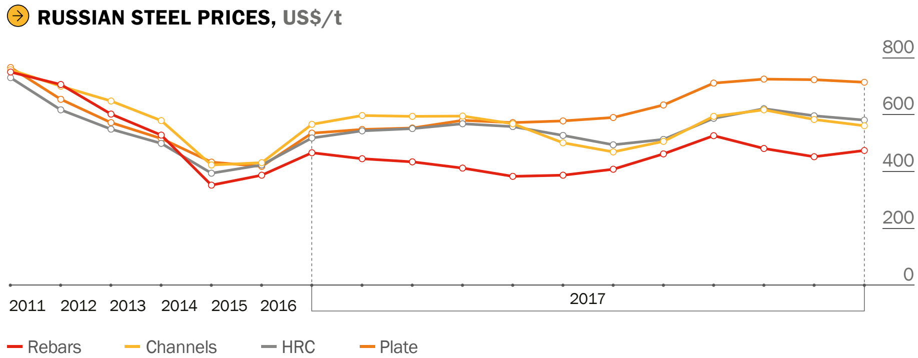
In Ukraine, domestic steel consumption rose by 5% to 4.7 million tonnes in 2017, up from 4.5 million tonnes in 2016, due to the continuing stabilization of the political situation and economy. Export volumes dropped by 13% to 15.6 million tonnes due to a temporary shutdown of certain steel plants in the beginning of 2017.

Kazakh steel consumption improved by 18% to 3.0 million tonnes in 2016, compared with 2.5 million tonnes in 2016, due to the weak performance in 2016 and general growth in the construction sector in 2017. Steel product exports climbed by 11% to 3.4 million tonnes amid rising global steel prices and growing demand in Russia.

**RUSSIAN STEEL CONSUMPTION BY PRODUCT TYPE,** mt




**RUSSIAN STEEL PRICES,** US$/t




# Sales volumes review

External steel product sales volumes at EVRAZ' Steel segment remained strong in 2017 (+0.7% y-o-y). The decline in construction products shipments was compensated by railway products sales, which rose by 13% with wheels being the major growth driver. Sales volumes of semi-fnished steel products to third parties remained mostly unchanged in 2017.

EVRAZ' sales volumes of key finished products in Russia mostly increased in 2017. The new cycle in railcar production led to a doubling of wheel sales, and rail sales were up 6% due to Russian Railways' stable investment programme. Rebar sales were down 12% due to heightened competition in Central Russia. Beams and structural products shipments faced a decline of 6% and 12% respectively.

Despite the growth of demand in the Russian long steel sector, the competition is increasing. EVRAZ is undertaking several initiatives to support domestic market share and developing new product types for clients. In rails, the market share was almost the same as last year at roughly 70% and we target this market share going forward. The Group's share on the structural product market was 41%, market shares for beams and rebars stood at 56% and 11% respectively. The share of the grinding balls market was 63%.

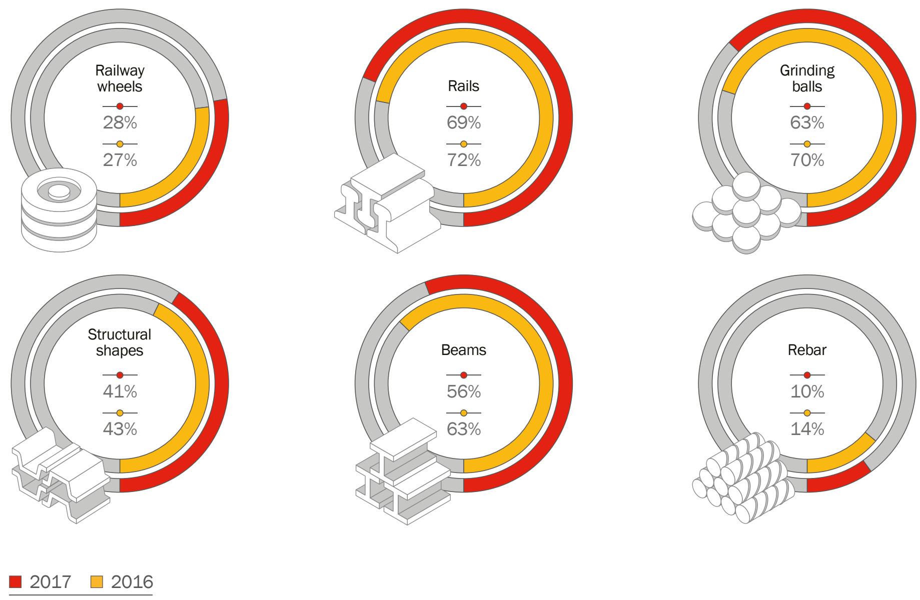
Evraz Caspian Steel's rebar sales decreased by 39% to 110 thousand tonnes in 2017.

Sales at EVRAZ DMZ were almost the same as in 2016 at 964 thousand tonnes due to a combination of improved local market demand and reduced export shipments.

The Group's finished vanadium product sales volumes increased by 3.2%, from 15.2 thousand tonnes of pure vanadium in 2016 to 15.7 thousand tonnes in 2017, amid a decline in supplies from China and positive global prices.

EVRAZ sold 1.7 million tonnes of iron ore pellets to third parties in the year, up 3.2% year-on-year, due to increased demand on the Russian market. Other external iron ore product volumes dropped by 53% due to the disposal of Evraz Sukha Balka.

## EVRAZ MARKET SHARES IN RUSSIA BY KEY PRODUCTS, %




EVRAZ remained the leader in rail production with a **69% market share** in 2017.

## GEOGRAPHIC BREAKDOWN OF EXTERNAL STEEL PRODUCT SALES, kt

| | 2017 | 2016 | Change, % |
|---|---|---|---|
| Russia | 4,939 | 4,998 | (1.2) |
| Asia | 3,328 | 3,285 | 1.3 |
| Europe | 1,499 | 1,302 | 15.1 |
| CIS | 972 | 883 | 10.0 |
| Africa, America and the rest of the world | 1,141 | 1,323 | (13.8) |
| **Total** | **11,879** | **11,792** | **0.7** |

## STEEL SEGMENT SALES VOLUMES, kt

| | 2017 | 2016 | Change, % |
|---|---|---|---|
| **Steel products, external sales** | **11,879** | **11,792** | **0.7** |
| – Semi-finished products | 5,735 | 5,601 | 2.4 |
| – Construction products | 3,750 | 4,135 | (9.3) |
| – Railway products | 1,281 | 1,134 | 13.0 |
| – Flat-rolled products | 511 | 351 | 45.6 |
| – Other steel products | 601 | 571 | 5.3 |
| **Steel products, inter-segment sales** | **587** | **521** | **12.7** |
| **Total steel products** | **12,466** | **12,313** | **1.2** |
| **Vanadium products (tonnes of pure vanadium)** | **22,319** | **20,428** | **9.3** |
| – Vanadium in slag | 6,647 | 5,261 | 26.3 |
| – Vanadium in alloys and chemicals[1] | 15,672 | 15,167 | 3.2 |
| **Iron ore products** | **2,937** | **4,222** | **(30.4)** |
| – Iron ore concentrate | 25 | 40 | (37.5) |
| – Pellets | 1,726 | 1,672 | 3.2 |
| – Other iron ore products | 1,186 | 2,510 | (52.7) |

[1] *The difference in 2016 numbers vs annual report 2016 is a result of adjustments in the sales volumes of vanadium products.*

# Financial performance

## Sales review

In 2017, revenues from the Steel segment climbed by 40.9% to US$7,743 million, compared with US$5,497 million a year earlier. The segment's revenues were affected by rising steel sales prices, primarily for semi-finished, construction and railway products.

Revenues from external sales of semi-finished products grew by 48.9% due to a 46.5% uptick in average prices. Most of the incremental revenues came from higher prices for billets and slabs and increased export volumes of semi-finished products.

Revenues from sales of construction products to third parties surged by 21.8% due to an upswing of 31.1% in average prices. This was partly offset by a 9.3% reduction in sales volumes, primarily on the Russian market, which was affected by heightened competition.

Revenues from external sales of railway products rose due to a 34.8% increase in prices, which was supported by market upside and growth of 13.0% in sales volumes. Greater sales of railway products during the reporting period were attributable to higher demand for wheels as the Russian market entered a new cycle in railcar production.

External revenues from flat-rolled products jumped by 93.2%, driven by surges of 47.6% in average prices and 45.6% in sales volumes amid an improving market situation. This was in line with global market trends and the increased production volumes at Evraz Palini e Bertoli.

The share of sales to the Russian market edged down from 49.7% in 2016 to 48.4% in 2017, mainly due to a shift in sales to Europe and the CIS.

Steel segment revenues from sales of iron ore products climbed by 23.9%. This was due to an upswing of 54.3% in average prices and a drop of 30.4% in sales volumes, which stemmed from the deconsolidation of Evraz Sukha Balka in June 2017. In 2017, around 66.5% of EVRAZ' iron ore consumption in steelmaking came from the Group's own operations, compared with 68.4% a year earlier.

Steel segment revenues from sales of vanadium products surged by 81.1% due to increases of 71.8% in average prices and 9.3% in sales volumes, despite the deconsolidation of Strategic Minerals Corporation following its disposal in April 2017. The positive price trend was in line with global benchmarks, which were driven by stronger demand influenced by changes to China's environmental policy and a scarcity of production facilities.

**GEOGRAPHIC BREAKDOWN OF EXTERNAL STEEL PRODUCT SALES,** US$ million

| | 2017 | 2016 | Change, % |
|---|---|---|---|
| Russia | 3,012 | 2,222 | 35.6 |
| Asia | 1,492 | 1,001 | 49.1 |
| Europe | 701 | 438 | 60.0 |
| CIS | 528 | 384 | 37.5 |
| Africa, America and rest of the world | 486 | 424 | 14.6 |
| **Total** | **6,219** | **4,469** | **39.2** |

**STEEL SEGMENT REVENUES BY PRODUCTS**

| | 2017 | | 2016 | | |
|---|---|---|---|---|---|
| | US$ million | % of total segment revenues | US$ million | % of total segment revenues | Change, % |
| **Steel products, external sales** | **6,219** | **80.3** | **4,469** | **81.3** | **39.2** |
| — Semi-finished products[1] | 2,523 | 32.6 | 1,694 | 30.8 | 48.9 |
| — Construction products[2] | 2,171 | 28.0 | 1,783 | 32.4 | 21.8 |
| — Railway products[3] | 863 | 11.1 | 584 | 10.6 | 47.8 |
| — Flat-rolled products[4] | 313 | 4.0 | 162 | 2.9 | 93.2 |
| — Other steel products[5] | 349 | 4.6 | 246 | 4.6 | 41.9 |
| **Steel products, inter-segment sales** | **284** | **3.7** | **184** | **3.3** | **54.3** |
| — Including sales to Steel, North America | 270 | 3.5 | 176 | 3.2 | 53.4 |
| **Iron ore products** | **192** | **2.5** | **155** | **2.8** | **23.9** |
| **Vanadium products** | **545** | **7.0** | **301** | **5.5** | **81.1** |
| **Other revenues** | **503** | **6.5** | **388** | **7.1** | **29.6** |
| **Total** | **7,743** | **100.0** | **5,497** | **100.0** | **40.9** |

[1] *Includes billets, slabs, pig iron, pipe blanks and other semi-finished products*
[2] *Includes rebar, wire rods, wire, beams, channels and angles*
[3] *Includes rail, wheels, tyres and other railway products*
[4] *Includes commodity plate and other flat-rolled products*
[5] *Includes rounds, grinding balls, mine uprights and strips*

# Steel segment cost of revenues

In 2017, the Steel segment's cost of revenues increased by 42.5% year-on-year. The main reasons for the growth were:

- The cost of raw materials rose by 59.3%, primarily due to an increase in prices for all key raw materials, (particularly for coking coal, iron ore and scrap) and the stronger rouble. This was accompanied by higher production volumes at EVRAZ ZSMK versus 2016, when planned capital repairs to blast furnaces were performed. The growth in raw material costs was partially offset by cost-cutting initiatives, which reduced consumption.
- Costs for auxiliary materials grew by 6.4% in the view of the rouble strengthening impact on costs, as well as higher prices for electrodes. This was partially offset by a reduction of US$12 million in costs following the disposal of Evraz Sukha Balka in June 2017 and Strategic Minerals Corporation in April 2017.
- Higher service costs were mainly driven by the appreciation of the Russian currency.
- Transportation costs increased by 29.4%, primarily due to the stronger rouble and higher export sales volumes of steel products.
- Staff costs increased by 16.2%, largely because of the effect that rouble strengthening had on costs, accompanied by wage inflation at Russian sites. This was partially offset by a reduction of US$14 million in costs following the disposal of Evraz Sukha Balka and Strategic Minerals Corporation.
- Depreciation and depletion costs increased by 13.1%, primarily due to the rouble's appreciation.
- Energy costs were higher due to the stronger rouble and increased tariffs in local currencies.
- Other costs increased, primarily due to changes in goods for resale and semi-finished products.

# Steel segment gross profit

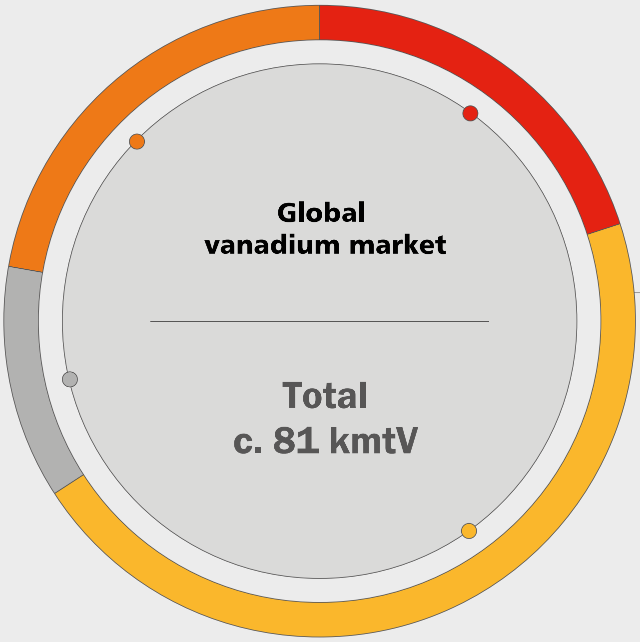
The Steel segment's gross profit surged by 36.3% year-on-year, driven primarily by higher steel and vanadium prices. This was partially offset by a rise in prices for purchased raw materials and the effect that rouble strengthening had on costs.

### STEEL SEGMENT COST OF REVENUES

| | 2017 | | 2016 | | |
|---|---|---|---|---|---|
| | US$ million | % of segment revenues | US$ million | % of segment revenues | Change, % |
| **Cost of revenues** | **5,795** | **74.8** | **4,068** | **74.0** | **42.5** |
| Raw materials | 2,756 | 35.6 | 1,730 | 31.5 | 59.3 |
| – Iron ore | 485 | 6.3 | 292 | 5.3 | 66.1 |
| – Coking coal | 1,356 | 17.5 | 830 | 15.1 | 63.4 |
| – Scrap | 466 | 6.0 | 277 | 5.0 | 68.2 |
| – Other raw materials | 449 | 5.8 | 331 | 6.1 | 35.6 |
| Auxiliary materials | 334 | 4.3 | 314 | 5.7 | 6.4 |
| Services | 269 | 3.5 | 221 | 4.0 | 21.7 |
| Transportation | 449 | 5.8 | 347 | 6.3 | 29.4 |
| Staff costs | 530 | 6.8 | 456 | 8.3 | 16.2 |
| Depreciation | 241 | 3.1 | 213 | 3.9 | 13.1 |
| Energy | 474 | 6.1 | 395 | 7.2 | 20.0 |
| Other[1] | 742 | 9.6 | 392 | 7.1 | 89.3 |

*[1]Includes goods for resale, changes in work in progress and finished goods, taxes in cost of revenues, semi-finished products, allowance for inventory and inter-segment unrealised profit.*

# Vanadium operations

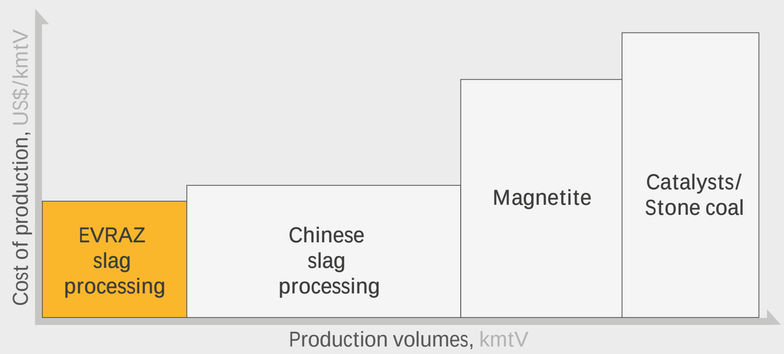



| | |
|---|---|
| EVRAZ | 20% |
| China | 46% |
| Peer | 12% |
| Others | 22% |

**EVRAZ is a leading player in the global vanadium market.**

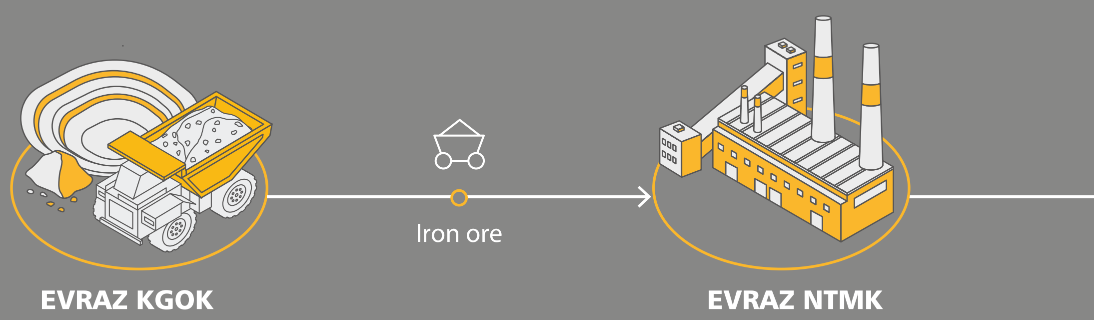
### EVRAZ vanadium production cost curve

**EVRAZ produces ferrovanadium from slag (a by-product of steel production at EVRAZ NTMK), making the Group one of the lowest-cost vanadium producers in the world.**




## EVRAZ' vanadium production model overview

Our vanadium business is organically built into our steel making model. EVRAZ' product portfolio includes ferrovanadium, vanadium pentoxide, vanadium oxides and chemicals.



*Vanadium pentoxide*

## Key vanadium production facilities

**EVRAZ Vanady-Tula (Russia)**

EVRAZ Vanady-Tula is the largest Russian producer of ferrovanadium. Its production facilities are in Tula, the administrative centre of Tula region.

**Key consumers:**
EVRAZ Nikom, EVRAZ Stratcor, steel producers

**EVRAZ Nikom (Czech Republic)**

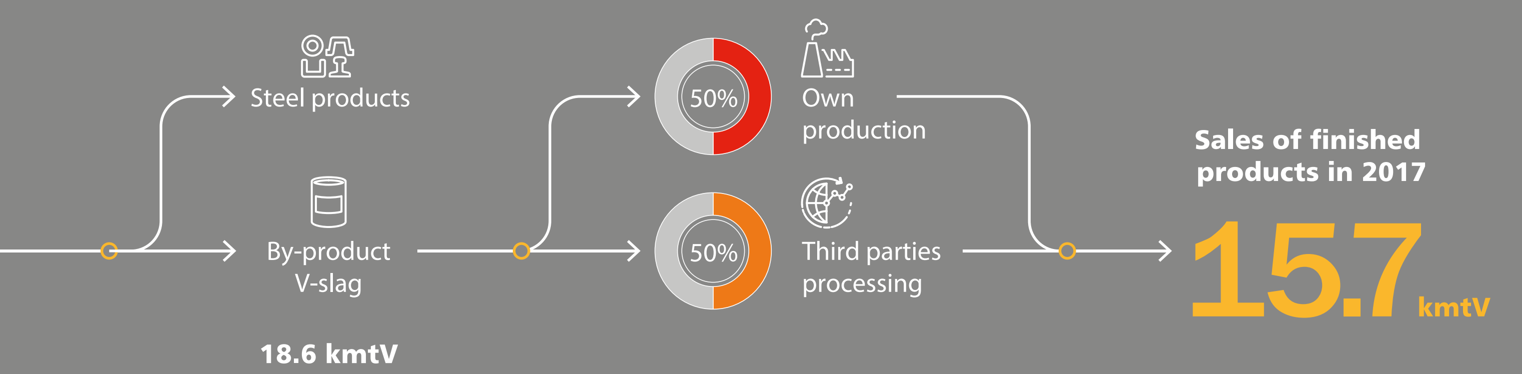
EVRAZ Nikom is a ferrovanadium producer in the Czech Republic. It has one processing facility, which it uses to process vanadium pentoxide received from EVRAZ Vanady-Tula and third-party suppliers.

**Key consumers:**
Steel producers

**EVRAZ Stratcor (US)**

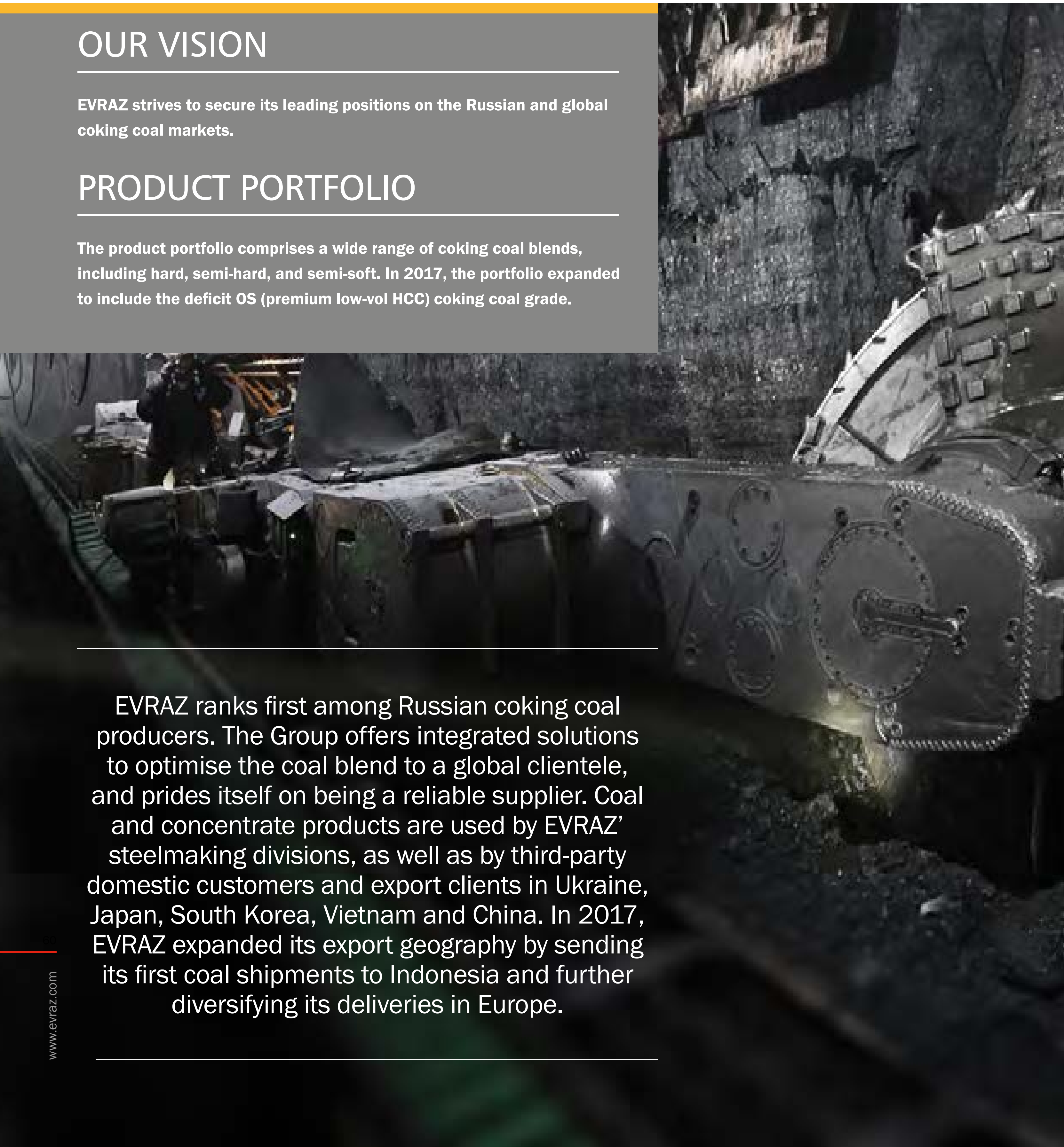
EVRAZ Stratcor is a producer of high-purity vanadium alloys and chemicals, and a major supplier of vanadium to the chemical and titanium industries.

**Key consumers:**
Catalyst producers, VAL/titanium industry, specialty chemical producers



# Coal segment

## Introduction and highlights



## OUR VISION

**EVRAZ strives to secure its leading positions on the Russian and global coking coal markets.**

## PRODUCT PORTFOLIO

**The product portfolio comprises a wide range of coking coal blends, including hard, semi-hard, and semi-soft. In 2017, the portfolio expanded to include the deficit OS (premium low-vol HCC) coking coal grade.**

EVRAZ ranks first among Russian coking coal producers. The Group offers integrated solutions to optimise the coal blend to a global clientele, and prides itself on being a reliable supplier. Coal and concentrate products are used by EVRAZ' steelmaking divisions, as well as by third-party domestic customers and export clients in Ukraine, Japan, South Korea, Vietnam and China. In 2017, EVRAZ expanded its export geography by sending its first coal shipments to Indonesia and further diversifying its deliveries in Europe.

## Financial highlights

**REVENUES**

US$ 2,214 million

+67.5% yoy

**EBITDA MARGIN**

55.4%

**EBITDA**

US$ 1,226 million

+90.4% yoy

**CAPEX**

US$ 126 million

+35.5% yoy

## Production highlights

| | |
|---|---|
| **Raw coking coal** | 23,306 kt |
| **Coking coal concentrate** | 13,060[1] kt |

## Sales highlights (sales to 3rd parties only)

| | |
|---|---|
| **Raw coal** | 2,302 kt |
| **Coking coal concentrate** | 8,197 kt |

[1] *Excluding 2,083 kt of coal concentrate which was produced at EVRAZ ZSMK coal washing plant.*

# Strategic priorities

## Development of product portfolio and customer base

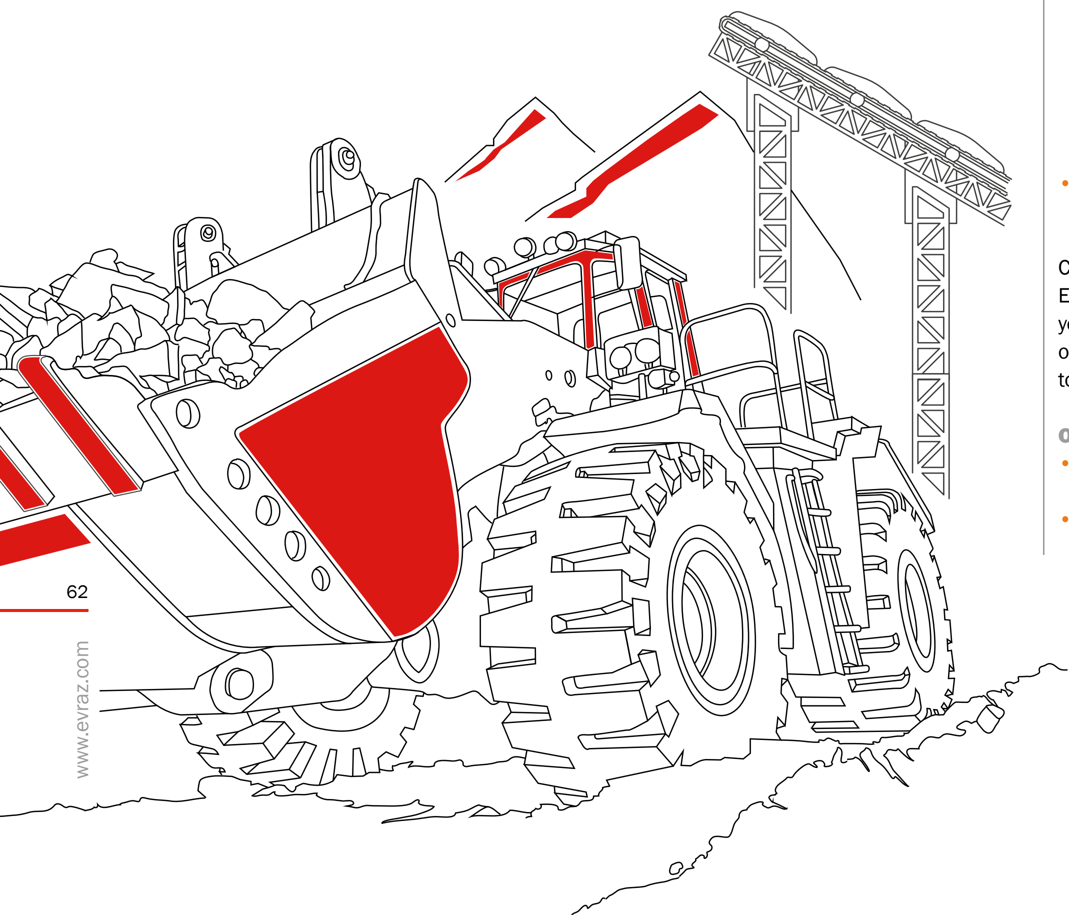
### Securing the position as a major coking coal supplier in Russia

**Key developments in 2017**

- Consistent product quality helped to retain Russian market leadership;
- Production volumes rose;
- Investments to expand and overhaul production facilities helped to boost output of saleable products;
- Open-pit mining was launched at the Raspadskaya-Koksovaya mine site;
- Coal mining was resumed at the Raspadskaya mine's production seam no. 6;
- Investments into the new flotation equipment at the third section of Raspadskaya's beneficiation plant helped to improve product quality.

**Outlook for 2018**

- Maintain leading positions on the Russian market by keeping product quality consistent;
- Improve reliability of deliveries;
- Increase premium low vol. HCC production volumes;
- Boost saleable products volume to c. 18 million tonnes by increasing mining volumes at the Raspadsky open-pit with additional equipment, as well as increasing mining efficiency at other assets;
- Launch flotation at Raspadskaya's first and second sections (full +1.5% yield effect from 2019).



### Increase sales to Ukrainian market

**Key developments in 2017**

- Maintained sales volumes to Ukraine.

**Medium-term outlook**

- To increase annual sales to Ukraine.

### Expansion of the export portfolio

**Key developments in 2017**

EVRAZ achieved its targets for 2017 export sales by:

- Maintaining a flexible sales geography:
  - Export priorities: Ukraine, Japan, South Korea, and Vietnam;
  - Entering new markets, like Indonesia, and expanding geographical diversity within Europe;
  - Sending some volumes to China via spot contracts;
- Conducting site visits for new clients and regular audits at the request of key customers.

Coking coal export volumes to countries in South-East Asia exceeded 4.3 million tonnes (up 25% year-on-year). Additionally, exports to Turkey and other European countries increased by 1 million tonnes (a six-fold increase).

**Outlook for 2018**

- Ensure a diverse sale geography by seeking new supply routes from Baltic Sea ports;
- Increase export sales to South-East Asia and European countries.



# Retention of low-cost position

## The increase of the efficiency along the value chain

The Coal segment's long-term programme to improve efficiency continues.

In 2017, planned cost optimisations saved US$73 million, with the additional effect of US$61 million coming from productivity growth, improving auxiliary material usage, optimisation of industrial services, and G&A and payroll optimisations.

## Main projects in 2017

### Degassing efficiency improvement

**Status**

- Began degassing seams using long directional holes at the Yerunakovskaya-VIII mine;
- Introduced modern equipment to increase the length of traditional underground seam degassing holes at the Raspadskaya and Yerunakovskaya mines.

**2018 plan**

- Expand underground seam degassing using long directional holes to the Alardinskaya and Raspadskaya-Koksovaya mines;
- Search for new seam degassing technology with a low gas recovery factor for use at the Osinnikovskaya mine;
- Continue experimenting with degassing seams using plasma impulse excitation.

### Tunnelling rates increase

**Status**

- Increased tunnelling rates by 15% year-on-year after adding high-efficiency tunnelling equipment;
- Reached a maximum rate of 600 metres per month using the bolter miners at the Raspadskaya and Yerunakovskaya mines.

**2018 plan**

- Achieve targeted 15% year-on-year tunnelling growth;
- Reach new sustainable peak tunnelling rates;
- Continue adding high-efficiency tunnelling equipment.

### Operating time increase at clearing faces

**Status**

- Increased average daily operating time by reducing accident and operational delays, as well as repair shift work;
- Increased average daily production per face by 5% year-on-year to 6.3 thousand tonnes per day.

**2018 plan**

- Reach 500 thousand tonnes per month at faces in the Alardinskaya and Raspadskaya mines (seam no. 6);
- Increase operating time and extraction on face no. 4-1-5-4 at the Osinnikovskaya mine to 5 thousand tonnes per day with final extraction of reserves in June 2018;
- Ramp up of both  both the Alardinskaya and Raspadskaya mines to 500 thousand tonnes per month;
- Achieve mine rate of 5 thousand tonnes per day at longwall no. 4-1-5-4 of Osinnikovskaya mine.

### Raspadskaya washing plant upgrade

**Status**

- Launched flotation at the Raspadskaya washing plant's third section which led to an increase in concentrate output by 3%.

**2018 plan**

- Reduce ash content in mined raw coal (+1% to the yield);
- Begin using the new flotation equipment at the first and second sections of the Raspadskaya washing plant (+1.5% to the yield from 2019).

### Production flow optimisation at washing plants

**Status**

- Screw separation section was automated at the Raspadskaya washing plant, which increased concentrate production volumes at section no. 7 by boosting coal processing volumes;
- Optimised operations at the Kuznetskaya washing plant, which helped to improve coal processing efficiency and increased concentrate output by 73 thousand tonnes.

**2018 plan**

- Setup raw coal and concentrate warehouses at coal washing plants to reduce idle time from logistics and to increase plant operating time;
- Increase concentrate production by reducing ash content in the mined raw coal;
- Reduce idle time at the Raspadskaya washing plant on crushing large coal chunks, purchase crushers for the open-pit at Raspadskaya-Koksovaya site and Alardinskaya mines;
- Launch a press filter at the Kuznetskaya washing plant to increase concentrate output.

### Saleable product output optimisation

**Status**

- Additional volumes of saleable products were produced at current washing capacities through the sieving of low ash coal from the Uskovskaya and Mezhegeyugol mines on saleable raw coal and coal for further processing.

**2018 plan**

- Acquire sieving equipment for the Uskovskaya mine;
- Launch dry enrichment at Razrez Raspadskiy;
- Separate high-ash coal with sieving equipment directly at Razrez Raspadskiy and open-pit at Raspadskaya-Koksovaya site.

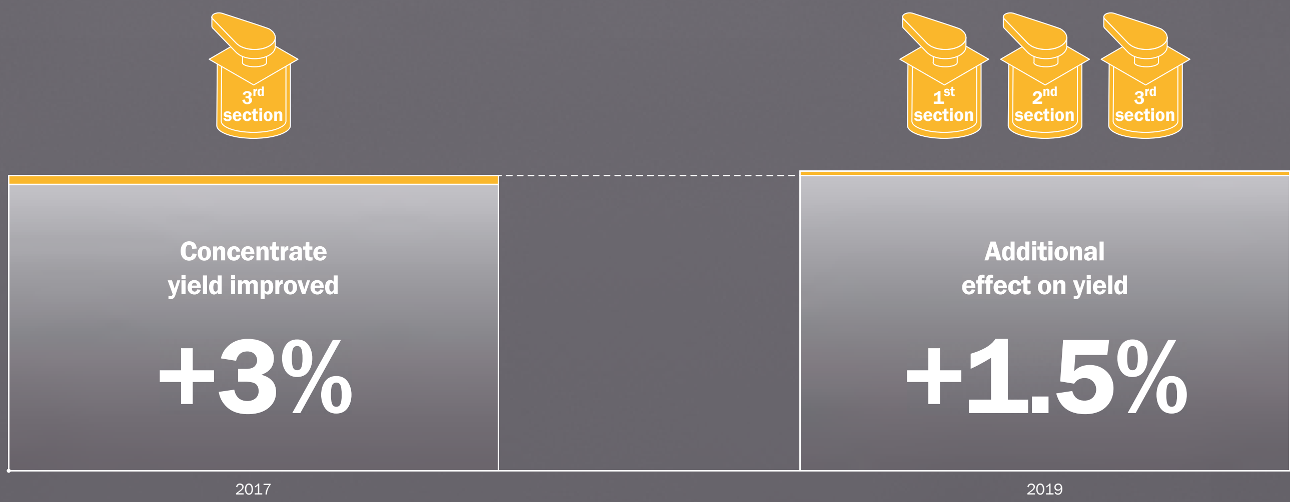
# INSTALLATION OF THE FLOTATION EQUIPMENT

**Stage 1 of the project completed in 2017**

**Raspadskaya washing plant**

**The new equipment will allow to reduce operating costs by increasing production throughput. Moreover, it will allow to improve the quality of coal concentrate.**

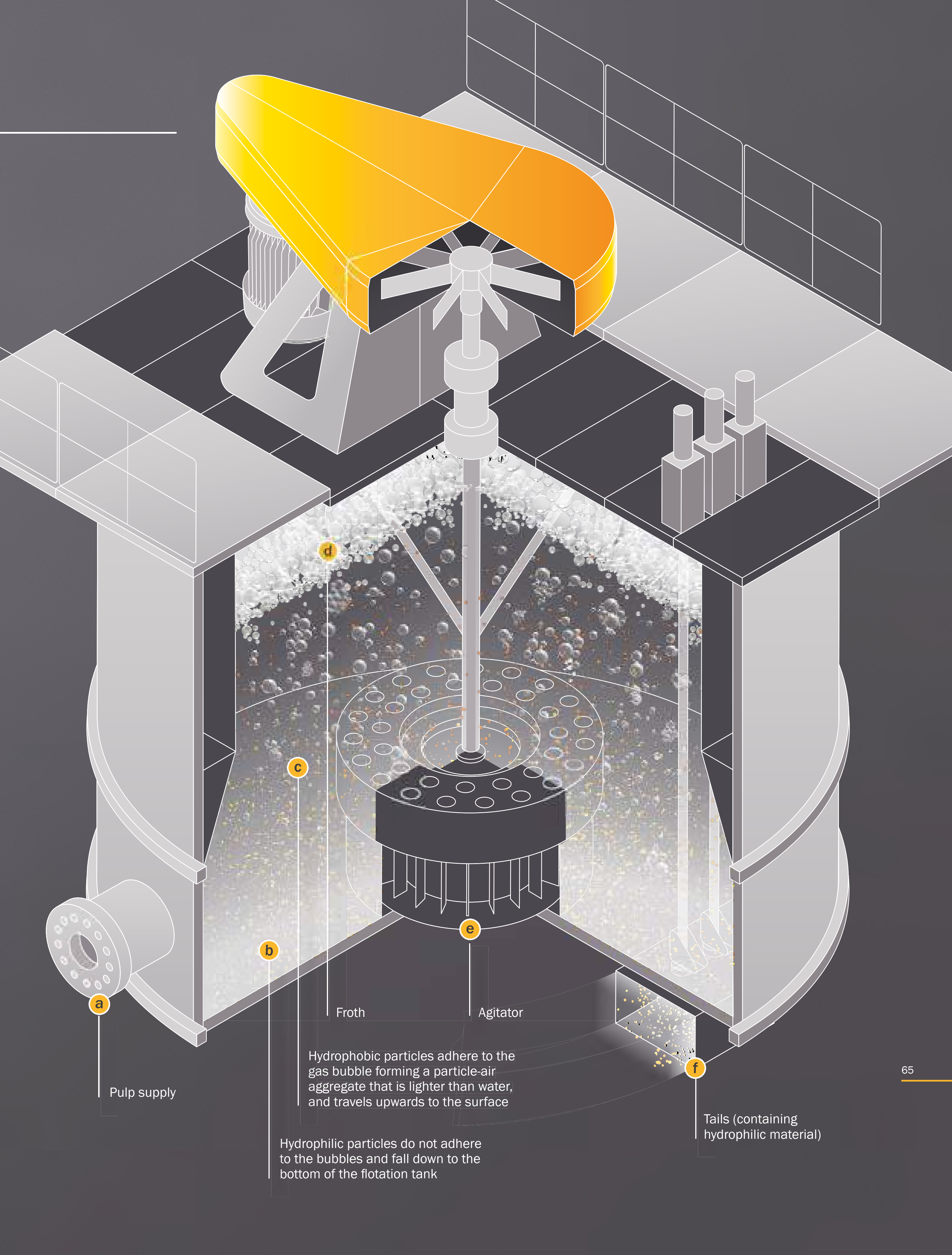
**CONCENTRATE YIELD IMPROVEMENT**




# How we plan to upgrade coal washing capacities

**Technology**

- the flotation section comprises M-flot mechanical, six-dimensional flotation machines with a volume of 16 $m^3$, chamber press-filters, chemical tanks and conveyor belts
- the flotation process is used to separate small solid particles in a liquid of a certain density that allows the coal particles to float to the surface, while the rock settles to the bottom and is removed


d
c
b
e
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f
Froth
Agitator
Hydrophobic particles adhere to the gas bubble forming a particle-air aggregate that is lighter than water, and travels upwards to the surface
Pulp supply
Hydrophilic particles do not adhere to the bubbles and fall down to the bottom of the flotation tank
Tails (containing hydrophilic material)

# Strategic priorities

## Prudent CAPEX strategy

The Coal segment's main investments in 2017 were directed towards maintaining stable production and improving efficiency. Maintenance CAPEX totalled US$124 million. Spending priorities included replacing and repairing worn out equipment, upgrading existing production processes with more modern and efficient equipment (to accelerate tunnelling rates, improve degassing volumes, and increase concentrate output from plants), as well as reserving new blocks and seams for future work.

A total of US$2 million was spent to develop coal production in 2017.

### Key investment projects

**Mezhegey project**

The project aim is to add 1.5 mtpa of coking coal capacity (grade Zh under Russian classification).

**Status**

- In January 2017, Mezhegeyugol launched commercial production;
- Since then, it has been operating with commercial mining volumes of up to 1.3 million tonnes of coal per year;
- The mine uses the board-and-pillar technique;
- In 2017, the mine set a new tunnelling rate record for the Group of 1,046 linear metres per month by a single team.

| CAPEX in 2017 | US$1.0 million |
|---|---|

**Raspadskaya-Koksovaya open-pit**

The project aim is to begin open-pit mining of the valuable OS (premium low-vol HCC) grade coal at the Raspadskaya-Koksovaya site.

**Status**

- Approval received, and commercial coal production launched;
- Positive samples with customers prompted a review with an aim to increase mining plans and grow production in 2018.

| CAPEX in 2017 | US$0.5 million |
|---|---|

### Maintenance project

**Preparation of a new blocks and seams at Osinnikovskaya, Yesaulskaya and Uskovskaya mines**

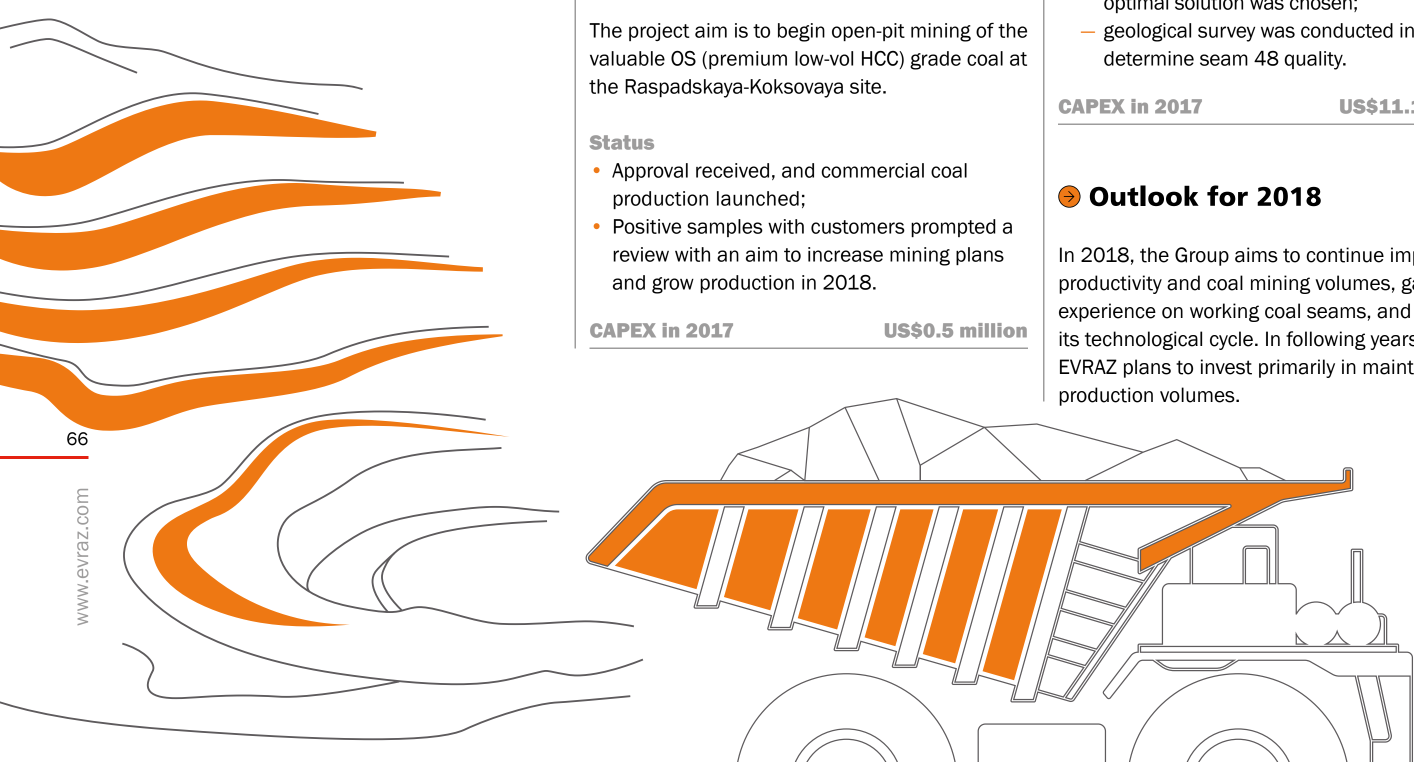
The project aim is to prepare reserves for future mining at Osinnikovskaya, Yesaulskaya and Uskovskaya sites.

- Fourth block at Osinnikovskaya mine:
  - conducted capital mining and preparation work for face 4-1-5-6;
  - communications, degassing and gas management equipment were installed;
- Seam 29a at Yesaulskaya mine:
  - restored and worked seams 26a and 29a to launch longwall 29-37;
  - tunnelling equipment was acquired;
  - project documentation was prepared for work at seam 29a;
- Seam 48 at Uskovskaya mine:
  - working options for seam 48 were prepared, optimal solution was chosen;
  - geological survey was conducted in order to determine seam 48 quality.

| CAPEX in 2017 | US$11.1 million |
|---|---|

### Outlook for 2018

In 2018, the Group aims to continue improving productivity and coal mining volumes, gain experience on working coal seams, and optimise its technological cycle. In following years, EVRAZ plans to invest primarily in maintaining production volumes.



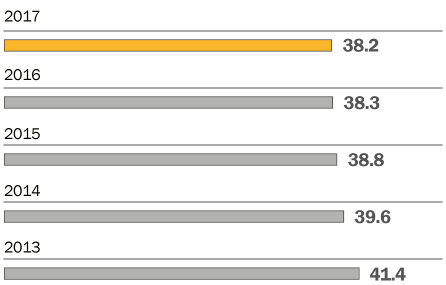
# Market review

## Russian coking coal market trends

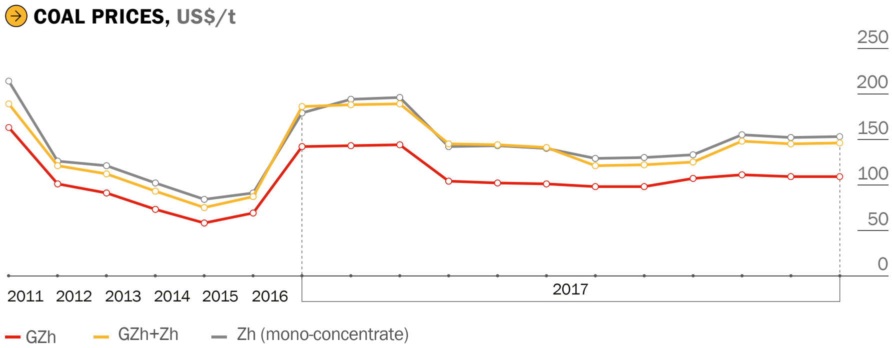
Russian coking coal concentrate consumption remained almost flat year-on-year at 38.2 million tonnes in 2017. Export shipments rose by 4% to 21.5 million tonnes, compared with 20.5 million tonnes in 2016, on increased Chinese demand, which helped to offset reduced exports to Ukraine.

Domestic coking coal prices followed upward trends in global benchmarks in 2017. The Zh grade of premium coking coal averaged US$154 per tonne FCA Kuzbass, up 69% from US$91 per tonne in 2016, while the GZh grade of semi-soft coking coal averaged US$114 per tonne, up 66% year-on-year.

**DOMESTIC COKING COAL CONCENTRATE CONSUMPTION,** mt




**COAL PRICES,** US$/t



## Sales volumes review

EVRAZ' coking coal product sales climbed by 5% to 16.3 million tonnes in 2017, compared with 15.6 million tonnes in 2016, due to stable local and export demand, as well as higher production volumes at the Group's current mines and the launch of a new open-pit mine at the Raspadskaya-Koksovaya.

Intersegment coking coal product sales remained mostly unchanged at 5.8 million tonnes. Total external coking coal product sales rose by 6% year-on-year to 10.5 million tonnes, compared with 9.9 million tonnes in 2016, due to an expanded customer base and stable coal quality.

Coking coal product sales on Russia's domestic market fell by 2% to 9.7 million tonnes due to the launch of new mines in high-vol coal grades, with around 50% consumed by EVRAZ' steelmaking facilities.

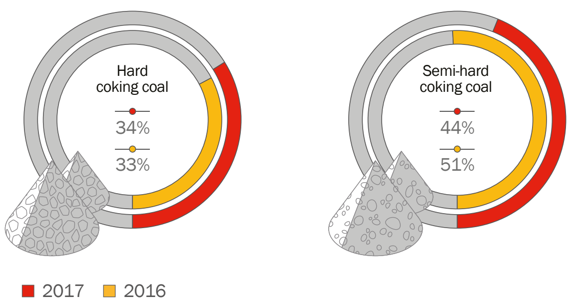
The Group's coal product export shipments increased by 15% to 6.6 million tonnes in 2017, compared with 5.8 million tonnes the year before. EVRAZ was able to increase sales to China from 0.4 million tonnes in 2016 to 1.2 million tonnes in 2017, while maintaining stable volumes in Ukraine, Europe, South Korea and Japan.

In 2017, EVRAZ retained its leading position on the domestic market with a 21% share across all coal grades.

**COAL SEGMENT SALES VOLUMES, kt**

| | 2017 | 2016 | Change, % |
|---|---|---|---|
| **Coal products, external sales** | **10,499** | **9,867** | **6.4** |
| – Coking coal | 2,302 | 1,569 | 46.7 |
| – Coal concentrate | 8,197 | 8,298 | (1.2) |
| **Coal products, inter-segment sales** | **5,778** | **5,701** | **1.4** |
| – Coking coal | 1,160 | 1,249 | (7.1) |
| – Coal concentrate | 4,618 | 4,452 | 3.7 |
| **Total, coal products** | **16,277** | **15,568** | **4.6** |

**EVRAZ MARKET SHARE OF RUSSIA'S HIGH-VOL COKING COAL GRADES, %**




In 2017, EVRAZ retained its leading position on the domestic market with a **21% share** across all coal grades.

# Financial performance

## Sales review

The segment's overall revenues increased sharply amid rising sales prices as global market trends remained favourable. This was driven by supply disruptions caused by the ongoing capacity optimisation programme in China and extreme weather conditions in Australia.

Sales volumes rose due to higher annual output at the Raspadskaya and the Raspadskaya-Koksovaya mines, as well as the launch of commercial production at Mezhegeyugol.

Revenues from internal sales of coal products grew, mainly because of a surge in prices of 78.4% and an uptick in volumes of 1.4%. This was in line with the upward trends seen among global benchmarks.

Revenues from external sales of coal products rose due to growth of 61.1% in prices and 6.4% in sales volumes, which was driven by stable, positive demand on the domestic and export markets and higher coal production volumes.

In 2017, the Coal segment's sales to the Steel segment amounted to US$830 million (37.5% of total sales), compared with US$483 million (36.5%) a year earlier.

During the reporting period, roughly 50.0% of EVRAZ' coking coal consumption in steelmaking came from the Group's own operations, compared with 47.5% in 2016.

**COAL SEGMENT REVENUES BY PRODUCT**

| | 2017 | | 2016 | | |
|---|---|---|---|---|---|
| | US$ million | % of total segment revenues | US$ million | % of total segment revenues | Change, % |
| **External sales** | | | | | |
| Coal products | 1,266 | 57.2 | 756 | 57.2 | 67.5 |
| – Coking coal | 174 | 7.9 | 66 | 5.0 | 163.6 |
| – Coal concentrate | 1,092 | 49.3 | 690 | 52.2 | 58.3 |
| **Inter-segment sales** | | | | | |
| Coal products | 811 | 36.6 | 451 | 34.1 | 79.8 |
| – Coking coal | 75 | 3.4 | 42 | 3.2 | 78.6 |
| – Coal concentrate | 736 | 33.2 | 409 | 30.9 | 80.0 |
| **Other revenues** | 137 | 6.2 | 115 | 8.7 | 19.1 |
| **Total** | **2,214** | **100.0** | **1,322** | **100.0** | **67.5** |

# Coal segment cost of revenues

The main drivers of the year-on-year increase in the Coal segment's cost of revenues were as follows:

- The consumption of auxiliary materials rose by 55.0% amid an increase in mine openings and higher drilling meterage. This was accompanied by growth in prices for auxiliary materials and spare parts, as well as by the rouble's appreciation impact on costs. The increase in auxiliary materials costs was partially offset by the effect of cost-cutting initiatives.
- Costs for services climbed due to the stronger rouble, the rescheduled longwall repositioning at Yuzhkuzbassugol's mines, the growth of service costs to drill degassing holes and the increase in open-pit mining works at the Raspadskaya-Koksovaya mine.
- Transportation costs grew in the reporting period, primarily due to the higher share of exports in the sales mix, which had a negative impact on trading companies. This was accompanied by the appreciation of the rouble and an increase in tariffs for the supply of wagons.
- Staff costs were up because of rouble strengthening and wage inflation at Russian sites. This was partially offset by a reduction of US$7 million due to the disposal of Evraz Nakhodka Trade Sea Port.
- Depreciation and depletion costs rose, primarily due to the stronger Russian currency.
- The growth in energy costs was attributable to the impact of the stronger rouble on costs and higher electricity prices in local currencies.
- Other costs decreased in the reporting period, mainly due to changes in work in progress and finished goods. This was partially offset by higher taxes after the mineral tax rate was increased, as well as the effect of rouble strengthening.

# Coal segment gross profit

The Coal segment's gross profit for 2017 amounted to US$1,241 million, up from US$621 million a year earlier, primarily due to higher sales prices.

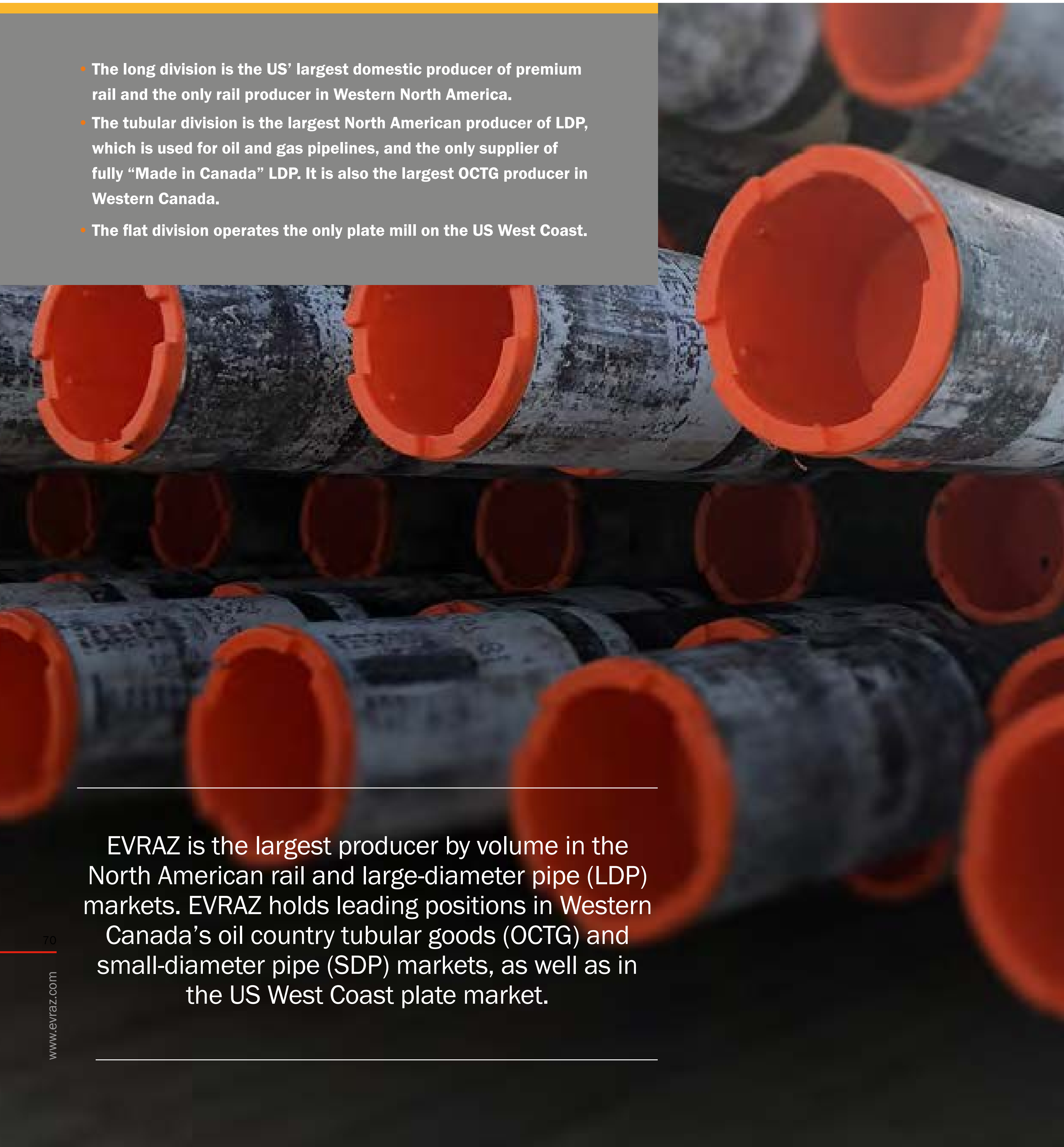
**COAL SEGMENT COST OF REVENUES**

| | 2017 | | 2016 | | |
|---|---|---|---|---|---|
| | US$ million | % of segment revenues | US$ million | % of segment revenues | Change, % |
| **Cost of revenues** | **973** | **43.9** | **701** | **53.0** | **38.8** |
| Auxiliary materials | 124 | 5.6 | 80 | 6.1 | 55.0 |
| Services | 114 | 5.1 | 85 | 6.4 | 34.1 |
| Transportation | 259 | 11.7 | 136 | 10.3 | 90.4 |
| Staff costs | 198 | 8.9 | 164 | 12.4 | 20.7 |
| Depreciation/depletion | 162 | 7.3 | 134 | 10.1 | 20.9 |
| Energy | 49 | 2.2 | 37 | 2.8 | 32.4 |
| Other[1] | 67 | 3.1 | 65 | 4.9 | 3.1 |

*[1]Primarily includes goods for resale, certain taxes, changes in work in progress and finished goods, allowance for inventory, raw materials and inter-segment unrealised profit.*

# Steel, North America segment

## Introduction and highlights



- The long division is the US' largest domestic producer of premium rail and the only rail producer in Western North America.
- The tubular division is the largest North American producer of LDP, which is used for oil and gas pipelines, and the only supplier of fully "Made in Canada" LDP. It is also the largest OCTG producer in Western Canada.
- The flat division operates the only plate mill on the US West Coast.

EVRAZ is the largest producer by volume in the North American rail and large-diameter pipe (LDP) markets. EVRAZ holds leading positions in Western Canada's oil country tubular goods (OCTG) and small-diameter pipe (SDP) markets, as well as in the US West Coast plate market.

## Financial highlights

**REVENUES**

US$ 1,864 million

+27.3% yoy

**EBITDA MARGIN**

3.1%

**EBITDA**

US$ 58 million

+107.1% yoy

**CAPEX**

US$ 107 million

–35.2% yoy

## Production highlights

| | |
|---|---|
| Crude steel | 1,748 kt |
| Steel products | 1,851 kt |

## Sales highlights (sales to 3rd parties only)

| | |
|---|---|
| Steel products | 1,885 kt |

# Strategic priorities

## Development of product portfolio and customer base


### Marketing and customer focus

**Tubular division**

**Key developments in 2017**
- Successfully ramped up OCTG mills to respond to a sharp increase in the market demand and expanded the market share in Western Canada to c. 28% (a five-year historical high);
- Achieved target production volumes at the upgraded Calgary heat treat line with effective 100% utilisation throughout the year;
- Conducted successful trials of thick-wall pipe production at the new EVRAZ Regina LDP mill;
- On January 4, 2018, the Canadian International Trade Tribunal found that imports of a small diameter line pipe into Canada (24 inches or less in outside diameter) from South Korea have injured the Canadian industry and implemented duties ranging by producer from 4% to 88%;
- Qualified a new coating facility with key LDP customers.

**Outlook for 2018**
- Expect to maintain a leading market share of the OCTG market in Western Canada supported by a strong demand;
- Strong LDP order book for 2018 to secure high capacity utilisation of the EVRAZ Regina spiral mill;
- Begin production of first sizeable thick-wall orders for key LDP customers using new capabilities of the EVRAZ Regina spiral mill;
- Increasing demand and pricing for small-diameter line pipe, supported by import duties in Canada;
- Expect high capacity utilisation at the new Regina Coating facility supported by a strong LDP and a line pipe demand;
- Aim to finalise most of the construction work to launch a new heat treat line at EVRAZ Red Deer in early 2019.

**Long division**

**Key developments in 2017**
- The demand for rails increased driven by higher coal, metals and minerals shipments;
- Increased sales volumes to Western Class I railroads as their destocking cycle completed;
- Successfully ramped up the seamless mill to 100% utilisation supported by the strong OCTG demand in North America;
- Shipped 13 thousand tonnes of rod to 15 new customers in 2017.

**Outlook for 2018**
- Rail demand is still likely to be relatively weak, with rail customers expecting 2018 to be a trough year in terms of capital spending followed by a subsequent recovery of the demand starting in 2019;
- Plan to start a new seamless threading line at the end of 2018, allowing for significant cost reductions and faster delivery of the seamless pipe to our customers in the Bakkens and Rockies regions;
- Plan to strengthen technical partnerships with our key rod customers by continuing to focus on the product innovation; shifting our product mix towards high-carbon rod.

**Flat division**

**Key developments in 2017**
- Secured a large contract and has become a leading supplier to one of the largest wind tower producers in North America;
- Secured a trial order for a prototype armoured vehicle;
- Regained the qualification as a supplier to a large armoured vehicle OEM;
- Gained the qualification and began supplying to a new armoured vehicle and military battle tank OEM;
- Successfully re-entered the tool-steel plate market by developing a strategic alliance with a key distributor in this market.

**Outlook for 2018**
- Further increase the market share in the wind tower segment;
- Continue expanding the market share in the armoured vehicle market sector;
- Develop the chain to secure a long-term coil supply agreement with Western OEM.

### New product development and quality increase

**Tubular division**

**Key developments in 2017**
- Produced thick-wall pipe (1 inch) at the new LDP mill, full customer qualifications expected in 2018;
- Developed a mildly sour-service casing product and sold first volumes to Canadian market;
- Completed development of EB, QB1-HT and 11¾-inch QB-2 connections, currently marketing the products;
- Launched ENA 110MS and P110-HCi seamless OCTG products.

**Outlook for 2018**
- Introduce a number of new premium and semi-premium connections to the OCTG market:
  - The semi-premium connection suitable for tubing (2 7/8-inch to 3 ½-inch outside diameter);
  - The QB-2 premium connection designed from the ground up for long horizontal shale wells that undergo multiple stimulation cycles is in the final development stage;
  - The QB2-XL premium connection for large sizes (10 ¾-inch outside diameter and larger);



- Finalise the development of sour-service line pipe product and launch it to market;
- Continue X70 development trials with the focus on improvement of the low- temperature properties for both helical and straight seam UOE pipe.

## Long division

### Key developments in 2017

- The Apex G2 rail continues to perform well in customer test tracks, initial revenue service trial results suggest this grade significantly reduces wear;
- The welded rail business almost doubled;
- EVRAZ reached a milestone receiving a conditional approval with unlimited supply of the H36C wheel profile from the AAR; H36C wheel sales increased 45% year-on-year in 2017, as supply agreements were signed with two major Class I railways.

### Outlook for 2018

- In 2018, EVRAZ expects to obtain an approval from a strategic Class I partner for in-track use of rail, on the back of the agreement reached in 2017 to supply Apex G2 rail for trackwork components;
- EVRAZ expects two North American locomotive wheel profiles and one additional freight car profile to enter the market in H2 2018 after obtaining the approval from the AAR to supply additional wheel profiles to the market.

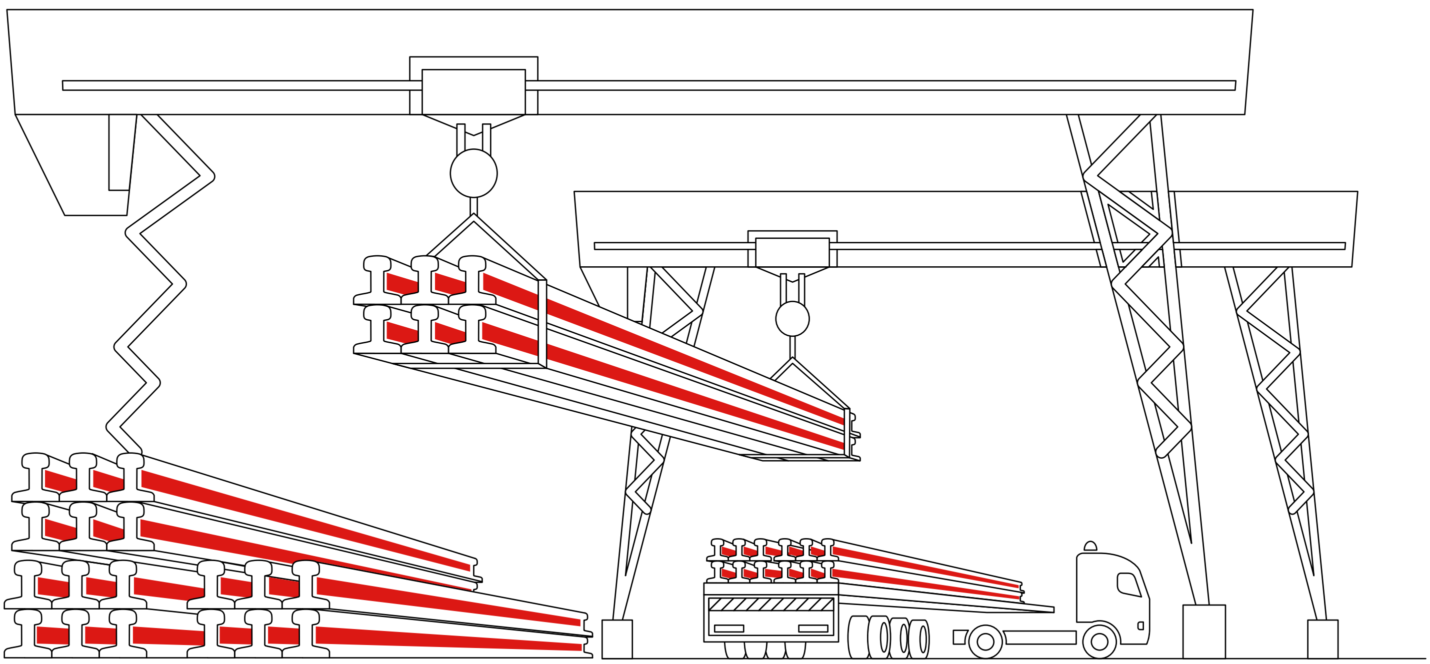
## Flat division

### Key developments in 2017

- Developed FlatRx product, began creating demand in the market;
- Completed development of the 650 Brinell product and secured the business for the large armoured vehicle OEM;
- Roll line and quench press alignment coupled with modification to quench practice improved the heat treat flatness and reduced the retreat rate by 25%;
- Increased the percentage of material that qualifies for use in seismic protection of structures, determined chemical properties and control practices for various gauge ranges that resulted in an increase in success rate;
- Successfully completed the trial related to enhancing the plate surface compatible with high-speed laser cutting, the next step will be to test the material at different thicknesses and with less powerful lasers;
- Qualified additional domestic slab sources for armour grades.

### Outlook for 2018

- Develop the “TruTank” product to increase our participation in the tank market;
- Develop the 700 bhn product for prototype armoured vehicles;
- Develop the LFQ product for laser cutting applications.



# STEELMAKING EXPANSION AND CONSTRUCTION OF THE LDP MILL

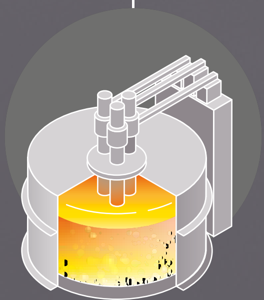
**Duration:**
**2017–2018**

**EVRAZ Regina**

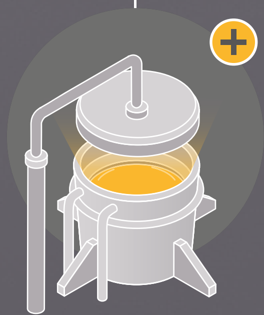
Investment projects implemented at EVRAZ Regina in 2017 made it possible to:

- gain capabilities to manufacture new products with increasing demand;
- improve product quality (lower impurities, higher weld quality, etc);
- significantly reduce production costs across the entire value chain.

**Steelmaking**



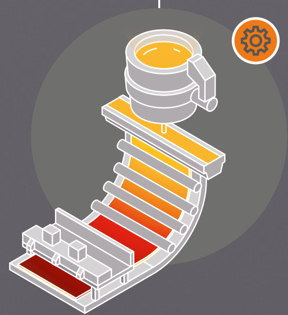
**Degasser**



**New equipment**

Improves steel quality and reduces cost

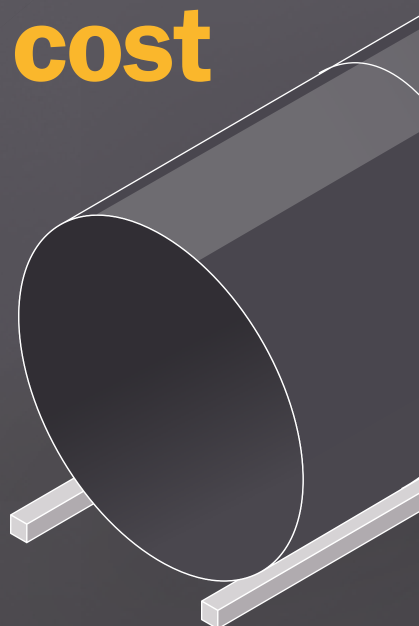
**Continuous casting machine**

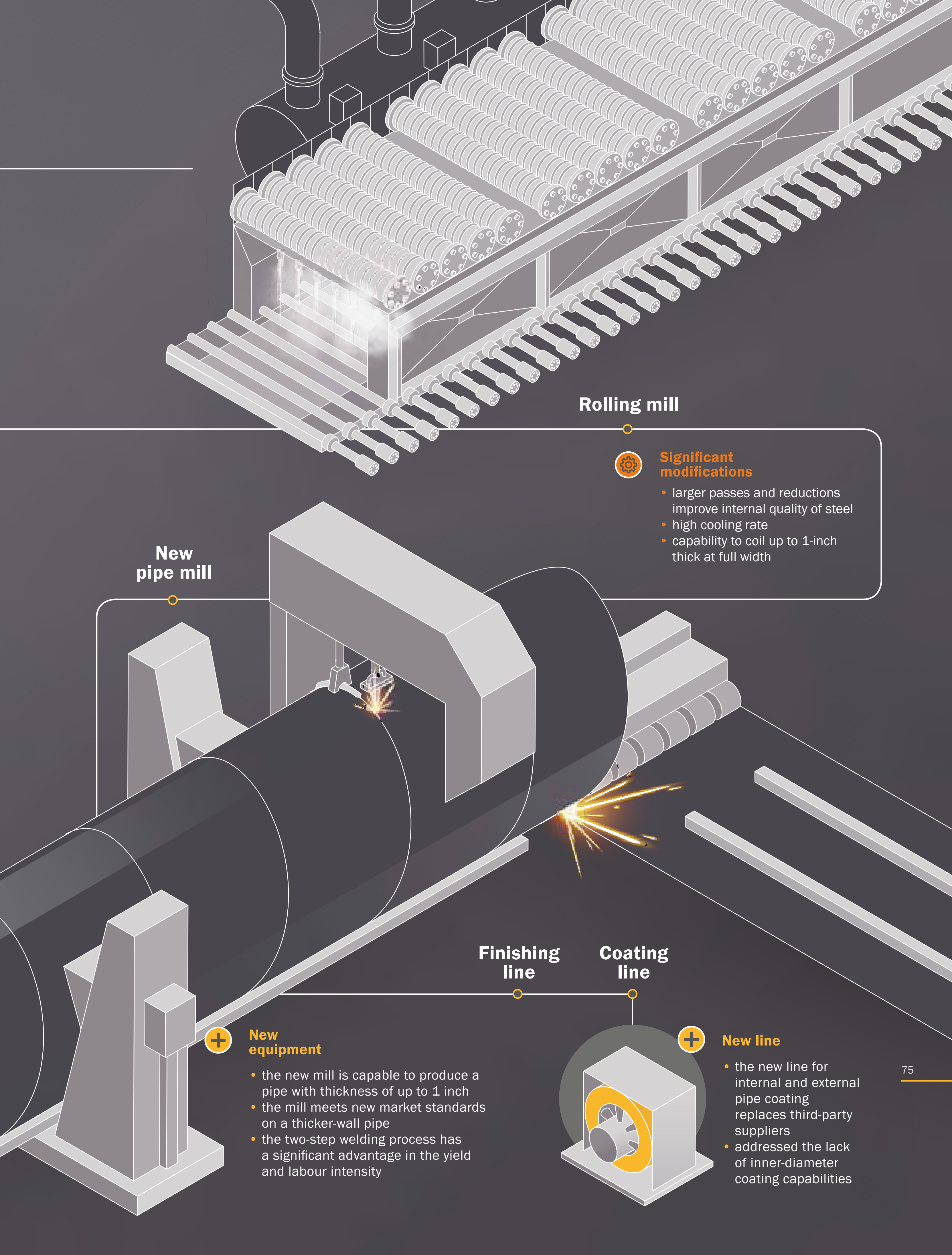


**Significant modifications**

Width adjustment has been added to the caster which allows to increase yield and machine availability

## How we plan to supply new products at a lower cost





Rolling mill
Significant modifications
• larger passes and reductions improve internal quality of steel
• high cooling rate
• capability to coil up to 1-inch thick at full width
New pipe mill
Finishing line
Coating line
New equipment
• the new mill is capable to produce a pipe with thickness of up to 1 inch
• the mill meets new market standards on a thicker-wall pipe
• the two-step welding process has a significant advantage in the yield and labour intensity
New line
• the new line for internal and external pipe coating replaces third-party suppliers
• addressed the lack of inner-diameter coating capabilities

# Strategic priorities

## Retention of low-cost position

During the year, our operations focused on adjusting controllable costs. Across our support functions, we realised full-year savings from the programmes initiated in 2016 to eliminate redundancies and streamline fixed costs.

These programs delivered US$12 million in benefit during 2017 in comparison to 2016.

### Main projects in 2017

**G&A, fixed cost, and industrial services optimisation**

**Status**
Additional savings were generated by continued focus on streamlining incidental and non-value adding processes, as well as from the realised full-year impact of actions taken in 2016.

**Outlook for 2018**
Expect to maintain costs at lower levels as volumes increase.

**Raw materials and basic materials consumption optimisation at EVRAZ Regina**

**Status**
Alloy savings were realised due to improved melting practices, rolling and cooling.

**Outlook for 2018**
Expect to experience the full-year impact of savings from investments.

**Flux/powder usage reduction at EVRAZ Regina**

**Status**
Reduced flux/powder usage in steelmaking.

**Outlook for 2018**
Expect to realise the full-year impact of savings with the degasser operational for the full year.

**Yield improvement at EVRAZ Regina's steel and tubular facilities**

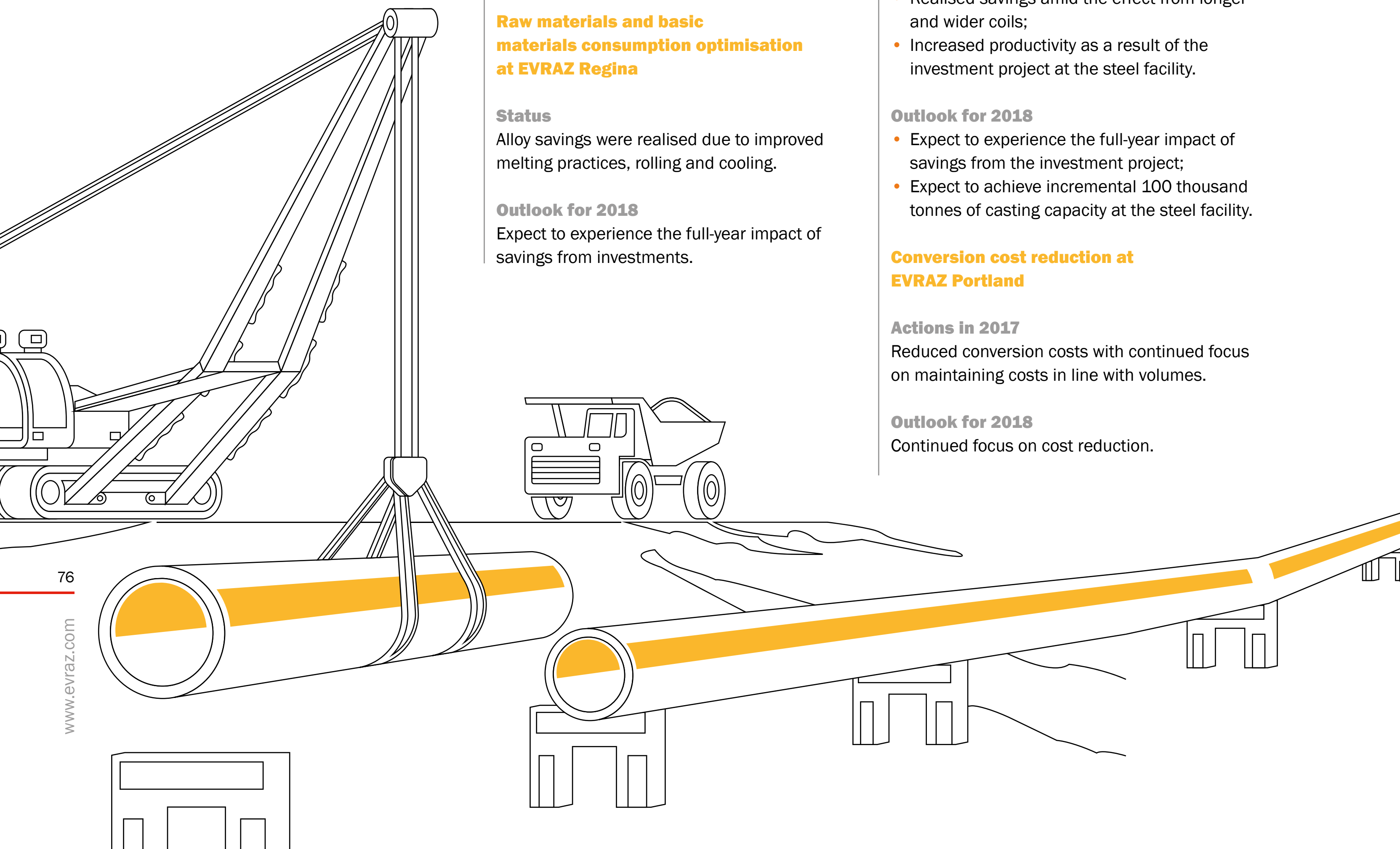
**Status**
- Realised savings amid the effect from longer and wider coils;
- Increased productivity as a result of the investment project at the steel facility.

**Outlook for 2018**
- Expect to experience the full-year impact of savings from the investment project;
- Expect to achieve incremental 100 thousand tonnes of casting capacity at the steel facility.

**Conversion cost reduction at EVRAZ Portland**

**Actions in 2017**
Reduced conversion costs with continued focus on maintaining costs in line with volumes.

**Outlook for 2018**
Continued focus on cost reduction.



# Prudent CAPEX strategy

## Key investment projects

**Steelmaking expansion at EVRAZ Regina**
The aim of the project is to upgrade steelmaking facility, increase steelmaking capacity and improve quality.

**Status**
All equipment installation completed.

| CAPEX in 2017 | US$45 million |
|---|---|

**New LDP mill construction at EVRAZ Regina**
The aim of the project is to install the new LDP mill in order to increase LDP production capacity.

**Status**
The mill continues ramping up as planned.

| CAPEX in 2017 | US$3 million |
|---|---|

**Seamless threading at EVRAZ Pueblo**
The aim of the project is to install threading equipment for in-house threading of seamless pipe to reduce production costs.

**Status**
In progress.

| CAPEX in 2017 | US$4 million |
|---|---|

**Heat treat at EVRAZ Red Deer**
The aim of the project is to expand heat treating capacity.

**Status**
In progress.

| CAPEX in 2017 | US$7 million |
|---|---|

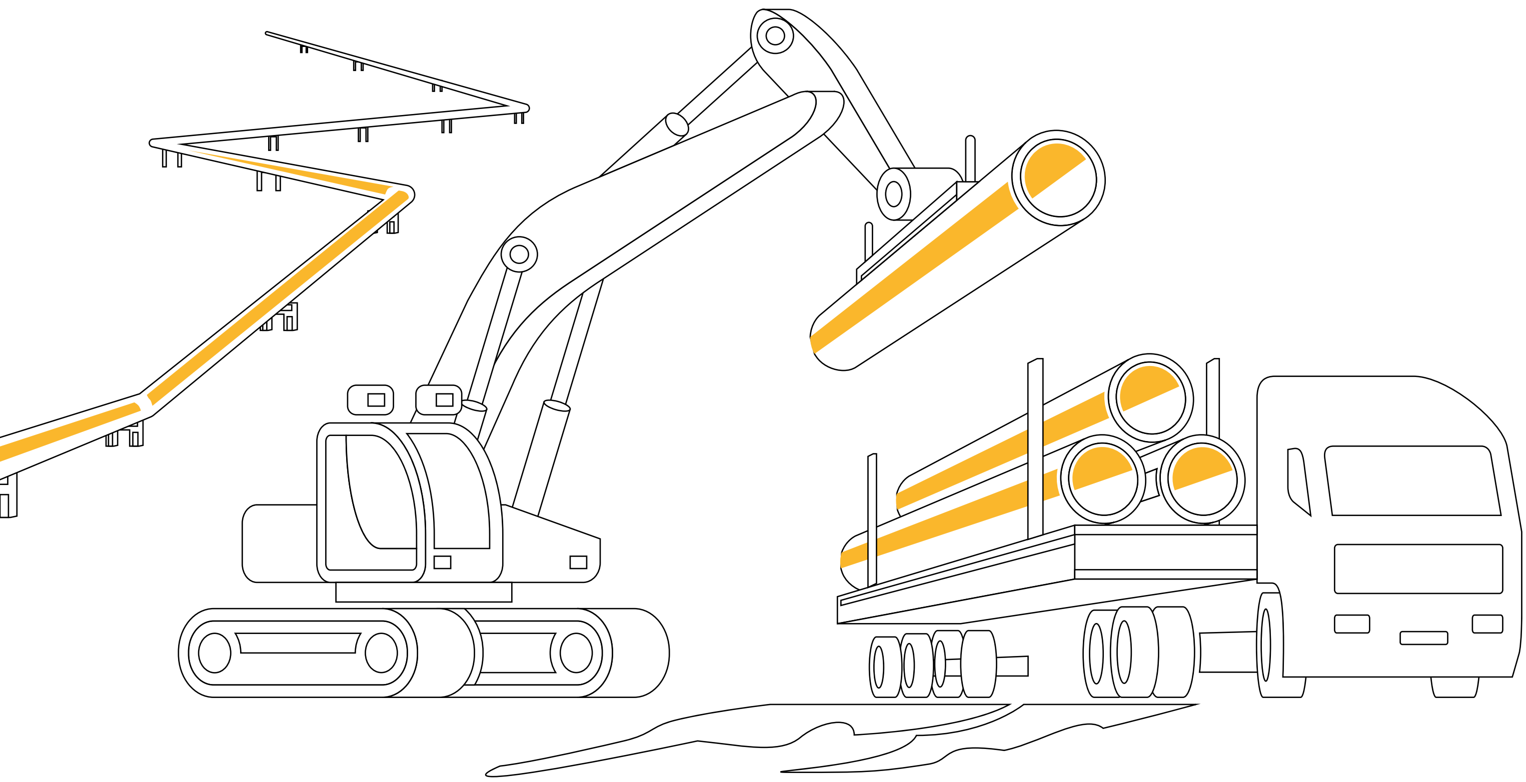
## Key maintenance projects

During 2017, the EVRAZ North America's operations completed the following maintenance projects:

**EVRAZ Portland**
Installation of transition rolls and repairs of the cooling beds.

**EVRAZ Pueblo**
The final phase of upgrades of the electrical drives in the wire rod mill.

**EVRAZ Regina**
The upgrade of the welder on the ERW welding line.



# Market review

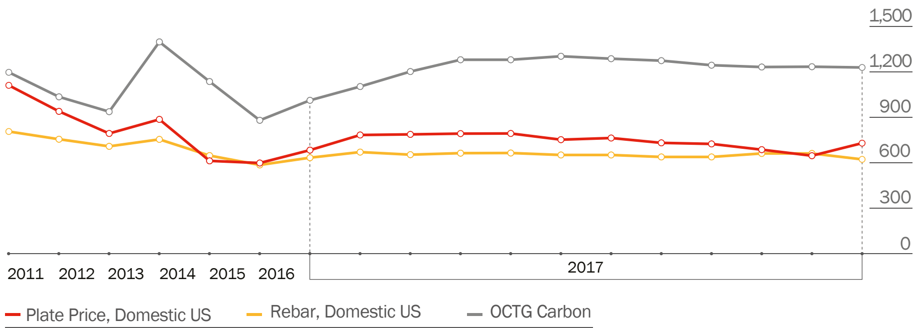
## North American steel market trends

US steel product consumption increased by 6.6% to 97 million tonnes in 2017, up from 91 million tonnes in 2016. The demand improved driven by stronger rail market as a result of the end of de-stocking cycle of Class I railroads, and improved by 2.4% for flat products and by 89% for tubular products, due to an uptick in oil prices and recovered drilling activity. Large-diameter pipe (LDP) market fundamentals were relatively strong during the reporting period and demand was stable at 1.0 million tonnes.

Finished steel product imports, which significantly influenced the US steel industry in 2015-2016, increased by 14% year-on-year to 26 million tonnes in 2017 due to improvements in the domestic demand.

US steel price premiums to Europe and Asia were compressed during 2017, albeit the trend was also positive. Prices increased by 23% to US$740 per tonne for flat products, by 11% to US$651per tonne for rebar, and by 39% to US$1,224 per tonne for OCTG.

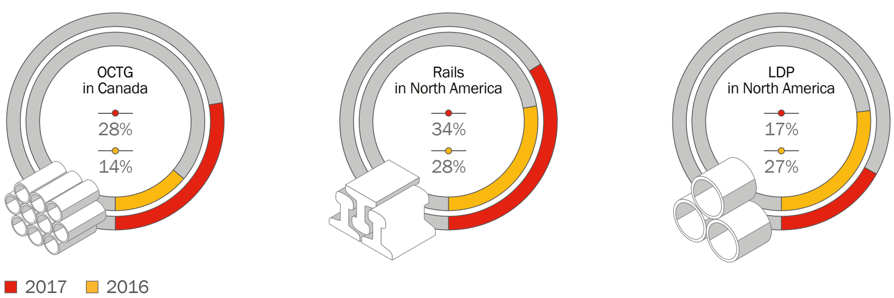
### NORTH AMERICA PRICES, US$/t



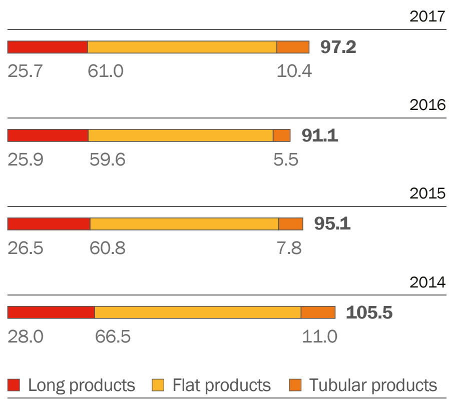

### STEEL, NORTH AMERICA SEGMENT SALES VOLUMES, kt

| | 2017 | 2016 | Change, % |
|---|---|---|---|
| **Steel products** | | | |
| Semi-finished products | 7 | 0 | n/a |
| Construction products | 241 | 281 | (14.3) |
| Railway products | 376 | 321 | 17.1 |
| Flat-rolled products | 512 | 536 | (4.5) |
| Tubular products | 749 | 534 | 40.3 |
| **Total** | **1,885** | **1,672** | **12.7** |

### EVRAZ MARKET SHARES IN NORTH AMERICA BY KEY PRODUCTS, %




### US FINISHED STEEL CONSUMPTION, mt




# Sales volumes review

Evraz North America's steel product sales improved by 13%, from 1.7 million tonnes in 2016 to 1.9 million tonnes in 2017, due to improvements in the domestic energy and infrastructure sectors. EVRAZ sold 376 thousand tonnes of railway products in 2017, an increase of 17% year-on-year, in the view of the market shift to the premium product mix and the market share increase. Flat product volumes went down by 4% to 512 thousand tonnes in 2017, compared with 536 thousand tonnes in 2016. Construction product sales decreased by 14% to 241 thousand tonnes.

Tubular products sales surged by 40% to 749 thousand tonnes in 2017, up from 534 thousand tonnes in 2016. The major driver were OCTG products, which saw 306% annual sales growth from 82 thousand tonnes in 2016 to 333 thousand tonnes in 2017 amid a recovery in the drilling activity. LDP sales dropped by 42% to 178 thousand tonnes due to major pipeline projects experiencing difficulties with receiving project approvals.

Evraz North America maintained its leadership in North American rail and Canadian OCTG markets during 2017, with respective market shares by volume of roughly 34% and 28%. In 2017, the Group ramped up EVRAZ Regina's mill after the completion of its investment projects, and initiated two new projects at EVRAZ Red Deer and EVRAZ Pueblo to further improve the OCTG product mix.

# Financial performance

## Sales review

The segment's revenues from steel product sales increased significantly as a result of improved prices and volumes, by 18.7% and 12.7%, respectively. This was mainly attributable to a greater demand on the tubular market, mostly for OCTG and small-diameter line pipe, as well as stronger sales volumes for seamless pipe.

Railway product revenues surged by 33.2%, driven by a 17.1% increase in volumes, accompanied by a 16.1% increase in average selling prices. The demand for rails improved after Class I railroads finished destocking.

Revenues from flat-rolled products increased due to an upswing in prices of 19.3%, which was partially offset by a decline in sales volumes of 4.5%.

Revenues from tubular product sales grew by 48.8% year-on-year due to increases of 40.3% in volumes and 8.5% in prices. The growth in sales volumes was driven by improved demand for OCTG amid a recovery in drilling activities that was led by rising oil prices. The reduced demand for large-diameter line pipe products, which was caused by the slow pace of project approvals, partially offset the growth in revenues from tubular products.

## Steel, NA segment cost of revenues

In 2017, the Steel, North America segment's cost of revenues rose by 33.2% year-on-year. The main drivers were:

- Raw material costs increased by 65.0%, primarily because of higher scrap prices, accompanied by increased consumption of other raw materials due to higher sales of tubular products driven by the market recovery in the reporting period.
- Costs of semi-finished products grew by 61.2% due to higher prices for purchased semi-finished products and increased sales volumes of steel products.
- Auxiliary material costs increased by 42.3%, as production volumes of crude steel and finished products were higher year-on-year.
- Service costs went up 14.8%, as sales volumes increased year-on-year.
- Energy costs grew due to higher rates and greater sales volumes of steel products.
- Other costs were down for the reporting period, primarily due to changes in work in progress and finished goods and allowances for inventories.

## Steel, NA segment gross profit

The Steel, North America segment's gross profit totalled US$208 million for 2017, down from US$221 million a year earlier. While the decline was primarily caused by higher prices for scrap and purchased semi-finished products, it was partially offset by an increase in revenues due to improved market conditions.

**STEEL, NORTH AMERICA SEGMENT REVENUES BY PRODUCT**

| | 2017 | | 2016 | | |
|---|---|---|---|---|---|
| | US$ million | % of total segment revenues | US$ million | % of total segment revenues | Change, % |
| Steel products | 1,774 | 95.2 | 1,350 | 92.2 | 31.4 |
| — Semi-finished products | 4 | 0.2 | 0 | 0.0 | n/a |
| — Construction products[1] | 159 | 8.5 | 158 | 10.8 | 0.6 |
| — Railway products[2] | 309 | 16.6 | 232 | 15.8 | 33.2 |
| — Flat-rolled products[3] | 427 | 22.9 | 372 | 25.4 | 14.8 |
| — Tubular products[4] | 875 | 47.0 | 588 | 40.2 | 48.8 |
| Other revenues[5] | 90 | 4.8 | 114 | 7.8 | (21.1) |
| **Total** | **1,864** | **100.0** | **1,464** | **100.0** | **27.3** |

*[1]Includes beams, rebar and structural tubing*
*[2]Includes rails and wheels*
*[3]Includes commodity plate, specialty plate and other flat-rolled products*
*[4]Includes large-diameter line pipes, ERW pipes and casing, seamless pipes, casing and tubing, and other tubular products*
*[5]Includes scrap and services*

**STEEL, NORTH AMERICA SEGMENT COST OF REVENUES**

| | 2017 | | 2016 | | |
|---|---|---|---|---|---|
| | US$ million | % of segment revenues | US$ million | % of segment revenues | Change, % |
| **Cost of revenues** | **1,656** | **88.8** | **1,243** | **84.9** | **33.2** |
| Raw materials | 645 | 34.6 | 391 | 26.7 | 65.0 |
| Semi-finished products | 303 | 16.3 | 188 | 12.8 | 61.2 |
| Auxiliary materials | 148 | 7.9 | 104 | 7.1 | 42.3 |
| Services | 124 | 6.7 | 108 | 7.4 | 14.8 |
| Staff costs | 254 | 13.6 | 195 | 13.3 | 30.3 |
| Depreciation | 95 | 5.1 | 97 | 6.6 | (2.1) |
| Energy | 111 | 6.0 | 85 | 5.8 | 30.6 |
| Other[6] | (24) | (1.4) | 75 | 5.2 | n/a |

*[6]Primarily includes transportation, goods for resale, certain taxes, changes in work in progress and fixed goods and allowances for inventories.*





# CSR report

# OUR APPROACH

**EVRAZ views corporate social responsibility as an integral part of its business and strives to address and monitor all relevant matters in this area. The corporate social responsibility section of this annual report, on pages 80–105, provides an overview of the Group's policies and performance in 2017 in key areas, including human rights, health and safety, the environment, human capital management and community engagement, as well as an outline of how EVRAZ intends to improve its performance in the years ahead. The Group considers these policies appropriate and effective.**

This aspiration is reflected in **the Group's internal codes and principles, including the Business Conduct Policy, "The EVRAZ Way"**, available on the corporate website at www.evraz.com/governance/documents/

**EVRAZ follows the OECD's Guidelines for Multinational Enterprises to ensure a uniform approach to business standards across its global operations.**

**The Group's commitments are based on internationally recognised standards and respect for all human rights, including civil, political, economic, social and cultural rights. EVRAZ fully endorses the provisions of the United Nations' Universal Declaration of Human Rights.**

**In accordance with its internal Code of Business Conduct, EVRAZ seeks to develop and maintain a work environment that is free from discrimination. The Group is committed to providing every employee with equal opportunities. All personnel and applicants are assessed according to their professional skills, qualities, experience and abilities. Decisions made on grounds unrelated to an individual's job performance (eg related to the person's race, ethnic origin, sex, religion, political views, nationality, age, sexual orientation, citizenship status, marital status or disability) are discriminatory and prohibited by the law and the principles accepted in the Group.**

**Child labour, bonded labour, human trafficking and other forms of slavery (known as modern slavery) are strictly prohibited at all EVRAZ subsidiaries and their suppliers. Modern slavery is an abuse of human rights and is a criminal offence in the UK and other jurisdictions. The Group is committed to acting ethically and requires suppliers to conduct business within the same ethical framework.**

**Respect for others is one of EVRAZ' overriding principles. In the cross-cultural environment in which the Group operates, all cultures must be treated with respect. EVRAZ' rules prohibit the use of abusive, harassing, discriminatory, degrading or aggressive speech or written comments, verbal or physical demonstrations of a sexual nature, and actions or speech that insult the honour or dignity of an individual.**

# Health, safety and environment

## Governance and approach

EVRAZ places a top priority on continuously improving its health, safety and environment (HSE) management throughout its operations. This includes implementing process upgrades and introducing tiered management and control systems.

HSE management touches all levels of EVRAZ' business, from strategic decision making to day-to-day operations. Since the HSE Committee's inception in 2010, the Board of Directors has delegated to it responsibility for monitoring all HSE strategies, policies, initiatives and activities. The Group adopted its Health, Safety and Environment Policy in March 2011 and updated it in March 2016 to add a fourth organisation-wide cardinal safety rule.

Executive-level HSE matters fall under the remit of the HSE Committee, which has also delegated authority to a vice president responsible for coordinating HSE issues. Every entity in the Group has its own HSE function, which reports to operational management with the oversight of the vice president of HSE. All plant managers are responsible for HSE compliance.

EVRAZ is an active partner in local and international industry organisations, including the World Steel Association's Environmental Policy (EPCO), Technology Policy (TPCO) and Safety and Health (SHCO) committees, as well as the HSE committees of Russian Steel, a Russia-based non-commercial partnership, and the Russian Union of Industrialists and Entrepreneurs.

## HSE system

EVRAZ' main steel mills have been certified under the ISO 14001 and OHSAS 18001 standards.

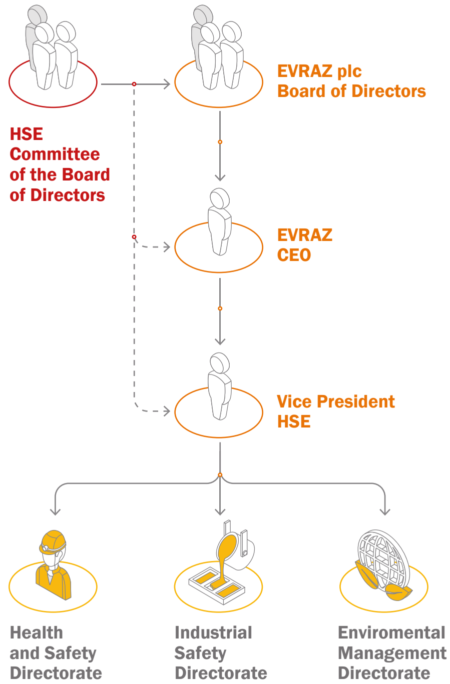
The primary functions of the HSE system include identifying potential environmental pollutants and risks to employees' health and safety through the entire production cycle, from purchasing raw materials to selling finished products. This also includes planning, distributing resources, collecting, analysing and submitting information, and reflecting emerging trends in indicators.

EVRAZ operates a continuous-cycle HSE management process with the following phases:

- forecast and assess primary HSE risks;
- develop and implement HSE initiatives;
- monitor, review, and investigate incidents;
- analyse performance, correct and set new strategic HSE goals.

For each HSE KPI, EVRAZ sets primary metrics that are then continuously monitored to improve the system using prompt analysis and adjustments as necessary.

### HSE CORPORATE MANAGEMENT STRUCTURE




## HSE reporting system

The Group relies on its HSE reporting system to collect and share appropriate data throughout the organisation with an aim to continuously improve the process. The corporate HSE functions monitor subsidiaries using monthly, quarterly and annual HSE performance reporting.

The internal audit function regularly assesses EVRAZ' compliance with HSE policies, which is supplemented by external monitoring by government agencies. The Group conducts a detailed analysis of any recommendations resulting from the inspections to ensure that remedial actions can be taken, where needed. All EVRAZ facilities review lessons learnt to improve their own processes.

Universal incident reporting rules are used throughout the organisation, beginning with recording all injuries and incidents entailing lost time and/or fatalities, and immediately issuing a 'flash report' to all relevant management. The HSE function then conducts standard 'lean' format investigations and promptly disseminates lessons learnt to concerned parties. The HSE Management Committee reviews every case involving a fatality, severe injury or serious incident and follows up to ensure that all remedial action has been implemented in full.

EVRAZ distributes monthly HSE reports to all personnel containing data on any injuries and incidents that have occurred in the past month, as well as updated HSE KPI metrics on the lost-time injury frequency rate, fatalities and cardinal rule violations.

# Health and safety

## OUR APPROACH

**As a vertically integrated company, EVRAZ' employees and contractors work in an environment that has inherent safety and health risks. Starting deep underground, the risks associated with extracting coal and iron ore include the possibility of a sudden rock collapse, flooding, exposure to rock and coal dust, mine de-gasification and the ventilation of methane, use of explosives as part of the extraction process. In steelmaking, the risks include but are not limited to large moving machinery, movement of material with large-capacity cranes, excessive heat, the manipulation of molten metal, confined spaces.**

**Providing a safe and healthy work environment to ensure all those working in the Group's facilities return home to their families and friends every day, alive and uninjured, is one of EVRAZ' main core values.**

**This begins with eliminating identified risks through investment in engineered solutions, which is a priority in the Group's continuing efforts, especially as related to identified corrective measures following previous incidents. When engineering controls are not immediately available, organisational controls are implemented. The group is consistently finding improved methods to train employees and contractors on identified risks, established safety and health regulations, and task-specific safe work practices. Once trained, an extensive testing process is used to verify knowledge retention. Finally, and as a last resort, new personal protective equipment is constantly being evaluated and issued when risks cannot be eliminated, but instead must be guarded against. The Group takes every effort to manage and effectively mitigate the risks typical within its various divisions, including contractors.**

**The daily decisions that managers, employees and contractors make determine the level of safe or, in some cases, unsafe behaviour. The management is consistently being challenged to lead by example and hold employees to the highest level of accountability for their actions and non-actions related to HSE. The Group continuously strives to move the culture in a personal ownership direction by constantly challenging all employees and contractors through a focused communication programme on identified risks and behaviour observations. This is followed by immediate conversations to provide coaching and counselling and, as the culture improves, praise and reward for safe actions.**

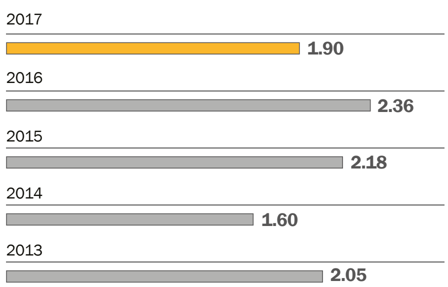
### Results in 2017

**LTIFR**

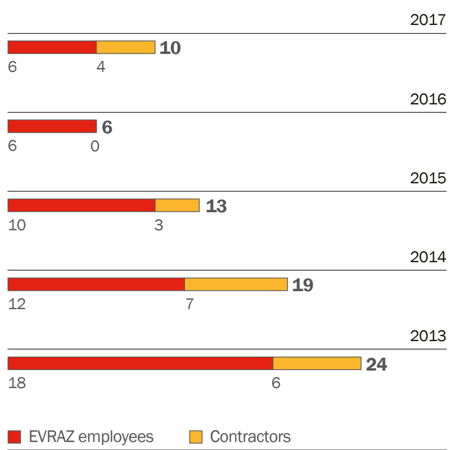
The lost time injury frequency rate (LTIFR) is a strategic KPI that is cascaded down throughout the organisation in individual management performance scorecards. The group saw a 19% year-on-year reduction from the 2016 LTIFR of 2.36 to an LTIFR of 1.90 in 2017. This was mainly due to a significant improvement in the LTIFR of the Coal division, which experienced a 22% year-on-year reduction in 2017. For more information about how EVRAZ ensures safe underground mining conditions, see page 86.

The Group has continued its efforts related to behaviour safety conversations, hands-on practical employee training, and standard operating procedures, which were contributing factors in this improvement.

**LTIFR (excluding fatalities), per 1 million hours**




**FATALITIES**

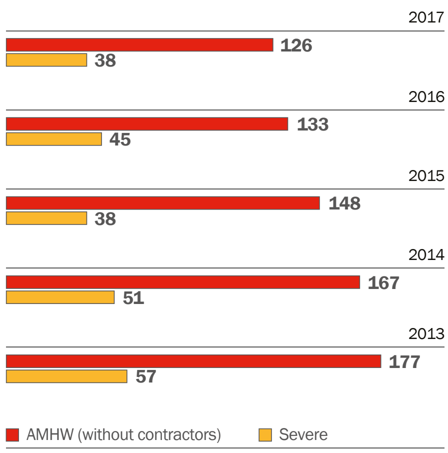


**Fatalities**

EVRAZ experienced six employee fatalities in 2017. The main critical risk categories identified were fall from height, electrical shock, and rock fall, as well as three involving employees who were struck by mobile equipment. The group has ongoing focused fatality prevention campaigns in each of these critical risks areas to eliminate future repeated root causes. In addition to the employee fatalities, there were four additional fatal incidents involving contractors. The four risk categories involved in the contractor fatalities included the common factors of fall from height and struck by mobile equipment, along with exposure to carbon monoxide and a fall due to a structural failure.

The HSE Committee reviews every fatality and severe injury to determine root causes and corrective actions. Identified risk factors are addressed via the HSE initiatives launched by the corporate block and operational divisions in 2018, including falling from height prevention, traffic management and safety routes, gas safety, contractor management, and electrical safety, among others.

### NUMBER OF SEVERE INJURIES (INCL. CONTRACTORS)




**Treatment of occupational diseases**

EVRAZ is legally mandated to provide insurance against work-related accidents and occupational diseases that covers treatment for all occupational illnesses. Temporary disability benefits are provided to cover treatment costs for employees with occupational illnesses. Employees may also receive financial assistance from the Group, based on their medical condition and other circumstances. Employees who need prolonged medical treatment are also eligible to be compensated for moral harm, although these funds may not be used to arrange independent medical treatment.

### TRAINING ON HEALTH AND SAFETY STANDARDS

*Each of the Group's business divisions has its own training centres where 100% of staff attend regular training. Every employee is tested annually on their knowledge of working instructions and HSE regulations, and engineering and technical specialists are certified by commissions on their knowledge of safety rules, annually on HSE, and on emergency response.*

*Additionally, both employees and contractors routinely test their practical skills using specialised simulators, as well as an electronic system that verifies their knowledge.*

*As a good practice, more than 800 employees in the Coal segment fill out a daily questionnaire before each shift that covers their knowledge of safe working methods for various operations associated with high levels of risk. In 2018, the division plans to implement 100% daily testing.*

**Practical tests for electricians at EVRAZ ZSMK**

**1,124** workers were trained in the Siberia division

**The Coal division uses training courses and practical tests on simulators with real equipment**

**9,869** workers were trained in the Coal segment

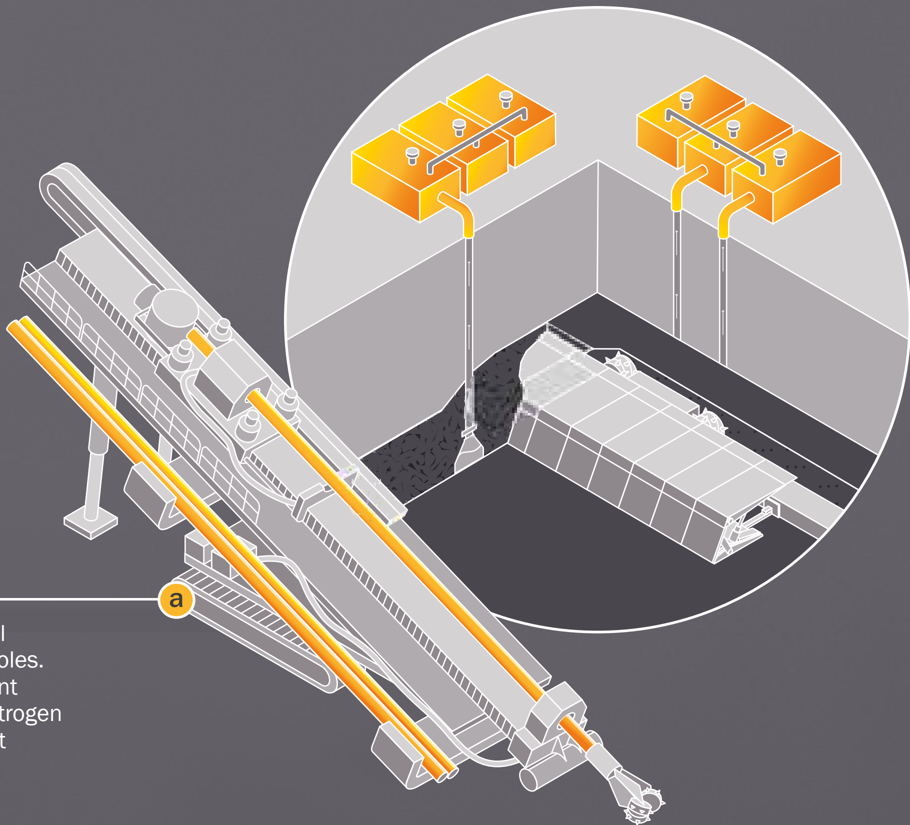
**Safe working at height simulator**

**3,562** workers were trained in the Siberia division

# HEALTH AND SAFETY MEASURES AT EVRAZ' COAL MINES

EVRAZ pays special attention to ensure that working conditions for miners are not only safe, but as comfortable as possible.

This includes:
- initiatives aimed at injuries reduction
- regular employees' health monitoring
- regular health and safety trainings
- ventilation systems improvement
- a five-year degassing programme
- spontaneous combustion and gas-dynamic phenomena monitoring



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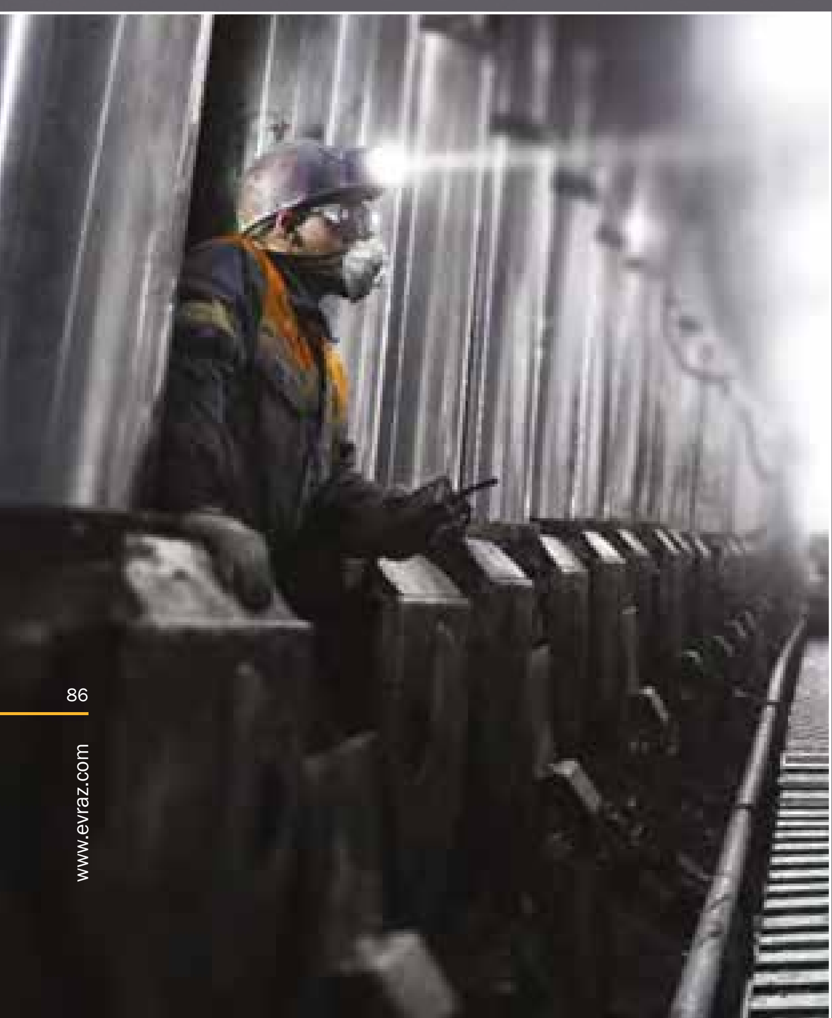
The Group has installed directional drilling equipment for degassing holes. It also uses anti-pyrogens to prevent coal self-combustion, as well as nitrogen systems and inert foam equipment



## How we care for our miners

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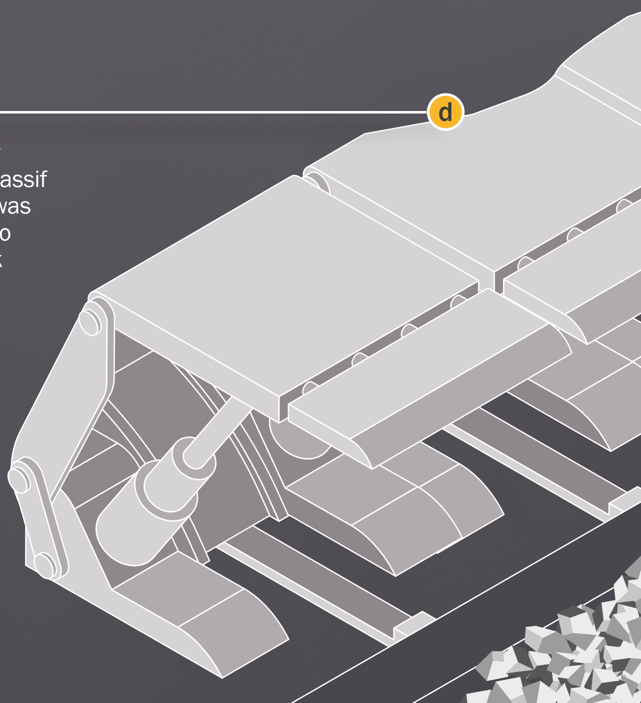
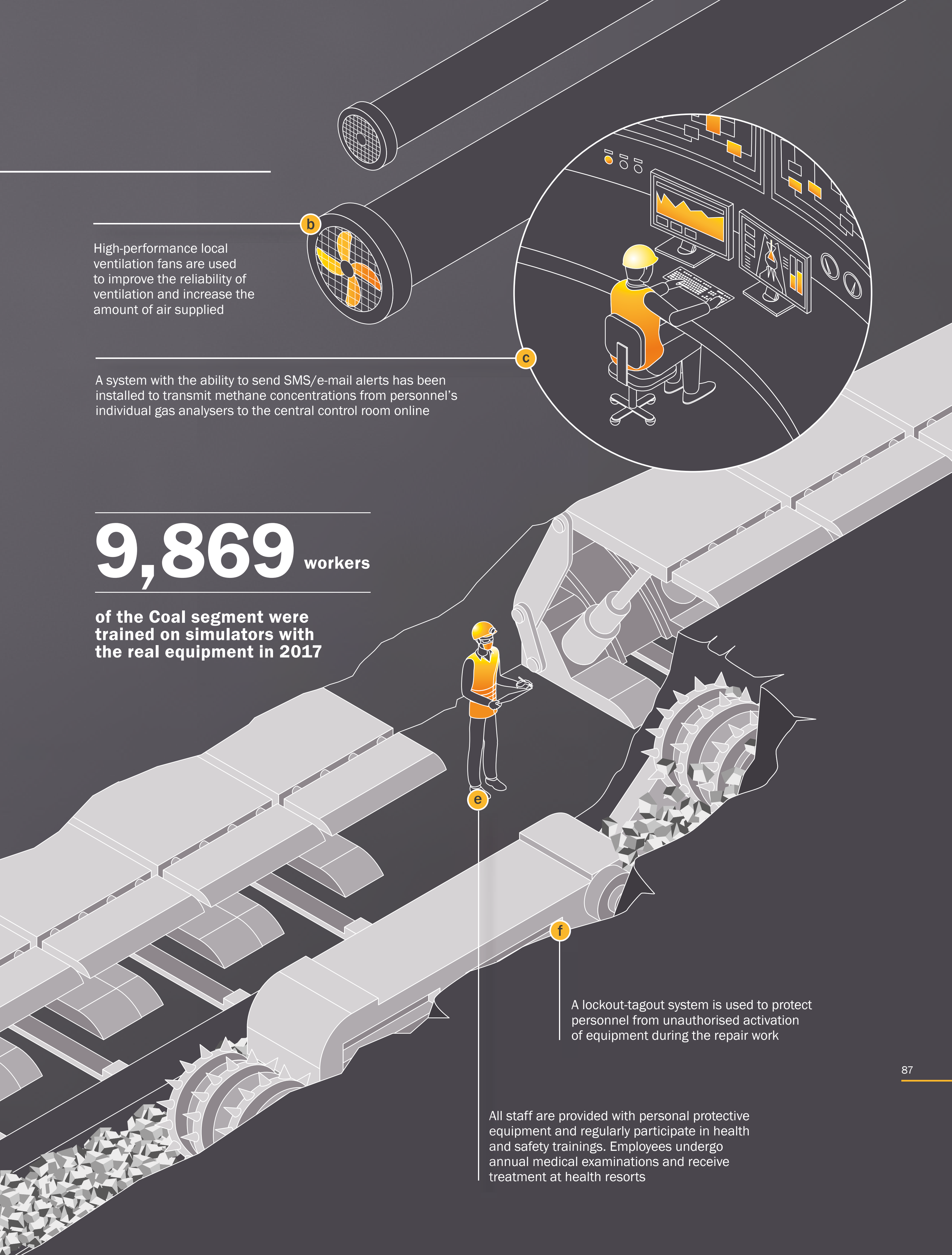
A system for mountain massif monitoring was introduced to prevent rock bumps






High-performance local ventilation fans are used to improve the reliability of ventilation and increase the amount of air supplied

A system with the ability to send SMS/e-mail alerts has been installed to transmit methane concentrations from personnel's individual gas analysers to the central control room online

**9,869 workers**

**of the Coal segment were trained on simulators with the real equipment in 2017**

A lockout-tagout system is used to protect personnel from unauthorised activation of equipment during the repair work

All staff are provided with personal protective equipment and regularly participate in health and safety trainings. Employees undergo annual medical examinations and receive treatment at health resorts

Number of registered occupational illnesses. In 2017, the number of occupational diseases registered at EVRAZ' facilities worldwide fell by a further 29% to 254 cases, compared with 354 cases in 2016. This is mainly a result of a closer look at working conditions and a corporate effort to eliminate the highest-risk workplaces in terms of employee health. In addition, there are ongoing efforts among all the Group's facilities to properly treat occupational illnesses in an effort to preserve and improve employee health. To determine the risk group and evaluate fitness to work, every worker undergoes an annual medical check-up. Personnel who are prone to occupational illness also receive free treatment at therapeutic resorts.

## Key projects

Corporate-wide initiatives in 2017 were once again focused on cultural change through improving the safety behaviour of employees and contractors.

### Safety conversations

Regular safety conversations taking place among employees and managers on shop floors are indispensable for building a positive safety culture. Recognising that such conversations are an essential part of promoting safe behaviour, the volume of these conversations has led the group to create an internal IT solution to record them, as well as to track trends and corrective actions. In 2017, EVRAZ' managers held over 500,000 safety conversations with the Group's employees, many of whom made at least one suggestion about potential safety improvements in the workplace.

### Standard operating procedures

One of the key principles of safe work is making sure that the respective process is initially designed in a safe way and all employees are trained to follow the procedure. To support this approach, EVRAZ decided that each structural unit should design 10 standard safe work procedures and implement them in accordance with the corporate requirements. These requirements imply employees' participation in developing these procedures, as well as proper training and verification on the part of the management team. In 2017, EVRAZ designed and implemented almost 2,500 standard safe work procedures for its most hazardous operations.

### Key risk localisation programmes

To make safety initiatives more industry specific and better tailored to the needs of respective facilities, EVRAZ has suggested that business divisions design key risk projects. These projects and related initiatives not only address critical division-specific risks, but also consider historic trends to prevent reoccurrence of past incidents.

## Objectives for 2018

In 2018, in addition to continuing the division-specific key risk programmes, EVRAZ plans to continue implementing the key initiatives targeted at developing safe employee behaviour.

### Safety conversations and safe work procedures

Instead of paying attention to the quantity of safety conversations, the group will shift its focus to the quality of the observation and related conversation.

With the shift in focus from quantity to quality, there is now an improved effort to document unsafe actions and related behaviour, and to correct them before they lead to incident and injury.

As a critical element of improving the quality of safety conversations, a more structured approach will be adopted by conducting the conversations after planned observation of operations and then comparing them with safe work procedures.

### Contractor safety

EVRAZ plans to further integrate contractors into own HSE management system. An important aspect of this integration is increasing the accountability of contract holders of the HSE performance of contractors.

### Lockout – tagout – tryout

The ongoing implementation of the energy isolation principles applied in lockout – tagout – tryout (LOTO) procedures will remain a focus in 2018. This is a long-term initiative with plans for completion by 2020. The planned level of integration by the end of 2018 is 60%.

### Falling from height prevention

At the division level, initiatives continued to prevent falling from height incidents. The focus of these efforts is training and testing contractors' practical knowledge of the safe methods to prevent falling from height. Only those employees and contractors who prove their knowledge and ability to use safety systems when working at height are allowed to work at the Group's facilities.

# Environment

## Environmental management

EVRAZ strives to mitigate the potential environmental consequences of extracting metals and coal at its steel and mining operations. The Group's approach to effective mitigation lies in implementing best management practices and technological advances that prevent or control undesired environmental impacts and reduce the consumption of energy and natural resources.

Environmental legislation strictly regulates these operations and requires the Group to obtain environmental permits and licences. EVRAZ sites must maintain compliance with the terms of such permits and licenses for them to remain valid and be extended. This generally requires implementing certain environmental commitments, recruiting qualified personnel, maintaining necessary equipment and environmental monitoring systems, and periodically submitting information to environmental regulators. Noncompliance on any of these fronts carries the potential for the environmental permits and licences to be suspended, amended, terminated or not renewed, or could entail significant costs for the Group to eliminate or remedy any such violations.

The Group is aware of the environmental risks and liabilities of its production processes and pays increasing attention to environmental matters with a view to the prevention or minimisation of any adverse influences. The group-wide environmental procedures are part of the corporate management system, which is based on the plan-do-check-act (PDCA) model and has been developed to extend the principles of EVRAZ' health, safety and environment (HSE) policy and support the implementation of its environmental strategy. These procedures cover the process on environmental risk assessment, planning, legal compliance management, reporting, etc.

EVRAZ conducts an Environmental and social impact assessment (ESIA) for all new operations and projects, which includes consulting local and regional governments, businesses and community members in the affected area. The ESIAs evaluate any potential direct and indirect impacts that the new operation may have on the local community and surrounding environment. The ESIA process entails creating mitigation plans to minimise and manage any potential impact, as well as consulting with local communities regarding any decisions that may be made throughout the project's life.

The Group maintains compliance with the regulations on the registration, evaluation, authorisation and restriction of chemicals (REACH), as applicable for various substances that are supplied to or manufactured in the EU (European Economic Area) by EVRAZ assets. The Group supports the European Community's health and environmental goals as established in the Regulation (EC) No. 1907/2006 of the European Parliament and of the Council, which governs the REACH requirements.

The Group conducts training courses and seminars and fosters the exchange of experience in the environmental field for its environmental specialists.

The group evaluates its environmental liability and risk associated with existing sites and assets being acquired by conducting environmental audits (due diligence).

Each EVRAZ worksite has its own environmental management system built in accordance with the corporate approach. While international certification is not a legal requirement, eight of the Group's sites are currently certified to the ISO 14001 standard, including such key operations as EVRAZ NTMK, EVRAZ ZSMK and EVRAZ DMZ.

## Environmental strategy

The Group's environmental strategy aims to minimise any negative impacts caused by its operations, as well as to make efficient use of natural resources and find optimal industrial waste management solutions. Environmental compliance is an overriding long-term priority.

In 2012, after determining the key challenges and focus areas, EVRAZ voluntarily adopted five-year environmental targets (over 2012-2016) aimed at:
- reducing air emissions[1] by 5%;
- decreasing fresh water consumption by 15%;
- recycling 100% of non-mining waste.[2]

By the end of 2016, the Group had met the targets set for water consumption, which was reduced by 17.3%, and recycling, with 120% of waste being recycled (exceeding the 100% target by recycling waste from prior periods). Despite the intensive programme to reduce air emissions, at the end of 2016, EVRAZ was yet to fulfil the target for air emissions, having registered an increase of 18.8% since 2011 due to higher sulphur content in the ore extracted at the Group's mines.

## Environmental awards in 2017

**EVRAZ**
Award of the Russian Ministry of Natural Resources. For an active environmental policy

*Awarding organisation:*
*Russian Ministry of Natural Resources*

**EVRAZ NTMK**
Award: Leader in Environmental Management in Russia – 2017. Most ecologically responsible steelmaker

*Awarding organisation:*
*Russia-wide Review Competition for Health and Ecology*

In 2017, EVRAZ received several other national and regional awards recognising its environmental programmes.

The HSE Committee adopted new five-year environmental targets:
- decreasing fresh water consumption by 10%;
- recycling 95% of non-mining waste per year;
- maintaining the greenhouse gas intensity ratio below 2 tonnes of carbon dioxide ($CO_2$) equivalent ($tCO_2e$) per tonne of steel cast.

The Group has committed to implement various environmental protection programmes over 2018-22. As of 31 December 2017, the estimated cost to implement these programmes totalled US$102 million.

In 2017, EVRAZ spent US$30.7 million on measures to ensure environmental compliance and US$28.0 million on projects to improve its environmental performance. Non-compliance-related environmental levies and penalties were US$2.6 million. The Group's assets had no significant environmental incidents or material environmental claims during the reporting period.

[1] *Including nitrogen oxides (NOx), sulphur oxides (SOx), dust and volatile organic compounds (VOC) only.*
[2] *The rate of the amount of waste recycled or used versus annual waste generation, not including mining waste. It can exceed 100% due to recycling of waste from prior periods.*

## Biodiversity

EVRAZ recognises its responsibility to prevent and minimise its potential impact on the environment and biodiversity at all stages of the mining and steelmaking process, including when performing geological surveys, designing facilities, conducting operations and restoring sites that are no longer used.

The Group's long-term goal is to foster a culture among its employees of care and concern for the environment and biodiversity of the areas in which it operates, as well as in how they implement its projects and create a positive dialogue with the local community.

EVRAZ is implementing several long-term projects aimed at remediating the impacts of past operations. Since 2011, Evrazruda's Abagursky branch has been working to reclaim 137 hectares from its old tailing field. The Raspadskaya mine is executing a project to reclaim 138 hectares of land that were disturbed by open-pit mining.

Projects aimed at restoring aquatic biodiversity such as releasing juvenile fish into local rivers.

In the spring of 2017, the "Clean Shore" campaign helped to clear debris from the protected watersheds of the Dnieper, Bolshoy Unzas, Kondoma, Maly Bachat rivers, the streambeds of the Kholodny stream and the tributaries of the Bolshoy Kaz river.

The Group has planted trees and put up birdhouses as part of its projects to restore parks and natural landscapes.

## Air emissions

Reducing air emissions is one of EVRAZ' overriding environmental priorities. The key air emissions comprise nitrogen oxides (NOx), sulphur oxides (SOx), dust and volatile organic compounds (VOC). In 2017, the key air emissions increased by 4.9% compared to 2016.

The current strategy for reducing air emissions envisages upgrading gas treatment systems, introducing modern technology and eliminating obsolete equipment.

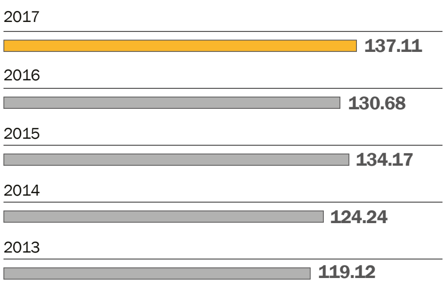
That said, the strategy to reduce air emissions has had a visible impact. The Group's VOC emissions have steadily decreased, falling by 35% from 1.7 thousand tonnes in 2011 to 1.1 thousand tonnes in 2017, (including 0.1 k tone in 2017 or 8% vs 2016) due to measures undertaken at coke production sites.

Dust emissions dropped by 8% from 2011 to 2017 including 5% in 2017 comparing to 2016.

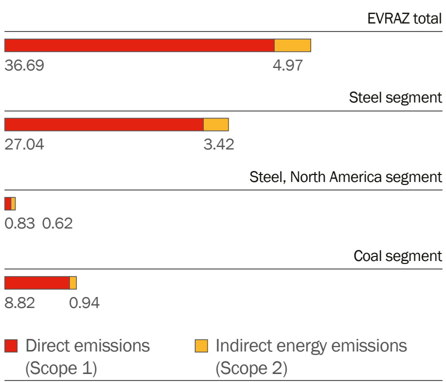
EVRAZ' NOx emissions have remained mostly stable at around 29 thousand tonnes. Yearly deviations have been related to the increased fuel consumption needed to burn out excess sulphur from ore and iron.

SOx emissions surged by 45% within the last 4 years (starting since 2013) due to the higher sulphur content in the ore which has resulted in higher SOx emissions. Following

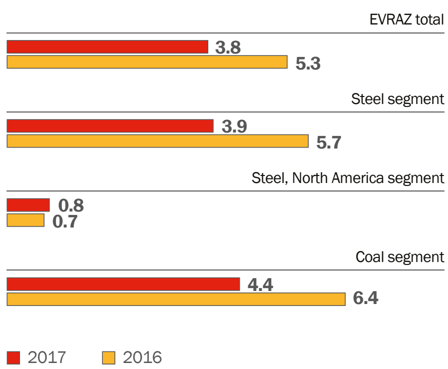
**EVRAZ' KEY AIR EMISSIONS, kt**



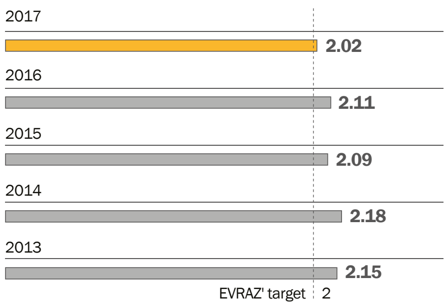

**EVRAZ' GHG EMISSIONS IN 2017, million $tCO_2e$**




**GHG EMISSIONS PER NET REVENUE, kg $CO_2e$/US$**



**SPECIFIC SCOPE 1 AND 2 GHG EMISSIONS FROM THE STEEL SEGMENT (INCL. NA),** $tCO_2e$ per tonne of steel cast




that, the management has set a task to find the technology and methods to reduce these emissions from sinter production.

## Greenhouse gas emissions

EVRAZ's operations generate carbon dioxide and other greenhouse gas (GHG) emissions. The Group understands that mitigating climate change risks is a crucial element in planning for the future welfare of its employees and local communities throughout its global enterprises.

The Group understands the urgency of preventing climate change and supports the global effort to reduce the emission of GHGs into the atmosphere. In compliance with the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013, EVRAZ measures the full GHG emissions at its facilities and has taken part in the CDP Climate Change Programme since 2011.

A key aspect of EVRAZ' strategy is to reduce greenhouse gas emissions by consuming fewer energy resources.

The Group set a five-year target for its Steel segment to keep the greenhouse gases intensity ratio below 2 tonnes of carbon dioxide ($CO_2$) equivalent ($tCO_2e$) per tonne of steel cast.

The Group measures direct (Scope 1) emissions of all seven "Kyoto" GHGs[1] and indirect (Scope 2) emissions from the use of electricity and heat. The inventory approach[2] was based on the 2006 IPCC Guidelines for National Greenhouse Gas Inventories (IPCC 2006) and the WRI/WBCSD GHG Protocol Corporate Accounting and Reporting Standard. EVRAZ reports data in terms of $tCO_2e$, calculated using the IPCC 2006 global warming potentials.

EVRAZ has collected GHG emissions data for 2017 and compared them with the 2013-2016 levels. The Steel segment continues to generate more than half of the gross GHG emissions from the Group's operations. Nearly 93% of the Coal segment's full emissions come from fugitive methane (CH4) leakage, which is caused by methane ventilation from underground mines and post-mining emissions from coal.

In 2017, the overall GHG emissions from EVRAZ' operations increased by around 2% year-on-year. Emissions of CO2 fell by 1.34% (or 0.386 million $tCO_2e$) due to reduced concentrate consumption at EVRAZ ZSMK and lower coal consumption at EVRAZ NTMK, as well as to the cease in operations at several mills in Russia, Ukraine and South Africa during the reporting period. In the Coal segment, $CH_4$ emissions rose by 18% due to higher methane emissions from the coal mined.

In 2017, EVRAZ increased its Scope 1 emissions by 2% and brought down its Scope 2 emissions by 1%. The former was due to an increase in methane emissions, which accounted for some 3% of total emissions, while the latter was due to the cease in operations at several mills in Russia, Ukraine and South Africa.

EVRAZ reports an intensity ratio relating its annual GHG emissions to its activities: total Scope 1 and 2 emissions per consolidated revenue for the Group overall and each operating segment and specific emission in the steel segment per tonne of steel cast for 2013-2017 (see graphs).

The averege specific emissions of World Steel Association members is 1.9 tCO2e per tonne of steel cast as of 2016. EVRAZ specific GHG emissions in the steel segment is higher due to the key role played by integrated iron and steel works (which inherently emit more GHGs than rolling mills).

**EVRAZ' GHG EMISSIONS,** million $tCO_2e$

| | 2013 | 2014 | 2015 | 2016[3] | 2017 |
|---|---|---|---|---|---|
| **Direct (Scope 1)** | **42.92** | **39.05** | **36.87** | **35.81** | **36.69** |
| — $CO_2$ | 33.78 | 31.08 | 29.13 | 28.76 | 28.37 |
| — $CH_4$ | 9.06 | 7.89 | 7.67 | 6.99 | 8.26 |
| — $N_2O$ | 0.08 | 0.08 | 0.07 | 0.07 | 0.06 |
| — PFC and HFC | 0.0002 | 0.0002 | 0.0002 | 0.0001 | 0.00003 |
| — $SF_6$ | – | – | – | – | – |
| — $NF_3$ | – | – | – | – | – |
| **Indirect (Scope 2)** | **8.05** | **7.96** | **6.17** | **5.02** | **4.97** |
| **Total GHG emissions** | **50.97** | **47.00** | **43.04** | **40.83** | **41.67** |



[1] Carbon dioxide ($CO_2$), methane ($CH_4$), nitrous oxide ($N_2O$), hydrofluorocarbons (HFC) and perfluorocarbons (PFC), sulphur hexafluoride ($SF_6$) and nitrogen trifluoride ($NF_3$).

[2] The inventory of emissions includes all entities that EVRAZ controls. Entities that were disposed of during the year were included for the period they were part of the Group. Only entities that were deemed immaterial for consolidated emissions based on their operational indicators were omitted. Direct $CO_2$ emissions from operations were calculated using the carbon balance method for carbon flows within production facilities, including fuel use. Emissions of other GHGs were calculated based on measured volumes, inventory changes or IPCC 2006 factors and models (including for post-mining coal methane emissions) where direct measurement data were not available. Indirect emissions were estimated using emission factors specifically developed for the country or region, if available, or otherwise factors provided by UK Defra.

[3] The results for 2016 were recalculated due to improvements in data quality and several identified inaccuracies regarding material flows, which resulted in a downward correction of 0.15 million $tCO_2e$ for Scope 1 emissions.

## Water consumption and discharge

EVRAZ strives to make efficient use of water resources and prevent any negative water quality impacts through environmental incidents.

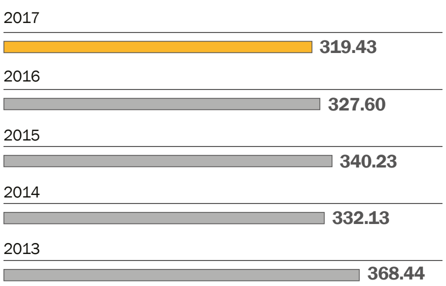
In 2017, almost 85% of the Group's total water intake came from surface sources, including rivers, lakes and reservoirs, up 1 percentage point year-on-year.

During the reporting period, the ongoing programmes to improve the water management at EVRAZ' operations continued to deliver environmental benefits. In 2017, the Group consumed 8.2 million cubic metres less fresh water than in 2016, for a year-on-year reduction of 2.5%.

In 2017, the management decided to continue its water management programs and set a new five-year target to decrease fresh water consumption by 10% compared with the baseline of 2016.

While water pumped from mines (dewatering) is not included in the fresh water consumption target, pumped water is partly used for technological needs. In 2017, EVRAZ pumped out and used 21.15 million cubic metres of mine water, compared with 20.3 million cubic metres a year earlier.

**EVRAZ' FRESH WATER CONSUMPTION FOR PRODUCTION NEEDS,** million cubic metres




## Waste management

Mining and steelmaking operations produce significant amounts of waste, including the surplus rock, spent ore and tailings left over after processing ore and concentrates. EVRAZ aims to reduce the amount of waste that it produces, re-use natural resources where possible and dispose of waste in a manner that minimises the environmental impact and maximises operational and financial efficiency.

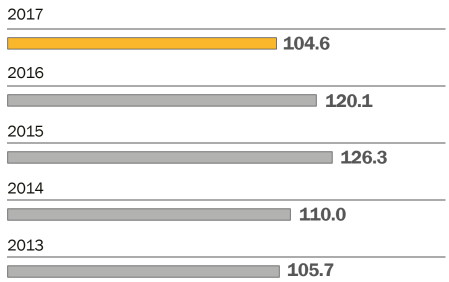
In line with the Group's strategy to reduce waste storage volumes and enhance waste disposal, EVRAZ' operations regularly review opportunities to recycle and re-use waste.

The main waste by-product that gets recycled is metallurgical slag, which includes materials that previously had been disposed of in dumps. Processing this waste has allowed the Group to maintain a recycling rate of more than 100%. Most of the old slag in these dumps has been processed over the past few years, which is the primary reason why the recycling rate went down in 2017.

Since 2013, the Group's strategy has been to avoid generating waste by applying technology to minimise waste at the source. During the past five years, more than 50% of what used to be classified as waste has been re-introduced to the production process or used as a by-product instead of being disposed as waste.

In 2017, EVRAZ' steel mills generated 9.22 million tonnes of metallurgical waste and by-products, including slag, sludge, scale and others, and recycled or re-used 9.67 million tonnes of material. Overall, the Group recycled or re-used 104.7% of non-mining waste and by-products in 2017, compared with 120% a year earlier.

**RECYCLING RATE,** %

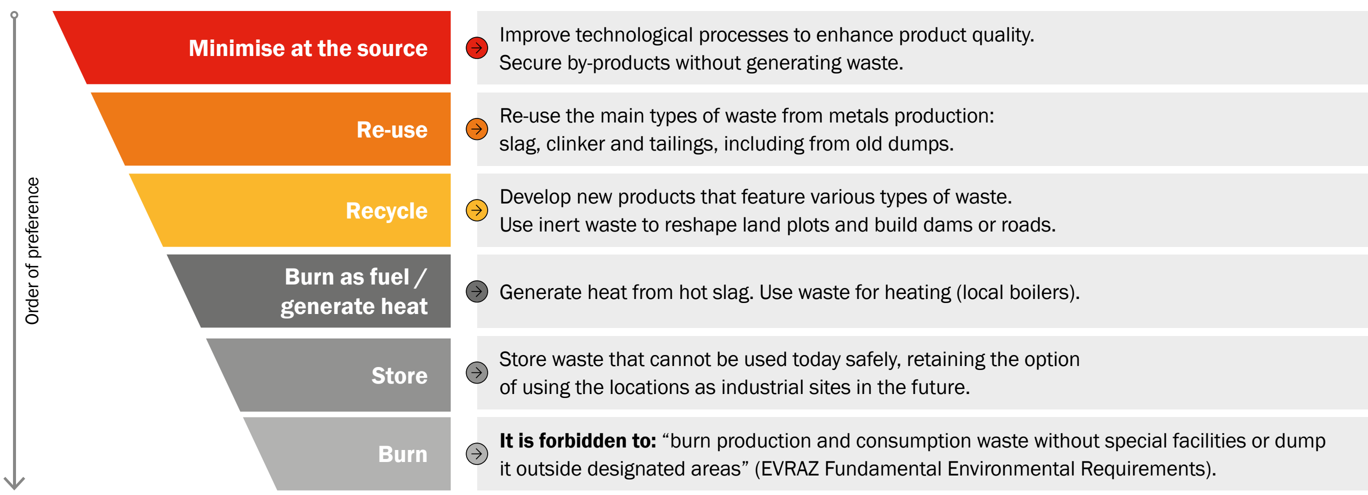



The Group reviewed its waste management activities. Its existing programmes have helped to reduce the generation of hazardous waste and decrease the volume of disposed waste. The management has decided to continue its waste minimisation efforts and set a target to reuse or recycle at least 95% of waste.

EVRAZ' strategy for dealing with non-hazardous mining wastes, such as depleted rock, tailings and overburden, is to use them where possible for land rehabilitation and the construction of dams or roads. In 2017, 29.7% or 50.4 million tonnes of such waste material were re-used, compared with 18% or 28.6 million tonnes in 2016.

All non-recyclable waste is stored in facilities that are designed to prevent any harmful substances contained in the waste from escaping into the environment. Safety at such facilities is monitored extremely closely, and steps have been taken to mitigate as far as possible any danger to third parties in an emergency.

**WASTE MANAGEMENT STRATEGY**



# Energy efficiency

EVRAZ operates in Metal and Mining sector which is energy intensive. Energy saving is of great importance for the Group as we aim to ensure the competitiveness and to minimise environmental impacts, such as greenhouse gas emissions. In 2017, EVRAZ continued to focus on making its operations more energy efficient with initiatives to increase in-house electricity generation and self-reliance in energy resources. Optimising resource use, including light, heat, fuel, compressed gas and separation products, were vital parts of this strategy.

## Steel segment

**Steelmaking**

**EVRAZ ZSMK (Russia).** EVRAZ ZSMK's energy efficiency programme continued in 2017, including measures aimed at regulating the electricity use at rolling mills, reducing the rate of specific air consumption for oxygen production by intensifying the argon extraction process, increasing the consumption of blast furnace gas, replacing air heaters at boiler units, and regulating the electricity consumption of the hydraulic handling system.

Natural gas consumption totalled 754 million cubic metres in the reporting period, an increase of 89 million cubic metres year-on-year, due to a reduction in the use of pulverised-coal injection. Overall electricity usage amounted to 4,093 million kWh, which is 39 million kWh less than in 2016, thanks to the measures mentioned above.

**EVRAZ NTMK (Russia).** EVRAZ NTMK's energy efficiency programme led to a reduction in electricity purchases of by 69.9 million kWh, of which 73% was due to lower oxygen consumption at blast furnace shop, 8% from the replacement of lamps to the LED fixtures in the shops, and the rest from a number of small other projects.

In 2017, EVRAZ NTMK purchased 428.6 million kWh of electricity from third-party producers, a reduction of 4.3 million kWh year-on-year.

A total of 1,222 million cubic metres of natural gas were consumed during the reporting period, an increase of 41 million cubic metres year-on-year as a result of higher gas usage by the blast furnaces, amid a reduction in the use of pulverised-coal injection.

**EVRAZ DMZ (Ukraine).** In 2017, EVRAZ DMZ implemented initiatives aimed at lowering its purchases of energy, increasing in-house electricity generation, maximising associated gas consumption (from blast furnaces and coking facilities) and reducing secondary energy losses.

It undertook further measures to improve the accounting of natural gas, electricity, and drinking water consumption to better monitor resource usage.

In 2017, EVRAZ DMZ used a total of 46.4 million cubic metres of natural gas, an increase of 8.6 million cubic metres year-on-year, and consumed 295 million kWh of electricity, a reduction of 17.5 million kWh year-on-year.

**Iron ore mining**

**Evrazruda (Russia).** Evrazruda's energy efficiency programme for 2017 included modernising the Abagursky branch's tailings transportation system, switching to a new material for the friction bearings on the ball grinders to reduce electricity consumption, installing metering devices for drinking and technical water at the Sheregeshskaya mine, and replacing 250-watt and larger incandescent lamps with LED fixtures.

Evrazruda's operations consumed a total of 405.4 million kWh of electricity, a reduction of 34.1 million kWh year-on-year due to its energy-efficiency programme.

**KGOK (Russia).** EVRAZ KGOK's energy efficiency programme for 2017 included a number of technological measures, including the closure of additional mills, which led to a reduction electricity purchases by 21.6 million kWh year-on-year.

## Coal segment

In 2017, the Coal segment continued to implement its energy efficiency programme, focusing primarily on repairing and upgrading the boiler units to improve their efficiency, switching to less expensive boiler fuels like internally sourced coal, and optimising the de-watering system.

The segment's electricity consumption grew in line with production volumes during the reporting period, rising from 925 million kWh in 2016 to 976 million kWh in 2017.


**EVRAZ NTMK RECEIVES ISO 50001 CERTIFICATION**

*In 2017, EVRAZ NTMK's energy management system was certified ISO 50001 compliant.*

*EVRAZ NTMK has been working hard for many years to improve its energy efficiency, implementing more than 100 initiatives in the past five years that have resulted in an annual savings of more than RUB1 billion.*

*The plant has successfully passed the audit certifying that its operations and energy management system comply with all the international standard's requirements. The auditors who inspected the production, management and support processes gave the plant's energy management system high marks.*

*The audit determined that EVRAZ NTMK's energy management system is in full compliance with the ISO 50001 international standard.*

## Steel, North America segment

In 2017, Evraz North America's energy-saving initiatives continued. EVRAZ kept focusing on finding incremental efficiency gains to improve energy consumption across the mills.

Higher production volumes led to year-on-year increases in the consumption of electricity and natural gas, the former rising from 1,152 GWh to 1,454 GWh and the latter climbing from 3,840 million cubic metres to 4,735 million cubic metres.

# KEY PROJECTS

## The year of Ecology in Russia

In 2017, EVRAZ implemented three key ecological projects as a part of the year of Ecology in Russia, a joint initiative of the Ministry of Natural Resources and Environment, Federal Service for the Supervision of Natural Resources, and the administrations of Kemerovo and Sverdlovsk regions.

EVRAZ' ecological programme includes more than 20 projects, focused on reducing air emissions, protecting water resources and implementing environment-themed social projects.

## Air emission reduction projects

### EVRAZ ZSMK

EVRAZ ZSMK launched two dust removal units that use bag filters, replacing the outdated wet flue dust cleaning units. Two additional filtration units will be launched by the end of 2018. The new equipment will reduce dust emissions from the sinter plant by 22%. The four planned units will have a combined capacity to filter 900,000 cubic metres of air per hour and will eliminate more than 99% of impurities.

### EVRAZ NTMK

EVRAZ NTMK retrofitted its coke dry quenching plant using its own patented technology to purify secondary coke gases in fabric filters for later re-use in production. Previously, these secondary gases were flared into the atmosphere but now they are used as fuel. The project has helped to decrease the plant's overall atmospheric emissions by 20%. The reduction in greenhouse gas emissions is equivalent to 40,000 tonnes of carbon dioxide.

Since 2001, EVRAZ ZSMK has reduced its atmospheric impact in Novokuznetsk **by 43%.**

Since 2001, EVRAZ NTMK has lowered its atmospheric impact in Nizhny Tagil **by 24%.**

In 2018, retrofitting the dry coke quenching plant will lead to a further reduction **of 20%.**

# Water resource protection projects

From 2010 to 2017, EVRAZ ZSMK reduced the volume of water discharged into the Tom river **by 45%.**

### EVRAZ ZSMK

Since 2011, EVRAZ ZSMK has been implementing a programme to protect water resources that aims to gradually close the water cycle and minimise discharge volumes. In 2017, the programme helped to reduce the freshwater intake by 4.4 million cubic metres and the discharge into rivers by 3.4 million cubic metres of water per year.

### Raspadskaya

Since 2011, Raspadskaya has been implementing a programme to protect water resources by upgrading the equipment used to filter the water that it pumps out of mines and quarries. In 2017, the Raspadskaya-Koksovaya mine launched a water filtration unit that uses pressure-flotation technology with post-treatment of wastewater in a high-speed filtration and disinfection system. The Group has previously used this technology at the Uskovskaya and Erunakovskaya-8 mines. Some of the filtered water is re-used in the production cycle and the rest is discharged into rivers in compliance with all environmental standards.

# Social and environmental projects

For several years now, EVRAZ has been implementing social projects aimed at protecting the environment and improving the ecology of the areas where it operates and in nearby cities. The Group's employees have cleaned up garbage from city streets, courtyards, production areas and riverbanks.

### Siberia

- Employees of EVRAZ ZSMK, Evrazruda and Raspadskaya made more than 200 birdhouses. They are now placed on the premises of the Group's facilities, as well as in the gardens and yards of Novokuznetsk and Mezhdurechensk schools.
- Siberian enterprises have also released more than 70,000 juvenile Nelma fish, which are also called White Salmon, into the Siberian rivers.
- EVRAZ employees took part in the "Give a tree a second life" programme and transplanted trees from Razrez Raspadskiy's mining sites at local parks, in public squares, along city streets and around kindergartens.

### Urals

- EVRAZ NTMK employees help to keep the Demidov Museum Plant in Nizhny Tagil clean and tidy. This year, they participated in the fifteenth annual volunteer clean-up event.
- Following a storm in Nizhny Tagil, EVRAZ NTMK employees helped clean up the premises of sponsored kindergartens and schools.
- Kachkanar employees helped to give their city a new look, including by cleaning up waste form the Kachkanar pond.

### CIS

- Ukrainian employees regularly hold environmental activities: they plant trees along highways, clean up city parks and streets. In 2017, EVRAZ DMZ joined the "Turn in your batteries!" campaign, placing special containers to collect used batteries at the facilities' entrances and in the canteens. The batteries they collect are recycled in a special facility.

# Social policy

## Our people

## OUR APPROACH

**EVRAZ believes that its success depends on its employees, which is why it constantly invests in human capital development. We understand that the only skilled, engaged and motivated staff can meet the needs of our demanding customers.**

**Compliance with national labour laws and regulations in the countries where the Group operates is a key aspect to this approach. This includes laws on occupational safety, minimum wages and salaries, employees' rights to paid time off, maternity leave, collective bargaining, healthcare coverage, pension benefits, personal data protection, freedom from all forms of discrimination, etc.**

### Personnel profile

**Staff recruitment policy**
EVRAZ creates opportunities for its staff to advance within the organisation and, where necessary, supplements this with a targeted search for outside experts. This helps to keep the Group prepared for future challenges and to reach our ambitious goals.

When evaluating candidates, EVRAZ relies on professionalism and its principles. These represent the qualities and behaviours that we want to see in employees. The EVRAZ principles include:

- safety;
- respect for people;
- performance and responsibility;
- client focus;
- effective teamwork.

EVRAZ continues to invest in talented young specialists, including working with students to provide vocational guidance. In 2017, we created a team of children who study at schools we sponsor to take part in the WorldSkills Junior competition.

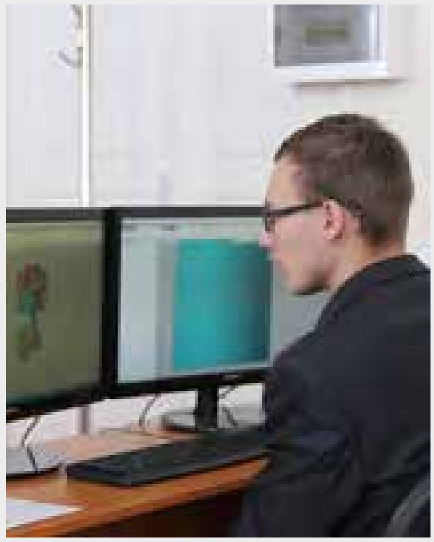
The Group focuses on two priority areas for attracting young specialists:

- an internship programme, after which the best students receive offers for permanent positions at EVRAZ;
- the Group also works with universities and colleges to improve educational programs by offering joint courses and equipping laboratories, enabling students to study modern technologies and standards.

EVRAZ NEW LEADERS

**Staff development**
Staff development strategy. In 2017, EVRAZ continued its "From Foreman to Managing Director" programme. This is one of the tools that we use to teach line managers critical skills in four key areas: HSE, HR, production management and improvements management. Each of these areas has evaluation criteria that are analysed quarterly, and foreman and area managers have a feedback loop to upper management at their disposal. Our training relies on applied skills that each person needs: we teach leaders to communicate with their team, provide feedback, build a dialogue, and foster a safe working environment.
Over the past year, the Group has expanded the programme to include area managers at its Russian and Ukrainian production assets. Overall, 1,800 line managers have participated in since the "From Foreman to Managing Director" programme launched in 2016, including 300 area managers in 2017. A total of 83% of participants noted the following improvements after completing the courses: time management, goal setting, communication and feedback, as well as standard job tools and responsibilities, like production visits and shift meetings.

In 2017, the Group updated its EVRAZ New Leaders Programme. The topics covered under the programme are always derived from a business need: specific problems that need to be addressed. Over the past year, the programme's focus has shifted from production issues to become more people-oriented. In 2017, an additional 70 employees graduated the seventh EVRAZ New Leaders Programme, which is hosted by the Skolkovo Moscow School of Management. Overall, 317 people have completed the programme, 60% of which received new positions at the Group.



**EVRAZ FUNDS MODERNISATION OF THE ENGINEERING AND DESIGN LABORATORY**

*In 2017, EVRAZ provided funding to modernise the engineering and design laboratory at Nizhny Tagil Mining and Metallurgical College. This included upgrading the facility's computers and purchasing new software and other tools. The new equipment will help students to better study this academic discipline.*

*Over the past five years, the Group has helped to upgrade the college's facilities for automation engineering, electrodynamics, mechatronics, robotics and distance learning, metalworks, welding and electrical installation.*

**Performance management.** To ensure high efficiency, EVRAZ continues to improve its performance management process, which was updated in 2017, including:

- KPI methodologies were standardised;
- The list of technical KPIs was updated to reflect best industry practice (the list is reported to the CEO);
- Goal setting deadlines were shortened.

**Training and development.** EVRAZ relies on its staff's technical expertise to develop proprietary educational materials and training programmes that help to prepare its workforce to handle whatever challenges they might face on the job.

Over the past year, the Group has expanded its young engineers' clubs project, which was started in the Urals division (EVRAZ NTMK and EVRAZ KGOK).

**CORPORATE SCIENTIFIC AND TECHNICAL YOUTH CONFERENCE**

*In 2017, a total of 50 young professionals from EVRAZ's largest production subsidiaries took part in the Group's fifth annual corporate scientific and technical youth conference. The teams presented their best technical implementation solutions and then used the tools of the "Theory of Inventive Problem Solving" (Russian abbreviation: TRIZ) method to improve their solutions. They presented their final proposals to EVRAZ' panel of scientific experts, which recommended all the solutions presented for implementation at the Group's operations.*

**SAP SUCCESS FACTORS**

*In 2017, the SAP SuccessFactors implementation was completed. The project automated the processes for searching for candidate, building careers and creating a staff reserve, setting goals and assessing personnel. These are used for calculating bonuses based on employees' final KPI results.*

*The SAP solution combined these HR processes into one system, which helped to improve process efficiency and create a single database.*

In 2017, a total of 10 sessions of EVRAZ' "Chief Engineer School" were held at Russian and Ukrainian sites, as well as a technical forum dedicated to improving the efficiency of mining operations. A special feature of the reporting year was the addition of a new format for the programme: participants were part of a scientific and technical council tasked with solving problems involving benchmarking production processes.

The solutions that EVRAZ' experts and young professionals have come up with have been structured, collected into an engineering materials library, and posted on the corporate intranet.

EVRAZ continues to invest in increasing the prestige of working professions. Workers' roles are actively changing as they technologically determine business results and the quality of the products that EVRAZ offers to the market.

**Assessment of training programme efficiency.** As part of the "Retaining and Developing Engineering Competency" programme that was established in 2012, the Group gathered about 700 of its top experts to take part in training programs and technical forums, as well as to set tasks for and supervise projects involving young professionals.
The scientific and technical advisory board strengthened its role and provided valuable guidance, helping the experts to benchmark the progress of technology and the development of technological solutions.

Regular technical forums have become excellent venues for the Group's specialists to discuss and analyse technical issues, seek outside opinions, and develop implementation and action plans.

**Assessment of personnel**
Ahead of the annual talent committees in 2017, EVRAZ conducted 360° feedback sessions for 220 managers (CEO-2 and successors). This helped to determine their strong points and areas of improvement, and going forward will facilitate the creation of a group development programme.

EVRAZ continues to apply various assessment methods, depending on the goals and category of personnel, including Korn Ferry's Learning Agility™ model, the "From Foreman to Managing Director" programme, SHL testing and questionnaires.

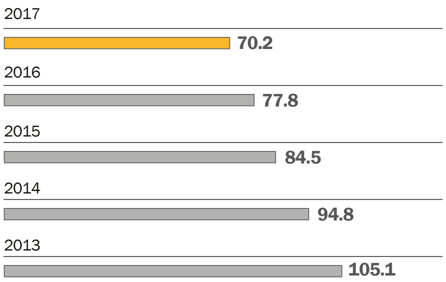
**Pavel Tereshenko,**
electrical installer at EVRAZ ZSMK, won a gold medal at WorldSkills

**WORLDSKILLS HI-TECH 2017 CHAMPIONSHIP**

*In 2017, EVRAZ took part for the fourth time in the Russian Federation's WorldSkills hi-tech national championship. The Group's staff took their first gold prize, three silvers and two bronze medals out of the seven skills competitions in which they took part.*

*This is first time that EVRAZ sent a junior team to the championship and they took second place in the "electrical installation 12+" nomination.*

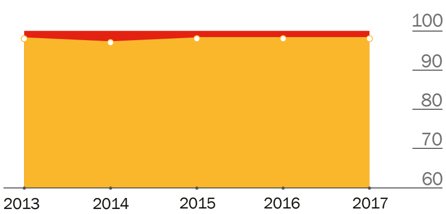
### NUMBER OF EMPLOYEES AS OF 31 DECEMBER 2017, thousand people




### BREAKDOWN OF EMPLOYEES BY AGE AS OF 31 DECEMBER 2017, %


| | |
|---|---|
| <20 | 0.3 |
| 20-29 | 14.9 |
| 30-39 | 30.6 |
| 40-49 | 29.3 |
| 50-59 | 20.8 |
| >60 | 4.1 |

### BREAKDOWN OF PERMANENT AND TEMPORARY STAFF, %




Permanent Temporary

**Headcount**

In 2017, EVRAZ had 70,186 employees, a reduction of 9.8% compared with 2016. To better achieve the Group's strategy, it disposed of non-core assets in 2017, such as Evraz Nakhodka Trade Sea Port and Evraz Sukha Balka.

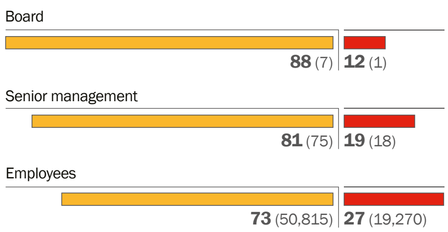
**Diversity**

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.

### BREAKDOWN OF EMPLOYEES BY REGION IN 2017, %


| | |
|---|---|
| Russia and CIS | 94.5 |
| Noth America | 5.2 |
| Europe | 0.3 |

### DIVERSITY OF EMPLOYEES, SENIOR MANAGEMENT AND DIRECTORS, % (number of people)




Men Women

The Group also strongly values diversity in its recruitment efforts. People with disabilities are given full consideration to ensure that their unique aptitudes and abilities are taken into account.

## Employee engagement

EVRAZ uses a wide range of channels to communicate with employees, including its corporate intranet and website; corporate publications; social media channels; webcasts and Q&A sessions with the senior management team; town hall meetings and employee surveys (including engagement surveys).

**Work with trade unions**

EVRAZ' relationship with labour unions that represent its employees' rights is founded on the principle of partnership, which allows it to maintain constructive and positive relations. The management regularly meet with union representatives for discussions at every EVRAZ operating facility. The overall level of unionisation at the Group's enterprises stands at around 73%, albeit with significant variations across operations and countries.

The labour unions at EVRAZ' operations are part of nationwide industrial unions (in Russia, this includes the Russian Mining and Metallurgical Union and the Russian Coal Industry Workers Union), and are also members of the Russian Federation of Independent Unions and international industrial union associations. Meanwhile, the Ukrainian Union of Metallurgists and Miners represents the Group's employees at its operations in Ukraine.

At the industry level, EVRAZ cooperates with labour unions through industry employer associations. The Group is a member of the Russian Coal Mining Industry Employers Association and the Russian Metallurgists Association. In Ukraine, in negotiations with trade unions at the industry and national level, EVRAZ has the right to an advisory vote in the Working Group of the Federation of Metallurgists of Ukraine.

### EMPLOYEE TURNOVER, %

| | 2013 | | 2014 | | 2015 | | 2016 | | 2017 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Region | Overall | Voluntary | Overall | Voluntary | Overall | Voluntary | Overall | Voluntary | Overall | Voluntary |
| Russia and CIS | 14 | 7 | 17 | 7 | 12 | 5 | 14 | 5 | 11 | 6 |
| North America | 30 | 14 | 20 | 14 | 20 | 12 | 26 | 15 | 23 | 14 |
| Europe | 21 | 9 | 15 | 9 | 22 | 14 | 18 | 10 | 8 | 2 |

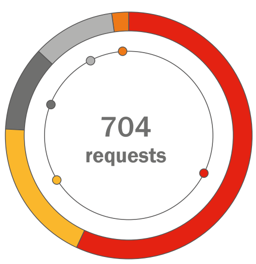
**Tracking employee engagement**

Measuring employee engagement in 2016 helped to determine EVRAZ' HR priorities for 2017. We used the survey to develop local and corporate-wide improvement plans. The corporate focus was on ensuring that every employee knows what is happening within the Group, including its short- and long-term goals, the development plans for the operations where they work, and what the employees themselves can expect. We chose a new format that we call "Informational Days" to discuss these matters with staff. All told, we gathered more than 3,000 people at our subsidiaries and the management company. Local activities were mostly focused on improving working conditions. More than 50 such improvement measures were implemented in the Urals and Siberia divisions, where we implemented the pilot programme last year.

In 2017, the engagement survey included all the Group's main operations. The projects primary goal is to establish a dialogue between the organisation and its employees at all levels, from the enterprise, to the shop and site.

## EVRAZ Hotline

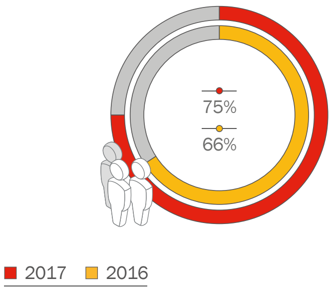
**BREAKDOWN OF HOT LINE ENQUIRIES IN 2017,** %




| | |
|---|---|
| Labour relations | 57 |
| Health and safety | 19 |
| General information | 11 |
| Security | 11 |
| Others | 2 |

In 2017, the hotline received 704 requests. The most popular issue concerned labour relations, including the quality of services for workers (114) and salaries (71). There was a significant increase in enquiries concerning safe pedestrian routes and lighting conditions (25). These requests helped the Group to identify the most dangerous areas, like railway crossings, and improve their safety.

**EMPLOYEE ENGAGEMENT SURVEY RESPONSE RATE,** %




## Financial motivation

In 2017, EVRAZ launched a grading program where consultants helped to evaluate roles within the organisation and develop remuneration management principles. The grading system and remuneration management principles will improve the transparency of employee remuneration.

As part of the EVRAZ Business System Transformations project, the Group introduced a system to motivate employees to provide for process improvement ideas and take an active role in their implementation.

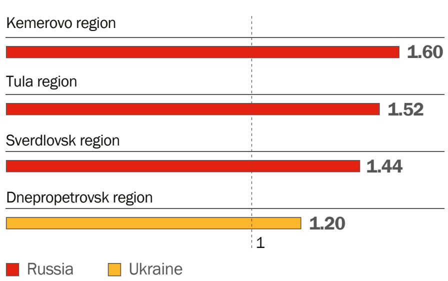
The Group strives to look beyond compliance with minimum wage requirements to ensure that it compensates its staff adequately.

## Key projects

**HR Transformation**

The HR service solutions centre (SSC) project encompasses the entire HR service chain, including employee records, payroll, and timesheet data. In 2017, the centre's services were rolled out to assets in the Urals division. This brought the total number of users to more than 55,000 employees. Since the its inception in August 2016, the centre has performed more than 580,000 operations. As of December 2017, the HR SSC project has helped to improve service quality and reduce process costs by 3%.

**AVERAGE WAGE RATIO, EVRAZ VS THE REGION OF PRESENCE**



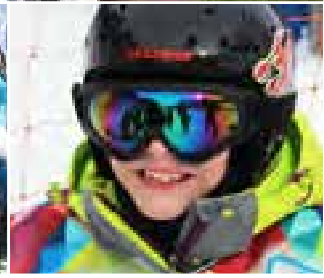

**EVRAZ WINS BUSINESS PROCESS MANAGEMENT PROJECT OF THE YEAR AWARD**

*The Russian chapter of the Association of Business Process Management Professionals holds an annual nationwide contest with the support of the Skolkovo Foundation's IT cluster. Out of a total of 24 business process management projects presented at the competition, EVRAZ' HR services solutions centre won the grand prize and was named Business Process Management project of the year.The SAP solution combined these HR processes into one system, which helped to improve process efficiency and create a single database.*


## Objectives for 2018

EVRAZ strives to implement international best practices in the field of human resources to match its needs and expectations. This helps the Group to maintain high-quality processes and ensures that it has engaged, motivated, loyal and competent managers and employees. The following programmes are a vital part of these efforts:

- EVRAZ Business System. One of the group's overriding priorities for 2018 is to continue supporting the EVRAZ Business System transformation in terms of employee development, motivation and engagement.
- Digital HR. The human resources function is focused on digitising its operations, including through the introduction of employee and manager self-services.
- Human capital development. The Group is implementing a human capital development programme that aspires to cultivate world-class leadership qualities among its middle managers and executives.
- Employee engagement. In 2018, EVRAZ aims to further improve employee engagement by promoting an ongoing dialogue between the organisation and its people, at every level.



# Community relations

## OUR APPROACH

**EVRAZ strives to adhere to international corporate social responsibility principles by making a meaningful contribution to local economies and supporting communities wherever it operates. This includes fostering proper ethical behaviour, caring for employee health and safety, protecting the environment, and being an engaged partner in local communities. Everywhere that EVRAZ operates, it seeks to build sustainable, positive partnerships with local governments and non-government organisations, as well as with business, media and other partners. EVRAZ sponsors various charity projects in these regions with an aim to improve the quality of life in local communities; to support infrastructural, sport, educational and cultural programmes; and to provide assistance for children who might have special needs or lack adequate social protections.**

**EVRAZ has two charity funds that operate in Siberia and the Urals. When choosing projects to support, the funds take into consideration EVRAZ' charity policy. This policy defines focus areas for support, including funding orphanages and needy families, sponsoring educational, sport and cultural projects, and subsidising medical centres and ecological programmes.**

**US$ 31 million**

**spent on social programmes and social infrastructure maintenance in 2017**

## Relations with local communities

EVRAZ supports an open and meaningful dialogue with all stakeholders, including local communities, government entities and non-government organisations, and sponsors important local social events. For example, the Group implemented three programmes as part of Russia's "Year of Ecology". EVRAZ representatives also participate in all important industry events, such as exhibitions, congresses, and meetings with government and business.

### Awards

**EVRAZ**

Award: National contest "The leaders of Russian business: dynamics and responsibility". Nomination: "The best import-replacement project"

*Awarding organisation:*
*Russian Union of Industrialists and Entrepreneurs (Russian abbreviation: RSPP)*

EVRAZ was awarded for its project to reconstruct the rail production line at EVRAZ ZSMK to manufacture a new generation of rails that made it possible to replace imports from Austria and Japan, and even begin producing rails for export markets.

## Public organisations and initiatives

EVRAZ participates in Russian Steel, the Steel Construction Development Association (SCDA), the Russian Managers' Association, the Association of Railway Product Producers, and others.

# KEY PROJECTS

## EVRAZ for kids

EVRAZ supports disabled children and orphanages, in particular its project for children with cerebral palsy. Children in the programme receive medical treatment, including therapeutic massage, and attend various innovative classes in the arts, photography, puppetry, and aquatic therapy.

**CASE STUDY:**
**GENERATION M PROJECT**

*EVRAZ and one of Russia's largest mobile telephone operators organised the Generation M project with the help of the Mezhdurechensk municipal government. Several events took place as part of the project, including a photography contest and exhibition (famous photographers organised workshops for kids) and a movie contest (children will shoot their own movies after attending workshops with directors and actors). Russian cinema star Alena Babenko visited the city and officiated at the contest's opening ceremony. The winners will visit Moscow and Mosfilm, a leading Russian film production company. In December, the first ever World Press Photo exhibition opened in Mezhdurechensk.*

### Activities

- The hippotherapy courses in Nizhny Tagil, Novokuznetsk and Mezhdurechensk continued.
- Children from Mezhdurechensk joined the charity programme "Dream ski" and completed a downhill skiing course for the first time in their life. EVRAZ donated special equipment for the classes and sent instructors for special training. A year earlier the programme with support of EVRAZ opened in Novokuznetsk.
- EVRAZ gave more than 3,000 New Year presents to children in orphanages.
- In Novokuznetsk, EVRAZ sponsored capital repairs for orphanages.
- In Nizhny Tagil, EVRAZ sponsored a professional kindergarten orientation course called "Today a child, tomorrow a steelmaker".
- In Kachkanar, EVRAZ sponsored the renovation of a local kindergarten.
- In Dnipro, Ukraine, EVRAZ supports a kindergarten boarding school.
- In Dnipro, EVRAZ DMZ employees participating in the "Presents for Saint Nickolas Day" campaign brought sweets, presents and toys to an orphanage.
- In Kamenskoye, employees gathered presents for the local childrens' hospital.
- In Indiana, EVRAZ North America made charitable donations to the YMCA Champions for Youth Campaign, which is focused on raising money to ensure under-privileged students can participate in after-school activities.
- In Alabama, EVRAZ North America made charitable donations to the Boy Scouts of America as part of the Christmas for Kids/Progress charity event.

# EVRAZ: City of Friends – City of Ideas

This programme aims to improve the quality of life in Russian cities by developing sports, culture, education and medicine.



**IN 2017, EVRAZ' 25TH YEAR IN OPERATION, THE GROUP HELD ITS "CITY OF FRIENDS – CITY OF IDEAS" SOCIAL CONTEST IN FOUR CITIES, COMPARED WITH JUST ONE CITY IN 2016.**

**CITIZENS PAID SPECIAL ATTENTION TO THE ECOLOGY THEME**

**114**
**BIDS IN SIBERIA**

**215**
**BIDS IN URALS**

**54**
**PROJECTS RECEIVED MONETARY GRANTS**

**>34.5**
**THOUSAND VOTES WERE CAST FOR THE PROJECTS DURING ONLINE VOTING**

# EVRAZ for Cities

EVRAZ supports the local infrastructure in the cities and towns where it operates. The Group sponsors medical, educational, and cultural institutions.

## Activities

- In Novokuznetsk, the Group sponsored the reconstruction of Pervostroiteley Square and installed several sports grounds and playgrounds. EVRAZ also provided rails for the reconstruction of tram lines in the city.
- In Mezhdurechensk, the Group helped to install a new sports field.
- In Tashtagol district, EVRAZ sponsored the renovation of social infrastructure.
- In Kemerovo region, EVRAZ sponsored educational institutions.
- In Kachkanar, EVRAZ donated special equipment to the city's central hospital.
- In Nizhny Tagil, the Group supported a city beautification project.
- In the settlement of Valerianovsk, EVRAZ donated equipment to create a cinema in the local library.
- In Dnipro, EVRAZ DMZ repaired a road and a public transportation station.
- In Canada, EVRAZ North America made charitable donations to the Multiple Sclerosis Society, which was important for the group because it receives almost no government funding.
- In Fort Worth, Texas, EVRAZ North America sponsored the annual BNSF golf event to benefit the United Way of Tarrant County Texas.
- EVRAZ North America made a charitable donation to the American Red Cross for the victims of Hurricane Harvey, the most powerful hurricane to make landfall in the US since 2004, impacting much of Texas and Louisiana.

**CASE STUDY:**
**CULTURE**

*In 2017, the Group paid special attention to cultural activities. EVRAZ supported the local drama theatre in Novokuznetsk and organised its concert tour to Mezhdurechensk. EVRAZ also became a partner of the "Art cherry" festival in Osinniki, Kemerovo oblast.*

# EVRAZ for Sport

EVRAZ continued to support professional and amateur sports teams.

**CASE STUDY:**
**STREETBALL TOURNAMENT**

*For the first time, Raspadskaya organised a streetball tournament in Mezhdurechensk. World champion Mikhail Gunter attended the tournament, which was named in his honour as the Guntercup 2017. He organised a special workshop for young basketball players.*

## Activities

- In the Urals, EVRAZ sponsored the prestigious Grand Slam judo tournament (World Cup), which brought the world's best sportsmen to Ekaterinburg.
- As part of EVRAZ' third-annual "Take Five" event, races took place in Novokuznetsk, Nizhny Tagil and Moscow.
- In the Urals, EVRAZ supported taekwondo, athletics, and hockey in Nizhny Tagil.
- In Kachkanar, the group sponsored the Olimp youth sport school's participation in an international festival of school sports.
- In Kachkanar, EVRAZ sponsored the renovation of a sports centre.
- In Alberta, EVRAZ North America made a charitable donation to the Alberta Cancer Foundation and sponsored the Enbridge® Alberta Ride to Conquer Cancer®, a bicycle ride through the Canadian Rockies that raises money for cancer research. Team EVRAZ (comprised of more than 20 riders from Calgary, Red Deer, Camrose, and Regina) collectively raised the seventh highest amount in the event's team fundraising.

# NEW PROJECTS

## Stronger than steel

EVRAZ introduced the "Stronger than steel" photo project, which is devoted to key professions at the Group. Exhibitions with these photos took place in Moscow, Siberia and the Urals.

## EVRAZ faces

EVRAZ launched a website devoted to its employees. Everyone can upload a photo, video or audio story connected with EVRAZ. Likes can be exchanged for prizes. The best authors become the heroes of TV stories and will be invited to Moscow in 2018.

# Anti-corruption and anti-bribery

## OUR APPROACH

**EVRAZ is fully committed to strict compliance with the Law of the Russian Federation no. 273 "On Preventing Corruption," the UK Bribery Act, the US Foreign Corrupt Practices Act and other relevant local legal equivalents.**

**Preventing corruption, bribery, and moral unscrupulousness is one of the Group's top priorities. EVRAZ has implemented and further developed policies and procedures that define compliance managers' day-to-day efforts. Today, they scrutinise tender procedures, check potential and existing business partners, vet prospective new candidates, and ensure that principles set forth in the Group's Anti-corruption Policy and Code of Ethics are adhered to throughout its operations.**

### Policies and regulations

All EVRAZ subsidiaries strictly comply with the Code of Conduct and Anti-corruption Policy, which are the key documents that define the norms of ethical and responsible behaviour for employees in all circumstances. These and other relevant policies are available on the corporate intranet and employees bear personal responsibility for full compliance with them. Staff are also consistently encouraged to approach compliance managers whenever they have questions about the expected course of action in difficult situations or when they want to voice concerns about known violations.

Compliance managers are present at every major asset and are also responsible for anti-corruption and anti-bribery matters in the Group's smaller local businesses. They investigate possible non-compliance with policies; monitor charity payments and hospitality spending; and act on whistle-blower allegations of possible bribery, corruption, fraud and malfeasance. They then present their findings and recommendations to local managing directors, as well as the Group's compliance manager and specialists reporting to the senior vice president for business support. The latter review and scrutinise investigation results to liaise with senior management as necessary. Compliance managers routinely inform the Audit Committee about the status of ongoing anti-corruption efforts and prepare memos at the committee's request.

EVRAZ has implemented and tested all elements of its compliance system throughout its operations in Russia, Ukraine, the US, Canada, and Kazakhstan. All Group assets have implemented corporate policies to duly cover business processes bearing high corruption risk. The compliance and asset protection units present at all sites closely monitor the effectiveness of and adherence to these regulations. The internal audit and legal departments provide assistance where necessary.

### Risk analysis

Once a year, compliance managers perform a comprehensive analysis of potential anti-corruption risks across all assets. For this purpose, they analyse every business process and define key risk areas.

Compliance managers have examined the following processes for signs of risk:
- Purchase of goods or services;
- Payments;
- Sale of goods, work, and services;
- Business gifts, hospitality, entertainment and travel expenses;
- Charity and sponsorship;
- Interaction with government authorities;
- Hiring and transferring staff;
- Vetting contractors or customers;
- Contract approval;
- Company property management.

**KEY COMPANY POLICIES TO REGULATE ANTICORRUPTION AND ANTI-MONEY LAUNDERING EFFORTS**

**Code of Conduct**

**Anti-corruption policy**

**Rules on securities dealings**

**Hotline policy and whistle-blowing procedures**

- Anti-corruption training policy
- Sponsorship and charity policy
- Gifts and business entertainment policy
- Candidates' background and criminal record check
- Conflict of interest policy
- Contractors/ suppliers due diligence check

For more information, see **Short summary of relevant anti-corruption policies** on page 269.

The compliance, internal audit, legal, and business support functions jointly developed the methodology applied during the analysis specifically for this purpose. They evaluate specific random events for signs of predefined risks, including tenders, contract approvals, purchases, inventory checks and charitable donations.

The compliance managers meet with top managers of each asset to inform them of the investigation results, discuss any threats revealed, and recommend further actions. The compliance managers then monitor any corrective measures that are undertaken to mitigate the discussed risks.

The Group's compliance officer then presents a consolidated analysis to the Audit Committee.

In early February 2018, the compliance officer presented to the Audit Committee the analysis for 2017, which revealed no significant violations of anti-corruption statutes or cases of noncompliance with Group policies.

## Key developments in 2017

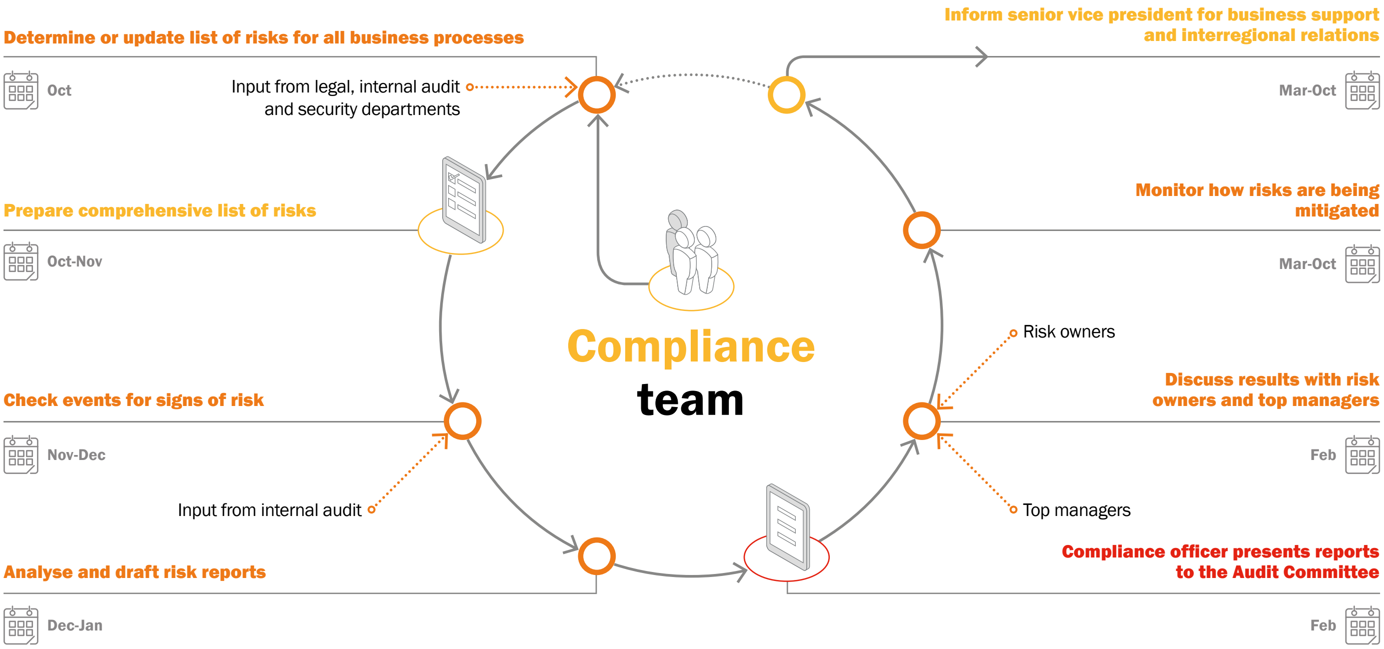
EVRAZ is pleased to report that its compliance function was not required to initiate any investigations into suspected signs of corruption or bribery in 2017. We believe that this is an indication of our successful policy and ongoing preventative efforts.

The Group has additional compliance control measures in place for payments to non-resident companies (specifically offshore entities), which have proven their effectiveness at its Russian and Ukrainian assets. Compliance managers use electronic means to approve such payments, as well as gifts and hospitality to be provided or accepted.

In 2017, the Group continued to develop a set of measures to ensure compliance with the EU Market Abuse Regulation (the "MAR") which came into force in July 2016. Following the request from the Board, the management together with Linklaters have agreed on the following approach to regular legal updates with a view to ensure compliance with policies and procedures under the Market Abuse Regulation: preparation of the EVRAZ Compliance Manual with updated content tailored for EVRAZ' continuing obligations as a UK premium-listed company and developing in-person training for the management team in EVRAZ' Moscow office. A team of c.25 managers will be trained during Q1 2018. The training will be based on the topics covered in the EVRAZ Compliance Manual and was followed by test.

In addition, nearly 3,000 more managers in the US, Canada, Russia, Ukraine and Kazakhstan completed online anti-corruption training developed by Thomson Reuters. Overall, almost 8,000 employees have received this training to date. The programme will continue in 2018 and those previously trained will also refresh their active knowledge of anti-corruption principles and best practices.

### ANTI-CORRUPTION RISK MANAGEMENT CYCLE




### EXAMPLES OF ANTI-CORRUPTION RISKS TESTED IN COMPANY'S BUSINESS PROCESSES

In the process "purchase of goods or services", compliance managers have defined and tested for the following risks:
- considerable changes in the volume of goods purchased or work performed after the tender has already been considered and awarded;
- purchasing goods or services via middlemen and agents when direct contracts are possible;
- purchasing goods, work or services at prices and on terms that are above the market average.

Other corruption risk indicators include lacking supporting documents; violating the existing approved procurement procedures; and reimbursing expenses that are not mentioned in the contract or addendums.

Compliance managers further examine each process to highlight fundamental risks. For example, they analyse gifts and hospitality events to reveal whether:
- event expenses are inconsistent with the event's format or do not match the expense items stated in the event preparation documents;
- there is no business purpose to justify expenses or the purpose may cause reasonable doubts when scrutinised by auditors or regulators;
- business hospitality expenses exceed the limits set by corporate policies;
- there are violations of the procedure for approving expenses and participation in events;
- a business event is held at resort or tourist area;
- there is a lack of or inconsistency in supporting documents when reimbursing expenses to employees.



# Corporate governance

# Board of Directors

Alexander Abramov

Alexander Frolov

Eugene Shvidler

Eugene Tenenbaum

KEY TO COMMITTEE MEMBERSHIP

Chairman Member

Audit Committee | Nominations Committee | Remuneration Committee | HSE Committee

## BIOGRAPHIES OF THE MEMBERS OF THE BOARD OF DIRECTORS

### Alexander Abramov
Non-Executive Chairman

**Appointment:** Alexander Abramov has been a Board member since April 2005. He was CEO and chairman of Evraz Group S.A. until 1 January 2006, and continued to serve as chairman until 1 May 2006. Mr Abramov was a non-executive director from May 2006 until his re-appointment as chairman of the Board on 1 December 2008. He was appointed chairman of EVRAZ plc on 14 October 2011.

**Committee membership:** Mr Abramov is a member of the Nominations Committee.

**Skills and experience:** Mr Abramov graduated from the Moscow Institute of Physics and Technology with a first-class honours degree in 1982, and he holds a PhD in Physics and Mathematics. He founded EvrazMetall in 1992.

**Other appointments:** Mr Abramov is a Bureau member of the Russian Union of Industrialists and Entrepreneurs (an independent non-governmental organisation), a member of the Board of Skolkovo Institute for Science and Technology, and a member of the Board of Moscow University of Physics and Technology.

### Alexander Frolov
Chief Executive Officer

**Appointment:** Alexander Frolov has been a Board member since April 2005. He was chairman of the Board of Evraz Group S.A. from May 2006 until December 2008, and was appointed CEO with effect from January 2007. Mr Frolov was appointed CEO of EVRAZ plc on 14 October 2011.

**Committee membership:** Mr Frolov is a member of the Health, Safety and Environment Committee.

**Skills and experience:** Mr Frolov graduated from the Moscow Institute of Physics and Technology with a first-class honours degree in 1987 and received a PhD in Physics and Mathematics in 1991.Prior to working at EVRAZ, he was a research fellow at the I.V. Kurchatov Institute of Atomic Energy. He joined EvrazMetall in 1994 and served as its chief financial officer from 2002 to 2004, then as senior executive vice president of Evraz Group S.A. from 2004 to April 2006.

**Other Appointments:** None.

### Eugene Shvidler
Non-Executive Director

**Appointment:** Eugene Shvidler has been a Board member of Evraz Group S.A. since August 2006. He was appointed to the Board of EVRAZ plc on 14 October 2011.

**Committee membership:** Mr Shvidler is a member of the Nominations Committee.

**Skills and experience:** Mr Shvidler served as president of Sibneft from 1998 to 2005, having previously been senior vice president from 1995. He holds an MSc and an MBA.

**Other Appointments:** Mr Shvidler currently serves as chairman of Millhouse LLC and Highland Gold Mining Ltd.

### Eugene Tenenbaum
Non-Executive Director

**Appointment:** Eugene Tenenbaum has been a Board member of Evraz Group S.A. since August 2006. He was appointed to the Board of EVRAZ plc on 14 October 2011.

**Committee membership:** None.

**Skills and experience:** Mr Tenenbaum served as head of corporate finance for Sibneft in Moscow from 1998 through 2001. He worked as director for corporate finance at Salomon Brothers from 1994 until 1998. Prior to that, he spent five years in corporate finance with KPMG in Toronto, Moscow and London, including three years (1990-1993) as national director at KPMG International in Moscow. Mr Tenenbaum was an accountant in the business advisory group at Price Waterhouse in Toronto from 1987 until 1989. He is a chartered accountant.

**Other Appointments:** Mr Tenenbaum is currently managing director of MHC (Services) Ltd and serves on the Board of Chelsea FC Plc and AFC Energy PLC.

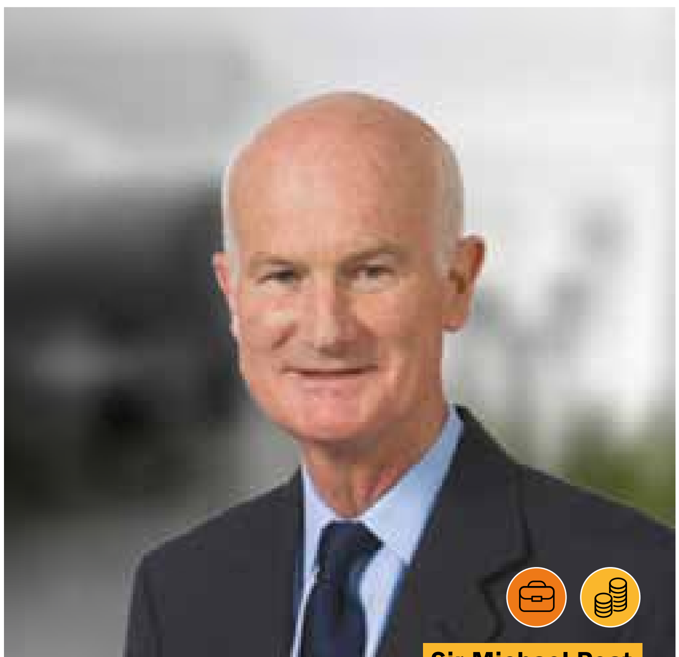
# Board of Directors

## Independent directors


Karl Gruber


Deborah Gudgeon


Alexander Izosimov


Sir Michael Peat

**KEY TO COMMITTEE MEMBERSHIP**

Chairman
Member

Audit Committee
Nominations Committee
Remuneration Committee
HSE Committee

## BIOGRAPHIES OF THE MEMBERS OF THE BOARD OF DIRECTORS

### Karl Gruber
Independent Non-Executive Director

**Appointment:** Karl Gruber has been a Board member of Evraz Group S.A. since May 2010. He was appointed to the Board of EVRAZ plc on 14 October 2011.

**Committee membership:** Mr Gruber serves as chairman of the Health, Safety and Environment Committee. He is also a member of the Audit Committee and Nominations Committee.

**Skills and experience:** Mr Gruber has extensive experience in the international metallurgical mill business and holds a diploma in mechanical engineering. He has held various management positions, including eight years as a member of the Managing Board of VOEST-Alpine Industrieanlagenbau (VAI), first as executive vice president of VAI and then as vice chairman of the Managing Board of Siemens VAI. He also chaired the boards of Metals Technologies (MT) Germany and MT Italy. Further, he has executed various consultancy projects for the steel industry and served as CEO and chairman of the Management Board of LISEC Group.

**Other appointments:** None.

### Deborah Gudgeon
Independent Non-Executive Director

**Appointment:** Deborah Gudgeon has been a Board member of EVRAZ plc since May 2015.

**Committee membership:** Ms Gudgeon serves as chairman of the Audit Committee and is a member of the Remuneration Committee.

**Skills and experience:** Ms Gudgeon is a qualified chartered accountant with 30 years experience. She started her career with Coopers and Lybrand, and in 1987 became a senior accountant for Salomon Brothers International. She is a chartered accountant. From 1987 to 1995, Ms Gudgeon served as a finance executive at Lonrho PLC and was appointed a member of the Finance Committee in March 1993. From 1995 to 1998, she served as a director for Halstead Services Limited, and from 1998 to 2003, she served as a director of Deloitte, specialising in corporate finance. From 2003 to 2009, Ms Gudgeon served as a founding director of the Special Situations Advisory team for BDO LLP, providing integrated advice on corporate finance, restructuring, debt and performance improvement. From 2011 to 2017, Ms Gudgeon served as managing director of Gazelle Corporate Finance Limited.

**Other appointments:** Ms Gudgeon is currently a Senior Adviser of Penfida Limited.

### Alexander Izosimov
Independent Non-Executive Director

**Appointment:** Alexander Izosimov was appointed to the Board of EVRAZ plc on 28 February 2012.

**Committee membership:** Mr Izosimov is chairman of the Remuneration Committee. He is also a member of the Nominations Committee and the Audit Committee.

**Skills and experience:** Mr Izosimov has extensive managerial and board experience. From 2003 to 2011, he was president and CEO of VimpelCom, a leading emerging market telecommunications operator. From 1996 to 2003, he worked at Mars Inc, where he held various managerial positions, including regional president for CIS, Central Europe and Nordics, and was a member of the executive board. Prior to Mars Inc, Mr Izosimov was a consultant with McKinsey and Co (Stockholm, London; 1991-1996) and was involved in numerous projects in the transportation, mining, manufacturing and oil businesses. Until recently, Mr Izosimov served on the boards of MTG AB, Dynasty Foundation, LM Ericsson AB and Transcom SA. He also previously served as director and chairman of the GSMA (global association of mobile operators) board of directors, and was a director of Baltika Breweries, confectionery company Sladko, and IT company Teleopti AB. He holds an MBA from INSEAD.

**Other appointments:** None.

### Sir Michael Peat
Senior Independent Non-Executive Director

**Appointment:** Sir Michael Peat was appointed to the Board of EVRAZ plc on 14 October 2011.

**Committee membership:** Sir Michael Peat serves as chairman of the Nominations Committee and is a member of the Remuneration Committee.

**Skills and experience:** Sir Michael Peat is a qualified chartered accountant with over 40 years' experience. He served as Principal Private Secretary to HRH The Prince of Wales from 2002 until 2011. Prior to this, he spent nine years as the Royal Household's Director of Finance and Property Services and then Treasurer to The Queen and Keeper of the Privy Purse. Sir Michael Peat was at KPMG from 1972, and became a partner in 1985. He left KPMG in 1993 to devote himself to his public roles. He holds an MA and MBA, and is a fellow of the Institute of Chartered Accountants in England and Wales.

**Other appointments:** Sir Michael Peat is an independent non-executive on the Board of Deloitte LLP, a director of CQS Management Limited and a partner in CQS (UK) LLP, chairman of GEMS MENASA Holdings Limited, a non-executive director of Arbuthnot Latham Limited, a non-executive director of M&C Saatchi plc, a director of Architekton Limited, chairman of the Regeneration Group Limited.

# Management

**Alexander Frolov**
Chief Executive Officer

**Leonid Kachur**
Senior Vice President,
Business Support and Interregional Relations

**Aleksey Ivanov**
Senior Vice President,
Commerce and Business Development

**Nikolay Ivanov**
Chief Financial Officer

**Alexander Kuznetsov**
Vice President,
Corporate Strategy and Performance Management

**Ilya Shirokobrod**
Vice President, Sales

**Natalia Ionova**
Vice President,
Human Resources

**Sergey Stepanov**
Vice President,
Head of the Coal Division

**Alexey Soldatenkov**
Vice President,
Head of the Siberia Division

**Maksim Andriasov**
Vice President,
Head of the Urals Division

**Denis Novozhenov**
Vice President,
Head of the Ukraine Division

**Konstantin Rubin**
Vice President,
Health, Safety and Environment

**Sergey Vasiliev**
Vice President, Compliance with Business Procedures
and Asset Protection

**Vsevolod Sementsov**
Vice President,
Corporate Communications

**Artem Natrusov**
Vice President,
Information Technologies

**Yanina Staniulenaite**
Acting Vice President,
Legal

# 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.**

Further information on **the Company's Corporate Governance policies and principles** are available on its website: www.evraz.com

**The UK Corporate Governance Code** is available at 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 2017, EVRAZ complied with all the principles and provisions of the 2016 UK Corporate Governance Code (the Governance Code is available at www.fic.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 128–135.

## 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 ended 31 December 2017, the Board considered a wide range of matters, including:

- the critical success factors for strategic development of the Group's competitive advantages;
- 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 2016 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;
- disposal of non-core businesses;
- 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 externally facilitated Board evaluation exercises and action plans resulting therefrom.

During 2017, the Board considered in detail the disposal of Evraz Nakhodka Trade Sea Port (NTSP). This facility, located on Russia's Pacific coast, was no longer considered to be a core activity of the Group, and financial advisers had been appointed to market the facility. During the sale process, an offer to purchase the port and its activity was received from Lanebrook Ltd, the Group's majority shareholder.

Under the Listing Rules the deal was deemed a related-party transaction and accordingly, in line with the relationship agreement in place between the Company and Lanebrook Ltd, page 139, the Board delegated authority to review and agree, if appropriate, the transaction to a committee of the Board comprised exclusively of the independent non-executive directors (INEDs).

The INEDs took advice from Morgan Stanley and Co International plc and Clifford Chance LLP, and they considered that the fair value comparison of the Lanebrook Ltd offer was better than the other trade sale offers received, and recommended the sale of NTSP to Lanebrook Ltd to shareholders. A special general meeting of the Company's shareholders was held on 23 May 2017, and the shareholders, excluding Lanebrook Ltd who were not permitted to vote, approved the transaction with 92% of votes cast being in favour.

The Board also discussed in detail the proposal to pay an interim dividend of US$0.3 per ordinary share, totalling US$429.6 million, on 8 September 2017. The level of distributable reserves within the balance sheet was considered, noting that it was sufficient to enable the dividend to be paid. The expectations of institutional shareholders were noted, as well as that the proposed figure recognised that no dividend had been paid in 2016. It was decided to proceed but to also ensure that shareholders realised that the 2017 interim payment might be higher than future dividend payments.

In keeping with the requirements of the Relationship Agreement (see page 139) in place between the Company and Lanebrook Ltd, its major shareholder, the INEDs 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;
- so far as the Company is aware, the Controlling Shareholder has complied with the procurement obligations in the Relationship Agreement.

## Stakeholders

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 Board's HSE Committee is charged with embedding a safety culture for employees across the Group's operations and monitoring the implementation of the Group's environmental policy.

## 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 2017. In 2018, 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 2017.

As at 31 December 2017, the Board comprised the chairman, one executive director, and six 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.

### BOARD COMPOSITION

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

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 (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 AND AGM ATTENDANCE BY EACH DIRECTOR[1]

| | Board | Remco | HSEco | Auditco | Nomco | AGM |
|---|---|---|---|---|---|---|
| **Total number of meetings** | **10** | **4** | **2** | **9** | **3** | **1** |
| Alexander Abramov | 9/10 | - | - | - | 3/3 | 1 |
| Alexander Frolov | 10/10 | - | 2/2 | - | - | 1 |
| Karl Gruber | 9/10 | - | 2/2 | 8/9 | 3/3 | 1 |
| Deborah Gudgeon | 10/10 | 4/4 | - | 9/9 | - | 1 |
| Alexander Izosimov | 10/10 | 4/4 | - | 9/9 | 3/3 | 1 |
| Sir Michael Peat | 10/10 | 4/4 | - | - | 3/3 | 1 |
| Eugene Shvidler | 10/10 | - | - | - | 3/3 | 1 |
| Eugene Tenenbaum | 10/10 | - | - | - | - | 1 |

*[1]Alexander Abramov was unable to attend one Board call due to a late arising conflicting commitment. Karl Gruber was unable to attend one Board meeting due to a personal matter. In addition to the 10 scheduled Board meetings held in 2017, two meetings were held by all of the independent non-executive directors to consider and recommend to shareholders the disposal of Evraz Nakhodka Trade Sea Port to the related party Lanebrook Ltd, as required by the Relationship Agreement in place between EVRAZ plc and Lanebrook Ltd.*

## Boardroom diversity

EVRAZ recognises the importance of diversity both at Board level and throughout the whole organisation. The Group 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. As stated in the CSR report on pages 80–105, 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 on pages 124–125 and the CSR report on pages 80–105.

The Company believes that the Board composition 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 incorporation of EVRAZplc 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 on pages 124–125.

## Performance evaluation

An externally facilitated annual Board evaluation was conducted in September and October 2017 by Lintstock LLP, who have no other business relationship with the Group. As with the internally facilitated reviews undertaken in 2015 and 2016, the review was carried out 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) 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. At its December meeting, the Board agreed an action plan for 2018 that would allow the Board to increase 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, other CSR issues and on HR policy.

The plan seeks to give Board members more exposure to senior management below Board level. Further consideration will be given to succession planning and ensuring that appropriate induction programmes are in place for Board members.

The Board will also increase the amount of time now devoted to considering risk issues and its appetite for risk across all aspects of the business.

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

## 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 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. Deborah Gudgeon has relevant recent financial experience.

**The terms of reference for each Committee** are available on the Group's website: www.evraz.com.

**BOARD COMPOSITION AS OF 31 DECEMBER 2017**

| Name | Position | Committee membership | Years of tenure |
|---|---|---|---|
| **Executive director** | | | |
| Alexander Frolov | CEO | HSEC – member | 6 |
| **Non-executive directors** | | | |
| Alexander Abramov | Chairman | NC – member | 6 |
| Eugene Shvidler | Director | NC – member | 6 |
| Eugene Tenenbaum | Director | None | 6 |
| **Independent non-executive directors** | | | |
| Karl Gruber | Director | HSEC – chairman<br>AC – member<br>NC – member | 6 |
| Deborah Gudgeon | Director | AC – chairman<br>RC – member | 2 |
| Alexander Izosimov | Director | RC – chairman<br>NC – member<br>AC – member | 5 |
| Sir Michael Peat | Senior independent director | NC – chairman<br>RC – member | 6 |

### THE 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 | See on pages 120–123 |
| **Nominations Committee** | Selection and nomination of Board members | All five members are non-executive directors, of which three are independent | See on pages 124–125 |
| **Remuneration Committee** | Remuneration of Board members and top management | All three members are independent non-executive directors | See on pages 128–135 |
| **HSE Committee** | HSE issues | Two of the three members[1] are non-executive with an independent chairman who is also a non-executive director of the Company | See on pages 126–127 |

*[1]The members of the Health, Safety and Environment Committee at 31 December 2017 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.*

## Shareholder engagement

The Company continues to encourage shareholder engagement. The annual general meeting was held on 20 June 2017 and all directors, including all committee chairs, were in attendance. All shareholders are welcomed to attend, ask questions and discuss issues with individual directors. A further special general meeting was held on 23 May 2017 to approve the disposal of Evraz Nakhodka Trade Sea Port to a wholly-owned subsidiary of Lanebrook Limited, a related party.

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.

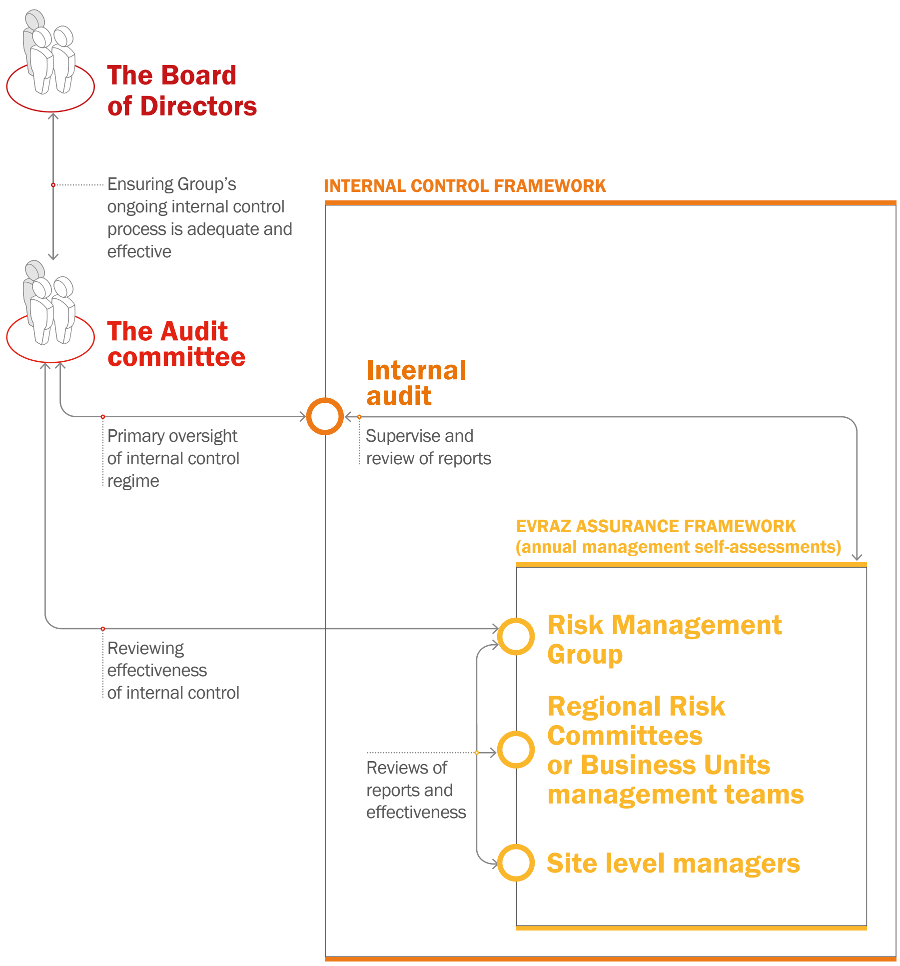
In October 2017, an investor day was held for analysts and institutional investors, where key members of the management team gave presentations to explain the Group's operations and performance. Sir Michael Peat, the senior independent non-executive director and chairman of the Nominations Committee 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.

# 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 2017, 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.

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

### INTERNAL CONTROL



### COMPONENTS OF THE INTERNAL CONTROL SYSTEM

| Component | Basis for assurance | Action in 2017 |
|---|---|---|
| **Assurance framework** – principal entity-level controls to prevent and detect error or material fraud, ensure effectiveness of operations and compliance with principal external and internal regulations | • Self-assessment by management at all major operations<br>• Review of the self-assessment by the internal audit function | In 2017, the internal audit function reviewed and assessed effectiveness of the internal control system, and established a more straightforward connection between the result of the management's internal control self-assessment and the internal audit plan |
| **Investment project management** | • Monitored by established management committee and sub-committees<br>• Reviewed by the internal audit function | Continuous enhancement of procedures regarding quality and reporting control, as well as other elements of the project oversight process |
| **Operating policies and procedures** | • Implemented, updated and monitored by management<br>• Reviewed by the internal audit function | Operating policies and procedures were updated as per the internal initiatives by operational management and in response to recommendations from the internal audit function |
| **Operating budgets** | • Monitored by controlling unit<br>• Reviewed by the internal audit function<br>• Approved by the Board | Operating budgets were prepared and approved by the Board |
| **Accounting policies and procedures as per the corporate accounting manual** | • Developed and updated by the reporting department<br>• Reviewed by the internal audit function | Accounting policies and procedures were updated as part of the standard annual review process |

approved by the Board is used to identify particular risks and uncertainties that require specific Board oversight. In 2017, 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.

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.
- The Group has established a reporting process involving business unit management teams and other relevant bodies at major enterprises. 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 36–41.

The Board has delegated primary oversight of the Group's internal control process to the Audit Committee. The committee has tabled for the directors' consideration the major internal control findings in the areas where the Board's risk appetite has been exceeded.

To ensure that control is exercised effectively across operations, the Group has adopted annual management self-assessments of the internal control system using the EVRAZ Assurance Framework. The management rates and evaluates the individual components of the framework. In 2017, all major production sites were certified as having effective internal control.

A department headed by Senior Vice President Leonid Kachur has specific responsibility for preventing and detecting business fraud and abuse, including fraudulent behaviour by employees, customers and suppliers that may cause a direct economic loss to the business. Solid internal controls help to minimise the risk, and EVRAZ' Business Security department ensures that appropriate processes are in place to protect the Group's interests.

## Internal audit

Internal audit is an independent appraisal function that the Board has established to evaluate the adequacy and effectiveness of controls, systems and procedures at EVRAZ with an aim to reduce business risks to an acceptable level and in a cost-effective manner.

The Board approved the latest version of the internal audit charter on 28 February 2017.

The internal audit function's role in the Group is to provide an independent, objective, innovative, responsive and effective value-added internal audit service. This is achieved through a systematic and disciplined approach based on assisting management in controlling risks, monitoring compliance, and improving the efficiency and effectiveness of internal control systems and governance processes. Once a year, the function provides an opinion of the overall effectiveness of the Group's internal controls.

In 2017, EVRAZ' head of internal audit, as secretary of the Audit Committee, attended all the committee's meetings and addressed any reported deficiencies in internal control as required by the committee. The committee continued to engage with executive management during the year to monitor the effectiveness of internal control and, consequently, considered certain deficiencies that had been identified in internal control together with the management's response to such deficiencies.

The internal audit planning process starts with the Group's strategy; includes the formal risk assessment process, consideration of the results of the management internal control self-assessment, and the identification of management concerns based on the results of previous audits; and ends with an internal audit plan, which the Audit Committee then approves. Audit resources are predominantly allocated to areas of higher risk and, to the extent considered necessary, to financial and business controls and processes, with appropriate resource reservation for ad hoc and follow-up assignments.

In 2017, internal audit projects covered the following Group risks:

- Product competition;
- Cost effectiveness;
- Health, safety and environment;
- Capital projects and expenditure;
- Treasury and working capital management;
- Human resources;
- Compliance;
- Business interruption, and equipment and infrastructure downtime management;
- Transportation, sourcing, raw materials and energy supply;
- IT security and IT infrastructure risk management;
- Quality.

EVRAZ' internal audit function is structured on a regional basis, reflecting the geographic diversity of the Group's operations. The internal audit function works to align common internal audit practices throughout the Group via quality assurance and improvement programmes.

## Our approach to risk appetite

Risk appetite is an important part of the risk management process that serves as a measure of the risks EVRAZ' management is willing to accept in pursuit of value. The Board has approved a risk appetite in accordance with the risk management methodology adopted by the Group.

Risk appetite is considered in evaluating strategies and setting objectives within EVRAZ' strategic cycle, in decision making and in developing risk management actions and methods, as well as in identifying particular risks and uncertainties that require specific Board oversight. The Group's strategic objectives are aligned with and risk mitigation actions are reflective of the risk appetite approved by the Board. The Group adopts a robust approach in relation to risk management. Risk appetite for some specific business processes (eg in fraud, security, bribery and corruption, as well as in the health and safety process) is assessed, defined and evaluated separately from the rest of the processes.

The management reassesses the risk appetite at least annually via the Risk Management Group, which reports on the analysis performed to the Audit Committee. The committee then makes recommendations to the Board regarding the level of risk appetite. The Risk Management Group and the Audit Committee last reviewed the Group's risk profile in October 2017 and finalised the assessment in January 2018 . Based on the results of the most recent review, the management concluded that the approach for acceptance of risks within the Group had not changed and that the risk appetite remained the same as in the prior year. An appropriate recommendation regarding the level of risk appetite was made to the Audit Committee and to the Board.

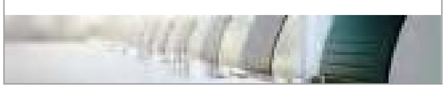
## Objectives for 2018

Further development and integration of the risk management system and risk management practices is planned for 2018.

Within risk analysis in individual processes, the methodological update for occupational safety risk assessment is scheduled to be finalised in 2018.

Further information **regarding EVRAZ' internal control and risk management processes** can be found at: www.evraz.com/governance/control.

**For the reports from each committee,** please see pages 120–135.



# Audit Committee report

**Deborah Gudgeon**

Independent Non-Executive Director, Chairman of Audit Committee

**The role and responsibilities of the Audit Committee** are delegated by the Board and set out in the written terms of reference http://www.evraz.com/governance/directors/committees/.

**Dear shareholders,**

***I am pleased to present the Audit Committee Report for the financial year ended 31st December 2017.***

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

## Role and Responsibilities of the Audit Committee

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

The Audit Committee reviews the Group Risk Register and the Group Risk Appetite proposed by management before they are considered by the Board.

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

The terms of reference for both the Audit Committee and the Risk Management Group were reviewed by the Committee and considered as appropriate and no changes were deemed necessary.

EVRAZ also confirms its compliance, during the financial year commencing 1 January 2017, with the provisions of the Competition and Markets Authority Order 2014 on mandatory tendering and audit committee responsibilities.

## Committee Members and Attendance

The Audit Committee members are all Independent Non-Executive Directors. The Committee members have a wide range of skills and experience: Deborah Gudgeon has recent and relevant financial experience, and Karl Gruber has extensive sector experience and knowledge. Alexander Izosimov has wide ranging corporate and executive experience. As disclosed in the Corporate Governance Report page 115, Olga Pokrovskaya continues to attend Audit Committee meetings as an observer, providing additional technical expertise and valuable regional expertise.

Senior members of the Group's finance function, the head of Group Internal Audit (who acts as secretary to the Audit Committee and the Risk Management Group), and the external auditors also attend Committee meetings.

Key members of the management team and Risk Management Group are also invited to attend Committee meetings when appropriate; in 2017, these included the CEO and VP's of Strategy, Steel, IT, Security, Legal, Compliance and Personnel, the CFO of Evraz North America plc (hereinafter "ENA") and the Director of Investor Relations. Other members of the EVRAZ management team and the Internal Audit Function were also invited to attend Committee meetings as appropriate.

The Audit Committee met 9 times during 2017 and 3 times in early 2018 before the publication of this annual report.

Details of committee attendance are set out on page 115.

## Activities and Work of the Committee during 2017

During 2017, the Audit Committee has continued to focus on the integrity of the Group's financial reporting, the related internal control framework and risk management, including finance, operations, regulatory compliance and fraud. These areas were comprehensively reviewed on an ongoing basis and the Committee received regular updates from the Company's financial and operational management, Internal Audit, the Compliance Officer and legal team, as well as the external auditors.

The Committee monitors the IT security of the Group on an ongoing basis including the results of the external audit, mitigation plans and the level of attempted attacks. Following the virus attack in June 2017, the Committee reviewed the implications of and response to the attack, and considered the mitigation plan developed to enhance the resilience of IT security and business continuity across the Group. This will remain an area of focus for the Audit Committee in 2018.

During 2017, the Committee continued to monitor the progress of the financial transformation project and considered the implications for the quality, timeliness and continuity of financial reporting through the ongoing transition. Following the successful implementation of the initial project, the scope of the Shared Service Centre at Novokutznetzk was extended during 2017 with the migration of transactional activities and procurement back office operations and a pilot project to assess the potential to employ Robotics. The Committee also reviewed the status of the procurement transformation project. Progress on both of these projects will be reviewed on an ongoing basis during 2018.

The Committee reviewed the updated information and disclosure required in support of the Payments to Government filing for 2017 as well as the new disclosures in 2017 in respect of the Modern Slavery Act and Tax Strategy before their approval by the Board.

The Committee continued to monitor the process for capturing, monitoring and approving related party transactions during 2017 together with the accuracy and completeness of the disclosures in the 2017 financial statements.

The Committee reviewed and updated its own terms of reference, the internal audit charter and the Group Financial Reporting Procedures Manual ("FRP"). The effectiveness and status of the anti-corruption policy and sanctions risk compliance controls were reviewed throughout the course of the year, together with progress to meet the governance requirements of the Financial Reporting Council ("FRC") Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. At the request of the Committee, Linklaters LLP have prepared an updated EVRAZ Compliance Manual and worked with management to develop an in-house training programme to ensure compliance with the EU Market Abuse Regulation.

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

FRC reviewed EVRAZ's judgements and estimates disclosures in the 2016 financial statements as part of its 2017 thematic review. The review covered only the specific disclosures relating to the thematic review and considered compliance with reporting requirements. The FRC requested clarification in respect of the specific assumptions used to determine certain judgements and estimates, and the sensitivity of some estimates to the assumptions made. As a result of the review, the FRC used certain disclosures from the EVRAZ 2016 financial statements as examples of better practice in the Thematic Review Judgements and Estimates published on 9 November 2017 and certain disclosures including those in respect of PP&E and mineral reserves have been refined in the 2017 financial statements.

# Significant Financial Reporting Issues considered by the Audit Committee in 2017

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

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

## Financial reporting standards and governance requirements

The full financial statements can be found on pages 142–263.

The Audit Committee considered a number of financial reporting issues in relation to the Interim Results for H1 2017 and the financial statements for 2017. These included the appropriateness of accounting policies adopted, disclosures and of management's estimates and judgements. The Committee considered papers produced by management on the key financial reporting judgements and reviewed reports by the external auditor on the full year and half year results which highlight any significant risks and areas of focus with respect to the audit work.

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

The following financial reporting issues are considered significant.

## Going concern (Note 2) and the viability statement

EVRAZ is exposed to a wide range of risks and inherent uncertainties as set out on pages 38–40, many of which are outside the control of the Company. During 2017, growing global demand and supply optimization in China supported positive steel and raw material price growth but markets remain volatile. The Audit Committee reviewed management's going concern analysis which included both a base case and a flexed downside scenario which is based upon forward pricing close to the bottom of the range of current investment analyst forecasts, and a reduced level of budgeted capital expenditure. The Committee carefully considered the projected Use and Sources of Funds for the period to June 2019 which includes scheduled loan repayments, new committed funding, free cash flow after capital expenditure and payments arising from the revised dividend policy. Given the volatility of the current global supply/demand environment in which EVRAZ operates, the Committee again focused on the pessimistic downside case and the implications on free cash flow and compliance with financial covenants.

Following these detailed considerations, the Audit Committee resolved to recommend the going concern basis of preparation for the Financial Statements as at 31 December 2017 to the Board.

The Committee reviewed the analysis supporting the viability statement before it was considered by the Board. The Committee also reviewed the scenarios that might challenge viability, the key assumptions in each scenario and the proposed disclosures in the viability statement.

## Areas of significant accounting judgement and management estimates

Impairment of goodwill and tangible assets (Notes 5 and 6). The Committee considered management's impairment recommendations in the context of the current and future trading environment and the mineral reserves valuation undertaken by IMC during 2017. Testing was undertaken as at 30 September 2017 and reassessed at 31 December 2017 when no further impairment triggers were identified. The continued weakness of the rouble means that the carrying values of Russian cash generating units remain low in US dollar terms and are largely not challenged by the value in use comparisons used to determine impairment, even in a negative pricing environment.

As a result of changes to coal, iron ore and steel price expectations, revised production volumes and improvements to net working capital, there is an impairment reversal of US$12 million recorded in the financial statements in 2017. This includes a net charge of US$19 million in respect of the intangibles and property, plant and equipment of ENA and a specific impairment charge of US$9 million at Yuzhkuzbassugol to reflect increased site restoration provisions. These charges are offset by a reversal of US$20 million of the impairment recognised on the idling of Palini e Bertoli, which was restarted in 2016, to reflect a significant improvement to net working capital assumptions and sales mix changes and net reversals of US$9 million at Raspadskaya and US$8 million at Evrazruda to reflect updated mine plans. The Audit Committee considered these reversals and concluded that they were appropriate.

### Other matters

There were a number of disposals during 2017 and the Committee reviewed the accounting treatment for each of these, in particular:

- the sale of Evraz Nakhodka Trade Sea Port ("NMTP") to Lanebrook Limited, the ultimate controlling shareholder of the Group, for a cash consideration of US$340 million in June 2017. Coterminous with the sale, the Group entered into a five year agreement with NMTP to transship specified volumes of the Group's coal and metals. US$8 million of the consideration was recognized as relating to the terms of the transshipment agreement and has been treated as deferred income in the financial statements and is being amortized over the five year agreement, reducing shipping costs; and
- the sale of Evraz Yuzhkoks completed on 19th December 2017 with consolidation of this entity ceasing from that date. A loss of US$91 million was recognized on the sale, including US$132 million of cumulative exchange losses reclassified from other comprehensive income to statement of operations.

The Committee considered the implications of the US Tax Reform Bill (Tax Cuts and Jobs Act) passed in December 2017 for ENA, including whether historic deferred tax assets and intra-group interest would be tax deductible. Management's treatment and disclosure were reviewed and agreed.

## Fair, balanced and understandable

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

Taking into account the disclosure implications of the issues discussed in this report, the Committee recommended to the Board that, taken as a whole, it considers the annual report to be fair, balanced and understandable. The Audit Committee recommended approval of the Group's 2017 Consolidated Financial Statements by the Board. Both recommendations were accepted by the Board.

## Other Matters

### UK Bribery Act ("UKBA")

The Committee continues to monitor the status of the procedures, controls and data collection of the Group's anti-corruption policy and Code of Conduct, including the regulation of interaction with state authorities introduced by the Company in November 2014, and progress in respect of the areas for improvement and implementation identified by the external audit in 2014. A comprehensive framework for annually monitoring compliance with EVRAZ' anti-corruption policies and identifying risk was developed during 2016 by the compliance, legal and internal audit teams. Using this framework, compliance was tested in late 2017 and the results reported to the Committee in February 2018 indicating further progress in reducing risk. Anti-corruption training continued during 2017 with a further 3,000 managers across the business completing the programme developed by Thomson Reuters. The programme will be continued and extended in 2018. Internal audit also tested the procedure and completeness for maintaining registers of entertainment costs, business gifts, and charitable and sponsorship expenditure at a number of key entities during the year. Based upon the output, the mitigation plan and training programmes will be updated to reflect the increasing maturity of these processes.

### Sanctions Compliance Controls

The Committee receives regular updates from the Group's external legal advisers and the Compliance Officer on any extension or change to the evolving sanctions framework and the control processes, procedures and reporting framework are updated regularly to incorporate the latest guidance. These were tested by Internal Audit during the year, along with progress against the recommendations of the Group's external legal advisers, and found to be satisfactory. There is a process of continuing education of compliance personnel and executive management in relation to sanctions.

## Risk Management and Internal Control

This should be read in conjunction with the Risk Management and Internal Control section on pages 117–119.

EVRAZ has an integrated approach to risk management to ensure that the review and consideration of risks inform the management of the business at all levels, the design of internal controls and internal audit process. The Group's financial reporting procedures, internal controls, risk management systems and activities are documented in a comprehensive Financial Reporting Procedures Manual (FRP). The manual was updated and reviewed by the Audit Committee in December 2017.

The Risk Management Group attended the Audit Committee in October 2017 and presented the updated Risk Register and their recommendation on the level of Risk Appetite. These were reviewed by the Audit Committee, along with the draft Statement of Principal Risks and Uncertainties to be included in the annual report, prior to the Board's consideration.

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

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

### Assessment of the Group's risk profile and control environment

Internal Audit reviews the Group's risk and control environment bi-annually and this is considered by the Risk Management Group and the Audit Committee. In particular, the

Audit Committee considered whether the financial and procurement transformation projects had implications for the risk and control environment.

The Chairman of the Audit Committee tables the Internal Audit report judgement on the risk and control environment to the Board.

Following the cyber-attack in June 2017, the Group extended and accelerated the IT Security Risk Mitigation plan, including a comprehensive timeline of critical measures to be implemented in 2017 and 2018. This mitigation plan is regularly recalibrated to reflect progress already made and new threats identified.

# Internal Audit

The Audit Committee reviewed the internal audit plans for 2018 and recommended certain revisions in view of the macroeconomic environment, risk profile of the business and resources available. The plan was revised to reflect the updated risk analysis and to prioritise key business cycles and controls from a risk perspective. Overall, the Committee considers the current Internal Audit resource to be adequate for the internal control and risk management assurance requirements.

The Audit Committee reviewed and updated the Internal Audit Charter and Key Performance Indicators of the Internal Audit function in early 2018. An annual assessment of the effectiveness, independence and quality of the Internal Audit function was undertaken by way of a questionnaire to Committee members, management and the external auditors. The conclusion was again very satisfactory. An external assessment of the Internal Audit function in the Russian Federation, CIS and Europe was undertaken during 2015 and confirmed that it conformed to the International Standards for the Professional Practice of Internal Auditing, Code of Ethics and Definition of Internal Audit of the Institute of Internal Auditors. An external assessment of the Internal Audit function at ENA will be undertaken during 2018.

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

# External Audit

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

## Effectiveness and Independence

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

- review and approval of the external audit plan for the interim review and year-end audit, including consideration of the audit scope, key audit risks and audit materiality measures, and compliance with best practice;
- review and approval of the external auditor's engagement letter;
- review of the FRC's Quality Inspection Report June 2017 and EY's response;
- consideration of the external auditor's report on the Interim Review and annual report and Representation Letters; and
- review of the external auditor's management letter on the 2016 audit with management, consideration of management's response and proposed actions, and directing that Internal Audit undertake a follow-up audit of key areas.

Although the 2017 financial reporting timetable was not accelerated compared to 2016, the Audit Committee again considered the implications of the early hard close, acceleration of substantive procedures and year-end roll forward procedures for the external audit process, together with the SAP BCS upgrade at the end of 2017.

Management and members of the Audit Committee also completed a questionnaire to assess the effectiveness and independence of the external audit process in 2016, which was found to be satisfactory.

The Audit Committee holds regular meetings with the external auditor at which management are not present to consider the appropriateness of the Company's accounting policies and audit process. During 2017, the external auditor confirmed that these policies and processes were appropriate. The Committee Chairman also meets the Senior Statutory Auditor regularly outside of Audit Committee meetings.

Engagement of the external auditor for non-audit services is managed in accordance with the Group's policy which can be found on the Company's website: www.evraz.com. This policy identifies a range of non-audit services which are prohibited on the basis that they might compromise the independence of the external auditor, and establishes threshold limits for the level of non-audit fees relative to audit fees and authorisation processes for the approval of all audit and non-audit fees. During 2017, non-audit fees totalled US$272,000 (2016 US$612,000) and were primarily in relation to capital market transactions, quality assurance reviews and training related to the finance transformation project. Non-audit fees were 7.5% of the 2017 audit fee of US$3.6 million compared to 14.7% of the 2016 audit fee. Irrespective of prior approval of the CFO and Audit Committee Chairman, all fees are reported to the Audit Committee for noting and comment. The policy on non-audit services was updated in January 2018 to reflect the latest guidance http://www.evraz.com/governance/documents/.

## Re-appointment of the external auditor

Following a tender process undertaken during 2016, the Committee recommended the re-appointment of Ernst & Young LLP ("EY") as external auditor for the years ending 31 December 2017 and 2018. EY was appointed as external auditor of EVRAZ plc in 2011, and the current audit engagement partner, Steven Dobson, assumed the role for the 2016 year end and will continue up to and including the 2020 financial year's audit. The Audit Committee continues to consider EY to be effective and independent in their role as auditor and has provided the Board with its recommendation to the shareholders that EY be re-appointed as external auditor for the year ending 31st December 2018.

The Committee considered the UK Governance Code guidance on re-appointment of the external auditor and the EU legislation on audit regulation together with the performance of EY and recommended that, subject to the agreement of appropriate terms, a further tender to appoint an external auditor be deferred from 2018 to 2019 and potentially to 2021.

# Nominations Committee report

**Sir Michael Peat**

Senior Independent Non-Executive Director, Chairman of Nominations Committee

**The Board delegates the Nominations Committee's role and responsibilities,** which are set out in written terms of reference http://www.evraz.com/governance/directors/committees.

***The Nominations Committee has continued to monitor the Board's composition to ensure that it remains appropriate for the Company and to uphold the integrity of the Company's corporate governance. As a committee, we have no significant matters to raise; however, with three of the four independent non-executive directors having completed six years in post, the Nominations Committee will undertake a skills analysis as a precursor to commencing succession planning for non-executive directors.***

## Role

The Nominations Committee is responsible for making recommendations to the Board on the structure, size and composition of the Board and its committees, and overseeing succession planning for directors and senior management.

## Committee members and attendance

The Nominations Committee members at 31 December 2017 were Sir Michael Peat, Alexander Izosimov, Karl Gruber, Alexander Abramov, and Eugene Shvidler. Sir Michael Peat served as the chairman of the Nominations Committee throughout the year.

Three of the five committee members were independent non-executives.

The committee met on three occasions during 2017.

The CEO attended all meetings and the company secretary acted as the committee's secretary.

## Activity during 2017

During 2017, the committee considered the following issues.

### Board and committee composition

The Board agreed that the size of the Board and its committees, and the size and composition of each committee was appropriate for the ongoing needs of the Group. The committee agreed that the Board represented a good mix of skills and experience, and that the Group had benefited from having a stable board and a group of people who interact well.

### Succession planning

The committee considered succession planning for non-executive directors, in the context of the length of service of each of the current non-executive directors. The committee has commenced a search for an additional independent non-executive director, and has appointed Heidrick & Struggles to undertake the search. Heidrick & Struggles has no other relationship with the business, and will consider a wide range of candidates in line with the Board's desire to reflect race and gender diversity on the Board where appropriate. The final choice of candidate will depend on appointing the most experienced candidate to meet the skills and knowledge requirement for the industry sector. The committee also paid close attention to senior management succession.

### Board performance evaluation

As required by the UK Corporate Governance code, the Company needed to undertake a board performance evaluation in 2017 using an external facilitator. The committee decided, following consideration, to appoint Lintstock LLP, which undertook the last externally evaluated review in 2014, to maintain consistency of approach. The committee reviewed and approved Lintstock's brief for the evaluation. Following conclusion of the review, the committee considered the outcome of the report and prepared an action plan for the Board to review and agree, which reflected some minor improvements to board process and information flow. The outcome of the review and the action plan are described in the Corporate Governance section on page 116.

### Independence of non-executive directors

The committee undertook a review of the independent status of the non-executive directors based on the provisions in the UK Corporate Governance Code and confirmed the appropriateness of the independent status of each of the independent non-executive directors.

### Best practices for Nominations Committee

The committee undertook a review of the most recent developments in corporate governance impacting the work of the Nominations Committee.

## Performance of chairman and individual directors

The senior independent non-executive director sought views from all directors about the performance and contribution of the chairman. The conclusions of this review were considered by the independent non-executive directors at a meeting on 18 January 2018.

It was concluded, as previously, that the chairman continues to make an important contribution to the Group, including his knowledge and experience of, and contacts in, the industry.

The externally facilitated board evaluation undertaken by Lintstock LLP asked individual directors to assess their performance and concerns. The chairman of the Group and the chairman of the Nominations Committee discussed the performance of the individual directors, including time available to devote to the Group's business, and noted no concerns.

## Diversity policy

The Board's diversity policy is to have board membership that reflects the international nature of the Group's operations and includes at least two women as board members. After Olga Pokrovskaya ceased to be a director on 14 March 2016, this objective received renewed emphasis. The committee continues to actively review and monitor the Group's performance against its diversity policy, including with regards to aspects such as age, gender and educational and professional backgrounds, as disclosed in the CSR report on pages 96–99.
The Nominations Committee and the Board are committed to meeting best practice standards in gender diversity. The nature of the steel and mining industries makes this more challenging but does not diminish the committee's and the Boards' commitment. The Board has appointed a recruitment agency to look for an additional independent non-executive director.

### 2018 priorities

The committee will continue to fulfil its general responsibilities with particular emphasis on compliance with the UK Corporate Governance Code, board diversity and succession planning. In addition, it will continue to consider development and succession planning for senior management. It will also provide and encourage training for directors and implement the recommendations from the external review of the Board's performance.

# HSE Committee report

**Karl Gruber**

Independent Non-Executive Director, Chairman of Health, Safety and Environment Committee

**The Board delegates the HSE Committee's role and responsibilities, which are set out in written terms of reference http://www.evraz.com/governance/directors/committees/.**

***In 2017, the Group made significant improvements in HSE reporting transparency and HSE risk assessment practices by implementing controls and auditing processes. These efforts have led to a considerable 20% improvement in our LTIFR. Despite these achievements, we were still rocked by several tragic fatalities that occurred during the past year. This fact should lead to a greater focus on eliminating the root causes of fatalities, paying more attention to systems and procedures, and fostering a culture in which everyone cares about each other's safety and our common environment. We will continue our efforts to make sure that our managers at all levels understand the range of health, safety and environmental risks in their part of the organisation, give sufficient attention to each of them, and demonstrate leadership to engage their employees in safety.***

## Role and responsibilities

The Board has tasked the Health, Safety and Environment (HSE) Committee with providing guidance on matters of health and safety. The committee is also accountable for environmental and local community risks that are deemed to be material to the group's operations.

The HSE Committee's responsibilities include:
- Evaluating the impact of the Group's HSE initiatives, community efforts and operations on its workforce, the local populace and EVRAZ' reputation;
- Acting as the Board's interface with the management regarding fatalities or serious incidents at the Group's operations, and reviewing the mitigating actions undertaken in response;
- Monitoring the HSE aspects of independent audits of the Group's operations, reviewing the management's strategies and planned responses to any issues that may arise from time to time and, as needed, briefing the Board on any recommendations in this regard;
- Apprising the Board and providing recommendations, as appropriate, whenever it deems that a matter within its remit warrants action or improvement.

## Committee members and attendance

As of 31 December 2017, the HSE Committee's members were Karl Gruber (chairman), Alexander Frolov and Olga Pokrovskaya, who has continued as a committee member since leaving the Board on 14 March 2016.

The committee met at EVRAZ' headquarters in Moscow, Russia on two occasions during 2017: 8 February 2017 and 2 August 2017. Both meetings were duly convened and had a proper quorum.

The committee receives monthly HSE updates and provides a quarterly HSE report to the Board.

During the reporting period, the HSE Committee met to review current issues and division-specific HSE initiatives with the divisional (operational) vice presidents of the Ukraine, Urals and Coal divisions. As planned, the committee chairman and vice president responsible for HSE matters also visited the production sites of EVRAZ' Urals division to review HSE practices in 2017.

## Activity during 2017

The following sections summarise how the committee fulfilled its duties in 2017.

### HSE performance review

In 2017, the committee reviewed EVRAZ' HSE initiatives twice, using the following metrics to measure performance:
- Fatal incidents;
- Lost time injuries (LTI);
- Lost time injury frequency rate (LTIFR), which is calculated as the number of injuries resulting in lost time per 1 million hours worked;
- Cardinal safety rules enforcement;
- Progress of health and safety initiatives.

The HSE Committee reviews every fatality, severe injury and serious property damage incident that takes place at the Group to determine the root cause and assess the management's follow-up efforts. This is an ongoing practice that includes annotating each case with a detailed description of the incident scene, sequence of events, root cause analysis and corrective actions taken.

Throughout the reporting period, the HSE Committee continued to focus on the HSE reporting procedure, noting the effort that the Group has taken to improve quality and transparency in this regard. EVRAZ' LTIFR figure began to rise in Q2 2015, when the Group launched a systemic effort to ensure full transparency in reporting. Several LTI incidents that were not duly reported brought serious consequences for the managers involved, sending a clear message to both blue-collar employees and managers at all levels that failing to report an LTI is unacceptable and will not be tolerated.

EVRAZ' LTIFR stabilised in H1 2017and has since begun to decrease.

Due to the increased number of contractor fatalities, the committee has requested a deeper analysis of contractors' health and safety statistics, as well as information on implemented countermeasures.

The HSE Committee measures the Group's environmental performance against the below metrics, which are intended to track the implementation of environmental targets:
- Key air emissions, including nitrogen oxides (NOx), sulphur oxides (SOx), dust and volatile organic compounds;
- Non-mining waste and by-product generation, recycling and re-use;
- Fresh water intake and water management aspects.

It also monitors the following additional environmental compliance metrics:
- Non-compliance related environmental levies (taxes) and penalties;
- EVRAZ' environmental commitments and liabilities;
- Major environmental litigation and claims;
- Asset coverage with environmental permits/ licenses;
- Public complaints;
- Material environmental incidents and preventative measures;
- Environmental risk assessment.

In an effort to improve environmental compliance management, the committee has endorsed lowering the threshold used to assess whether financial losses associated with environmental risks are material. The risk level has decreased due to the implementation of mitigation measures within the last five years. This change in methodology would increase the significance of some environmental risks to assist the management in setting proper priorities for EVRAZ' environmental initiatives.

The HSE Committee has reviewed the forecast on greenhouse gas (GHG) emissions based on the Group's production plans and initiatives, as well as the estimated risks and opportunities associated with GHG issues.

## HSE strategy review

In 2017, committee members approved the annual HSE targets and reviewed the status of the year's HSE efforts, concluding that the priority HSE initiatives are generally on track.

The committee supports the efforts of the Group's management to develop and implement an HSE management system, including the following corporate-level HSE initiatives that were launched in previous years:
- Implementing a lockout-tagout (LOTO) system;
- Providing the proper personal protective equipment for electric arc exposure;
- Introducing safe operating procedures for the 10 most hazardous jobs (operations) in every shop;
- Safety conversations;
- Divisional health and safety initiatives;
- Environmental programmes, including air emission, water consumption and waste management initiatives.

The HSE Committee specifically discussed the efficiency of safety conversations and standardisation through safe work procedures with the divisional vice presidents and asked to arrange a random check on whether the facilities have controls in place to ensure that personnel are indeed following safe operating procedures.

It also reviewed the status of the environmental projects that EVRAZ launched as part of Russia's 2017 Year of Ecology action plan, concluding that the HSE initiatives require further implementation in all areas.

## HSE regulatory changes

The HSE Committee monitored the risks and opportunities related to introduction of new Russian regulations. In 2017, the EVRAZ team reviewed more than 30 drafts of HSE-related legislation as part of the Russian Steel Association's HSE Committee, helping to provide consolidated positions to the regulator. The committee also oversaw the follow-up related to the introduction of new Russian regulations based on the best available techniques approach.

## HSE audit results review

State supervisory agencies and internal HSE auditors conduct compliance inspections of EVRAZ' operations.

The committee members reviewed:
- The HQ Industrial Safety Department's audits of processes and structural units at EVRAZ' facilities;
- The health and safety cross-audits performed by representatives of similar operations from other EVRAZ facilities and headed by the HQ Safety Team;
- The environmental risks identified via the HQ Environmental Management Directorate's internal audit and risk assessment process;
- The Internal Audit Department's audits of the HSE function;
- External environmental inspections that are carried out by environmental authorities, as well as the implementation of corrective actions.

The HSE Committee's review had the following findings:
- The trends of HSE risk minimisation and the practice of cross-audits are satisfactory;
- The audit intensity should correlate with the risks highest on the risk matrix;
- Sites should be re-audited at a later stage to ensure that safe conditions are maintained.

The committee also reviewed the plan for industrial safety audits for 2017 and requested to maintain the focus on coal operations.

## Externally facilitated review

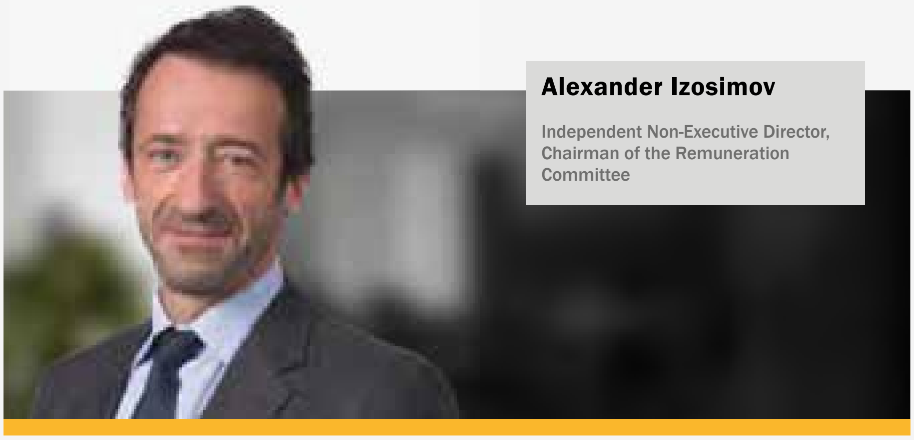
During the year, committee members undertook a self-assessment process with the assistance of an external facilitator, Lintstock LLP, to consider the HSE Committee's performance, composition, duties, responsibilities and access to management.

The external review rated the committee's performance highly and recommended continuing with a greater focus on longer-term HSE strategy and keeping the organisation moving to achieve its vision of having accident-free operations.

Following this evaluation, the members of the HSE Committee expressed their approval of the approach applied so far and agreed to focus on all measures and activities already introduced to the organisation.

For more details on HSE issues, see the Corporate Social Responsibility section **on pages 84–95.**

# Remuneration report



**Alexander Izosimov**

Independent Non-Executive Director, Chairman of the Remuneration Committee

***Remuneration Policy is designed to attract, retain and motivate qualified senior executives in order to deliver sustainable business objectives and maximise long-term returns to shareholders.***

This report has been prepared in accordance with the Companies Act 2006 and Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended in 2013; the “Regulations”). It also meets the relevant requirements of the Financial Conduct Authority’s Listing Rules and describes how the Board has applied the principles of good governance as set out in the UK Corporate Governance Code (April 2016).

This report contains both auditable and non-auditable information. The information subject to audit by the Group’s auditors, Ernst & Young LLP, is set out in the Annual remuneration report and has been identified accordingly.

## Directors’ Remuneration Policy

The current Remuneration Policy was approved by shareholders at the Annual General Meeting (AGM) in June 2017. The Regulations require that shareholders formally approve the policy every three years.

## Annual remuneration report

The second part of the report, the Annual Remuneration Report, sets out details of remuneration paid in 2017 and how the Group intends to apply its Remuneration Policy in 2018. This section will be put to an advisory shareholder vote at the forthcoming AGM.

## Key decisions taken during the year

The Remuneration Committee reviewed the CEO’s salary and determined that his salary for 2018 will remain the same as it has been since 2012, as the CEO’s current compensation package compares satisfactorily with recent market benchmarking.

Based on performance against the pre-determined KPIs and targets, the CEO’s annual bonus for 2017 was 59.82% of the maximum.

In line with its commitment to good corporate governance, EVRAZ will continue to monitor investors’ views, best-practice developments and market trends on executive remuneration. These will be considered when deciding on executive remuneration at EVRAZ to ensure that its Remuneration Policy remains appropriate in the context of business performance and strategy.

# Policy report

Details of the Remuneration Policy relating to executive and non-executive directors are set out in the following section.

The Remuneration Policy’s primary objectives are to attract, retain and reward talented staff and management, by offering compensation that is competitive within the industry, motivates management to achieve the Company’s business objectives, encourages a high level of performance, and aligns the interests of management with those of shareholders.

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office that are not in line with the policy set out above where the terms of the payment were agreed before the policy came into effect or at a time when the relevant individual was not a director of the Company and, in the opinion of the committee, the payment was not in consideration of the individual becoming a director of the Company.

The CEO’s incentive arrangements are subject to “malus”, under which the Remuneration Committee may adjust bonus payments downwards to reflect the Company’s overall performance. The committee does not operate clawback arrangements on directors’ remuneration on the basis that such arrangements would not be enforceable under the Russian Labour Code. The committee will keep this under review and should the Russian Labour Code change, it will revisit the inclusion of such provisions in the Group’s variable remuneration plans in order to comply with Provision D.1.1 of the 2016 Corporate Governance Code. This is noted in the Corporate Governance report on page 114.

The committee may make minor amendments to the Remuneration Policy set out above (for regulatory, exchange control, tax or administrative purposes, or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

## REMUNERATION POLICY

| Element | Purpose and link to strategy | Operation | Maximum potential value | Performance metrics |
|---|---|---|---|---|
| **Executive director** | | | | |
| **Base salary** | Provides a level of base pay to reflect individual experience and role to attract and retain high calibre talent. | Normally reviewed annually, considering individual and market conditions, including: size and nature of the role; relevant market pay levels; individual experience and pay increases for employees across the Group.<br><br>For the current CEO, base salary incorporates a director's fee (paid to all directors of the Company for participation in the work of the Board committees and Board meetings – see the section on Non-executive Director Remuneration Policy below).<br><br>Where a salary is paid in a currency other than US dollars, the committee may make additional payments to ensure that the total annual salary equals the level of annual salary in US dollars. | Generally, the maximum increase per year will be in line with the overall level of increases within the Group.<br><br>However, there is no overall maximum opportunity as increases may be made above this level at the committee's discretion, to take account of individual circumstances such as increases in scope and responsibility and to reflect the individual's development and performance in the role. | None |
| **Benefits** | To provide a market level of benefits, as appropriate for individual circumstances, to recruit and retain executive talent. | Benefits currently include private healthcare.<br><br>Other benefits (including pension benefits) may be provided if the committee considers it appropriate. The current CEO does not participate in any pension scheme at this time.<br><br>In the event that an executive director is required by the Group to relocate, or following recruitment, benefits may include but are not limited to a relocation, housing, travel and education allowance. | The cost of benefits will generally be in line with that for the senior management team. However, the cost of insurance benefits may vary from year to year depending on the individual's circumstances.<br><br>The overall benefit value will be set at a level the committee considers proportionate and appropriate to reflect individual circumstances, in line with market practices.<br><br>There is no total maximum opportunity. | None |
| **Annual bonus** | To align executive remuneration to Company strategy by rewarding the achievement of annual financial and strategic business targets. | The Company operates an annual bonus arrangement under which awards are generally delivered in cash.<br><br>Targets are reviewed annually and linked to corporate performance based on predetermined targets. | Up to 200% of base salary in respect of any financial year of the Company. | The bonus is based on achievement of the Company's key quantitative financial, operational and strategic measures in the year to ensure focus is spread across the key aspects of Company performance and strategy.<br><br>The exact measures and associated weighting will be determined on an annual basis, according to the Company's strategic priorities, however at least 60% will be based on Group financial measures.<br><br>For achievement of threshold performance, 0% of maximum will be paid, rising straight line to 50% of maximum for target performance and 100% of maximum for outstanding performance.<br><br>The Committee retains discretion to adjust bonus payments to reflect the Company's overall performance. |

| Element | Purpose and link to strategy | Operation | Maximum potential value | Performance metrics |
|---|---|---|---|---|
| **Non-executive directors** | | | | |
| Chairman and non-executive director remuneration | To provide remuneration that is sufficient to attract and retain high calibre non-executive talent. | Director fees are normally paid in the form of cash, but with the flexibility to forgo all or part of such fees (after deduction of applicable income tax and social taxes) to acquire shares in the Company should the non-executive director so wish. Non-executive director fees are reviewed from time to time.<br>Non-executive directors receive an annual fee for Board membership.<br>Additional fees are payable by reference to other Board responsibilities taken on by the non-executive directors (for example, membership and chairmanship of the Board committees).<br>The chairman of the Board receives an all-inclusive annual fee.<br>Costs incurred in the performance of non-executive directors' duties for the Company may be reimbursed or paid for directly by the Company, including any tax due on the costs. This may include travel expenses, professional fees incurred in the furtherance of duties as a director, and the provision of training and development. In addition, the Company contributes an annual amount towards secretarial and administrative expenses of non-executive directors.<br>Non-executive directors may not participate in the Company's share incentive schemes or pension arrangements.<br>Total fees paid to non-executive directors will remain within the limit stated in the Articles of Association. | | |

### Performance measures and targets

Annual bonus measures and targets are selected to provide an appropriate balance between incentivising the director to meet financial objectives for the year and achieving key operational objectives. The Remuneration Committee reviews them annually to ensure that the measures and weightings are in line with the strategic priorities and needs of the business.

### Remuneration arrangements throughout the Group

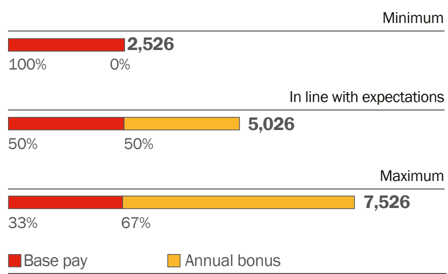
This remuneration approach and philosophy is applied consistently at all levels, up to and including the executive director. This ensures that there is alignment with business strategy throughout the Group. Remuneration arrangements below Board level reflect the seniority of the role and local market practices, and therefore the components and remuneration levels for different employees may differ in parts from the policy set out above.

For instance, in addition to a base salary, a performance-related bonus (calculated by reference to KPIs aligned with the Group's strategy) and benefits, senior managers are also entitled to participate in a long-term incentive programme. This is designed to align the interests of these individuals to the delivery of long-term growth in shareholder value. The current CEO already holds a substantial shareholding in the Group and therefore does not participate in this plan.

### Illustration of the application of the Remuneration Policy

The chart on the right provides an indication of what could be received by the executive director under the Remuneration Policy.

**APPLICATION OF THE REMUNERATION POLICY, US$ thousand**




## Policy on recruitment of executive directors

In the event of hiring a new executive director, remuneration would be determined in line with the following Remuneration Policy. This Remuneration Policy has been developed to enable the Company to recruit the best candidate possible who will be able to contribute to the Company's performance and will help to reach its goals.

- So far as practicable and appropriate, the Remuneration Committee will seek to structure pay and benefits of any new executive directors in line with the current Remuneration Policy.
- Notwithstanding this, the committee recognises that the executive director Remuneration Policy set out above is tailored towards the only current executive director, the CEO, who has a significant shareholding in the Company. Any new executive director is likely to have a different fact-pattern to the current CEO, and thus the committee believes it is important to retain the flexibility to be able to offer other elements, namely market-competitive, share-based incentive programmes, which are linked to the Company's performance and designed to align the executive director's interests to the delivery of growth in shareholder value.
- The maximum level of variable remuneration which may be granted in respect of recruitment (excluding any buyouts) will not exceed the ongoing policy of more than 200% of base salary, as described in the policy table above. This additional headroom has been capped at a level comparable with maximum award levels seen in conventional long-term incentive plans used in the wider UK-listed market.
- The Remuneration Committee's intention would be for any share-based incentive awards to be subject to performance conditions. Where the intention is to grant regular long-term incentive awards to a candidate, the committee would seek appropriate shareholder approval for a new share plan in accordance with the Listing Rules.
- When setting salaries for new hires, the committee will consider all relevant factors, including the skills and experience of the individual, the market from which they are recruited, and the market rate for the role. For interim positions, a cash supplement may be paid rather than salary (for example a non-executive director taking on an executive function on a short-term basis).
- To facilitate recruitment, the committee may need to compensate an executive director for the loss of remuneration arrangements forfeited on joining the Company. In granting any buyout award, the committee will consider relevant factors, including any

| | Minimum | In line with expectations | Maximum |
|---|---|---|---|
| **Base pay** | **Base salary + value of annual benefits provided in 2017** | | |
| Annual bonus | 0% of salary | 100% of salary (target opportunity) | 200% of salary (maximum opportunity) |

performance conditions attached to the awards forfeited, the form in which they were granted (eg cash or shares) and the timeframe of the awards. The committee will generally seek to structure the buyout on a comparable basis to awards forfeited. The overriding principle is that any buyout award would be at or below the commercial value of remuneration forfeited.

- The Remuneration Committee retains the flexibility to alter the performance measures of the annual bonus for the first year of appointment, if it determines that the circumstances of the recruitment merit such alteration.

Where an executive director is appointed from within the organisation, the normal policy is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an executive director is appointed following an acquisition of, or merger with another company, legacy terms and conditions will be honoured.

On the appointment of a new chairman or non-executive director, their remuneration will typically be in line with the Remuneration Policy as set out above. Any specific cash or share arrangements delivered to the chairman or non-executive directors will not include share options or any other performance-related elements.

## Executive director's service contract and loss of office policy

The CEO has a service contract with a subsidiary of EVRAZ plc.

| Executive director | Date of contract | Notice period (months) |
|---|---|---|
| Alexander Frolov | 31 December 2016 | N/A |

The CEO's service contract does not provide for any specific notice period and therefore, in the event of termination, the applicable notice period will be as provided for in the Russian Labour Code from time to time (where the termination is at the Company's initiative, the entitlement to pay in lieu of notice is currently limited to three months' base salary ). The Remuneration Committee may determine that a termination payment of up to 12 months' base salary should be paid, taking into consideration the circumstances of departure. Going forward, all new executive directors' contracts will normally provide for a notice period of no more than 12 months and for any compensation provisions for termination without notice to be capped at 12 months' base salary and contractual benefits.

There is no automatic entitlement to annual bonus and executive directors would not normally receive a bonus in respect of the financial year of their cessation. However, where an executive director leaves by reason of death, disability, ill-health, or other reasons that the Remuneration Committee may determine, a bonus may be awarded. Any such bonus would normally be subject to performance and time pro-rating, unless the committee determines otherwise.

## Non-executive directors' letters of appointment

Each non-executive director has a letter of appointment setting out the terms and conditions covering their appointment. They are required to stand for election at the first AGM following their appointment and, subject to the outcome of the AGM, the appointment is for a further one-year term. Over and above this arrangement, the appointment may be terminated by the director giving three months' notice or in accordance with the Articles of Association. Letters of appointment do not provide for any payments in the event of loss of office.

All directors are subject to annual reappointment and, accordingly, each non-executive director will stand for re-election at the AGM on 19 June 2018.

Copies of the directors' letters of appointment or, in the case of the CEO, the service contract, are available for inspection by shareholders at the Group's registered office.

### Consideration of conditions elsewhere in the Company

Management prepares details of all employee pay and conditions, and the Remuneration Committee considers them on an annual basis. The committee takes this into account when setting the CEO's remuneration. However, it does not consider any direct comparison measures between the executive director and wider employee pay. The Group does not formally consult with employees on executive director remuneration.

### Consideration of shareholder views

When determining the Remuneration Policy, the committee considers investor body guidelines and shareholder views.

### KEY TERMS OF NON-EXECUTIVE DIRECTORS' APPOINTMENT LETTERS

| Non-executive directors | Date of contract | Notice period |
|---|---|---|
| Alexander Abramov | 14 October 2011 | Three months |
| Karl Gruber | 14 October 2011 | Three months |
| Alexander Izosimov | 28 February 2012 | Three months |
| Sir Michael Peat | 14 October 2011 | Three months |
| Deborah Gudgeon | 31 March 2015 | Three months |
| Eugene Shvidler | 14 October 2011 | Three months |
| Eugene Tenenbaum | 14 October 2011 | Three months |

# Annual remuneration report

This section summarises remuneration paid out to directors for the 2017 financial year, and details of how the Remuneration Policy will be implemented in the 2018 financial year.

## Executive director's remuneration

In 2017, the CEO, Alexander Frolov, was entitled to a base salary, a performance-related bonus and provision of benefits. As a member of the Board, he is also entitled to a directors' fee (US$150,000) and any applicable fees for participation in the work of the Board committees as laid out in the section below on non-executive director remuneration. However, the Remuneration Committee considers these fees to be incorporated in his base salary. Alexander Frolov's current shareholding (10.53% of issued share capital as of 28 February 2018) provides alignment with the delivery of long-term growth in shareholder value. As such, the committee does not consider it necessary for the CEO to participate in any long-term incentive plans or to impose formal shareholding guidelines. However, the committee will continue to review this on an ongoing basis.

## Single total figure of remuneration (audited)

**KEY ELEMENTS OF THE CEO'S REMUNERATION PACKAGE RECEIVED IN RELATION TO 2017 (COMPARED WITH THE PRIOR YEAR)**

| Alexander Frolov | 2017 (US$) | 2016 (US$) |
|---|---|---|
| Salary and director fees[1] | 2,500,000 | 2,500,000 |
| Benefits | 25,803 | 21,184 |
| Bonus | 2,990,750 | 2,038,870 |
| **Total** | **5,516,553** | **4,560,054** |

*[1]The salary is paid in roubles and the amounts pain in the year reconciled at the year end so as to equal US$2,500,000.*

## Base salary

The Remuneration Committee approved the CEO's current salary on 23 May 2008 at the level of US$2,500,000 (which includes, for the avoidance of doubt, the directors' fee, fees paid for committee membership and any salary from subsidiaries of EVRAZ plc).

For 2018, the CEO's salary will remain unchanged at US$2,500,000.

## Pension and benefits (audited)

The CEO does not currently receive any pension benefit. Benefits consist principally of private healthcare.

## Annual bonus

The CEO is eligible for a performance-related bonus that is paid in cash following the year-end, subject to the Remuneration Committee's agreement and the Board of Directors' approval. The bonus is linked to achieving performance conditions based on predetermined targets set by the Board of Directors. The target bonus is 100% of base salary with a maximum potential of 200% of base salary.

## Annual bonus for 2017 (audited)

The bonus is linked to the Group's main quantitative financial, operational and strategic measures during the year to ensure alignment with the key aspects of Group performance and strategy. For 2017, the following five indicators, each with an equal weighting of 20%, were considered when determining the CEO's annual bonus: LTIFR, EBITDA, Free Cash Flow (adjusted for disposals higher than US$50 million), Cash Cost Index and Remuneration Committee assessment of overall performance against strategic objectives.

The Remuneration Committee reviews the resulting bonus pay-out to ensure that it is appropriate considering the Group's overall performance.

In 2017, EVRAZ outperformed its financial targets, resulting in an annual bonus payout of 59.82% of the maximum. Management sought to maximise the benefit from the positive market trends, increasing coal sales as prices rose in 2017. Other contributors to the outperformance included a rise in steel, vanadium and iron ore prices and tight control over operational efficiency and investments. While negative changes in working capital affected free cash flow, better operational results fully compensated this.

The Remuneration Committee determined that this level of vesting is reflective of the Company's overall financial performance and commensurate with the shareholder experience.

## Board assessment of overall performance

EVRAZ' remuneration policy stipulates that the discretionary portion of the bonus should reflect the CEO's performance in relation to the Group's key strategic priorities, as well as efforts to ensure its long-term success. During the year, the business continued to deliver in relation to key strategic priorities and create long-term returns for shareholders.

The Remuneration Committee determined that 2017 had been an exceptionally successful year and in recognition of this the CEO receive the full amount of the discretionary 20% part of the bonus. The key reasons for this are:

- The overall strong operating and financial performance in the year, which is also reflected in the payment of a dividend, strong share price growth and the inclusion of EVRAZ's shares in the FTSE 100 index;
- EBITDA reached US$2.6 billion level significantly exceeding the stretch target set, coupled with strong FCF;
- Net Debt / EBITDA <2.0 level achieved, as of 31.12.2017 it stood at 1.5x;
- Standard & Poor's credit rating upgraded from 'BB-' to 'BB';

**DETAILS OF THE TARGETS SET FOR EACH KPI, THE ACTUAL ACHIEVEMENT IN THE YEAR, AND TOTAL PAY-OUT LEVEL FOR THE 2017 BONUS**

| | Result Measurement | | | | |
|---|---|---|---|---|---|
| KPIs | Threshold | Planned level (% of target) | Outstanding | Actual 2017 | Bonus payout (% of max) |
| LTIFR | 2.24 | 1.87 | 1.50 | 1.90 | 49.1 |
| EBITDA | US$1,549m | US$1,936m | US$2,323m | US$2,624m | 100 |
| FCF | US$569m | US$711m | US$854m | US$953m | 100 |
| Cash cost index | 110% | 100% | 90% | 114% | 0 |
| Discretion | Remuneration Committee assessment of overall performance against strategic objectives | | | see comment above | 50 |
| **Total** | | | | | **59.82** |

- Optimisation of the asset portfolio through the successful disposal of the non-core assets of Evraz Nakhodka Trade Sea Port, Evraz Sukha Balka and Evraz Yuzhkoks;
- Cost-cutting initiatives that delivered US$163 million and implementation of the pilot EVRAZ Business System transformation in Siberia division; and
- Employee engagement which improved significantly from 39% to 56% on the key production sites in Russia.

## Annual bonus for 2018

For 2018, the bonus framework will be in line with 2017. The Board considers forward-looking targets to be commercially sensitive; however, they will generally be disclosed in the subsequent year. In line with previous years, a malus arrangement will apply under which bonus pay-outs may be adjusted downwards to reflect the Group's overall performance.

## Non-executive directors' remuneration

Non-executive directors' remuneration payable in respect of 2017 and 2016 is set out in the table below.

A non-executive director's remuneration consists of an annual fee of US$150,000 and a fee for committee membership (US$24,000) or chairmanship (US$100,000 for chairmanship of the Audit Committee and US$50,000 for other committees).

For reference, the fees payable for the chairmanship of a committee include the membership fee, and any director elected as chairman of more than one committee is generally entitled to receive fees in respect of one chairmanship only. The fee for the chairman of the Board amounts to US$750,000 from 1 March 2012 (this fee includes, for the avoidance of doubt, directors' fees and fees paid for committee membership).

Fees will remain unchanged for 2018.

## Aggregate directors' remuneration

The aggregate amount of directors' remuneration payable in respect of qualifying services for the year ended 31 December 2017 was US$7,795 thousand (2016: US$6,977 thousand).

## Share ownership by the Board of Directors (audited)

As set out earlier in this report, there are no formal minimum shareholding requirements currently in place, reflecting the CEO's current shareholding in EVRAZ.

The directors' interests in EVRAZ's shares as of 31 December 2017 were as follows.

There have been no changes in the directors' interests from 31 December 2017 through 28 February 2018.

The shares held by Alexander Izosimov were acquired in 2012 when he was appointed as an independent non-executive director.

All shares held by directors are held outright with no performance or other conditions attached to them, other than those applicable to all shares of the same class.

Other directors do not currently hold any shares in the Company.

## Policy on external appointments

The Remuneration Committee believes that the Company can benefit from executive directors holding approved non-executive directorships in other companies, offering executive directors the opportunity to broaden their experience and knowledge. EVRAZ' policy is to allow executive directors to retain fees paid from any such appointment. The CEO does not currently hold a non-executive directorship of another company.

**DIRECTORS' INTEREST IN EVRAZ' SHARES AS OF 31 DECEMBER 2017**

| Directors | Number of shares | Total holding, ordinary shares, % |
|---|---|---|
| Alexander Abramov | 302,068,451 | 21.09% |
| Alexander Frolov | 150,837,368 | 10.53% |
| Eugene Shvidler | 43,805,030 | 3.06% |
| Alexander Izosimov | 80,000 | 0.01 |

**SINGLE TOTAL FIGURE OF REMUNERATION (AUDITED)**

| | 2017 (US$ thousand) | | | 2016 (US$ thousand) | | |
|---|---|---|---|---|---|---|
| Non-executive director | Total fees[1] | Admin[2] | Total | Total fees[1] | Admin[2] | Total |
| Alexander Abramov | 750 | 30 | 780 | 750 | 30 | 780 |
| Alexander Izosimov | 248 | 30 | 278 | 242.6 | 30 | 272.6 |
| Eugene Shvidler | 174 | 30 | 204 | 174 | 30 | 204 |
| Eugene Tenenbaum | 150 | 30 | 180 | 150 | 30 | 180 |
| Karl Gruber | 248 | 30 | 278 | 248 | 30 | 278 |
| Duncan Baxter[3] | | | | 84 | 6.25 | 90.25 |
| Olga Pokrovskaya[3] | | | | 74.25 | 6.25 | 80.5 |
| Sir Michael Peat | 224 | 30 | 254 | 219 | 30 | 249 |
| Deborah Gudgeon | 274 | 30 | 304 | 269 | 30 | 299 |

*[1]Total fees include annual fees and fees for Committee membership or chairmanship (pro rata working days).*
*[2]The Group contributes an annual amount of US$30,000 towards secretarial and administrative expenses of non-executive directors. In addition to the amounts disclosed above, the Group reimburses directors' travel and accommodation expenses incurred in the discharge of their duties.*
*[3]Resigned on 14 March 2016.*

## Relative importance of spend on pay

The table below shows a comparison of the total cost of remuneration paid to all employees between current and previous years and financial metrics in US$ millions. EBITDA was chosen for the comparison as it is a KPI which best shows the Group's financial performance.

**RELATIVE PERFORMANCE OF SPEND ON PAY,** US$ million

| | 2016 | 2017 |
|---|---|---|
| EBITDA | 1,542 | 2,624 |
| Shares buyback | 0 | 0 |
| Dividends | 0 | 430 |
| Total employee pay | 1,200 | 1,364 |

For more information on the definition of EBITDA, please see page 267.

## Committee composition

This section details the Remuneration Committee's composition and activities undertaken over the past year.

**Committee members**

The Remuneration Committee's composition was unchanged during the year and its current members are:

- Alexander Izosimov
- Deborah Gudgeon
- Sir Michael Peat

No directors are involved in deciding their own remuneration. The committee may invite other individuals to attend all or part of any committee meeting, as and when appropriate and necessary, in particular the CEO, the head of human resources and external advisers.

**Role**

The Remuneration Committee is a formal committee of the Board and can operate with a quorum of two committee members. It is operated according to its Terms of Reference, a copy of which can be found on the Group's website.

The Remuneration Committee's main responsibilities are:

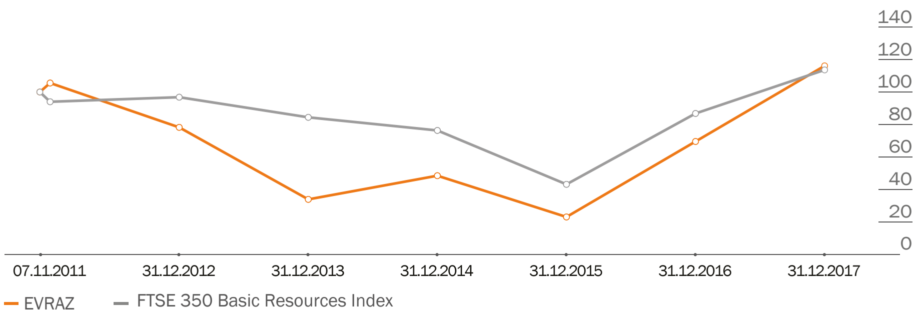
- to set and implement the Remuneration Policy covering the chairman of the Board, the CEO, the company secretary and other executive directors, and to recommend and monitor the level and structure of remuneration for key senior management;
- to take into account all factors that it deems necessary to determine, such as framework or policy, including all relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code and associated guidance;

## Performance graph

The graph on the right shows the Company's performance measured by total shareholder return compared with the performance of the FTSE 350 Basic Resources index since EVRAZ plc's admission to the premium listing segment of the London Stock Exchange on 7 November 2011. The FTSE 350 Basic Resources index has been selected as an appropriate benchmark, as it is a broad-based index of which the Group is a constituent member.

The table on the right shows as a single figure the CEO's total remuneration over the past six years, along with a comparison of variable payments as a percentage of the maximum bonus available.

**TOTAL SHAREHOLDER RETURN PERFORMANCE,** %




**CEO'S TOTAL REMUNERATION PAID IN 2011-2017**

| | CEO single figure of total remuneration, US$ | Annual bonus payout (as a % of maximum opportunity) |
|---|---|---|
| **2017** | **5,516,553** | **59.82** |
| 2016 | 4,560,054 | 40.8% |
| 2015 | 3,186,585 | 13.3% |
| 2014 | 5,808,752 | 77% |
| 2013 | 4,894,286 | 50% |
| 2012 | 2,141,000 | 0% |
| 2011 | 1,667,000 | 11.3% |

## Percentage change in remuneration over the period

The table on the right sets out the percentage change in the elements of remuneration for the director undertaking the role of CEO compared with average figures for Russia-based administrative personnel. This group of employees has been selected as an appropriate comparator, as they are based in the same geographic market as the CEO, and so are subject to a similar external environment and pressures.

**PERCENTAGE CHANGE IN THE ELEMENTS OF REMUNERATION FOR THE DIRECTOR UNDERTAKING THE ROLE OF CEO COMPARED WITH AVERAGE FIGURES FOR RUSSIA-BASED ADMINISTRATIVE PERSONNEL**

| | CEO | Russia-based administrative personnel (local currency) |
|---|---|---|
| Salary | 0% | 0% |
| Benefits | 22% | 4% |
| Annual bonus | 47% | 14% |

- to review and consider remuneration trends across the Group when setting the Remuneration Policy;
- to review regularly the Remuneration Policy's appropriateness and relevance;
- to determine the total individual remuneration package of the chairman of the Board, the company secretary and other executive directors, including pension rights, bonuses, benefits in kind, incentive payments and share options, or other share-based remuneration within the terms of the agreed policy;
- to approve awards for participants where existing share incentive plans are in place;
- to review and approve any compensation payable to executive directors and key senior executives in connection with any dismissal, loss of office or termination (whether for misconduct or otherwise) to ensure that such compensation is determined in accordance with the relevant contractual terms and Remuneration Policy, and that such compensation is otherwise fair and not excessive for the Group;
- to oversee any major changes in employee benefits structures throughout the Group.

During 2017, the committee met four times. The purpose of the meetings was to consider and make recommendations to the Board in relation to the remuneration packages of the executive director and key senior managers; to approve the annual bonus for the 2016 results; and to approve the 2017 long-term incentive plan (LTIP) awards for key senior management.

### Advisers

Following a competitive tendering process, the Remuneration Committee during the year appointed Korn Ferry Hay Group Limited (KFHG), which it selected to provide independent remuneration consultancy services to the Group. KFHG is a member of the Remuneration Consultants' Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at www.remunerationconsultantsgroup.com.

During the year, consultants advised the committee on developments in the regulatory environment and market practice, and on the development and disclosure of the Group's pay arrangements. The total fee for advice provided to the committee during the year was GBP36,912.

The committee is satisfied that the advice it has received has been objective and independent.

### Shareholder considerations

EVRAZ remains committed to ongoing shareholder dialogue and takes an active interest in feedback received from its shareholders and from voting outcomes.

Where there are substantial votes against resolutions in relation to directors' remuneration, the Group shall seek to understand the reasons for any such vote and will detail any actions in response to these.

The table below sets out actual voting results from the Annual General Meeting, which was held, in respect of the previous remuneration report and Remuneration Policy.

### ACTUAL VOTING RESULTS FROM THE ANNUAL GENERAL MEETING

| Number of votes | For | Against | Withheld | Total votes as % of issued share capital |
|---|---|---|---|---|
| To approve the Annual Remuneration Report section of the directors' Remuneration Report for the year ended 31 December 2016 | 1,066,790,366 (98.00%)[1] | 21,770,261 (2.00%) | 554 | 76.01% |
| To approve the Directors' Remuneration Policy Report for the year ended 31 December 2016 | 1,056,318,861 (97.29%) | 29,439,227 (0.68%) | 2,803,093 | 75.82% |

[1]*Percentage of votes cast.*

Signed on behalf of the Board of Directors,

**Alexander Izosimov**
Chairman of the Remuneration Committee

28 February 2018

# 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.**

| | |
|---|---|
| **Dividends** | The strength of the underlying cash flow generation and continuing success with deleveraging have allowed the Company to announce a formal dividend policy. Please see page 7 for details.<br>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.<br>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. |
| **Share capital** | 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.<br>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.<br>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. |
| **Authority to purchase own shares and transfer of treasury shares to Company's Employee Share Trust** | 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.<br>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.<br>Details are set out in Note 20 to the Consolidated Financial Statements. |
| **Directors** | Biographies of the directors who served on the Board during the year are provided in the Governance section on pages 108–111. |
| **Directors' appointment and re-election** | 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.<br>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.<br>For additional information about directors' appointment and resignation, see the Corporate Governance Report on page 115.<br>All of the continuing directors will stand for re-election at the 2018 AGM to be held on 19 June 2017. |
| **Directors' interests** | Information on share ownership by directors can be found in this Report and in the Remuneration Report on page 133. |
| **Directors' indemnities and director and officer liability insurance** | 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. |
| **Powers of directors** | 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.<br>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. |
| **Major interests in shares** | Notifiable major share interests of which the Company has been made aware are set out in this Directors' Report. |
| **Research and development** | 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.<br>For examples of the Company's efforts in research and development in different operations, please refer to the Business Review on pages 42–79. |

| | |
|---|---|
| **Sustainable development** | 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.<br>Details of the Company's policies and performance are provided in the Corporate Social Responsibility section on pages 80–105. |
| **Payments to governments** | 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.<br>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.<br>The report is available on the Company's website at www.evraz.com. |
| **Political donations** | No political contributions were made in 2017. |
| **Greenhouse gas emissions** | 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.<br>Details can be found in the Corporate Social Responsibility section on page 91. |
| **Employees** | Information regarding the Company's employees can be found in the Our People section on pages 96–99. |
| **Overseas branches** | 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. |
| **Financial risk management and financial instruments** | 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. |
| **Going concern** | 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.<br>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.<br>More details are provided in Note 2 to the consolidated financial statements on page 161. |
| **Auditor** | 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.<br>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. |
| **Future developments** | Information on the Group and its subsidiaries' future developments is provided in the Strategic Report on pages 04–41. |
| **Events since the reporting date** | The major events after 31 December 2017 are disclosed in Note 33 to the Consolidated Financial Statements on page 244. |
| **Annual general meeting (AGM)** | 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.<br>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.<br>All documents relating to the AGM are available on the Company's website at www.evraz.com. |
| **Electronic communications** | 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:<br>http://www.evraz.com/investors/information/general_meeting/<br>http://www.evraz.com/investors/annual_reports/<br>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. |
| **Corporate governance statement** | 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.<br>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[1] 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[2] | 905,487,416 | 63.23 |
| Kadre Enterprises Ltd[3] | 83,751,827 | 5.85 |
| Verocchio Enterprises Ltd[4] | 82,887,014 | 5.79 |

*[1]The number of shares differs from figure in the Financial statements for the amount of shares held in Trust.*
*[2]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.*
*[3]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.*
*[4]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

**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 on page 139

**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 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

# Directors’ responsibility statements

## Responsibility Statement under the Disclosure and Transparency Rules

Each of the directors whose names and functions are listed on pages 108–111 confirm that to the best of their knowledge:

- the consolidated financial statements of EVRAZ plc, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole (the “Group”);
- the annual report and accounts, including the Strategic Report, include a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

## Statement Under the UK Corporate Governance Code

The Board considers that the report and accounts taken as a whole, which incorporates the Strategic Report and Directors’ Report, is fair, balanced and understandable, and that it provides the information necessary for shareholders to assess the Company’s performance, business model and strategy.

## Statement of Directors' Responsibilities in Relation to the annual report and Financial Statements

The directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under the law, the directors are required to prepare Group financial statements under IFRSs as adopted by the European Union and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under the Companies Acts, the directors must not approve the Group and parent company financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group and parent company for that period. In preparing each of the Group and parent company financial statements the directors are required to:

- Present fairly the financial position, financial performance and cash flows of the Group and parent company;
- Select suitable accounting policies in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Make judgements and estimates that are reasonable;
- Provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s and parent company’s financial position and financial performance; and
- State that the Group and parent company financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures discloses and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group’s and parent company’s transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, with respect to the Group financial statements, Article 4 of the IAS Regulation.

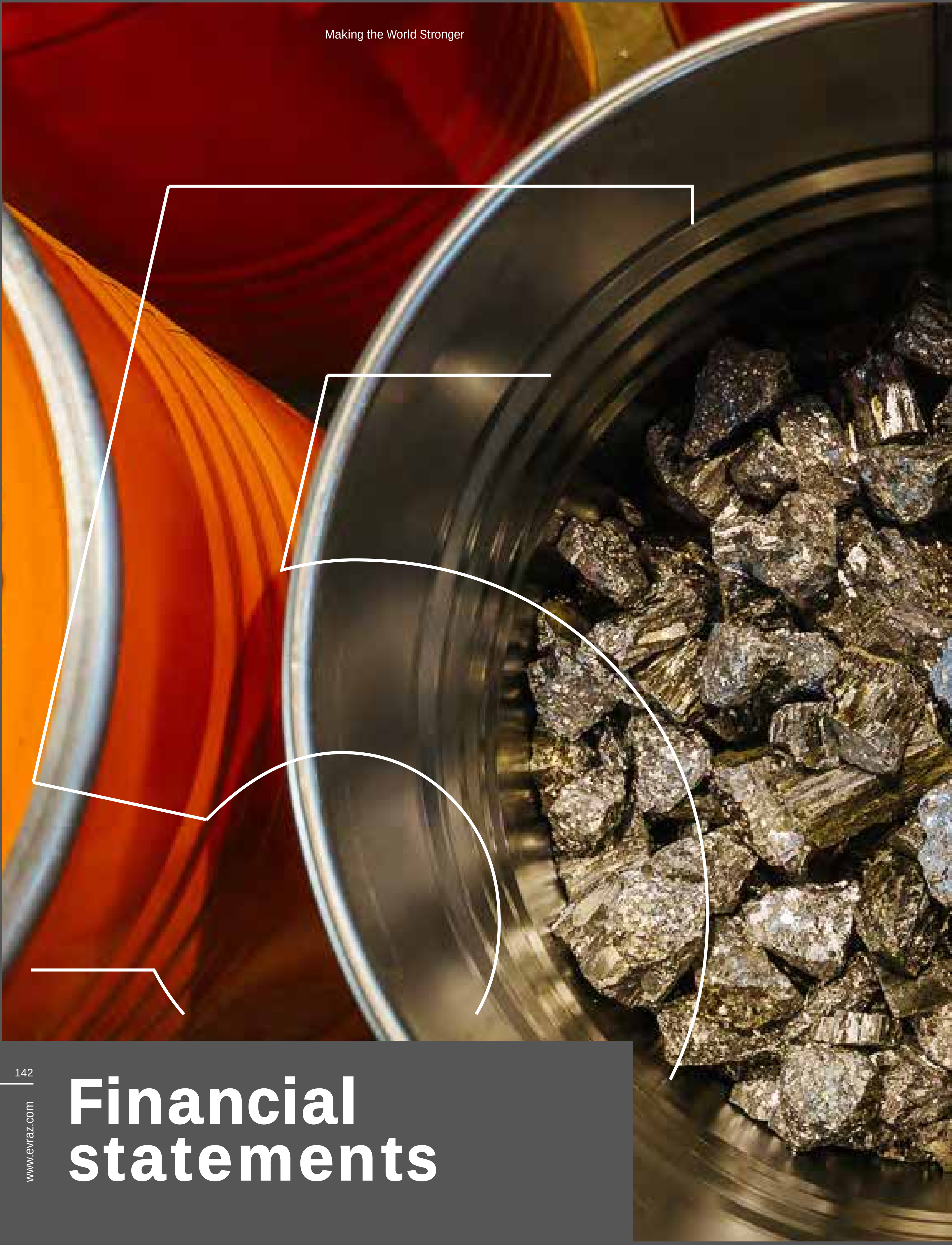
They are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for preparing the Strategic Report, the Directors’ Report, the Directors’ Remuneration Report and the Corporate Governance Report in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules of the United Kingdom Listing Authority. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By the order of the Board

**Alexander Frolov**
**Chief Executive Officer**
**EVRAZ plc**

28 February 2018





# Financial statements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# Independent Auditor's report to the Members of EVRAZ plc

## Our opinion on the Financial Statements

In our opinion EVRAZ plc's financial statements (the "Financial Statements"):

- give a true and fair view of the state of the Group and of the Parent Company's affairs as at 31 December 2017 and of the Group's and the Parent Company's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Consolidated Financial Statements, Article 4 of the IAS Regulation.

## What we have audited

EVRAZ plc's financial statements comprise:

| Group | Parent company |
|---|---|
| the Consolidated Statement of Operations, the Consolidated Statement of Comprehensive Income; | the Separate Statement of Comprehensive Income; |
| the Consolidated Statement of Financial Position | the Separate Statement of Financial Position; |
| the Consolidated Statement of Cash Flows; | the Separate Statement of Cash Flows; |
| the Consolidated Statement of Changes in Equity; and | the Separate Statement of Changes in Equity; and |
| the related notes 1 to 34. | the related notes 1 to 9. |
| The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. | |

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 36–40 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 37 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 161 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 41 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

STRATEGIC REPORT
BUSINESS REVIEW
CSR REPORT
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS
ADDITIONAL INFORMATION

## Overview

| | |
|---|---|
| ***Materiality*** | • Overall Group materiality of $79 million (2016: $41) which represents 3% (2016: 2.7%) of EBITDA. |
| ***Audit scope*** | • We performed a full scope audit of five components and audit procedures on specific balances, where we consider the risk of material misstatement to be higher, for a further ten components.<br>• The 15 reporting components where we performed audit procedures accounted for 75% of the Group's EBITDA and 90% of the Group's revenue (of which 55% and 77% respectively were covered by five full scope components and 20% and 13% respectively – by 10 specific scope components).<br>• For the remaining 45 reporting components of the Group we have performed other procedures appropriate to respond to the risk of material misstatement.<br>• We have obtained an understanding of the entity-level controls of the Group which assisted us in identifying and assessing risks of material misstatement due to fraud or error, as well as assisting us in determining the most appropriate audit strategy. |
| ***Areas of focus*** | • Goodwill and non-current asset impairment<br>• Completeness of related party transactions |
| ***What has changed*** | • Due to the improvements in the Group's liquidity and performance as a result of more favourable market conditions, which has seen EBITDA increase by 74% year-on year, together with the forecast outlook the conclusions in respect of the going concern assumptions are less judgemental. As a result, we have deemed going concern to no longer be an area of special audit focus. |

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

| Area of focus | Our audit approach | What we reported to the Audit Committee |
|---|---|---|
| **Goodwill and non-current asset impairment**<br>Refer to the Group Audit Committee report on page 120, the estimates and judgments on pages 166–168 and the disclosures of impairment in note 6 of the Consolidated Financial Statements | | *Risk direction* |
| At 31 December 2017 the carrying value of goodwill was US$917 million (2016: US$880 million). The Group recognised a net impairment reversal in respect of other intangible assets and items of PP&E during the year of US$12 million (2016: US$465 million charge). The net reversal is driven by improved market conditions resulting in a net increase in headroom compared to the position when charges were initially made, leading us to believe that the risk has reduced.<br><br>In accordance with IAS 36 management disclosed that, in addition to the impairment charge already recognised, a reasonably possible change in discount rates, sales prices, sales volumes and cost control measures, could lead to impairments in other CGUs where no impairment is currently recognised.<br><br>We focused on this area due to the significance of the carrying value of the assets being assessed, the number and size of recent impairments, the recent economic environment in the Group's operating jurisdictions and because the assessment of the recoverable amount of the Group's Cash Generating Units ("CGUs") involves significant judgements about the future results of the business and the discount rates applied to future cash flow forecasts.<br><br>In particular we focused our effort on those CGUs with the largest carrying values, those for which an impairment had been recognised in the year and those with the lowest headroom. | We performed audit procedures on the impairment models relating to material cash generating units. Our audit procedures were performed mainly by the Group audit team with the exception of certain location specific inputs to management's models which were assessed by the component teams.<br><br>Our audit procedures included the evaluation of management's assumptions used in their impairment models. The assumptions to which the models were most sensitive and most likely to lead to further impairments were:<br>• decreases in steel prices;<br>• increases in production costs; and<br>• discount rates.<br><br>We corroborated management's assumptions with reference to historical data and, where applicable, external benchmarks.<br><br>We tested the integrity of models with the assistance of our own specialists and carried out audit procedures on management's sensitivity calculations.<br><br>We assessed the historical accuracy of management's budgets and forecasts, and sought appropriate evidence for any anticipated improvements in major assumptions such as production volumes or cost reductions. We corroborated previous forecasts with actual data.<br><br>We tested the appropriateness of the related disclosures provided in the Consolidated Financial Statements. In particular we tested the completeness of the disclosures regarding those CGUs with material goodwill balances and where a reasonably possible change in certain variables could lead to impairment charges. | We consider management's estimates to be reasonable for the current year with assumptions within an acceptable range. Management has also reflected known changes in the circumstances of each CGU in its forecasts for forthcoming periods.<br><br>We concluded that the related disclosures provided in the Consolidated Financial Statements are appropriate.<br><br>We are satisfied that the Group's CGUs meet the definition of IAS 36 and are appropriately disclosed in the Financial Statements. |

| Area of focus | Our audit approach | What we reported to the Audit Committee |
|---|---|---|
| **Completeness of related party transactions** | | *Risk direction* |
| Refer to the Group Audit Committee report on page 120 and note 16 of the Consolidated Financial Statements | | |
| At the end of 2015, management discovered historic transactions with a company controlled by a key management person had been erroneously omitted from the prior year's disclosures of related party transactions in the Consolidated Financial Statements, leading to us assessing the completeness of related party transactions as a significant risk.<br><br>This remained unchanged for the current year audit; we considered the increased risk to be limited to the Russian entities within the Group where external business interests, especially in relation to local product suppliers, are more common amongst members of key management and shareholders. | At both a component team and group level, we have understood and tested management's process for identifying related parties and recording related party transactions. We have tested management's controls in relation to the assessment and approval of related party transactions.<br><br>We assessed management's evaluation that the transactions are on an arm's length basis by reviewing a sample of agreements and comparing the related party transaction price to those quoted by comparable unrelated companies.<br><br>Across the Russian components we obtained an understanding of unusual or high value transactions with related parties. .<br><br>We randomly selected a sample of key management personnel and ran a search for any companies controlled by those individuals (the search was performed via an independent register of all companies based in the CIS and their directors or shareholders). We compared the results of the research made with the list of entities included in related party listing provided to us by management and investigated the differences between the listings. | Based on our procedures performed we consider the related party disclosure provided in the Consolidated Financial Statements not to be materially misstated. |

In the prior year our auditor's report included a key audit matter in relation to going concern. In the current year the performance of the group has improved largely as a result of more favourable market conditions, demonstrated by a year-on-year increase in EBITDA of 74%, a reduction of 17% in net debt and no significant going concern issues. As a result we have deemed going concern to no longer be an area of particular audit focus.

## Our application of materiality

The scope of our work is influenced by materiality. We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

As we develop our audit strategy, we determine materiality at the overall level and at the individual account level (referred to as our 'performance materiality').

**Materiality**
$79 million

**Performance materiality**
$39.5 million

**Reporting threshold**
$4.0 million

***Materiality***

*The magnitude of an omission or misstatement that, individually or in the aggregate could reasonably be expected to influence the economic decisions of the users of the Financial Statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Group to be $79.0 million (2016: $41.0 million), which is set at 3.0% (2016: 2.7%) of EBITDA. We reverted to using 3% which we had previously used due to the return to a more favourable business environment and the resulting improved strength in the Group's performance, outlook and financial position. Our materiality amount provides a basis for determining the nature and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures. Materiality is assessed on both quantitative and qualitative grounds. With respect to disclosure and presentational matters, amounts in excess of the quantitative thresholds above may not be adjusted if their effect is not considered to be material on a qualitative basis.

We determined materiality for the Parent Company to be £36.4 million (2016: £35.0 million), which is 1.5% (2016: 1.3%) of Equity.

*Rationale for Group basis*

We have used an earnings based measure as our basis of materiality. It was considered inappropriate to calculate materiality using Group profit or loss before tax due to the historic volatility of this metric. EBITDA is a key performance indicator for the Group and is also a key metric used by the Group in the assessment of the performance of management. We also noted that market and analyst commentary on the performance of the Group uses EBITDA as a key metric. We therefore, considered EBITDA to be the most appropriate performance metric on which to base our materiality calculation as we considered that to be the most relevant performance measure to the stakeholders of the entity.

### *Performance materiality*

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgment was that given the number and monetary amounts of individual misstatements (corrected and uncorrected) identified in prior periods as well as the nature of the misstatements, overall performance materiality for the Group should be 50% (2016: 50%) of materiality, namely $39.5 million (2016: $20.5 million).

Audit work on individual components is undertaken using a percentage of our total performance materiality. This percentage is based on the size of the component relative to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year the range of performance materiality allocated to components was $7.9 million to $25.7 million.

### *Reporting threshold*

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $4.0 million (2016: $2.1 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

## Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we analyse the implications for our report.

### *Tailoring the scope*

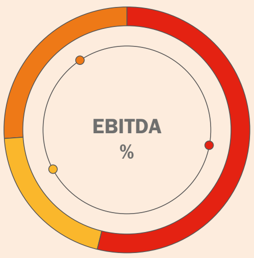
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group which, when taken together, enable us to form an opinion on the Consolidated Financial Statements under International Standards on Auditing (UK and Ireland). We take into account size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

The EVRAZ Group has centralised processes and controls over the key areas of our audit focus with responsibility lying with group management for the majority of estimation processes and significant risk areas. We have tailored our audit response accordingly and thus for the majority of our focus areas, audit procedures were undertaken directly by the Group audit team with testing undertaken by the Component audit team on the verification of operational data and other routine processes.

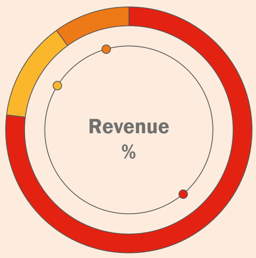
In assessing the risk of material misstatement to the Consolidated Financial Statements, and to ensure we had adequate quantitative coverage of significant accounts, of the 60 reporting components of the Group we selected 15 components covering entities within Russia, Ukraine, Switzerland, Canada and the USA, which represent the principal business units within the Group.

Of the 15 components selected, we performed a full scope audit of five components (full scope components), which were selected based on their size or risk characteristics. For the remaining ten selected components (specific scope components) we performed audit procedures on specific accounts within the component that we considered had the potential for the greatest impact on the amounts in the Consolidated Financial Statements either because of the size of these accounts or their risk profile. The extent of our audit work on the specific scope accounts was similar to that for a full scope audit.

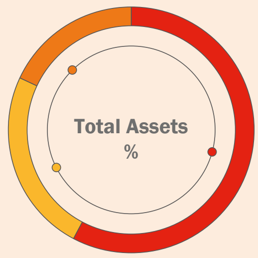
The 15 reporting components where we performed full or specific scope procedures accounted for 75% (2016: 78%) of the Group EBITDA, 90% (2016: 93%) of the Group's revenue and 82% (2016: 86%) of the Group's total assets. For the current year, the full scope components contributed 55% (2016: 60%) of the Group EBITDA, 77% (2016: 76%) of the Group's revenue and 58% (2016: 57%) of the Group's Total assets. The specific scope components contributed 20% (2016: 19%) of the Group EBITDA, 13% (2016: 18%) of the Group's revenue and 24% (2016: 29%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. A further breakdown of the size of these components compared to key metrics of the Group is provided below.




| | |
|---|---|
| Full | 54 |
| Specific | 20 |
| Other | 26 |




| | |
|---|---|
| Full | 77 |
| Specific | 13 |
| Other | 10 |




| | |
|---|---|
| Full | 58 |
| Specific | 24 |
| Other | 18 |

For the remaining 45 components of the Group we performed other procedures, including analytical review, review of internal audit reports, testing of consolidation journals, cross check of the related party list against journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential significant risks of material misstatement to the Consolidated Financial Statements.

We have obtained an understanding of the entity-level controls of the Group as a whole which assisted us in identifying and assessing risks of material misstatement due to fraud or error, as well as assisting us in determining the most appropriate audit strategy.

*Changes from the prior year*

Our scope allocation in the current year is broadly consistent with 2016 in terms of overall coverage of the Group and the number of full and specific scope entities.

### *Integrated team structure*

The overall audit strategy is determined by the senior statutory auditor. The senior statutory auditor is based in the UK but, since Group management and many operations reside in Russia, the Group audit team includes members from both the UK and Russia. The senior statutory auditor visited Russia five times during the current year's audit and members of the Group audit team in both jurisdictions work together as an integrated team throughout the audit process. Whilst in Russia, he focused his time on the significant risks and judgemental areas of the audit. He attended management's going concern, impairment and significant estimates and judgements presentations to the Audit Committee. During the current year's audit he reviewed key working papers and met, or held conference calls, with representatives of the component audit team for all Russian based full scope components including internal valuation specialists used in the audit to discuss the audit approach and issues arising from their work.

### *Involvement with component teams*

In establishing our overall approach to the Group audit we determined the type of work that needed to be undertaken at each of the components by us, as the Group audit team or by component auditors from other EY global network firms operating under our instruction. Of the five full scope components, audit procedures were performed on all of these by the relevant component audit team. Of the 10 specific scope components selected, audit procedures were performed on seven of these directly by the Group audit team. For the components where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the current year's audit cycle visits were undertaken by the Group audit team to component teams in Russia and the USA. The senior statutory auditor visited Russia and the USA. These visits involved discussing the audit approach with the component team and any issues arising from their work. The Group audit team participated in key discussions, via conference calls with all full and specific scope locations. The Group audit team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at group level, gave us appropriate audit evidence for our opinion on the Consolidated Financial Statements.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out **on page 141**, the directors are responsible for the preparation of the Consolidated Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Consolidated Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out** **on page 141**– the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out** **on page 120** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out** **on page 141** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

## Opinion on other matters prescribed by the Companies Act 2006

***In our opinion:***

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in:
- the strategic report or the directors' report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit
- a Corporate Governance Statement has not been prepared by the company

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 141, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the report framework (IFRS, the Companies act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in Russia.
- We have considered the impact of the sanctions against Russia on the group's operations, customer base and credit risk as well as the possibility of further more restrictive sanctions being imposed and nothing has come to our attention to suggest that the operations or the liquidity of the group have been adversely affected directly by the current political and economic situation other than the negative impact on capital markets and the financing options available to management. We reviewed management's assessment of the sanctions impact on the group's operations and the external advice received by the Group.
- We understood how EVRAZ Plc is complying with those legal and regulatory frameworks by making enquiries to management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it is considered there was a susceptibility of fraud. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programs and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free of fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at **https://www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

### Other matters we are required to address

- We were appointed by the company in 2011 to audit the financial statements for the year ending 31 December 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is seven years, covering periods from our initial appointment in 2011 through to the year ended 31 December 2017.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

**Steven Dobson**
(Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London
28 February 2018

Notes:

1. The maintenance and integrity of the EVRAZ plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# EVRAZ plc Consolidated Financial Statements Year Ended 31 December 2017

## EVRAZ plc Consolidated Statement of Operations

in millions of US dollars, except for per share information

| | Notes | Year ended 31 December 2017 | 2016 | 2015 |
|---|---|---|---|---|
| ***Continuing operations*** | | | | |
| **Revenue** | | | | |
| Sale of goods | **3** | **$ 10,520** | $ 7,477 | $ 8,552 |
| Rendering of services | **3** | **307** | 236 | 215 |
| | | **10,827** | 7,713 | 8,767 |
| **Cost of revenue** | **7** | **(7,485)** | (5,521) | (6,583) |
| **Gross profit** | | **3,342** | 2,192 | 2,184 |
| Selling and distribution costs | **7** | **(717)** | (623) | (728) |
| General and administrative expenses | **7** | **(540)** | (469) | (553) |
| Social and social infrastructure maintenance expenses | | **(31)** | (23) | (28) |
| Loss on disposal of property, plant and equipment | | **(4)** | (22) | (41) |
| Impairment of assets | **6** | **12** | (465) | (441) |
| Foreign exchange gains/(losses), net | | **(54)** | (48) | (367) |
| Other operating income | | **39** | 22 | 28 |
| Other operating expenses | **7** | **(61)** | (101) | (78) |
| **Profit/(loss) from operations** | | **1,986** | 463 | (24) |
| Interest income | **7** | **14** | 10 | 9 |
| Interest expense | **7** | **(437)** | (481) | (475) |
| Share of profits/(losses) of joint ventures and associates | **11** | **11** | (23) | (20) |
| Gain/(loss) on financial assets and liabilities, net | **7** | **(57)** | (9) | (48) |
| Gain/(loss) on disposal groups classified as held for sale, net | **12** | **(360)** | – | 21 |
| Loss of control over a subsidiary | **4** | **–** | – | (167) |
| Other non-operating gains/(losses), net | **7** | **(2)** | (52) | (3) |
| **Profit/(loss) before tax** | | **1,155** | (92) | (707) |
| Income tax benefit/(expense) | **8** | **(396)** | (96) | (12) |
| **Net profit/(loss)** | | **$ 759** | $ (188) | $ (719) |
| Attributable to: | | | | |
| Equity holders of the parent entity | | **$ 699** | $ (215) | $ (644) |
| Non-controlling interests | | **60** | 27 | (75) |
| | | **$ 759** | $ (188) | $ (719) |
| Earnings/(losses) per share for profit/(loss) attributable to equity holders of the parent entity, US dollars: | | | | |
| Basic | **20** | **$ 0.49** | $ (0.15) | $ (0.45) |
| Diluted | **20** | **$ 0.48** | $ (0.15) | $ (0.45) |

*The accompanying notes form an integral part of these consolidated financial statements.*

# EVRAZ plc Consolidated Statement of Comprehensive Income

in millions of US dollars

| | Notes | Year ended 31 December 2017 | 2016 | 2015 |
|---|---|---|---|---|
| **Net profit/(loss)** | | **$ 759** | $ (188) | $ (719) |
| **Other comprehensive income/(loss)** | | | | |
| ***Other comprehensive income to be reclassified to profit or loss in subsequent periods*** | | | | |
| Exchange differences on translation of foreign operations into presentation currency | | **266** | 543 | (820) |
| Exchange differences recycled to profit or loss on disposal of subsidiaries | **4,12** | **747** | – | 142 |
| Net gains/(losses) on available-for-sale financial assets | **13** | **30** | – | – |
| Net gains/(losses) on cash flow hedges | **25** | **9** | – | – |
| | | **1,052** | 543 | (678) |
| Effect of translation to presentation currency of the Group's joint ventures and associates | **11** | **4** | 13 | (27) |
| | | **4** | 13 | (27) |
| ***Items not to be reclassified to profit or loss in subsequent periods*** | | | | |
| Gains/(losses) on re-measurement of net defined benefit liability | **23** | **26** | 11 | 1 |
| Income tax effect | **8** | **(15)** | – | (5) |
| | | **11** | 11 | (4) |
| Decrease in revaluation surplus in connection with the impairment of property, plant and equipment | **9** | **–** | – | (1) |
| Income tax effect | **8** | **–** | – | – |
| | | **–** | – | (1) |
| **Total other comprehensive income/(loss)** | | **1,067** | 567 | (710) |
| **Total comprehensive income/(loss), net of tax** | | **$ 1,826** | $ 379 | $ (1,429) |
| Attributable to: | | | | |
| Equity holders of the parent entity | | **$ 1,762** | $ 341 | $ (1,340) |
| Non-controlling interests | | **64** | 38 | (89) |
| | | **$ 1,826** | $ 379 | $ (1,429) |



*The accompanying notes form an integral part of these consolidated financial statements.*

# EVRAZ plc Consolidated Statement of Financial Position

in millions of US dollars

The financial statements of EVRAZ plc (registered number 7784342) on pages 152–251 were approved by the Board of Directors on 28 February 2018 and signed on its behalf by Alexander Frolov, Chief Executive Officer.

| | Notes | 31 December 2017 | 31 December 2016 | 31 December 2015 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | **9** | **$ 4,933** | $ 4,652 | $ 4,302 |
| Intangible assets other than goodwill | **10** | **259** | 297 | 324 |
| Goodwill | **5** | **917** | 880 | 1,176 |
| Investments in joint ventures and associates | **11** | **79** | 64 | 74 |
| Deferred income tax assets | **8** | **173** | 156 | 119 |
| Other non-current financial assets | **13** | **151** | 91 | 79 |
| Other non-current assets | **13** | **39** | 45 | 56 |
| | | **6,551** | 6,185 | 6,130 |
| **Current assets** | | | | |
| Inventories | **14** | **1,198** | 984 | 899 |
| Trade and other receivables | **15** | **731** | 502 | 447 |
| Prepayments | | **89** | 60 | 50 |
| Loans receivable | | **11** | 13 | 5 |
| Receivables from related parties | **16** | **12** | 8 | 6 |
| Income tax receivable | | **50** | 43 | 44 |
| Other taxes recoverable | **17** | **225** | 192 | 127 |
| Other current financial assets | **18** | **47** | 33 | 35 |
| Cash and cash equivalents | **19** | **1,466** | 1,157 | 1,375 |
| | | **3,829** | 2,992 | 2,988 |
| Assets of disposal groups classified as held for sale | **12** | **–** | 27 | 1 |
| | | **3,829** | 3,019 | 2,989 |
| **Total assets** | | **$ 10,380** | $ 9,204 | $ 9,119 |
| | | | | |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Equity attributable to equity holders of the parent entity | | | | |
| Issued capital | **20** | **$ 1,507** | $ 1,507 | $ 1,507 |
| Treasury shares | **20** | **(231)** | (270) | (305) |
| Additional paid-in capital | | **2,500** | 2,517 | 2,501 |
| Revaluation surplus | | **111** | 112 | 124 |
| Unrealised gains and losses | **13,25** | **39** | – | – |
| Accumulated profits | | **635** | 415 | 644 |
| Translation difference | | **(2,777)** | (3,790) | (4,335) |
| | | **1,784** | 491 | 136 |
| Non-controlling interests | **32** | **242** | 186 | 133 |
| | | **2,026** | 677 | 269 |
| **Non-current liabilities** | | | | |
| Long-term loans | **22** | **5,243** | 5,502 | 5,850 |
| Deferred income tax liabilities | **8** | **328** | 348 | 352 |
| Employee benefits | **23** | **284** | 317 | 301 |
| Provisions | **24** | **269** | 205 | 146 |
| Other long-term liabilities | **25** | **54** | 94 | 116 |
| Amounts payable under put options for shares in subsidiaries | **4** | **61** | – | – |
| | | **6,239** | 6,466 | 6,765 |
| **Current liabilities** | | | | |
| Trade and other payables | **26** | **1,128** | 935 | 1,070 |
| Advances from customers | | **272** | 266 | 228 |
| Short-term loans and current portion of long-term loans | **22** | **148** | 392 | 497 |
| Payables to related parties | **16** | **256** | 226 | 143 |
| Income tax payable | | **67** | 39 | 17 |
| Other taxes payable | **27** | **212** | 169 | 107 |
| Provisions | **24** | **32** | 26 | 23 |
| | | **2,115** | 2,053 | 2,085 |
| Liabilities directly associated with disposal groups classified as held for sale | **12** | **–** | 8 | – |
| | | **2,115** | 2,061 | 2,085 |
| **Total equity and liabilities** | | **$ 10,380** | $ 9,204 | $ 9,119 |

*The accompanying notes form an integral part of these consolidated financial statements.*

# EVRAZ plc Consolidated Statement of Cash Flows

in millions of US dollars

| | Year ended 31 December | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| **Cash flows from operating activities** | | | |
| Net profit/(loss) | **$ 759** | $ (188) | $ (719) |
| Adjustments to reconcile net profit/(loss) to net cash flows from operating activities: | | | |
| Deferred income tax (benefit)/expense *(Note 8)* | **(89)** | (87) | (87) |
| Depreciation, depletion and amortisation *(Note 7)* | **561** | 521 | 585 |
| Loss on disposal of property, plant and equipment | **4** | 22 | 41 |
| Impairment of assets | **(12)** | 465 | 441 |
| Foreign exchange (gains)/losses, net | **54** | 48 | 367 |
| Interest income | **(14)** | (10) | (9) |
| Interest expense | **437** | 481 | 475 |
| Share of (profits)/losses of associates and joint ventures | **(11)** | 23 | 20 |
| (Gain)/loss on financial assets and liabilities, net | **57** | 9 | 48 |
| (Gain)/loss on disposal groups classified as held for sale, net | **360** | – | (21) |
| Loss of control over a subsidiary | **–** | – | 167 |
| Other non-operating (gains)/losses, net | **2** | 52 | 3 |
| Bad debt expense | **10** | 1 | 18 |
| Changes in provisions, employee benefits and other long-term assets and liabilities | **(26)** | (7) | (56) |
| Expense arising from equity-settled awards *(Note 21)* | **17** | 16 | 20 |
| Other | **2** | (3) | – |
| | **2,111** | 1,343 | 1,293 |
| Changes in working capital: | | | |
| Inventories | **(199)** | (17) | 204 |
| Trade and other receivables | **(201)** | (38) | 55 |
| Prepayments | **(27)** | (1) | 9 |
| Receivables from/payables to related parties | **24** | 136 | 66 |
| Taxes recoverable | **(32)** | (32) | (34) |
| Other assets | **(2)** | (3) | (3) |
| Trade and other payables | **150** | 40 | 3 |
| Advances from customers | **19** | 20 | 100 |
| Taxes payable | **123** | 62 | (72) |
| Other liabilities | **(9)** | (7) | 1 |
| **Net cash flows from operating activities** | **1,957** | 1,503 | 1,622 |
| **Cash flows from investing activities** | | | |
| Issuance of loans receivable to related parties | **(2)** | (1) | (2) |
| Issuance of loans receivable | **(2)** | – | (2) |
| Proceeds from repayment of loans receivable, including interest | **4** | 2 | 7 |
| Purchases of subsidiaries, net of cash acquired *(Note 4)* | **(5)** | – | – |
| Restricted deposits at banks in respect of investing activities | **(1)** | 1 | (3) |
| Short-term deposits at banks, including interest | **7** | 4 | 4 |
| Purchases of property, plant and equipment and intangible assets | **(595)** | (382) | (423) |
| Proceeds from disposal of property, plant and equipment | **15** | 7 | 10 |
| Proceeds from sale of disposal groups classified as held for sale, net of transaction costs *(Note 12)* | **412** | 27 | 44 |
| Dividends received | **1** | 1 | – |
| Other investing activities, net | **(1)** | 1 | 6 |
| **Net cash flows used in investing activities** | **(167)** | (340) | (359) |

*Continued on the next page*

# EVRAZ plc Consolidated Statement of Cash Flows (continued)

in millions of US dollars

| | Year ended 31 December | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| **Cash flows from financing activities** | | | |
| Purchase of treasury shares *(Note 20)* | **$ –** | $ – | $ (339) |
| Contributions of non-controlling shareholders to the Group's subsidiaries | **2** | 13 | 6 |
| Sale of non-controlling interests *(Note 4)* | **–** | – | 1 |
| Payments for investments on deferred terms *(Note 11)* | **(11)** | (8) | (2) |
| Dividends paid by the parent entity to its shareholders *(Note 20)* | **(430)** | – | – |
| Proceeds from bank loans and notes | **2,441** | 1,301 | 3,801 |
| Repayment of bank loans and notes, including interest | **(3,344)** | (2,428) | (3,961) |
| Net proceeds from/(repayment of) bank overdrafts and credit lines, including interest | **(139)** | (5) | (9) |
| Payments under covenants reset | **–** | (4) | – |
| Restricted deposits at banks in respect of financing activities | **(13)** | – | – |
| Payments for purchase of property, plant and equipment on deferred terms | **–** | – | (5) |
| Gain/(loss) on derivatives not designated as hedging instruments *(Note 25)* | **2** | (250) | (464) |
| Gain/(loss) on hedging instruments *(Note 25)* | **14** | 14 | 5 |
| Collateral under swap contracts | **–** | – | 7 |
| Payments under finance leases, including interest | **(2)** | (1) | (1) |
| Other financing activities, net | **1** | (1) | (1) |
| **Net cash flows used in financing activities** | **(1,479)** | (1,369) | (962) |
| Effect of foreign exchange rate changes on cash and cash equivalents | **(2)** | (10) | (12) |
| Net increase/(decrease) in cash and cash equivalents | **309** | (216) | 289 |
| Cash and cash equivalents at the beginning of the year | **1,157** | 1,375 | 1,086 |
| Decrease/(increase) in cash of disposal groups classified as assets held for sale *(Note 12)* | **–** | (2) | – |
| **Cash and cash equivalents at the end of the year** | **$ 1,466** | $ 1,157 | $ 1,375 |
| **Supplementary cash flow information:** | | | |
| Cash flows during the year: | | | |
| Interest paid | **$ (405)** | $ (413) | $ (443) |
| Interest received | **8** | 6 | 4 |
| Income taxes paid by the Group | **(427)** | (149) | (204) |

*The accompanying notes form an integral part of these consolidated financial statements.*

# EVRAZ plc Consolidated Statement of Changes in Equity

In millions of US dollars

| | Attributable to equity holders of the parent entity | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital | Treasury shares | Additional paid-in capital | Revaluation surplus | Unrealised gains and losses | Accumulated profits | Translation difference | Total | Non-controlling interests | Total equity |
| **At 31 December 2016** | **$ 1,507** | **$ (270)** | **$ 2,517** | **$ 112** | **$ –** | **$ 415** | **$ (3,790)** | **$ 491** | **$ 186** | **$ 677** |
| Net profit | – | – | – | – | – | 699 | – | 699 | 60 | 759 |
| Other comprehensive income/ (loss) | – | – | – | – | 39 | 11 | 1,013 | 1,063 | 4 | 1,067 |
| Reclassification of revaluation surplus to accumulated profits in respect of the disposed items of property, plant and equipment | – | – | – | (1) | – | 1 | – | – | – | – |
| Reclassification of additional paid-in capital in respect of the disposed subsidiaries | – | – | (34) | – | – | 34 | – | – | – | – |
| Total comprehensive income/ (loss) for the period | – | – | (34) | (1) | 39 | 745 | 1,013 | 1,762 | 64 | 1,826 |
| Derecognition of non-controlling interests on sale of subsidiaries *(Note 12)* | – | – | – | – | – | – | – | – | (6) | (6) |
| Derecognition of non-controlling interests under put options *(Note 4)* | – | – | – | – | – | (56) | – | (56) | (4) | (60) |
| Contribution of a non-controlling shareholder to share capital of the Group's subsidiary | – | – | – | – | – | – | – | – | 2 | 2 |
| Transfer of treasury shares to participants of the Incentive Plans *(Notes 20 and 21)* | – | 39 | – | – | – | (39) | – | – | – | – |
| Share-based payments *(Note 21)* | – | – | 17 | – | – | – | – | 17 | – | 17 |
| Dividends declared by the parent entity to its shareholders *(Note 20)* | – | – | – | – | – | (430) | – | (430) | – | (430) |
| **At 31 December 2017** | **$ 1,507** | **$ (231)** | **$ 2,500** | **$ 111** | **$ 39** | **$ 635** | **$ (2,777)** | **$ 1,784** | **$ 242** | **$ 2,026** |





*The accompanying notes form an integral part of these consolidated financial statements.*

# EVRAZ plc Consolidated Statement of Changes in Equity (continued)

in millions of US dollars

| | Attributable to equity holders of the parent entity | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital | Treasury shares | Additional paid-in capital | Revaluation surplus | Unrealised gains and losses | Accumulated profits | Translation difference | Total | Non-controlling interests | Total equity |
| **At 31 December 2015** | $ 1,507 | $ (305) | $ 2,501 | $ 124 | $ – | $ 644 | $ (4,335) | $ 136 | $ 133 | $ 269 |
| Net loss | – | – | – | – | – | (215) | – | (215) | 27 | (188) |
| Other comprehensive income/(loss) | – | – | – | – | – | 11 | 545 | 556 | 11 | 567 |
| Reclassification of revaluation surplus to accumulated profits in respect of the disposed items of property, plant and equipment | – | – | – | (12) | – | 12 | – | – | – | – |
| Total comprehensive income/(loss) for the period | – | – | – | (12) | – | (192) | 545 | 341 | 38 | 379 |
| Acquisition of non-controlling interests in subsidiaries | – | – | – | – | – | (2) | – | (2) | 2 | – |
| Contribution of a non-controlling shareholder to share capital of the Group's subsidiary | – | – | – | – | – | – | – | – | 13 | 13 |
| Transfer of treasury shares to participants of the Incentive Plans *(Notes 20 and 21)* | – | 35 | – | – | – | (35) | – | – | – | – |
| Share-based payments *(Note 21)* | – | – | 16 | – | – | – | – | 16 | – | 16 |
| **At 31 December 2016** | $ 1,507 | $ (270) | $ 2,517 | $ 112 | $ – | $ 415 | $ (3,790) | $ 491 | $ 186 | $ 677 |

*The accompanying notes form an integral part of these consolidated financial statements.*

# EVRAZ plc Consolidated Statement of Changes in Equity (continued)

in millions of US dollars

| | Attributable to equity holders of the parent entity | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital | Treasury shares | Additional paid-in capital | Revaluation surplus | Unrealised gains and losses | Accumulated profits | Translation difference | Total | Non-controlling interests | Total equity |
| **At 31 December 2014** | $ 1,507 | $ – | $ 2,481 | $ 155 | $ – | $ 1,299 | $ (3,644) | $ 1,798 | $ 218 | $ 2,016 |
| Net loss | – | – | – | – | – | (644) | – | (644) | (75) | (719) |
| Other comprehensive income/(loss) | – | – | – | (1) | – | (4) | (691) | (696) | (14) | (710) |
| Reclassification of revaluation surplus to accumulated profits in respect of the disposed subsidiaries | – | – | – | (28) | – | 28 | – | – | – | – |
| Reclassification of revaluation surplus to accumulated profits in respect of the disposed items of property, plant and equipment | – | – | – | (2) | – | 2 | – | – | – | – |
| Total comprehensive income/(loss) for the period | – | – | – | (31) | – | (618) | (691) | (1,340) | (89) | (1,429) |
| Derecognition of non-controlling interests in connection with the loss of control over a subsidiary *(Note 4)* | – | – | – | – | – | – | – | – | (4) | (4) |
| Non-controlling interests arising on sale of ownership interests in subsidiaries | – | – | – | – | – | (3) | – | (3) | 2 | (1) |
| Contribution of a non-controlling shareholder to share capital of the Group's subsidiary | – | – | – | – | – | – | – | – | 6 | 6 |
| Purchase of treasury shares *(Note 20)* | – | (336) | – | – | – | (3) | – | (339) | – | (339) |
| Transfer of treasury shares to participants of the Incentive Plans *(Notes 20 and 21)* | – | 31 | – | – | – | (31) | – | – | – | – |
| Share-based payments *(Note 21)* | – | – | 20 | – | – | – | – | 20 | – | 20 |
| **At 31 December 2015** | $ 1,507 | $ (305) | $ 2,501 | $ 124 | $ – | $ 644 | $ (4,335) | $ 136 | $ 133 | $ 269 |





*The accompanying notes form an integral part of these consolidated financial statements.*

# EVRAZ plc Notes to the Consolidated Financial Statements Year ended 31 December 2017

## 1. Corporate Information

These consolidated financial statements were authorised for issue by the Board of Directors of EVRAZ plc on 28 February 2018.

EVRAZ plc ("EVRAZ plc" or "the Company") was incorporated on 23 September 2011 as a public company limited by shares under the laws of the United Kingdom with the registered number in England of 7784342. The Company's registered office is at 5th Floor, 6 St. Andrew Street, London, EC4A 3AE, United Kingdom.

The Company is a parent entity of Evraz Group S.A. (Luxembourg), a holding company which owns steel production, mining and trading companies.

The Company, together with its subsidiaries (the "Group"), is involved in the production and distribution of steel and related products and coal and iron ore mining. In addition, the Group produces vanadium products. The Group is one of the largest steel producers globally. Lanebrook Limited (Cyprus) is the ultimate controlling party of the Group.

The major subsidiaries included in the consolidated financial statements of the Group were as follows at 31 December:

| | Effective ownership interest, % | | | | |
|---|---|---|---|---|---|
| **Subsidiary** | **2017** | **2016** | **2015** | **Business activity** | **Location** |
| EVRAZ Nizhny Tagil Metallurgical Plant | **100.00** | 100.00 | 100.00 | Steel production | Russia |
| EVRAZ Consolidated West-Siberian Metallurgical Plant | **100.00** | 100.00 | 100.00 | Steel production | Russia |
| EVRAZ Dneprovsk Metallurgical Plant | **97.73** | 97.73 | 96.94 | Steel production | Ukraine |
| EVRAZ Inc. NA | **100.00** | 100.00 | 100.00 | Steel production | USA |
| EVRAZ Inc. NA Canada | **100.00** | 100.00 | 100.00 | Steel production | Canada |
| Raspadskaya | **81.95** | 81.95 | 81.95 | Coal mining | Russia |
| Yuzhkuzbassugol | **100.00** | 100.00 | 100.00 | Coal mining | Russia |
| EVRAZ Kachkanarsky Mining-and-Processing Integrated Works | **100.00** | 100.00 | 100.00 | Ore mining and processing | Russia |
| Evrazruda | **100.00** | 100.00 | 100.00 | Ore mining | Russia |
| EVRAZ Sukha Balka | **–** | 99.42 | 99.42 | Ore mining | Ukraine |

The full list of the Group's subsidiaries and other significant holdings as of 31 December 2017 is presented in Note 34.

## 2. Significant Accounting Policies

### Basis of Preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

International Financial Reporting Standards are issued by the International Accounting Standard Board ("IASB"). IFRSs that are mandatory for application as of 31 December 2017, but not adopted by the European Union, do not have any significant impact on the Group's consolidated financial statements.

## 2. Significant Accounting Policies (continued)

### Basis of Preparation (continued)

The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below. Exceptions include, but are not limited to, property, plant and equipment at the date of transition to IFRS accounted for at deemed cost, available-for-sale investments measured at fair value, assets classified as held for sale measured at the lower of their carrying amount or fair value less costs to sell and post-employment benefits measured at present value.

***Going Concern***

These consolidated financial statements have been prepared on a going concern basis.

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.

### Changes in Accounting Policies

*New/Revised Standards and Interpretations Adopted in 2017:*

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2017.

- Amendments to IAS 7 – Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group disclosed additional information in Note 22 in these consolidated financial statements for the year ended 31 December 2017.

- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The application of these amendments has no effect on the Group's financial position and performance as the Group followed the same principles in prior periods.

## 2. Significant Accounting Policies (continued)

### Changes in Accounting Policies (continued)

The amendments described above had no significant impact on the financial position and performance of the Group or the disclosures in the consolidated financial statements.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

*Standards Issued But Not Yet Effective in the European Union*

| Standards not yet effective for the financial statements for the year ended 31 December 2017 | Effective for annual periods beginning on or after |
|---|---|
| • Amendments to IAS 40 – Transfers of Investment Property | 1 January 2018[1] |
| • Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions | 1 January 2018 |
| • Amendments to IFRS 4 – Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” | 1 January 2018 |
| • Annual Improvements to IFRSs 2014-2016 Cycle | 1 January 2018 |
| • IFRS 9 “Financial Instruments” | 1 January 2018 |
| • IFRS 15 “Revenue from Contracts with Customers” | 1 January 2018 |
| • IFRIC 22 “Foreign Currency Transactions and Advance Consideration” | 1 January 2018[1] |
| • IFRS 16 “Leases” | 1 January 2019 |
| • Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures | 1 January 2019[1] |
| • Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement | 1 January 2019[1] |
| • Amendments to IFRS 9 – Prepayment Features with Negative Compensation | 1 January 2019[1] |
| • IFRIC 23 “Uncertainty over Income Tax Treatments” | 1 January 2019[1] |
| • Annual Improvements to IFRSs 2015-2017 Cycle | 1 January 2019[1] |
| • IFRS 17 “Insurance Contracts” | 1 January 2021[1] |

[1] *Subject to EU endorsement*

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group’s results of operations and financial position in the period of initial application.

The Group plans to apply IFRS 9 and IFRS 15 starting from the dates effective in the European Union. At present the Group is in the process of analysis of the possible impact of the application of these standards on its consolidated financial statements, but the preliminary results show that the impact will not be significant.

*IFRS 9 “Financial Instruments”*

Starting from 2018, the Group will apply IFRS 9 “Financial Instruments” that replaces IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group will adopt the new standard on the required effective date and due to the exemption in IFRS 9 will not restate comparative periods in the year of initial application. As a consequence, any adjustments to the carrying amounts of financial assets or liabilities are to be recognised at 1 January 2018, with the difference recognised in the opening balance of accumulated profits.

## 2. Significant Accounting Policies (continued)

### Changes in Accounting Policies (continued)

*IFRS 9 "Financial Instruments" (continued)*

During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018. Overall, the Group expects no significant impact on its statement of financial position and equity. The Group has assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

(a) Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model, in which assets are managed and their cash flow characteristics. IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available-for-sale financial assets.

Based on the assessment, the Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9.

The Group expects to continue measuring all financial assets, which are currently measured at fair value, at fair value through profit or loss with the exception of equity investments in Delong Holdings Limited, which were classified as available-for-sale with a fair value of $33 million at 31 December 2017 (Note 13). At 1 January 2018, the Group has irrevocably designated these investments as measured at fair value through other comprehensive income. Consequently, all subsequent changes in fair value will be reported in other comprehensive income, no impairment losses will be recognised in profit or loss and no gains or losses will be recycled to profit or loss upon derecognition.

Loans and trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

Under IFRS 9, the new impairment model requires the recognition of impairment provisions based on the expected credit losses rather than only incurred credit losses under IAS 39. The expected credit losses represent measures of an asset's credit risk. This will require considerable judgement about how changes in economic factors affect expected credit losses, which will be determined on a probability-weighted basis.

The new impairment model applies to the Group's financial assets, including, but not limited to, trade and other receivables, loans receivable, restricted deposits, cash and cash equivalents.

Loss allowances are measured on either of the following bases:

- 12-month basis - these are expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date; or
- lifetime basis - these are expected credit losses that result from all possible default events over the expected life of a financial instrument.

Based on the assessments undertaken to the date, the Group expects an insignificant change in the loss allowance for trade debtors and other financial assets held at amortised cost.

The Group's cash and cash equivalents have low credit risk based on the external credit ratings of banks and financial institutions. Therefore, the Group determined that no additional allowances are required at 31 December 2017 in connection with the adoption of the new impairment model under IFRS 9.

## 2. Significant Accounting Policies (continued)

### Changes in Accounting Policies (continued)

*IFRS 9 "Financial Instruments" (continued)*

(c) Hedge accounting

The Group made a choice to continue applying IAS 39 "Financial Instruments: Recognition and Measurement" to all existing hedge contracts (Note 25).

*IFRS 15 "Revenue from Contracts with Customers"*

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. The Group plans to adopt the new standard on the required effective date (from 1 January 2018) using the modified retrospective method, i.e. with the cumulative effect of applying this standard recognised at the date of initial recognition. During 2017, the Group performed a preliminary assessment of the impacts of IFRS 15. In preparing to adopt IFRS 15, the Group is considering the following:

(a) Sale of goods and services

For contracts with customers in which the sale of goods produced by the Group is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the Group's revenue and profit or loss. The Group expects the revenue to be recognised at the point in time when control of the asset is transferred to the customer, generally on dispatch or shipping of the goods.

Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of the estimated returns and allowances, trade discounts and volume rebates. IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue, i.e. variable consideration should be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group expects that application of the constraint will not result in significant effects as the Group already applies similar principles.

(b) Advances received from customers

Under certain contracts, the Group produces steel products specifically for the needs of some customers with no alternative use. The Group has enforceable rights to payment of 100% of the contract price if the contract is cancelled after the pipe manufacturing process has begun. The Group recognises revenue from such contracts at the moment of the transfer of ownership rights. However, the Group has determined that IFRS 15 requires the recognition of revenue for such transactions over the period of manufacturing the products. This will affect the timing of revenue and cost recognition within the financial statements of the Group on the transition to IFRS 15.

The Group receives only short-term advances from its customers. No interest is accrued on the advances received under the Group's accounting policy. Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts.

However, the Group decided to use the practical expedient provided in IFRS 15, which allows not to adjust the promised amount of consideration for the effects of a significant financing component in the contracts where the Group expects, at contract inception, that the period between the Group's transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Therefore, for short-term advances, the Group will not account for a financing component even if it is significant.

## 2. Significant Accounting Policies (continued)

### Changes in Accounting Policies (continued)

*IFRS 15 "Revenue from Contracts with Customers" (continued)*

(c) Principal versus agent considerations

The Group enters into contracts with its customers, under which the Group provides transportation and handling services using third party providers (i.e. the Group selects suitable firms and manages the shipment and delivery). These services are provided to the customers before, or after, they obtain control over the goods. The cost of services is included in the contract price. According to the current accounting policies, these services are recognised at the moment when the right of ownership over the goods is passed to the customers and presented as revenue from the sale of goods with the corresponding expenses included in selling costs in the statement of operations.

Under IFRS 15, transportation and handling services rendered by the Group before control over the goods is transferred to the customers do not represent a separate performance obligation.

However, the Group has preliminarily concluded that when it provides such services after obtaining control over the goods by the customers, it acts as an agent rather than a principal in these contracts. As a result, the Group concluded that it transfers control over its services at a point in time. Consequently, the Group will need to allocate the transaction price to respective performance obligations and recognise revenue from these services and the associated costs on a net basis.

The Group is in the process of collecting information relating to the possible adjustments to the amounts of revenue reported according to the current accounting standards. The preliminary results of this assessment are the reduction of revenue with the same decrease in selling expense for the amount of transportation costs under contracts, in which the Group acted as an agent (at least $202 million and $168 million in 2017 and 2016, respectively).

(d) Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made: when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. Also, extended disclosures are expected as a result of the significant judgements made when assessing the contracts if the Group conclude that it acts as an agent instead of a principal.

In addition, as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

(e) Other adjustments

The recognition and measurement requirements in IFRS 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, the effect of these changes is not expected to be material for the Group.

## 2. Significant Accounting Policies (continued)

### Significant Accounting Judgements and Estimates

***Accounting Judgements***

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- In 2015, the Group lost control over Highveld Steel and Vanadium Limited and it is not expected that it will re-obtain control in the future. As a result, the Group ceased to consolidate this entity starting 14 April 2015 (Note 4).
- The Group determined based on the criteria in IFRIC 4 "Determining whether an Arrangement Contains a Lease" that the supply contract with PraxAir does not contain a lease. This contract, concluded in 2010, with subsequent amendments in 2015, included the construction of an air separation plant by PraxAir to be owned and operated by PraxAir and the supply of oxygen and other industrial gases produced by PraxAir to EVRAZ Nizhny Tagil Metallurgical Plant for a period of 25 years on a take or pay basis. In 2015, the air separation plant was put into operation and the Group started to purchase gases from PraxAir. Management believes that this arrangement does not convey a right to the Group to use the asset as the Group does not have an ability to operate the asset or to direct other parties to operate the asset; it does not control physical access to the asset; and it is expected that more than an insignificant amount of the asset's output will be sold to the parties unrelated to the Group. The commitment under this contract is disclosed in Note 30.
- At 31 December 2017, the Group has recognised deferred tax assets of $173 million (Note 8). Included within this balance is $73 million related to unutilised interest expenses in the USA previously incurred on intra-group loans. As a result of the recent enactment of the Tax Cuts and Jobs Act ("TCJA") in the USA, uncertainty exists as to whether these unutilised interest expenses will be deductible against future taxable earnings under the new tax law and, therefore, whether the deferred tax asset will be recoverable. The Group's interpretation of the new legislation is that the deferred tax asset will be recoverable and, consequently, it has not created an allowance against this balance.

## 2. Significant Accounting Policies (continued)

### Significant Accounting Judgements and Estimates (continued)

***Estimation Uncertainty***

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Impairment of Property, Plant and Equipment*

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2017, 2016 and 2015, the Group recognised a net impairment reversal/(loss) of $20 million, $(151) million and $(190) million, respectively (Note 9).

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate that impairment exists.

The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the value in use and, ultimately, the amount of any impairment.

*Useful Lives of Items of Property, Plant and Equipment*

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

The useful lives of items of property, plant and equipment can be impacted to a significant degree by changes in expectations of long-term prices (which are subject to significant fluctuations even within a one year timeframe), the dollar-denominated value of the cost of production of each respective facility (which will move with the fluctuations in the USD/RUB exchange rate, because a significant portion of the Group's costs are incurred in the Russian roubles) and the resulting profitability of the specific facilities. These expectations may affect the planned timing and the level of repairs as well as the planned timing of decommissioning or replacement of the respective items of property, plant and equipment, thus affecting their useful lives. Significant changes in these variables may lead to a reassessment of useful lives of property, plant and equipment. In the past the Group had cases, when such reassessments significantly affected the Group's depreciation expense (the last case happened in 2014, when the reassessment led to a decrease in the depreciation expense by $52 million).

## 2. Significant Accounting Policies (continued)

### Significant Accounting Judgements and Estimates (continued)

***Estimation Uncertainty (continued)***

*Impairment of Goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The carrying amount of goodwill at 31 December 2017, 2016 and 2015 was $917 million, $880 million and $1,176 million, respectively. In 2017, 2016 and 2015, the Group recognised an impairment loss in respect of goodwill in the amount of $Nil, $316 million and $251 million, respectively (Note 5). More details of the assumptions used in estimating the value in use of the cash-generating units to which goodwill is allocated are provided in Note 6.

*Mineral Reserves*

Mineral reserves and the associated mine plans are a material factor in the Group's computation of a depletion charge. The Group estimates its mineral reserves in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code"). Estimation of reserves in accordance with the JORC Code involves some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data, which also requires use of subjective judgement and development of assumptions.

The changes in the pricing environment and geology-related risk factors may lead to a revision of mining plans, decisions to abandon or to mothball certain parts of a mine, to a reassessment of the capital expenditures required for the extraction of the proved and probable reserves, as well as to the changes in the resources classified as proved and probable reserves. As the value of the Group's mining assets is very significant (Note 9), including $1,233 million of coal mining assets at 31 December 2017, these changes may have a material impact on the depletion charge and impairment, which may arise as a result of a decline in the recoverable amounts of the affected mines.

*Post-Employment Benefits*

The Group uses an actuarial valuation method for the measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, expected rate of return on plan assets, etc.). More details are provided in Note 23.

### Foreign Currency Transactions

The presentation currency of the Group is the US dollar because presentation in US dollars is most relevant for the major current and potential users of the consolidated financial statements.

The functional currencies of the Group's subsidiaries are the Russian rouble, US dollar, euro, Czech koruna, South African rand, Canadian dollar and Ukrainian hryvnia. At the reporting date, the assets and liabilities of the subsidiaries with functional currencies other than the US dollar are translated into the presentation currency at the rate of exchange ruling at the end of the reporting period, and their statements of operations are translated at the exchange rates that approximate the exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a subsidiary with functional currency other than the US dollar, the deferred cumulative amount recognised in equity relating to that particular subsidiary is recognised in the statement of operations.

## 2. Significant Accounting Policies (continued)

### Foreign Currency Transactions (continued)

The following exchange rates were used in the consolidated financial statements:

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| | 31 December | average | 31 December | average | 31 December | average |
| USD/RUB | 57.6002 | 58.3529 | 60.6569 | 67.0349 | 72.8827 | 60.9579 |
| EUR/RUB | 68.8668 | 65.9014 | 63.8111 | 74.2336 | 79.6972 | 67.7767 |
| EUR/USD | 1.1993 | 1.1297 | 1.0541 | 1.1069 | 1.0887 | 1.1095 |
| USD/CAD | 1.2530 | 1.2979 | 1.3427 | 1.3248 | 1.3840 | 1.2788 |
| USD/UAH | 28.0672 | 26.5947 | 25.5458 | 27.1909 | 24.0007 | 21.8290 |

Transactions in foreign currencies in each subsidiary of the Group are initially recorded in the functional currency at the rate ruling at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of the reporting period. All resulting differences are taken to the statement of operations.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### Basis of Consolidation

*Subsidiaries*

Subsidiaries, which are those entities in which the Group has an interest of more than 50% of the voting rights and over which the Group has control, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the parent's shareholders' equity.

Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

*Acquisition of Subsidiaries*

Business combinations are accounted for using the acquisition method.

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition costs incurred are expensed and included in administrative expenses.

## 2. Significant Accounting Policies (continued)

### Basis of Consolidation (continued)

*Acquisition of Subsidiaries (continued)*

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination. If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using those provisional values. The Group recognises any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date.

Comparative information presented for the periods before the completion of initial accounting for the acquisition is presented as if the initial accounting had been completed from the acquisition date.

*Increases in Ownership Interests in Subsidiaries*

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases is either added to additional paid-in capital, if positive, or charged to accumulated profits, if negative, in the consolidated financial statements.

*Purchases of Controlling Interests in Subsidiaries from Entities under Common Control*

Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the controlling entity (the "Predecessor"). Related goodwill inherent in the Predecessor's original acquisition is also recorded in the financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in the consolidated financial statements as an adjustment to the shareholders' equity.

These financial statements, including corresponding figures, are presented as if a subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

*Put Options over Non-controlling Interests*

The Group derecognises non-controlling interests if non-controlling shareholders have a put option over their holdings. The difference between the amount of the liability recognised in the statement of financial position over the carrying value of the derecognised non-controlling interests is charged to accumulated profits.

## 2. Significant Accounting Policies (continued)

### Investments in Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control.

Investments in associates are accounted for under the equity method of accounting and are initially recognised at cost including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate and goodwill impairment charges, if any.

The Group's share of its associates' profits or losses is recognised in the statement of operations and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has legal or constructive obligations to make payments to, or on behalf of, the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### Interests in Joint Ventures

The Group's interest in its joint ventures is accounted for under the equity method of accounting whereby an interest in jointly ventures is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group's share of net assets of joint ventures. The statement of operations reflects the Group's share of the results of operations of joint ventures.

### Property, Plant and Equipment

The Group's property, plant and equipment is stated at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred and recognition criteria are met.

The Group's property, plant and equipment include mining assets, which consist of mineral reserves, mine development and construction costs and capitalised site restoration costs. Mineral reserves represent tangible assets acquired in business combinations. Mine development and construction costs represent expenditures incurred in developing access to mineral reserves and preparations for commercial production, including sinking shafts and underground drifts, roads, infrastructure, buildings, machinery and equipment.

At each end of the reporting period management makes an assessment to determine whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is the higher of an asset's fair value less cost to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as impairment loss in the statement of operations or other comprehensive income. An impairment loss recognised for an asset in previous years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Land is not depreciated. Depreciation of property, plant and equipment, except for mining assets, is calculated on a straight-line basis over the estimated useful lives of the assets. The useful lives of items of property, plant and equipment and methods of their depreciation are reviewed, and adjusted as appropriate, at each fiscal year end.

## 2. Significant Accounting Policies (continued)

### Property, Plant and Equipment (continued)

The table below presents the useful lives of items of property, plant and equipment.

| | Useful lives (years) | Weighted average remaining useful life (years) |
|---|---|---|
| Buildings and constructions | 15–60 | 21 |
| Machinery and equipment | 4–45 | 11 |
| Transport and motor vehicles | 7–20 | 6 |
| Other assets | 3–15 | 4 |

The Group determines the depreciation charge separately for each significant part of an item of property, plant and equipment.

Depletion of mining assets including capitalised site restoration costs is calculated using the units-of-production method based upon proved and probable mineral reserves. The depletion calculation takes into account future development costs for reserves which are in the production phase.

Maintenance costs relating to items of property, plant and equipment are expensed as incurred.  Major renewals and improvements are capitalised, and the replaced assets are derecognised.

The Group has the title to certain non-production and social assets, primarily buildings and facilities of social infrastructure, which are carried at their recoverable amount of zero. The costs to maintain such assets are expensed as incurred.

### Exploration and Evaluation Expenditures

Exploration and evaluation expenditures represent costs incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. The expenditures include acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching, sampling, activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resources. These costs are expensed as incurred.

When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the Group commences recognition of expenditures related to the development of mineral resources as assets. These assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date as to whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised from the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

## 2. Significant Accounting Policies (continued)

### Leases (continued)

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of operations on a straight-line basis over the lease term.

### Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred for an acquisition of a subsidiary or an associte and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the acquiree, the difference is recognised in the consolidated statement of operations.

Goodwill on acquisition of a subsidiary is included in intangible assets. Goodwill on acquisition of an associate is included in the carrying amount of the investments in associates.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, or the group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operation disposed of and the portion of the cash-generating unit retained.

### Intangible Assets Other Than Goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditures on internally generated intangible assets, excluding capitalised development costs, are expensed as incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortised, they are tested for impairment annually either individually or at the cash-generating unit level.

## 2. Significant Accounting Policies (continued)

### Intangible Assets Other Than Goodwill (continued)

The table below presents the useful lives of intangible assets.

| | Useful lives (years) | Weighted average remaining useful life (years) |
|---|---|---|
| Customer relationships | 1–15 | 6 |
| Contract terms | 10 | 6 |
| Other | 5–19 | 7 |

Certain water rights and environmental permits are considered to have indefinite lives as management believes that these rights will continue indefinitely.

The most part of the Group's intangible assets represents customer relationships arising on business combinations (Note 10).

### Financial Assets

The Group classified its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its investments after initial recognition.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading and included in the category "financial assets at fair value through profit or loss". Investments which are included in this category are subsequently carried at fair value; gains or losses on such investments are recognised in income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the positive intent and ability to hold to maturity are classified as held-to-maturity. Held-to-maturity investments are carried at amortised cost using the effective yield method.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the end of the reporting period or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of operations. Reversals of impairment losses in respect of equity instruments are not recognised in the statement of operations. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the statement of operations.

## 2. Significant Accounting Policies (continued)

### Financial Assets (continued)

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the end of the reporting period. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis or other generally accepted valuation techniques.

All purchases and sales of financial assets under contracts to purchase or sell financial assets that require delivery of the asset within the time frame generally established by regulation or convention in the market place are recognised on the settlement date i.e. the date the asset is delivered by/to the counterparty.

*Accounts Receivable*

Accounts receivable, which generally are short-term, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

The Group establishes an allowance for impairment of accounts receivable that represents its estimate of incurred losses. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar receivables in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms.

### Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis and includes expenditure incurred in acquiring or producing inventories and bringing them to their existing location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

### Value Added Tax

The tax authorities permit the settlement of sales and purchases value added tax ("VAT") on a net basis.

The Group's subsidiaries apply the accrual method for VAT recognition, under which VAT becomes payable upon invoicing and delivery of goods or rendering services as well upon receipt of prepayments from customers. VAT on purchases, even if not settled at the end of the reporting period, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

### Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand and deposits with an original maturity of three months or less.

## 2. Significant Accounting Policies (continued)

### Borrowings

Borrowings are initially recognised at fair value, net of directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest rate method; any difference between the amount initially recognised and the redemption amount is recognised as interest expense over the period of the borrowings.

Borrowing costs relating to qualifying assets are capitalised (Note 9).

### Equity

*Share Capital*

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

*Treasury Shares*

Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in statement of operations on the purchase, sale, issue or cancellation of the treasury shares.

*Dividends*

Dividends are recognised as a liability and deducted from equity only if they are declared before the end of the reporting period. Dividends are disclosed when they are proposed before the end of the reporting period or proposed or declared after the end of the reporting period but before the financial statements are authorised for issue.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

*Site Restoration Provisions*

The Group reviews site restoration provisions at each reporting date and adjusts them to reflect the current best estimate in accordance with IFRIC 1 “Changes in Existing Decommissioning, Restoration and Similar Liabilities”.

Provisions for site restoration costs are capitalised within property, plant and equipment.

## 2. Significant Accounting Policies (continued)

### Employee Benefits

*Social and Pension Contributions*

Defined contributions are made by the Group to the Russian and Ukrainian state pension, social insurance and medical insurance funds at the statutory rates in force based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

*Defined Benefit Plans*

The Group companies provide pensions and other benefits to their employees (Note 23). The entitlement to these benefits is usually conditional on the completion of a minimum service period. Certain benefit plans require the employee to remain in service up to retirement age. Other employee benefits consist of various compensations and non-monetary benefits. The amounts of benefits are stipulated in the collective bargaining agreements and/or in the plan documents.

The Group involves independent qualified actuaries in the measurement of employee benefit obligations.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. It is recorded within interest expense in the consolidated statement of operations.

The Group recognises current service costs, past-service costs, gains and losses on curtailments and non-routine settlements in the consolidated statement of operations within “cost of sales”, “general and administrative expenses” and “selling and distribution expenses”.

*Other Costs*

The Group incurs employee costs related to the provision of benefits such as health services, kindergartens and other services. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to cost of sales.

### Share-based Payments

The Group has management compensation schemes (Note 21), under which certain senior executives and employees of the Group receive remuneration in the form of share-based payment transactions, whereby they render services as consideration for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with grantees is measured by reference to the fair value of the Company’s shares at the date on which they are granted. The fair value is determined using the Black-Scholes-Merton model. In valuing equity-settled transactions, no account is taken of any conditions, other than market conditions.

## 2. Significant Accounting Policies (continued)

### Share-based Payments (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity (additional paid-in capital), over the period in which service conditions are fulfilled, ending on the date on which the relevant persons become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit in the statement of operations for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards if EBITDA-related conditions are not satisfied or participants lose the entitlement for the shares due to the termination of their employment. Accumulated share-based expense is adjusted to reflect the number of share options that eventually vest. For market-related performance conditions, such as TSR (Note 21), if the conditions are not met and the share options do not vest, then no reversal is made for the share-based expense previously recognised.

The TSR-related vesting condition of the Incentive Plan 2017 was considered by the Group as a market condition. As such, it was included in the estimation of the fair value of the granted shares and will not be subsequently revised. Vesting condition related to EBITDA was not taken into account when estimating the fair value of the share options at the grant date. Instead, this will be taken into account by adjusting the share-based expense based on the number of share options that eventually vest.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

The dilutive effect of outstanding share-based awards is reflected as additional share dilution in the computation of earnings per share (Note 20).

### Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised:

*Sale of Goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. The moment of transfer of the risks and rewards of ownership is determined by the contract terms.

## 2. Significant Accounting Policies (continued)

### Revenue (continued)

*Rendering of Services*

The Group's revenues from rendering of services include electricity, transportation, port and other services. Revenue is recognised when services are rendered, which usually occurs at a point in time.

*Interest*

Interest is recognised using the effective interest method.

*Dividends*

Revenue is recognised when the shareholders' right to receive the payment is established.

*Rental Income*

Rental income is accounted for on a straight-line basis over the lease term on ongoing leases.

### Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Current income tax relating to items recognised outside profit or loss is recognised in other comprehensive income or equity and not in the statement of operations.

### Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, tax legislation and tax planning strategies.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

## 3. Segment Information

For management purposes the Group has four reportable operating segments:

- *Steel* segment includes production of steel and related products at all mills except for those located in North America. Extraction of vanadium ore and production of vanadium products, iron ore mining and enrichment and certain energy-generating companies are also included in this segment as they are closely related to the main process of steel production.
- *Steel, North America* is a segment, which includes production of steel and related products in the USA and Canada.
- *Coal* segment includes coal mining and enrichment. It also included operations of Nakhodka Trade Sea Port (sold in June 2017) as it was used to a significant extent for shipping of products of the coal segment to the Asian markets.
- *Other operations* include energy-generating companies, shipping and railway transportation companies.

Management and investment companies are not allocated to any of the segments. Operating segments have been aggregated into reportable segments if they show a similar long-term economic performance, have comparable production processes, customer industries and distribution channels, operate in the same regulatory environment, and are generally managed and monitored together.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Management monitors the results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on EBITDA (see below). This performance indicator is calculated based on management accounts that differ from the IFRS consolidated financial statements for the following reasons:

1) for the last month of the reporting period, the management accounts for each operating segment are prepared using a forecast for that month;
2) the statement of operations is based on local GAAP figures with the exception of depreciation and repair expenses which are adjusted to approximate the amount under IFRS;
3) in case of volatility of functional currencies the IFRS statements of operations are translated at the exchange rates that approximate the exchange rates at the dates of the transactions (quarterly, semi-annual averages, etc.) while in management accounts simple average for the whole accounting period is used.

*Segment revenue* is revenue reported in the Group's statement of operations that is directly attributable to a segment and the relevant portion of the Group's revenue that can be allocated to it on a reasonable basis, whether from sales to external customers or from transactions with other segments.

*Segment expense* is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated to it on a reasonable basis, including expenses relating to external counterparties and expenses relating to transactions with other segments. Segment expense does not include social and social infrastructure maintenance expenses.

*Segment result* is segment revenue less segment expense that is equal to earnings before interest, tax, depreciation and amortisation ("EBITDA") for that segment.

*Segment EBITDA* is determined as a segment's profit/(loss) from operations adjusted for social and social infrastructure maintenance expenses, impairment of assets, profit/(loss) on disposal of property, plant and equipment and intangible assets, foreign exchange gains/(losses) and depreciation, depletion and amortisation expense. Management believes that this measure is more useful and relevant for the users and is more comparable with the Russian steel peers.

## 3. Segment Information (continued)

The following tables present measures of segment profit or loss based on management accounts.

**Year ended 31 December 2017**

| *US$ million* | Steel | Steel, North America | Coal | Other operations | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Sales to external customers | **$ 8,093** | **$ 1,868** | **$ 796** | **$ 87** | **$ –** | **$ 10,844** |
| Inter-segment sales | **295** | **–** | **1,142** | **301** | **(1,738)** | **–** |
| Total revenue | **8,388** | **1,868** | **1,938** | **388** | **(1,738)** | **10,844** |
| **Segment result – EBITDA** | **$ 1,567** | **$ 77** | **$ 1,164** | **$ 20** | **$ (24)** | **$ 2,804** |

**Year ended 31 December 2016**

| *US$ million* | Steel | Steel, North America | Coal | Other operations | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Sales to external customers | $ 5,528 | $ 1,464 | $ 484 | $ 63 | $ – | $ 7,539 |
| Inter-segment sales | 194 | – | 676 | 233 | (1,103) | – |
| Total revenue | 5,722 | 1,464 | 1,160 | 296 | (1,103) | 7,539 |
| **Segment result – EBITDA** | $ 986 | $ 22 | $ 613 | $ 15 | $ (44) | $ 1,592 |

**Year ended 31 December 2015**

| *US$ million* | Steel | Steel, North America | Coal | Other operations | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Sales to external customers | $ 6,018 | $ 2,253 | $ 380 | $ 89 | $ – | $ 8,740 |
| Inter-segment sales | 242 | 10 | 572 | 304 | (1,128) | – |
| Total revenue | 6,260 | 2,263 | 952 | 393 | (1,128) | 8,740 |
| **Segment result – EBITDA** | $ 1,033 | $ 51 | $ 348 | $ 16 | $ 110 | $ 1,558 |

## 3. Segment Information (continued)

The following table shows a reconciliation of revenue and EBITDA used by management for decision making and revenue and profit or loss before tax per the consolidated financial statements prepared under IFRS.

**Year ended 31 December 2017**

| *US$ million* | Steel | Steel, North America | Coal | Other operations | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Revenue** | $ 8,388 | $ 1,868 | $ 1,938 | $ 388 | $ (1,738) | $ 10,844 |
| Reclassifications and other adjustments | (645) | (4) | 276 | 74 | 282 | (17) |
| **Revenue per IFRS financial statements** | $ 7,743 | $ 1,864 | $ 2,214 | $ 462 | $ (1,456) | $ 10,827 |
| | | | | | | |
| **EBITDA** | $ 1,567 | $ 77 | $ 1,164 | $ 20 | $ (24) | $ 2,804 |
| Unrealised profits adjustment | (49) | – | (4) | – | (9) | (62) |
| Reclassifications and other adjustments | (35) | (19) | 66 | 1 | – | 13 |
| | (84) | (19) | 62 | 1 | (9) | (49) |
| **EBITDA based on IFRS financial statements** | $ 1,483 | $ 58 | $ 1,226 | $ 21 | $ (33) | $ 2,755 |
| Unallocated subsidiaries | | | | | | (131) |
| | | | | | | $ 2,624 |
| | | | | | | |
| Social and social infrastructure maintenance expenses | (29) | – | (1) | – | – | (30) |
| Depreciation, depletion and amortisation expense | (255) | (132) | (167) | (3) | – | (557) |
| Impairment of assets | 31 | (19) | – | – | – | 12 |
| Loss on disposal of property, plant and equipment and intangible assets | 4 | – | (7) | (1) | – | (4) |
| Foreign exchange gains/(losses), net | (31) | 25 | 20 | – | – | 14 |
| | $ 1,203 | $ (68) | $ 1,071 | $ 17 | $ (33) | $ 2,059 |
| Unallocated income/(expenses), net | | | | | | (73) |
| **Profit/(loss) from operations** | | | | | | $ 1,986 |
| | | | | | | |
| Interest income/(expense), net | | | | | | $ (423) |
| Share of profits/(losses) of joint ventures and associates | | | | | | 11 |
| Gain/(loss) on financial assets and liabilities | | | | | | (57) |
| Gain/(loss) on disposal groups classified as held for sale | | | | | | (360) |
| Other non-operating (gains)/losses, net | | | | | | (2) |
| **Profit/(loss) before tax** | | | | | | $ 1,155 |

## 3. Segment Information (continued)

### Year ended 31 December 2016

| *US$ million* | Steel | Steel, North America | Coal | Other operations | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Revenue** | $ 5,722 | $ 1,464 | $ 1,160 | $ 296 | $ (1,103) | $ 7,539 |
| Reclassifications and other adjustments | (225) | – | 162 | 67 | 170 | 174 |
| **Revenue per IFRS financial statements** | $ 5,497 | $ 1,464 | $ 1,322 | $ 363 | $ (933) | $ 7,713 |
| **EBITDA** | $ 986 | $ 22 | $ 613 | $ 15 | $ (44) | $ 1,592 |
| Unrealised profits adjustment | (11) | – | (3) | – | 2 | (12) |
| Reclassifications and other adjustments | 29 | 6 | 34 | 2 | – | 71 |
| | 18 | 6 | 31 | 2 | 2 | 59 |
| **EBITDA based on IFRS financial statements** | $ 1,004 | $ 28 | $ 644 | $ 17 | $ (42) | $ 1,651 |
| Unallocated subsidiaries | | | | | | (109) |
| | | | | | | $ 1,542 |
| Social and social infrastructure maintenance expenses | (21) | – | (2) | – | – | (23) |
| Depreciation, depletion and amortisation expense | (219) | (155) | (141) | (3) | – | (518) |
| Impairment of assets | (11) | (430) | (24) | – | – | (465) |
| Loss on disposal of property, plant and equipment and intangible assets | (8) | (5) | (9) | – | – | (22) |
| Foreign exchange gains/(losses), net | (43) | 14 | 107 | – | – | 78 |
| | $ 702 | $ (548) | $ 575 | $ 14 | $ (42) | $ 592 |
| Unallocated income/(expenses), net | | | | | | (129) |
| **Profit/(loss) from operations** | | | | | | $ 463 |
| Interest income/(expense), net | | | | | | $ (471) |
| Share of profits/(losses) of joint ventures and associates | | | | | | (23) |
| Gain/(loss) on financial assets and liabilities | | | | | | (9) |
| Other non-operating (gains)/losses, net | | | | | | (52) |
| **Profit/(loss) before tax** | | | | | | $ (92) |

## 3. Segment Information (continued)

**Year ended 31 December 2015**

| *US$ million* | **Steel** | **Steel, North America** | **Coal** | **Other operations** | **Eliminations** | **Total** |
|---|---|---|---|---|---|---|
| **Revenue** | $ 6,260 | $ 2,263 | $ 952 | $ 393 | $ (1,128) | $ 8,740 |
| Reclassifications and other adjustments | (273) | 7 | 116 | 40 | 137 | 27 |
| **Revenue per IFRS financial statements** | $ 5,987 | $ 2,270 | $ 1,068 | $ 433 | $ (991) | $ 8,767 |
| **EBITDA** | $ 1,033 | $ 51 | $ 348 | $ 16 | $ 110 | $ 1,558 |
| Unrealised profits adjustment | 62 | 2 | – | – | (43) | 21 |
| Reclassifications and other adjustments | (14) | 2 | 3 | (2) | – | (11) |
| | 48 | 4 | 3 | (2) | (43) | 10 |
| **EBITDA based on IFRS financial statements** | $ 1,081 | $ 55 | $ 351 | $ 14 | $ 67 | $ 1,568 |
| Unallocated subsidiaries | | | | | | (130) |
| | | | | | | $ 1,438 |
| Social and social infrastructure maintenance expenses | (24) | – | (1) | – | – | (25) |
| Depreciation, depletion and amortisation expense | (260) | (153) | (165) | (3) | – | (581) |
| Impairment of assets | (81) | (258) | (102) | – | – | (441) |
| Loss on disposal of property, plant and equipment and intangible assets | (8) | (10) | (23) | – | – | (41) |
| Foreign exchange gains/(losses), net | (270) | (89) | (153) | 4 | – | (508) |
| | $ 438 | $ (455) | $ (93) | $ 15 | $ 67 | $ (158) |
| Unallocated income/(expenses), net | | | | | | 134 |
| **Profit/(loss) from operations** | | | | | | $ (24) |
| Interest income/(expense), net | | | | | | $ (466) |
| Share of profits/(losses) of joint ventures and associates | | | | | | (20) |
| Gain/(loss) on financial assets and liabilities | | | | | | (48) |
| Gain/(loss) on disposal groups classified as held for sale | | | | | | 21 |
| Loss of control over a subsidiary | | | | | | (167) |
| Other non-operating (gains)/losses, net | | | | | | (3) |
| **Profit/(loss) before tax** | | | | | | $ (707) |

## 3. Segment Information (continued)

The revenues from external customers for each group of similar products and services are presented in the following table:

| *US$ million* | **2017** | 2016 | 2015 |
|---|---|---|---|
| **Steel** | | | |
| Construction products | **$ 2,171** | $ 1,783 | $ 1,999 |
| Flat-rolled products | **313** | 162 | 179 |
| Railway products | **863** | 584 | 550 |
| Semi-finished products | **2,523** | 1,694 | 1,867 |
| Other steel products | **349** | 246 | 257 |
| Other products | **440** | 331 | 366 |
| Iron ore | **191** | 155 | 167 |
| Vanadium in slag | **77** | 33 | 19 |
| Vanadium in alloys and chemicals | **466** | 268 | 285 |
| Rendering of services | **30** | 31 | 30 |
| | **7,423** | 5,287 | 5,719 |
| **Steel, North America** | | | |
| Construction products | **159** | 158 | 216 |
| Flat-rolled products | **427** | 372 | 438 |
| Railway products | **309** | 232 | 435 |
| Tubular products | **875** | 588 | 1,016 |
| Other products | **67** | 103 | 153 |
| Rendering of services | **26** | 10 | 12 |
| | **1,863** | 1,463 | 2,270 |
| **Coal** | | | |
| Coal | **1,266** | 756 | 601 |
| Other products | **24** | 12 | 4 |
| Rendering of services | **93** | 70 | 44 |
| | **1,383** | 838 | 649 |
| **Other operations** | | | |
| Rendering of services | **158** | 125 | 129 |
| | **158** | 125 | 129 |
| | **$ 10,827** | $ 7,713 | $ 8,767 |

## 3. Segment Information (continued)

Distribution of the Group's revenues by geographical area based on the location of customers for the years ended 31 December was as follows:

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| **CIS** | | | |
| Russia | **$ 4,255** | $ 3,080 | $ 3,104 |
| Ukraine | **368** | 296 | 242 |
| Kazakhstan | **254** | 184 | 237 |
| Belarus | **62** | 45 | 60 |
| Uzbekistan | **37** | 41 | 35 |
| Kyrgyzstan | **36** | 12 | 8 |
| Others | **55** | 52 | 82 |
| | **5,067** | 3,710 | 3,768 |
| **America** | | | |
| USA | **1,465** | 826 | 1,566 |
| Canada | **546** | 682 | 779 |
| Mexico | **156** | 192 | 203 |
| Others | **34** | 22 | 18 |
| | **2,201** | 1,722 | 2,566 |
| **Asia** | | | |
| Taiwan | **468** | 376 | 323 |
| Philippines | **345** | 65 | 85 |
| Indonesia | **330** | 195 | 197 |
| Republic of Korea | **321** | 123 | 123 |
| Thailand | **189** | 138 | 121 |
| Japan | **149** | 117 | 97 |
| China | **145** | 67 | 131 |
| Vietnam | **44** | 47 | 28 |
| Singapore | **41** | 66 | 13 |
| Mongolia | **28** | 10 | 11 |
| United Arab Emirates | **25** | 18 | 40 |
| Jordan | **2** | 30 | 81 |
| Others | **75** | 120 | 104 |
| | **2,162** | 1,372 | 1,354 |
| **Europe** | | | |
| Turkey | **328** | 213 | 392 |
| Czech Republic | **191** | 100 | 28 |
| Italy | **174** | 85 | 114 |
| Germany | **76** | 38 | 45 |
| Poland | **51** | 34 | 27 |
| Austria | **95** | 26 | 50 |
| Slovakia | **35** | 19 | 38 |
| Other members of the European Union | **153** | 88 | 97 |
| Others | **25** | 37 | 24 |
| | **1,128** | 640 | 815 |
| **Africa** | | | |
| Egypt | **100** | 138 | 43 |
| Kenya | **106** | 78 | 44 |
| Algeria | **36** | 16 | 8 |
| Republic of South Africa | **2** | 4 | 100 |
| Others | **20** | 29 | 63 |
| | **264** | 265 | 258 |
| **Other countries** | **5** | 4 | 6 |
| | **$ 10,827** | $ 7,713 | $ 8,767 |

None of the Group's customers amounts to 10% or more of the consolidated revenues.

## 3. Segment Information (continued)

Non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets were located in the following countries at 31 December:

| *US$ million* | **2017** | 2016 | 2015 |
|---|---|---|---|
| Russia | **$ 3,879** | $ 3,553 | $ 3,105 |
| Canada | **1,332** | 1,233 | 1,162 |
| USA | **818** | 877 | 1,347 |
| Ukraine | **61** | 144 | 195 |
| Kazakhstan | **51** | 53 | 60 |
| Czech Republic | **37** | 31 | 32 |
| Italy | **45** | 22 | 5 |
| Republic of South Africa | **–** | 17 | 15 |
| Other countries | **4** | 8 | 11 |
| | **$ 6,227** | $ 5,938 | $ 5,932 |

## 4. Changes in Composition of the Group

### Business Combinations

In June 2017, the Group purchased the business of Western Canada Machining Inc. (Alberta, Canada), which produces couplings for use in the oil and gas industry. The consideration amounted to $5 million in cash. At the date of business combination the fair value of net assets of the acquired company was $5 million.

### Purchase of Non-controlling Interests

*Mezhegeyugol*

On 14 March 2017, the Group signed an option agreement with a non-controlling shareholder in respect of shares of Mezhegeyugol, a coal mining subsidiary of the Group. Under the agreement, the non-controlling shareholder has the right to sell to the Group (the put option) all its shares in Mezhegeyugol (39.9841%) for $39 million and to settle the loan payable to the Group for $25 million. As a result, the Group would hold 100% ownership interest in the subsidiary. The option can be exercised from 1 December 2019 to 1 December 2020.

The Group determined that the terms of the option agreement give the Group the rights to the beneficial interests in Mezgegeyugol and derecognised the non-controlling interests and recognised a liability under the put option. The difference between the discounted value of the liability under the put option ($60 million) and the carrying value of non-controlling interest in the amount of $56 million was charged to the accumulated profits of the Group. In 2017, the Group accrued $1 million interest on this liability.

### Deconsolidation of Subsidiaries

*Highveld Steel and Vanadium Limited*

On 13 April 2015, as a result of severe economic difficulties due to the current and persistent unfavourable economic environment in South Africa, the Board of Highveld Steel and Vanadium Limited ("Highveld") decided to place the entity under the business rescue procedures to avoid its liquidation and to avoid giving Highveld's creditors the opportunity to apply for its liquidation in court.

The rescue procedures will result either in (1) Highveld being re-financed or financially restructured or, if that is not possible, (2) Highveld's orderly winding down under the supervision of a business rescue practitioner to maximise the return to creditors and other affected parties. Following the placement of Highveld under the business rescue procedures, control and management of Highveld was transferred to a "business rescue practitioner". Until Highveld is successfully re-financed/restructured, Highveld's Board and the Group are no longer able to control Highveld or exercise significant influence over it. The business rescue practitioner can consult with the Highveld's Board or its directors, but he would not be bound by any requests or advice from Highveld's Board or the directors.

## 4. Changes in Composition of the Group (continued)

### Deconsolidation of Subsidiaries (continued)

*Highveld Steel and Vanadium Limited (continued)*

The Group's management believe that due to the current market conditions the option to invest additional cash in Highveld to pay to the creditors and to stop business rescue procedures would create no economic value for the Group. Therefore, in the opinion of management, the potential voting rights that the Group has in Highveld have no economic substance.

Based on the management's current assessment, the business rescue procedures most likely will result in Highveld being sold to one or more third parties at a significant discount or being mandatorily liquidated. As a consequence, management believes that on 14 April 2015 (the date of the placement of Highveld under the business rescue procedures) the Group lost control over Highveld and it is not expected that it will re-obtain control in the future.

As a result, the Group ceased to consolidate Highveld starting 14 April 2015 and recognised a loss on disposal of a subsidiary in the amount of $167 million, including $142 million of translation loss recycled to the statement of operations. In addition, non-controlling interests of $4 million were derecognised. Management analysed the classification of Highveld to determine whether its disposal constitutes a discontinued operation under IFRS 5 and concluded that this is not the case.

The table below demonstrates the carrying values of assets and liabilities of Highveld, which were included in the steel segment of the Group's operations, at the date of derecognition.

| *US$ million* | **13 April 2015** |
|---|---|
| Property, plant and equipment | **$ 77** |
| Other non-current assets | **23** |
| Inventories | **74** |
| Accounts receivable | **59** |
| Cash and cash equivalents | **1** |
| **Total assets** | **234** |
| Non-current liabilities | **61** |
| Current liabilities | **144** |
| **Total liabilities** | **205** |
| **Non-controlling interests** | **4** |
| **Net assets** | **$ 25** |

### Sale of Subsidiaries

Sales of subsidiaries are disclosed in Note 12.

## 5. Goodwill

Goodwill relates to the assembled workforce and synergy from integration of the acquired subsidiaries into the Group. The table below presents movements in the carrying amount of goodwill.

| *US$ million* | Gross amount | Impairment losses | Carrying amount |
|---|---|---|---|
| **At 31 December 2014** | **$ 2,628** | **$ (1,087)** | **$ 1,541** |
| Impairment | – | (251) | (251) |
| *OSM Tubular – Camrose Mills* | – | (157) | (157) |
| *Oregon Steel Portland Mill* | – | (53) | (53) |
| *Red Deer* | – | (41) | (41) |
| Deconsolidation of subsidiaries (Note 4) | (17) | 17 | – |
| Adjustment to contingent consideration | (3) | – | (3) |
| Translation difference | (216) | 105 | (111) |
| **At 31 December 2015** | **$ 2,392** | **$ (1,216)** | **$ 1,176** |
| Impairment | – | (316) | (316) |
| *Flat rolled products* | – | (188) | (188) |
| *Seamless pipes* | – | (111) | (111) |
| *Oil Country Tubular Goods* | – | (17) | (17) |
| Transfer to disposal groups classified as held for sale | (28) | 28 | – |
| Translation difference | 3 | 17 | 20 |
| **At 31 December 2016** | **$ 2,367** | **$ (1,487)** | **$ 880** |
| Sale of subsidiaries (Note 12) | (22) | 16 | (6) |
| Translation difference | 58 | (15) | 43 |
| **At 31 December 2017** | **$ 2,403** | **$ (1,486)** | **$ 917** |

As explained in Note 6, the composition of cash generating units of Steel North America was reassessed in 2016 and the disclosures below reflect this reassessment. The carrying amount of goodwill was allocated among cash-generating units as follows at 31 December:

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| EVRAZ Inc. NA/EVRAZ Inc. NA Canada | **$ 843** | $ 808 | $ 1,109 |
| *Oregon Steel Portland Mill* | **–** | – | 188 |
| *Rocky Mountain Steel Mills* | **–** | – | 410 |
| *OSM Tubular – Camrose Mills* | **–** | – | – |
| *General Scrap* | **–** | – | 16 |
| *Others* | **–** | – | 1 |
| *Calgary* | **–** | – | 92 |
| *Red Deer* | **–** | – | – |
| *Regina Steel* | **–** | – | 288 |
| *Regina Tubular* | **–** | – | 98 |
| *Others* | **–** | – | 16 |
| *Large diameter pipes* | **381** | 355 | – |
| *Oil Country Tubular Goods* | **146** | 137 | – |
| *Long products* | **316** | 316 | – |
| EVRAZ Vanady-Tula | **35** | 33 | 28 |
| EVRAZ Vametco Holdings | **–** | 6 | 6 |
| EVRAZ Nikom, a.s. | **35** | 29 | 30 |
| Others | **4** | 4 | 3 |
| | **$ 917** | $ 880 | $ 1,176 |

## 6. Impairment of Assets

A summary of impairment losses recognition and reversals is presented below.

**Year ended 31 December 2017**

| *US$ million* | Goodwill and intangible assets | Property, plant and equipment | Taxes receivable | Total |
|---|---|---|---|---|
| EVRAZ Inc. NA | **$ (13)** | **$ 6** | **$ –** | **$ (7)** |
| EVRAZ Inc. NA Canada | **–** | **(12)** | **–** | **(12)** |
| Raspadskaya | **–** | **9** | **–** | **9** |
| EVRAZ Palini e Bertoli | **–** | **20** | **–** | **20** |
| Yuzhkuzbassugol | **–** | **(9)** | **–** | **(9)** |
| Evrazruda | **–** | **8** | **–** | **8** |
| Others, net | **–** | **(2)** | **5** | **3** |
| | **$ (13)** | **$ 20** | **$ 5** | **$ 12** |
| Recognised in profit or loss | **(13)** | **20** | **5** | **12** |

**Year ended 31 December 2016**

| *US$ million* | Goodwill and intangible assets | Property, plant and equipment | Taxes receivable | Total |
|---|---|---|---|---|
| EVRAZ Inc. NA | $ (299) | $ (88) | $ – | $ (387) |
| EVRAZ Inc. NA Canada | (17) | (26) | – | (43) |
| Raspadskaya | – | (17) | – | (17) |
| EVRAZ Stratcor Inc. | – | (16) | – | (16) |
| EVRAZ Palini e Bertoli | – | 19 | – | 19 |
| Yuzhny Stan | – | (5) | – | (5) |
| Evrazruda | – | (10) | – | (10) |
| Others, net | – | (8) | 2 | (6) |
| | $ (316) | $ (151) | $ 2 | $ (465) |
| Recognised in profit or loss | (316) | (151) | 2 | (465) |

**Year ended 31 December 2015**

| *US$ million* | Goodwill and intangible assets | Property, plant and equipment | Taxes receivable | Total |
|---|---|---|---|---|
| EVRAZ Inc. NA | $ (210) | $ – | $ – | $ (210) |
| EVRAZ Inc. NA Canada | (41) | (7) | – | (48) |
| Raspadskaya | – | (91) | – | (91) |
| EVRAZ Palini e Bertoli | – | (37) | – | (37) |
| Yuzhny Stan | – | (30) | – | (30) |
| Evrazruda | – | (19) | – | (19) |
| Others, net | – | (6) | (1) | (7) |
| | $ (251) | $ (190) | $ (1) | $ (442) |
| Recognised in profit or loss | (251) | (189) | (1) | (441) |
| Recognised in other comprehensive income/(loss) | – | (1) | – | (1) |

## 6. Impairment of Assets (continued)

The Group recognised the impairment losses as a result of the impairment testing at the level of cash-generating units. In addition, the Group made a write-off of certain functionally obsolete items of property, plant and equipment and recorded an impairment relating to VAT with a long-term recovery.

For the purpose of the impairment testing the Group assessed the recoverable amount of each cash-generating unit to which goodwill was allocated or where indicators of impairment were identified. Given the market volatility, in 2015 the impairment test was performed as of 31 December. In 2016 and 2017, the impairment tests were performed as of 30 September, the conclusions were reassessed at 31 December and no further impairment triggers were identified.

In the first half of 2016, based on the analysis of market changes and cash inflow dependence between the assets and new business organisational structure, management reassessed the composition of cash generating units of Steel North America for the purposes of impairment testing. The assets of EVRAZ Inc. NA and EVRAZ Inc. NA Canada, which were previously allocated to cash-generating units based on individual plant level, were merged into 5 new units based on principal markets served by each cash-generating unit:

- Large diameter pipes;
- Oil Country Tubular Goods (casing and tubing);
- Seamless pipes;
- Flat rolled products (plates and coils);
- Long products (rails, rod and bar products).

The recoverable amounts have been determined based on calculation of either value-in-use or fair value less costs to sell. Both valuation techniques used cash flow projections based on the actual operating results and business plans approved by management and appropriate discount rates reflecting the time value of money and risks associated with respective cash-generating units. For the periods not covered by management business plans, cash flow projections have been estimated by extrapolating the results of the respective business plans using a zero real growth rate. In the determination of fair value less costs to sell the asset's value additionally includes the cashflows of future projects not started yet and the associated capital expenditure costs.

The major drivers that led to impairment reversal in 2017 were improvements in net working capital and changes in expectations of iron ore and steel prices and production volumes.

The key assumptions used by management in the value-in-use calculations with respect to the cash-generating units to which the goodwill was allocated are presented in the table below.

| | Commodity | Period of forecast, years | | Pre-tax discount rate, % | | Average price of commodity per tonne in the next reporting year | | Recoverable amount of CGU, US$ million | | Carrying amount of CGU before impairment, US$ million | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Steel North America | | | | | | | | | | | |
| *Large diameter pipes* | steel products | 5 | 5 | 11.23 | 10.69 | $913 | $978 | 1,074 | 1,288 | 938 | 877 |
| *Oil Country Tubular Goods* | steel products | 5 | 5 | 10.85 | 10.36 | $1,121 | $887 | 547 | 362 | 383 | 379 |
| *Long products* | steel products | 5 | 5 | 11.02 | 10.08 | $647 | $572 | 591 | 686 | 520 | 549 |
| EVRAZ Vanady-Tula | vanadium products | 5 | 5 | 13.03 | 12.98 | $23,403 | $10,990 | 986 | 393 | 61 | 58 |
| EVRAZ Nikom, a.s. | ferrovanadium products | 5 | 5 | 11.00 | 10.74 | $26,576 | $12,568 | 47 | 43 | 34 | 33 |

## 6. Impairment of Assets (continued)

In addition, the Group determined that there were indicators of impairment in other cash generating units and tested them for impairment using the following assumptions.

| | Period of forecast, years | Pre-tax discount rate, % | Commodity | Average price of commodity per tonne in the next reporting year |
|---|---|---|---|---|
| EVRAZ Caspian Steel | 5 | 12.55 | steel products | $373 |
| EVRAZ Palini e Bertoli | 8 | 14.68 | steel products | €467 |
| EVRAZ Stratcor Inc. | 5 | 12.92 | ferrovanadium products | $35,823 |
| Raspadskaya | 18 | 13.09 | coal | $57 |
| Mezhegeyugol | 25 | 12.31 | coal | $67 |
| Yuzhkuzbassugol | 14 | 13.88 | coal | $78 |
| EVRAZ Kachkanarsky Mining-and-Processing Integrated Works | 23 | 13.61 | iron ore products | $47 |
| Evrazruda - Sheregesh mine | 22 | 14.36 | iron ore | $55 |
| Evrazruda - Tashtagol mine | 22 | 13.68 | iron ore | $54 |

The value in use of the cash-generating units for which an impairment loss was recognised or reversed in the reporting year was as follows:

| *US$ million* | 30 September 2017 | 30 September 2016 |
|---|---|---|
| Large diameter pipes | 1,074 | 1,288 |
| EVRAZ Palini e Bertoli | 44 | 24 |
| Evrazruda - Tashtagol mine | 84 | – |

## 6. Impairment of Assets (continued)

The estimations of value in use are most sensitive to the following assumptions:

*Discount Rates*

Discount rates reflect the current market assessment of the risks specific to each cash-generating unit. The discount rates have been determined using the Capital Asset Pricing Model and analysis of industry peers. Reasonably possible changes in discount rates could lead to an additional impairment or reduced amount of an impairment reversal at EVRAZ Caspian Steel, EVRAZ Palini e Bertoli, EVRAZ Stratcor Inc., Large diameter pipes and Long products cash-generating units. If discount rates were 10% higher, this would lead to an additional net impairment loss of $37 million.

*Sales Prices*

The price assumptions for the products sold by the Group were estimated based on industry research using analysts' views published by Alfa-Bank, Balclays, Credit Suisse, Deutsche Bank, Goldman Sachs, Morgan Stanley, RBC, Sberbank, VTB Capital and Wood & Company during the period from September to December 2017. The Group expects that the nominal prices will fluctuate with a compound annual growth rate of (7.4)%-9.4% in 2018 – 2022, 2.5% in 2023 and thereafter. Reasonably possible changes in sales prices could lead to an additional impairment or reduced amount of an impairment reversal at EVRAZ Palini e Bertoli and EVRAZ Stratcor Inc. cash-generating units. If the prices assumed for 2018 and 2019 in the impairment test were 10% lower, this would lead to an additional net impairment loss of $5 million.

*Sales Volumes*

Management assumed that the sales volumes of steel products in 2018 will increase by 2.2% and future dynamics will be driven by a gradual market recovery and changes in assets' capacities. Reasonably possible changes in sales volumes could lead to an additional impairment or reduced amount of an impairment reversal at EVRAZ Caspian Steel and EVRAZ Palini e Bertoli. If the sales volumes were 10% lower than those assumed for 2018 and 2019 in the impairment test, this would lead to an additional net impairment loss of $23 million.

*Cost Control Measures*

The recoverable amounts of cash-generating units are based on the business plans approved by management. A reasonably possible deviation in cost from these plans could lead to an additional impairment or reduced amount of an impairment reversal at EVRAZ Caspian Steel, EVRAZ Nikom, EVRAZ Palini e Bertoli and EVRAZ Stratcor Inc. If the actual costs were 10% higher than those assumed for 2018 and 2019 in the impairment test, this would lead to an additional net impairment loss of $57 million.

*Sensitivity Analysis*

For the cash-generating units, which were not impaired in the reporting period and for which the reasonably possible changes could lead to impairment, the recoverable amounts would become equal to their carrying amounts if the assumptions used to measure the recoverable amounts changed by the following percentages:

| | Discount rates | Sales prices | Sales volumes | Cost control measures |
|---|---|---|---|---|
| EVRAZ Caspian Steel | 5.1% | – | (3.5)% | 4.8% |
| EVRAZ Inc NA – Long products | 8% | – | – | – |
| EVRAZ Nikom | – | – | – | 5.5% |
| EVRAZ Palini e Bertoli | – | – | – | 8.2% |
| EVRAZ Stratcor Inc. | 4.0% | (6.5)% | – | 1.0% |

## 7. Income and Expenses

Cost of revenues, selling and distribution costs, general and administrative expenses include the following for the years ended 31 December:

| *US$ million* | **2017** | 2016 | 2015 |
|---|---|---|---|
| Cost of inventories recognised as expense | **$ (4,181)** | $ (2,761) | $ (3,295) |
| Staff costs, including social security taxes | **(1,364)** | (1,200) | (1,454) |
| Depreciation, depletion and amortisation | **(561)** | (521) | (585) |

In 2017, 2016 and 2015, the Group recognised (expense)/income on allowance or net reversal of the allowance for net realisable value in the amount of $(4) million, $2 million and $(1) million, respectively.

Staff costs include the following:

| *US$ million* | **2017** | 2016 | 2015 |
|---|---|---|---|
| Wages and salaries | **$ 1,000** | $ 864 | $ 1,025 |
| Social security costs | **246** | 212 | 254 |
| Net benefit expense | **42** | 43 | 45 |
| Share-based awards | **17** | 16 | 20 |
| Other compensations | **59** | 65 | 110 |
| | **$ 1,364** | $ 1,200 | $ 1,454 |

The average number of staff employed under contracts of service was as follows:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Steel | **54,737** | 56,974 | 63,126 |
| Steel, North America | **3,395** | 3,193 | 3,847 |
| Coal | **14,629** | 14,808 | 18,042 |
| Other operations | **523** | 896 | 1,312 |
| Unallocated | **2,736** | 2,080 | 2,901 |
| | **76,020** | 77,951 | 89,228 |

The major components of other operating expenses were as follows:

| *US$ million* | **2017** | 2016 | 2015 |
|---|---|---|---|
| Idling, reduction and stoppage of production, including termination benefits | **$ (26)** | $ (81) | $ (54) |
| Restoration works and casualty compensations in connection with accidents | **(2)** | (1) | (2) |
| Other | **(33)** | (19) | (22) |
| | **$ (61)** | $ (101) | $ (78) |

## 7. Income and Expenses (continued)

Interest expense consisted of the following for the years ended 31 December:

| *US$ million* | **2017** | 2016 | 2015 |
|---|---|---|---|
| Bank interest | **$ (115)** | $ (133) | $ (88) |
| Interest on bonds and notes | **(279)** | (306) | (342) |
| Finance charges payable under finance leases | **(1)** | – | – |
| Net interest expense on employee benefits obligations (Note 23) | **(19)** | (22) | (24) |
| Discount adjustment on provisions (Note 24) | **(16)** | (14) | (13) |
| Other | **(7)** | (6) | (8) |
| | **$ (437)** | $ (481) | $ (475) |

Interest income consisted of the following for the years ended 31 December:

| *US$ million* | **2017** | 2016 | 2015 |
|---|---|---|---|
| Interest on bank accounts and deposits | **$ 8** | $ 6 | $ 4 |
| Interest on loans and accounts receivable | **6** | 2 | 3 |
| Other | **–** | 2 | 2 |
| | **$ 14** | $ 10 | $ 9 |

Gain/(loss) on financial assets and liabilities included the following for the years ended 31 December:

| *US$ million* | **2017** | 2016 | 2015 |
|---|---|---|---|
| Impairment of available-for-sale financial assets (Note 13) | **$ –** | $ (2) | $ (11) |
| Loss on extinguishment of debts (Note 22) | **(78)** | (50) | (15) |
| Gain/(loss) on derivatives not designated as hedging instruments (Note 25) | **4** | 23 | (25) |
| Gain/(loss) on hedging instruments (Note 25) | **14** | 14 | 5 |
| Other | **3** | 6 | (2) |
| | **$ (57)** | $ (9) | $ (48) |

In 2016, other non-operating losses included $39 million relating to the settlement of the Group's guarantee under a long-term take-or-pay supply contract of the Group's former subsidiary.

## 8. Income Taxes

The Group's income was subject to tax at the following tax rates:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Russia | **20.00%** | 20.00% | 20.00% |
| Canada | **26.25%** | 26.06% | 25.89% |
| Cyprus | **12.50%** | 12.50% | 12.50% |
| Czech Republic | **19.00%** | 19.00% | 19.00% |
| Italy | **27.90%** | 31.40% | 31.40% |
| South Africa | **28.00%** | 28.00% | 28.00% |
| Switzerland | **9.43%** | 9.09% | 9.72% |
| Ukraine | **18.00%** | 18.00% | 18.00% |
| USA | **37.83%** | 37.72% | 37.41% |

On 22 December 2017, new tax legislation has been adopted in the USA, which introduced a reduction in federal income tax rate from 35% to 21% starting from 1 January 2018. In addition, the new legislation will further limit the deductibility of interest expense on intra-group loans for income tax purposes. At 31 December 2017, $73 million of the Group's deferred tax assets related to such unutilised interest expenses. Uncertainty exists as to whether these unutilised interest expenses will be deductible against future taxable earnings under the new tax law and, therefore, whether the deferred tax asset will be recoverable. The Group's subsidiaries measured the respective deferred tax assets and liabilities at 31 December 2017 using the enacted tax rates and based on the assumption that the deferred tax asset carried forward will be recoverable.

Major components of income tax expense for the years ended 31 December were as follows:

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Current income tax expense | **$ (484)** | $ (185) | $ (100) |
| Adjustment in respect of income tax of previous years | **(1)** | 2 | 1 |
| Deferred income tax benefit/(expense) relating to origination and reversal of temporary differences | **89** | 87 | 87 |
| Income tax (expense)/benefit reported in the consolidated statement of operations | **$ (396)** | $ (96) | $ (12) |

The major part of income taxes is paid in the Russian Federation. A reconciliation of income tax expense applicable to profit before income tax using the Russian statutory tax rate to income tax expense as reported in the Group's consolidated financial statements for the years ended 31 December is as follows:

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Profit/(loss) before income tax | **$ 1,155** | $ (92) | $ (707) |
| At the Russian statutory income tax rate of 20% | **(231)** | 18 | 141 |
| Adjustment in respect of income tax of previous years | **(1)** | 2 | 1 |
| Deferred income tax expense resulting from the changes in tax rates and laws | **(6)** | – | – |
| Tax on dividends distributed by the Group's subsidiaries | **(26)** | – | – |
| Deferred income tax expense arising on the adjustment to current income tax of prior periods and the change in tax base of underlying assets | **–** | (2) | 2 |
| Effect of non-deductible expenses and other non-temporary differences | **(254)** | (63) | (64) |
| Unrecognised temporary differences recognition/reversal | **100** | (157) | (176) |
| Effect of the difference in tax rates in countries other than the Russian Federation | **20** | 110 | 88 |
| Share of profits in joint ventures and associates | **2** | (4) | (4) |
| Income tax (expense)/benefit reported in the consolidated statement of operations | **$ (396)** | $ (96) | $ (12) |

## 8. Income Taxes (continued)

Deferred income tax assets and liabilities and their movements for the years ended 31 December were as follows:

**Year ended 31 December 2017**

| *US$ million* | 2017 | Change recognised in statement of operations | Change recognised in other comprehensive income | Change due to disposal of subsidiaries | Transfer to disposal groups classified as held for sale | Translation difference | 2016 |
|---|---|---|---|---|---|---|---|
| Deferred income tax liabilities: | | | | | | | |
| Valuation and depreciation of property, plant and equipment | **$ 546** | **(36)** | **–** | **(10)** | **–** | **25** | **$ 567** |
| Valuation and amortisation of intangible assets | **62** | **(21)** | **–** | **(1)** | **–** | **3** | **81** |
| Other | **80** | **19** | **–** | **(1)** | **–** | **4** | **58** |
| | **688** | **(38)** | **–** | **(12)** | **–** | **32** | **706** |
| Deferred income tax assets: | | | | | | | |
| Tax losses available for offset | **267** | **55** | **–** | **(25)** | **–** | **11** | **226** |
| Accrued liabilities | **126** | **8** | **(15)** | **(8)** | **–** | **3** | **138** |
| Impairment of accounts receivable | **12** | **1** | **–** | **–** | **–** | **1** | **10** |
| Other | **128** | **(13)** | **–** | **–** | **–** | **1** | **140** |
| | **533** | **51** | **(15)** | **(33)** | **–** | **16** | **514** |
| Net deferred income tax asset | **173** | **47** | **(10)** | **(24)** | **–** | **4** | **156** |
| Net deferred income tax liability | **$ 328** | **(42)** | **5** | **(3)** | **–** | **20** | **$ 348** |

**Year ended 31 December 2016**

| *US$ million* | 2016 | Change recognised in statement of operations | Change recognised in other comprehensive income | Change due to disposal of subsidiaries | Transfer to disposal groups classified as held for sale | Translation difference | 2015 |
|---|---|---|---|---|---|---|---|
| Deferred income tax liabilities: | | | | | | | |
| Valuation and depreciation of property, plant and equipment | $ 567 | (62) | – | – | – | 66 | $ 563 |
| Valuation and amortisation of intangible assets | 81 | (11) | – | – | – | 3 | 89 |
| Other | 58 | 5 | – | – | – | 5 | 48 |
| | 706 | (68) | – | – | – | 74 | 700 |
| Deferred income tax assets: | | | | | | | |
| Tax losses available for offset | 226 | (5) | – | – | – | 23 | 208 |
| Accrued liabilities | 138 | 4 | | | (1) | 8 | 127 |
| Impairment of accounts receivable | 10 | (1) | – | – | – | 2 | 9 |
| Other | 140 | 21 | – | – | (2) | (2) | 123 |
| | 514 | 19 | – | – | (3) | 31 | 467 |
| Net deferred income tax asset | 156 | 28 | – | – | (3) | 12 | 119 |
| Net deferred income tax liability | $ 348 | (59) | – | – | – | 55 | $ 352 |

**Year ended 31 December 2015**

| *US$ million* | 2015 | Change recognised in statement of operations | Change recognised in other comprehensive income | Change due to disposal of subsidiaries | Transfer to disposal groups classified as held for sale | Translation difference | 2014 |
|---|---|---|---|---|---|---|---|
| Deferred income tax liabilities: | | | | | | | |
| Valuation and depreciation of property, plant and equipment | $ 563 | (55) | – | (8) | – | (115) | $ 741 |
| Valuation and amortisation of intangible assets | 89 | (4) | – | (5) | – | (14) | 112 |
| Other | 48 | 3 | – | – | – | (14) | 59 |
| | 700 | (56) | – | (13) | – | (143) | 912 |
| Deferred income tax assets: | | | | | | | |
| Tax losses available for offset | 208 | 19 | – | (1) | – | (57) | 247 |
| Accrued liabilities | 127 | (12) | (5) | (17) | – | (16) | 177 |
| Impairment of accounts receivable | 9 | 2 | – | (3) | – | (3) | 13 |
| Other | 123 | 22 | – | 6 | – | (6) | 101 |
| | 467 | 31 | (5) | (15) | – | (82) | 538 |
| Net deferred income tax asset | 119 | 53 | (1) | (2) | – | (28) | 97 |
| Net deferred income tax liability | $ 352 | (34) | 4 | – | – | (89) | $ 471 |

## 8. Income Taxes (continued)

As of 31 December 2017, 2016 and 2015, deferred income taxes in respect of undistributed earnings of the Group's subsidiaries have not been provided for, as management does not intend to distribute accumulated earnings in the foreseeable future. The current tax rate on intra-group dividend income varies from 0% to 15%. The temporary differences associated with investments in subsidiaries were not recognised as the Group is able to control the timing of the reversal of these temporary differences and does not intend to reverse them in the foreseeable future.

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies in the same jurisdiction, except for the companies registered in Cyprus, Russia and the United Kingdom where group relief and tax consolidation can be applied. As of 31 December 2017, the unused tax losses carried forward approximated $9,893 million (2016: $9,729 million, 2015: $7,658 million). The Group recognised deferred tax assets of $267 million (2016: $226 million, 2015: $208 million) in respect of unused tax losses. Deferred tax assets in the amount of $2,339 million (2016: $2,329 million, 2015: $1,895 million) have not been recorded as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses. Tax losses of $8,711 million (2016: $8,593 million, 2015: $6,642 million) for which deferred tax assets were not recognised arose in companies registered in Canada, Cyprus, Italy, Luxembourg, Russia, Ukraine, the United Kingdom and the USA. Losses in the amount of $8,664 million (2016: $8,549 million, 2015: $6,410 million) are available indefinitely for offset against future taxable profits of the companies in which the losses arose and $47 million will expire in 2018 (2016: $44 million, 2015: $232 million).

## 9. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of 31 December:

| *US$ million* | **2017** | 2016 | 2015 |
|---|---|---|---|
| Cost: | | | |
| Land | **$ 107** | $ 100 | $ 97 |
| Buildings and constructions | **1,894** | 1,755 | 1,512 |
| Machinery and equipment | **4,812** | 4,446 | 3,961 |
| Transport and motor vehicles | **255** | 223 | 193 |
| Mining assets | **2,461** | 2,440 | 2,100 |
| Other assets | **37** | 38 | 37 |
| Assets under construction | **549** | 424 | 302 |
| | **10,115** | 9,426 | 8,202 |
| Accumulated depreciation, depletion and impairment losses: | | | |
| Buildings and constructions | **(968)** | (872) | (690) |
| Machinery and equipment | **(2,906)** | (2,637) | (2,163) |
| Transport and motor vehicles | **(168)** | (144) | (114) |
| Mining assets | **(1,112)** | (1,093) | (908) |
| Other assets | **(28)** | (28) | (25) |
| | **(5,182)** | (4,774) | (3,900) |
| | **$ 4,933** | $ 4,652 | $ 4,302 |

## 9. Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the year ended 31 December 2017 was as follows:

| *US$ million* | **Land** | **Buildings and constructions** | **Machinery and equipment** | **Transport and motor vehicles** | **Mining assets** | **Other assets** | **Assets under construction** | **Total** |
|---|---|---|---|---|---|---|---|---|
| At 31 December 2016, cost, net of accumulated depreciation | **$ 100** | **$ 883** | **$ 1,809** | **$ 79** | **$ 1,347** | **$ 10** | **$ 424** | **$ 4,652** |
| Assets acquired in business combinations | **3** | **1** | **3** | **–** | **–** | **–** | **–** | **7** |
| Additions | **–** | **–** | **7** | **–** | **–** | **–** | **622** | **629** |
| Assets put into operation | **–** | **74** | **344** | **32** | **50** | **2** | **(502)** | **–** |
| Disposals | **(1)** | **(3)** | **(11)** | **(2)** | **(3)** | **–** | **–** | **(20)** |
| Depreciation and depletion charge | **–** | **(84)** | **(325)** | **(25)** | **(85)** | **(3)** | **–** | **(522)** |
| Impairment losses recognised in statement of operations | **(1)** | **(2)** | **(13)** | **–** | **(21)** | **–** | **(11)** | **(48)** |
| Impairment losses reversed through statement of operations | **3** | **9** | **25** | **–** | **30** | **–** | **1** | **68** |
| Transfer to assets held for sale | **–** | **(6)** | **(11)** | **(1)** | **(76)** | **–** | **(10)** | **(104)** |
| Change in site restoration and decommissioning provision | **–** | **8** | **–** | **–** | **36** | **–** | **–** | **44** |
| Translation difference | **3** | **46** | **78** | **4** | **71** | **–** | **25** | **227** |
| At 31 December 2017, cost, net of accumulated depreciation | **$ 107** | **$ 926** | **$ 1,906** | **$ 87** | **$ 1,349** | **$ 9** | **$ 549** | **$ 4,933** |

The movement in property, plant and equipment for the year ended 31 December 2016 was as follows:

| *US$ million* | **Land** | **Buildings and constructions** | **Machinery and equipment** | **Transport and motor vehicles** | **Mining assets** | **Other assets** | **Assets under construction** | **Total** |
|---|---|---|---|---|---|---|---|---|
| At 31 December 2015, cost, net of accumulated depreciation | $ 97 | $ 822 | $ 1,798 | $ 79 | $ 1,192 | $ 12 | $ 302 | $ 4,302 |
| Additions | – | 1 | 5 | – | – | 2 | 442 | 450 |
| Assets put into operation | – | 64 | 209 | 14 | 43 | 3 | (333) | – |
| Disposals | (1) | (5) | (12) | (2) | (9) | (4) | – | (33) |
| Depreciation and depletion charge | – | (72) | (309) | (21) | (79) | (4) | – | (485) |
| Impairment losses recognised in statement of operations | (4) | (42) | (90) | (2) | (30) | – | (11) | (179) |
| Impairment losses reversed through statement of operations | 2 | 5 | 17 | – | 3 | – | 1 | 28 |
| Transfer to assets held for sale | – | (4) | (10) | – | – | – | (10) | (24) |
| Change in site restoration and decommissioning provision | – | – | (3) | – | 20 | – | – | 17 |
| Translation difference | 6 | 114 | 204 | 11 | 207 | 1 | 33 | 576 |
| At 31 December 2016, cost, net of accumulated depreciation | $ 100 | $ 883 | $ 1,809 | $ 79 | $ 1,347 | $ 10 | $ 424 | $ 4,652 |

## 9. Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the year ended 31 December 2015 was as follows:

| *US$ million* | Land | Buildings and constructions | Machinery and equipment | Transport and motor vehicles | Mining assets | Other assets | Assets under construction | Total |
|---|---|---|---|---|---|---|---|---|
| At 31 December 2014, cost, net of accumulated depreciation | $ 124 | $ 1,118 | $ 2,461 | $ 102 | $ 1,548 | $ 15 | $ 428 | $ 5,796 |
| Additions | – | – | 4 | – | 1 | 1 | 480 | 486 |
| Assets put into operation | – | 40 | 234 | 28 | 176 | 3 | (481) | – |
| Disposals | (2) | (7) | (29) | (4) | (7) | – | (22) | (71) |
| Depreciation and depletion charge | – | (77) | (343) | (24) | (88) | (5) | – | (537) |
| Impairment losses recognised in statement of operations | (4) | (16) | (44) | – | (109) | – | (36) | (209) |
| Impairment losses reversed through statement of operations | – | 2 | 2 | – | 3 | – | 13 | 20 |
| Impairment losses recognised in other comprehensive income | – | (1) | – | – | – | – | – | (1) |
| Loss of control over a subsidiary | (1) | (2) | (65) | (1) | (2) | (1) | (5) | (77) |
| Transfer to assets held for sale | (7) | (13) | (4) | – | – | – | – | (24) |
| Change in site restoration and decommissioning provision | – | 6 | – | – | 45 | – | – | 51 |
| Translation difference | (13) | (228) | (418) | (22) | (375) | (1) | (75) | (1,132) |
| At 31 December 2015, cost, net of accumulated depreciation | $ 97 | $ 822 | $ 1,798 | $ 79 | $ 1,192 | $ 12 | $ 302 | $ 4,302 |

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $60 million, $34 million and $24 million as of 31 December 2017, 2016 and 2015, respectively.

Impairment losses were identified in respect of certain items of property, plant and equipment that were recognised as functionally obsolete or as a result of the testing at the level of cash-generating units (Note 6).

The amount of borrowing costs capitalised during the year ended 31 December 2017 was $6 million (2016: $9 million, 2015: $16 million).

## 10. Intangible Assets Other Than Goodwill

Intangible assets consisted of the following as of 31 December:

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Cost: | | | |
| Customer relationships | **$ 693** | $ 663 | $ 651 |
| Water rights and environmental permits | **57** | 57 | 57 |
| Contract terms | **26** | 25 | 20 |
| Other | **65** | 90 | 83 |
| | **841** | 835 | 811 |
| Accumulated amortisation and impairment: | | | |
| Customer relationships | **(513)** | (460) | (419) |
| Water rights and environmental permits | **(13)** | – | – |
| Contract terms | **(11)** | (8) | (4) |
| Other | **(45)** | (70) | (64) |
| | **(582)** | (538) | (487) |
| | **$ 259** | $ 297 | $ 324 |

## 10. Intangible Assets Other Than Goodwill (continued)

As of 31 December 2017, 2016 and 2015, water rights and environmental permits with a carrying value of $44 million, $57 million and $57 million, respectively, had an indefinite useful life.

The movement in intangible assets for the year ended 31 December 2017 was as follows:

| *US$ million* | Customer relationships | Water rights and environmental permits | Contract terms | Other | Total |
|---|---|---|---|---|---|
| At 31 December 2016, cost, net of accumulated amortisation | **$ 203** | **$ 57** | **$ 17** | **$ 20** | **$ 297** |
| Additions | **–** | **–** | **–** | **5** | **5** |
| Amortisation charge | **(36)** | **–** | **(3)** | **(5)** | **(44)** |
| Impairment losses recognised in statement of operations | **–** | **(13)** | **–** | **–** | **(13)** |
| Translation difference | **13** | **–** | **1** | **–** | **14** |
| At 31 December 2017, cost, net of accumulated amortisation | **$ 180** | **$ 44** | **$ 15** | **$ 20** | **$ 259** |

The movement in intangible assets for the year ended 31 December 2016 was as follows:

| *US$ million* | Customer relationships | Water rights and environmental permits | Contract terms | Other | Total |
|---|---|---|---|---|---|
| At 31 December 2015, cost, net of accumulated amortisation | $ 232 | $ 57 | $ 16 | $ 19 | $ 324 |
| Additions | – | – | – | 3 | 3 |
| Amortisation charge | (35) | – | (2) | (4) | (41) |
| Translation difference | 6 | – | 3 | 2 | 11 |
| At 31 December 2016, cost, net of accumulated amortisation | $ 203 | $ 57 | $ 17 | $ 20 | $ 297 |

The movement in intangible assets for the year ended 31 December 2015 was as follows:

| *US$ million* | Customer relationships | Water rights and environmental permits | Contract terms | Other | Total |
|---|---|---|---|---|---|
| At 31 December 2014, cost, net of accumulated amortisation | $ 339 | $ 57 | $ 23 | $ 22 | $ 441 |
| Additions | – | – | – | 6 | 6 |
| Amortisation charge | (43) | – | (2) | (5) | (50) |
| Loss of control over a subsidiary | (20) | – | – | – | (20) |
| Translation difference | (44) | – | (5) | (4) | (53) |
| At 31 December 2015, cost, net of accumulated amortisation | $ 232 | $ 57 | $ 16 | $ 19 | $ 324 |

## 11. Investments in Joint Ventures and Associates

The Group accounted for investments in joint ventures and associates under the equity method.

The movement in investments in joint ventures and associates was as follows:

| *US$ million* | Timir | Streamcore | Other associates | Total |
|---|---|---|---|---|
| **Investment at 31 December 2014** | **$ 82** | **$ 29** | **$ 10** | **$ 121** |
| Share of profit/(loss) | (1) | 4 | – | 3 |
| Impairment of investments | (23) | – | – | (23) |
| Translation difference | (18) | (7) | (2) | (27) |
| **Investment at 31 December 2015** | **$ 40** | **$ 26** | **$ 8** | **$ 74** |
| Share of profit/(loss) | (2) | 5 | – | 3 |
| Impairment of investments | (26) | – | – | (26) |
| Translation difference | 7 | 6 | – | 13 |
| **Investment at 31 December 2016** | **$ 19** | **$ 37** | **$ 8** | **$ 64** |
| Additional investments | – | – | 1 | 1 |
| Share of profit/(loss) | 1 | 8 | 2 | 11 |
| Dividends paid | – | – | (1) | (1) |
| Translation difference | 1 | 2 | 1 | 4 |
| **Investment at 31 December 2017** | **$ 21** | **$ 47** | **$ 11** | **$ 79** |

Share of profit/(loss) of joint ventures and associates which is reported in the statement of operations comprised the following:

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Share of profit/(loss), net | **$ 11** | $ 3 | $ 3 |
| Impairment of investments | **–** | (26) | (23) |
| Share of profits/(losses) of joint ventures and associates recognised in the consolidated statement of operations | **$ 11** | $ (23) | $ (20) |

### Timir Iron Ore Project

In April 2013, the Group acquired a 51% ownership interest in the joint venture with Alrosa for the development of 4 iron ore deposits in the southern part of the Yakutia region in Russia. Under the joint venture agreement major operating and financial decisions are made by unanimous consent of the Group and Alrosa, and no single venturer is in a position to control the activity unilaterally. Consequently, the Group accounts for its interest in Timir under the equity method.

The Group's consideration for this stake amounted to 4,950 million roubles ($159 million at the exchange rate as of the date of the transaction) payable in instalments to 15 July 2014. The consideration was measured as the present value of the expected cash outflows.

In 2014 and 2015, the parties amended the payment schedule. The latest schedule effective at 31 December 2016 provides for an execution of payments of 500 million roubles in each of January 2017 and 2018 and 480 million roubles in 2019. From the dates of the amendments the Group incurs interest charges on the unpaid liability.

In 2017, 2016 and 2015, the Group paid 500 million roubles ($8 million), 500 million roubles ($7 million) and $Nil, respectively, of purchase consideration. Previously, in 2014 and 2013, 990 million roubles ($28 million) and 1,980 million roubles ($61 million) were paid. In addition, the Group paid interest charges on the liability.

At 31 December 2017, 2016 and 2015, trade and other accounts payable included liabilities relating to this acquisition in the amount of $19 million, $27 million and $28 million, respectively.

## 11. Investments in Joint Ventures and Associates (continued)

### Timir Iron Ore Project (continued)

The table below sets out Timir's assets and liabilities as of 31 December:

| *US$ million* | **2017** | 2016 | 2015 |
|---|---|---|---|
| Mineral reserves and property, plant and equipment | **$ 58** | $ 55 | $ 101 |
| Other non-current assets | **7** | 8 | – |
| **Total assets** | **65** | 63 | 101 |
| Deferred income tax liabilities | **–** | – | 5 |
| Non-current liabilities | **23** | – | – |
| Current liabilities | **–** | 25 | 17 |
| **Total liabilities** | **23** | 25 | 22 |
| **Net assets** | **42** | 38 | 79 |
| **Net assets attributable to 51% ownership interest** | **$ 21** | $ 19 | $ 40 |

In 2017, 2016 and 2015, Timir's income and expenses were represented by other expenses only that comprised $2 million, $4 million and $2 million, respectively.

Due to the postponement of the major project activities, the Group assessed the recoverability of its investment in Timir at 30 September 2017 and 2016 and 31 December 2015. The recoverable amount of the asset was its fair value less costs to sell, which was determined using cash flow projections based on business plans approved by management and an appropriate discount rate reflecting time value of money and risks associated with the asset. The period of the forecast was 23 years. The discount rates were 11.56%, 11.75% and 12.70% in 2017, 2016 and 2015, respectively. As a result, in 2016 and 2015, the Group partially impaired its investment in Timir. The major drivers that led to impairment were the decrease in the expected long-term prices for iron ore, the increase in the amount of the required capital expenditure to maintain production at budgeted capacities and the postponement of the start of production for 2 years.

In the calculation of fair value less costs to sell management assumed that the railway tariffs for the iron ore transportation in the Yakutia region, which are established by the local railway companies, will be reduced to the general level of the tariffs in Russia. These tariffs have not been agreed yet by the parties. If the assumption were not valid, this would lead to an additional impairment of $58 million which would give a $21 million effect on the share of profits/(losses) of joint ventures and associates recognised in the consolidated statement of operations.

At 31 December 2017, 2016 and 2015 Timir owed to the Group $8 million, $7 million and $5 million, respectively, which were included in other non-current financial assets in 2017 and in the receivables from related parties caption in previous years. The amounts represent a loan bearing interest 0.5% per annum.

## 11. Investments in Joint Ventures and Associates (continued)

### Streamcore

The Group owns a 50% interest in Streamcore (Cyprus), a joint venture established for the purpose of exercising joint control over facilities for scrap procurement and processing in Siberia, Russia.

The table below sets out Streamcore's assets and liabilities as of 31 December:

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| Property, plant and equipment | **$ 24** | $ 24 | $ 19 |
| Inventories | **60** | 4 | 3 |
| Accounts receivable | **104** | 91 | 51 |
| **Total assets** | **188** | 119 | 73 |
| Deferred income tax liabilities | **2** | 1 | 1 |
| Current liabilities | **92** | 44 | 20 |
| **Total liabilities** | **94** | 45 | 21 |
| **Net assets** | **$ 94** | $ 74 | $ 52 |
| **Net assets attributable to 50% ownership interest** | **$ 47** | $ 37 | $ 26 |

The table below sets out Streamcore's income and expenses:

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| Revenue | **$ 458** | $ 286 | $ 278 |
| Cost of revenue | **(432)** | (270) | (263) |
| Other expenses, including income taxes | **(9)** | (6) | (7) |
| **Net profit** | **$ 17** | $ 10 | $ 8 |
| **Group's share of profit of the joint venture** | **$ 8** | $ 5 | $ 4 |

## 12. Disposal Groups Held for Sale

The major classes of assets and liabilities of the disposal groups measured at the lower of carrying amount and fair value less costs to sell were as follows as of 31 December:

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| Property, plant and equipment | **$ –** | $ 15 | $ 1 |
| Other non-current assets | **–** | 3 | – |
| Inventories | **–** | 1 | – |
| Accounts receivable | **–** | 6 | – |
| Cash and cash equivalents | **–** | 2 | – |
| **Assets classified as held for sale** | **–** | 27 | 1 |
| Non-current liabilities | **–** | 5 | – |
| Current liabilities | **–** | 3 | – |
| **Liabilities directly associated with assets classified as held for sale** | **–** | 8 | – |
| **Non-controlling interests** | **–** | – | – |
| **Net assets classified as held for sale** | **$ –** | $ 19 | $ 1 |

## 12. Disposal Groups Held for Sale (continued)

The net assets of disposal groups classified as held for sale at 31 December related to the following reportable segments:

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Assets classified as held for sale** | **$ –** | $ 27 | $ 1 |
| Steel production | **–** | 27 | – |
| Coal | **–** | – | 1 |
| **Liabilities directly associated with assets classified as held for sale** | **–** | 8 | – |
| Steel production | **–** | 8 | – |

The table below demonstrates the carrying values of assets and liabilities, at the dates of disposal, of the subsidiaries and other business units disposed of during 2015–2017.

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Property, plant and equipment | **$ 119** | $ 9 | $ 25 |
| Goodwill | **6** | – | – |
| Other non-current assets | **34** | – | – |
| Inventories | **27** | – | 13 |
| Accounts receivable | **38** | – | – |
| Cash and cash equivalents | **12** | – | – |
| **Total assets** | **236** | 9 | 38 |
| Employee benefits | **23** | – | – |
| Other non-current liabilities | **35** | – | 17 |
| Current liabilities | **38** | – | – |
| **Total liabilities** | **96** | – | 17 |
| **Non-controlling interests** | **6** | – | – |
| **Net assets** | **$ 134** | $ 9 | $ 21 |

The net assets of disposal groups sold in 2015–2017 related to the following reportable segments:

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Assets classified as held for sale** | **$ 236** | $ 9 | $ 38 |
| Steel | **196** | 9 | 6 |
| Steel, North America | **–** | – | 31 |
| Coal | **40** | – | 1 |
| **Liabilities directly associated with assets classified as held for sale** | **96** | – | 17 |
| Steel | **79** | – | 4 |
| Coal | **17** | – | 13 |
| **Non-controlling interests** | **6** | – | – |
| Steel | **6** | – | – |

Cash flows on disposal of subsidiaries and other business units were as follows:

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net cash disposed of with subsidiaries | **$ (12)** | $ – | $ (13) |
| Cash received | **489** | 27 | 57 |
| Tax and transaction costs paid | **(65)** | – | – |
| **Net cash inflow** | **$ 412** | $ 27 | $ 44 |

## 12. Disposal Groups Held for Sale (continued)

The disposal groups sold during 2015–2017 are described below.

*Yuzhkoks*

On 19 December 2017, the Group sold a Ukrainian coking plant Yuzhkoks, in which it had a 94.96% ownership interest, to a third party for cash consideration of $63 million, including $16 million of prepayment for the sale of this subsidiary received in 2016.

Prior to disposal the subsidiary was included in the steel segment. The Group recognised a $(91) million loss on sale of the subsidiary, including $(132) million of cumulative exchange losses reclassified from other comprehensive income to the consolidated statement of operations. The result was included in the Gain on disposal groups classified as held for sale caption of the consolidated statement of operations. Cash disposed with the subsidiary amounted to $Nil.

*Nakhodka Trade Sea Port*

On 15 June 2017, the Group sold its wholly-owned subsidiary EVRAZ Nakhodka Trade Sea Port (“NMTP”) to a wholly-owned subsidiary of Lanebrook Limited (the ultimate controlling shareholder of the Group) for cash consideration of $332 million.

In connection with the sale transaction the Group entered into an agreement with NMTP pursuant to which the latter will transship cargo of the Group’s coal and metals in specified volumes for 5 years on terms specified in the agreement. The Group received a consideration of $8 million in respect of the transshipment agreement, which was recognised as deferred income with a 5-year period of amortisation.

Prior to disposal the subsidiary was included in the coal segment. The Group recognised a $284 million gain on sale of the subsidiary, including $(5) million of transaction costs and $(20) million of cumulative exchange losses reclassified from other comprehensive income to the consolidated statement of operations. The result was included in the Gain on disposal groups classified as held for sale caption of the consolidated statement of operations. Cash disposed with the subsidiary amounted to $Nil. In addition, the Group paid income tax on the sale transaction in the amount of $60 million.

*Sukha Balka*

On 1 June 2017, the Group sold a Ukrainian iron ore mine Sukha Balka, in which it had a 99.42% ownership interest, to a third party for cash consideration of $109 million. In 2017, the Group received $94 million. At 31 December 2017, the unpaid amount was $15 million plus $3 million of interest accrued, which are expected to be paid in the 1st quarter of 2018.

Prior to disposal the subsidiary was included in the steel segment. The Group recognised a $(555) million loss on sale of the subsidiary, including $(586) million of cumulative exchange losses reclassified from other comprehensive income to the consolidated statement of operations. The result was included in the Gain on disposal groups classified as held for sale caption of the consolidated statement of operations. Cash disposed with the subsidiary amounted to $Nil.

## 12. Disposal Groups Held for Sale (continued)

*Strategic Minerals Corporation*

Following the sale agreement signed in 2016, on 6 April 2017, the Group sold Strategic Minerals Corporation (USA), in which it had a 78.76% ownership interest, to a third party for cash consideration of $16 million. Strategic Minerals Corporation owns a 75% share in the Vametco vanadium mine and plant located in the Republic of South Africa. Prior to disposal both subsidiaries were included in the steel segment.

The Group recognised a $2 million gain on sale of the subsidiary, including $(3) million of cumulative exchange losses reclassified from other comprehensive income to the consolidated statement of operations. The result was included in the Gain on disposal groups classified as held for sale caption of the consolidated statement of operations. Cash disposed with the subsidiary amounted to $12 million.

*EVRAZ Portland Structural Tubing*

In 2015, the Group sold assets of Portland Structural Tubing for cash consideration of $51 million. The Group recognised $20 million as a gain on disposal groups classified as held for sale.

## 13. Other Non-current Assets

Other non-current assets consisted of the following as of 31 December:

*Non-current Financial Assets*

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| Available-for-sale financial assets | **$ 33** | $ 3 | $ 5 |
| Hedging instruments (Note 25) | **4** | – | – |
| Restricted deposits | **6** | 11 | 5 |
| Receivables from related parties (Note 11) | **8** | – | 1 |
| Loans receivable | **20** | 21 | 23 |
| Trade and other receivables | **23** | 4 | 5 |
| Other | **57** | 52 | 40 |
| | **$ 151** | $ 91 | $ 79 |

*Other Non-current Assets*

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| Income tax receivable | **$ 2** | $ 7 | $ 18 |
| Input VAT | **1** | 2 | 6 |
| Other | **36** | 36 | 32 |
| | **$ 39** | $ 45 | $ 56 |

*Available-for-Sale Financial Assets*

The Group holds approximately 15% in Delong Holdings Limited ("Delong"), a flat steel producer headquartered in Beijing (China). The investments in Delong are measured at fair value based on market quotations of the Singapore Exchange ($33 million, $3 million and $5 million at 31 December 2017, 2016 and 2015, respectively). The change in the fair value of these shares is initially recorded in other comprehensive income.

In 2016 and 2015, impairment losses relating to the decline in market quotations of Delong shares in the amount of $2 million and $11 million, respectively, were recognised in the statement of operations. In 2017, the Group recognised a $30 million gain on the increase in market quotations in other comprehensive income.

## 14. Inventories

Inventories consisted of the following as of 31 December:

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Raw materials and spare parts | **$ 548** | $ 434 | $ 402 |
| Work-in-progress | **245** | 173 | 188 |
| Finished goods | **405** | 377 | 309 |
| | **$ 1,198** | $ 984 | $ 899 |

As of 31 December 2017, 2016 and 2015, the net realisable value allowance was $40 million, $34 million and $35 million, respectively.

As of 31 December 2017, 2016 and 2015, certain items of inventory with an approximate carrying amount of $438 million, $315 million and $383 million, respectively, were pledged to banks as collateral against loans provided to the Group (Note 22).

## 15. Trade and Other Receivables

Trade and other receivables consisted of the following as of 31 December:

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Trade accounts receivable | **$ 722** | $ 518 | $ 472 |
| Other receivables | **63** | 31 | 23 |
| | **785** | 549 | 495 |
| Allowance for doubtful accounts | **(54)** | (47) | (48) |
| | **$ 731** | $ 502 | $ 447 |

Ageing analysis and movement in allowance for doubtful accounts are provided in Note 28.

## 16. Related Party Disclosures

Related parties of the Group include associates and joint venture partners, key management personnel and other entities that are under the control or significant influence of the key management personnel, the Group's ultimate parent or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Amounts owed by/to related parties at 31 December were as follows:

| | Amounts due from related parties | | | Amounts due to related parties | | |
|---|---|---|---|---|---|---|
| *US$ million* | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| **Loans** | | | | | | |
| Timir (Note 11) | **$ –** | $ 7 | $ 5 | **$ –** | $ – | $ – |
| **Dividends receivable** | | | | | | |
| Yuzhny GOK | **6** | – | – | **–** | – | – |
| **Trade balances** | | | | | | |
| Nakhodka Trade Sea Port | **–** | – | – | **6** | – | – |
| Vtorresource-Pererabotka | **2** | 1 | 1 | **52** | 39 | 10 |
| Yuzhny GOK | **4** | – | – | **195** | 185 | 129 |
| Other entities | **–** | – | – | **3** | 2 | 4 |
| | **12** | 8 | 6 | **256** | 226 | 143 |
| Less: allowance for doubtful accounts | **–** | – | – | **–** | – | – |
| | **$ 12** | $ 8 | $ 6 | **$ 256** | $ 226 | $ 143 |

At 31 December 2017, the loan receivable from Timir (Note 11) amounting to $8 million was classified as a non-current financial asset (Note 13).

## 16. Related Party Disclosures (continued)

In 2017 and 2016, the Group did not recognise any expense or income in relation to bad and doubtful debts of related parties. In 2015, a $2 million reversal of bad and doubtful debts allowance was recognised in the consolidated statement of operations.

Transactions with related parties were as follows for the years ended 31 December:

| | Sales to related parties | | | Purchases from related parties | | |
|---|---|---|---|---|---|---|
| **US$ million** | **2017** | **2016** | **2015** | **2017** | **2016** | **2015** |
| Genalta Recycling Inc. | **$ –** | $ – | $ – | **$ 14** | $ 8 | $ 14 |
| Interlock Security Services | **–** | – | – | **11** | 19 | 24 |
| Nakhodka Trade Sea Port | **–** | – | – | **36** | – | – |
| Vtorresource-Pererabotka | **8** | 7 | 8 | **452** | 281 | 274 |
| Yuzhny GOK | **37** | 25 | 29 | **107** | 77 | 70 |
| Other entities | **–** | – | – | **1** | 11 | 12 |
| | **$ 45** | $ 32 | $ 37 | **$ 621** | $ 396 | $ 394 |

In addition to the disclosures presented in this note, some of the balances and transactions with related parties are disclosed in Notes 11, 12 (sale of Nakhodka Trade Sea Port), 13 and 25.

Genalta Recycling Inc. is a joint venture of a Canadian subsidiary of the Group. It sells scrap metal to the Group.

Interlock Security Services is a group of entities controlled by a member of the key management personnel, which provide security services to the Russian and Ukrainian subsidiaries of the Group. In August-September 2016, the main businesses of this group were sold by a key person to third parties and they ceased to be related parties to the Group.

Lanebrook Limited is a controlling shareholder of the Company. At 31 December 2017, the Group had other receivables from Lanebrook, amounting to $32 million, in connection with the acquisition of a 1% ownership interest in Yuzhny GOK in 2008 (Note 18).

Nakhodka Trade Sea Port (“NTSP”) is a former subsidiary of the Group (Note 12). NTSP renders handling services to the Group.

Vtorresource-Pererabotka is a subsidiary of Streamcore, the Group’s joint venture, acquired in 2012. It sells scrap metal to the Group and provides scrap processing and other services. In 2017, 2016 and 2015, the purchases of scrap metal from Vtorresource-Pererabotka amounted to $422 million (1,601,320 tonnes), $256 million (1,437,411 tonnes) and $219 million (1,339,101 tonnes), respectively.

Yuzhny GOK, an ore mining and processing plant, is an associate of Lanebrook Limited. The Group sold steel products to Yuzhny GOK and purchased sinter from the entity. In 2017, 2016 and 2015, the volume of purchases was 1,639,306 tonnes, 1,619,745 tonnes and 1,517,580 tonnes, respectively. In 2017, Yuzhny GOK declared dividends for 2014-2016 in the amount of 10.16 Ukrainian hryvnias per share. The Group recognised $6 million of dividend income within the other non-operating gains/(losses) caption in the consolidated statement of operations. At 31 December 2017, these dividends were unpaid.

The transactions with related parties were based on prevailing market terms.

*Compensation to Key Management Personnel*

Key management personnel include the following positions within the Group:

- directors of the Company,
- vice presidents,
- senior management of major subsidiaries.

## 16. Related Party Disclosures (continued)

In 2017, 2016 and 2015, key management personnel totalled 30, 34 and 46 people, respectively. Total compensation to key management personnel were included in general and administrative expenses in the consolidated statement of operations and consisted of the following:

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| Salary | **$ 15** | $ 14 | $ 16 |
| Performance bonuses | **14** | 9 | 9 |
| Social security taxes | **3** | 3 | 4 |
| Share-based payments (Note 21) | **9** | 8 | 10 |
| Termination benefits | **1** | – | – |
| | **$ 42** | $ 34 | $ 39 |

Other disclosures on directors' remuneration required by Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts & Reports) regulations 2008 are included in the Directors' Remuneration Report.

## 17. Other Taxes Recoverable

Taxes recoverable consisted of the following as of 31 December:

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| Input VAT | **$ 140** | $ 89 | $ 61 |
| Other taxes | **85** | 103 | 66 |
| | **$ 225** | $ 192 | $ 127 |

Input VAT, representing amounts payable or paid to suppliers, is recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Group's revenue or direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input value added tax and believes it is fully recoverable within one year.

## 18. Other Current Financial Assets

Other current assets included the following as of 31 December:

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| Other receivables from Lanebrook (Note 16) | **$ 32** | $ 32 | $ 32 |
| Restricted deposits at banks | **15** | 1 | 3 |
| | **$ 47** | $ 33 | $ 35 |

## 19. Cash and Cash Equivalents

Cash and cash equivalents, mainly consisting of cash at banks, were denominated in the following currencies as of 31 December:

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| US dollar | **$ 1,253** | $ 1,058 | $ 1,196 |
| Russian rouble | **163** | 71 | 121 |
| Euro | **31** | 14 | 4 |
| Canadian dollar | **9** | 2 | 29 |
| Ukrainian hryvnia | **7** | 2 | 20 |
| Other | **3** | 10 | 5 |
| | **$ 1,466** | $ 1,157 | $ 1,375 |

At 31 December 2017, 2016 and 2015, the assets of disposal groups classified as held for sale included cash amounting to $Nil, $2 million and $Nil, respectively.

## 20. Equity

### Share Capital

| | 31 December | | |
|---|---|---|---|
| **Number of shares** | **2017** | **2016** | **2015** |
| Ordinary shares of $1 each, issued and fully paid | **1,506,527,294** | 1,506,527,294 | 1,506,527,294 |

### Treasury Shares

| | 31 December | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| Number of treasury shares | **74,474,663** | 87,015,878 | 98,481,249 |

On 31 March 2015, the Board resolved to announce a return of capital to be effected by a tender offer to shareholders at $3.10 per share in the amount of up to $375 million. In April 2015, EVRAZ plc repurchased 108,458,508 of its own shares ($336 million). The Company incurred $3 million of transaction costs, which were charged to accumulated profits.

Subsequently, in 2017, 2016 and 2015, 12,541,215 shares, 11,465,371 shares and 9,977,259 shares, respectively, were transferred to the participants of Incentive Plans. The cost of treasury shares transferred to the participants of Incentive Plans, amounted to $39 million, $35 million and $31 million in 2017, 2016 and 2015, respectively.

### Earnings per Share

Earnings per share are calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the potential dilutive ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | **2017** | **2016** | **2015** |
|---|---|---|---|
| Weighted average number of ordinary shares outstanding during the period | **1,427,585,897** | 1,414,906,412 | 1,437,134,241 |
| Effect of dilution: share options | **26,974,433** | – | – |
| Weighted average number of ordinary shares adjusted for the effect of dilution | **1,454,560,330** | 1,414,906,412 | 1,437,134,241 |
| Profit/(loss) for the year attributable to equity holders of the parent, US$ million | **$ 699** | $ (215) | $ (644) |
| Basic earnings/(losses) per share | **$ 0.49** | $ (0.15) | $ (0.45) |
| Diluted earnings/(losses) per share | **$ 0.48** | $ (0.15) | $ (0.45) |

In 2015-2016, share-based awards (Note 21) were antidilutive as the Group reported net losses.

## 20. Equity (continued)

### Dividends

Dividends declared by EVRAZ plc during 2015–2017 were as follows:

| | Date of declaration | To holders registered at | Dividends declared, US$ million | US$ per share |
|---|---|---|---|---|
| Interim for 2017 | 09/08/2017 | 18/08/2017 | 430 | 0.3 |

On 9 August 2017, the Board of directors of EVRAZ plc decided to declare interim dividends for 2017 in the amount of $430 million, which represents $0.3 per share.

In addition, certain subsidiaries of the Group declared dividends. The share of non-controlling shareholders in those dividends was $Nil in 2015–2017.

## 21. Share-based Payments

In 2015-2017, the Group had several Incentive Plans under which certain senior executives and employees ("participants") could be gifted shares of the parent company upon vesting. These plans were adopted on 6 September 2012, 24 September 2013, 8 August 2014, 26 October 2015, 15 September 2016 and 25 September 2017.

The vesting under Incentive Plans adopted before 2017 does not depend on the achievement of any performance conditions. The new Plan adopted in 2017 provides that the number of shares transferred to participants upon vesting is dependent on the Group's performance versus the selected group of peers. EBITDA and total shareholder return ("TSR") are used as the key performance indicators. If the Group's EBITDA achieves a specific ranking in the peer group, then 50% of the shares of a particular tranche become vested, otherwise they are forfeited. If the Group's TSR achieves a specific ranking in the peer group, then the other 50% of the shares of a particular tranche become vested, otherwise they are forfeited. Subject to the resolution of the Remuneration Committee, EBITDA can become the only metric in the performance evaluation (in case if the net debt to EBITDA ratio is equal to 3 or higher). The TSR-related vesting condition of the Incentive Plan 2017 was considered by the Group as a market condition. As such, it was included in the estimation of the fair value of the granted shares and will not be subsequently revised. Vesting condition related to EBITDA was not taken into account when estimating the fair value of the share options at the grant date. Instead, this will be taken into account by adjusting the share-based expense based on the number of share options that eventually vest.

The vesting date for each tranche occurs within the 90-day period after announcement of the annual results. The expected vesting dates of the awards outstanding at 31 December 2017 are presented below:

| *Number of Shares of EVRAZ plc* | Total | Incentive Plan 2017 | Incentive Plan 2016 | Incentive Plan 2015 | Incentive Plan 2014 |
|---|---|---|---|---|---|
| March 2018 | 11,704,880 | 1,472,241 | 1,963,834 | 4,427,044 | 3,841,761 |
| March 2019 | 8,845,167 | 1,472,241 | 2,945,758 | 4,427,168 | – |
| March 2020 | 5,154,227 | 2,208,348 | 2,945,879 | – | – |
| March 2021 | 2,208,336 | 2,208,336 | – | – | – |
| | **27,912,610** | **7,361,166** | **7,855,471** | **8,854,212** | **3,841,761** |

The plans are administered by the Board of Directors of EVRAZ plc. The Board of Directors has the right to accelerate vesting of the grant. In the event of a participant's employment termination, unless otherwise determined by the Board or by a decision of the authorised person, a participant loses the entitlement for the shares that were not gifted up to the date of termination.

There have been no modifications or cancellations to the plans during 2015–2017.

## 21. Share-based Payments (continued)

The Group accounted for share-based compensation at fair value pursuant to the requirements of IFRS 2 “Share-based Payment”. The weighted average fair value of share-based awards granted in 2017, 2016 and 2015 was $2.54, $1.73 and $1.12 per share of EVRAZ plc, respectively. The fair value of these awards was estimated at the date of grant and measured at the market price of the shares of the parent company reduced by the present value of dividends expected to be paid during the vesting period. The following inputs, including assumptions, were used in the valuation of Incentive plans, which were effective during 2015-2017:

| | **Incentive Plan 2017** | **Incentive Plan 2016** | **Incentive Plan 2015** | **Incentive Plan 2014** | **Incentive Plan 2013** | **Incentive Plan 2012** |
|---|---|---|---|---|---|---|
| Dividend yield (%) | 2.1 – 2.9 | n/a | 7.3 – 9.1 | 3.6 – 4.8 | 4.0 – 8.8 | 1.9 – 5.4 |
| Expected life (years) | 0.5 – 3.5 | 0.5 – 3.5 | 0.6 – 3.6 | 0.6 – 3.6 | 0.6 – 3.6 | 0.6 – 2.6 |
| Market prices of the shares of EVRAZ plc at the grant dates | $ 3.86 | $ 1.73 | $ 1.36 | $ 1.68 | $ 2.13 | $ 3.61 |

The following table illustrates the number of, and movements in, share-based awards during the years.

| | **2017** | **2016** | **2015** |
|---|---|---|---|
| **Outstanding at 1 January** | **34,581,349** | 43,767,553 | 36,608,052 |
| Granted during the year | **7,361,166** | 10,383,528 | 20,610,611 |
| Forfeited during the year | **(1,488,690)** | (8,104,361) | (3,473,851) |
| Vested during the year | **(12,541,215)** | (11,465,371) | (9,977,259) |
| **Outstanding at 31 December** | **27,912,610** | 34,581,349 | 43,767,553 |

The weighted average share price at the dates of exercise was $2.62, $1.78 and $2.59 in 2017, 2016 and 2015, respectively.

The weighted average remaining contractual life of the share-based awards outstanding as of 31 December 2017, 2016 and 2015 was 1.2, 1.2 and 1.5 years, respectively.

In the years ended 31 December 2017, 2016 and 2015, the expense arising from the equity-settled share-based compensations was as follows:

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| Expense arising from equity-settled share-based payment transactions | **$ 17** | $ 16 | $ 20 |

## 22. Loans and Borrowings

Short-term and long-term loans and borrowings were as follows as of 31 December:

| *US$ million* | **2017** | **Non-current** | **Current** | **2016** | **Non-current** | **Current** | **2015** | **Non-current** | **Current** |
|---|---|---|---|---|---|---|---|---|---|
| Bank loans | **$ 2,113** | **$ 2,051** | **$ 62** | $ 2,067 | $ 1,799 | $ 268 | $ 2,236 | $ 1,958 | $ 278 |
| *US dollar-denominated* | | | | | | | | | |
| 7.40% notes due 2017 | **–** | **–** | **–** | – | – | – | 286 | 286 | – |
| 7.75% bonds due 2017 | **–** | **–** | **–** | 26 | – | 26 | 186 | 186 | – |
| 9.5% notes due 2018 | **–** | **–** | **–** | 125 | 125 | – | 353 | 353 | – |
| 6.75% notes due 2018 | **–** | **–** | **–** | 528 | 528 | – | 796 | 796 | – |
| 7.5% senior secured notes due 2019 | **–** | **–** | **–** | 350 | 350 | – | 350 | 350 | – |
| 6.50% notes due 2020 | **700** | **700** | **–** | 1,000 | 1,000 | – | 1,000 | 1,000 | – |
| 8.25% notes due 2021 | **750** | **750** | **–** | 750 | 750 | – | 750 | 750 | – |
| 6.75% notes due 2022 | **500** | **500** | **–** | 500 | 500 | – | – | – | – |
| 5.375% notes due 2023 | **750** | **750** | **–** | – | – | – | – | – | – |
| *Rouble-denominated* | | | | | | | | | |
| 8.40% rouble bonds due 2016 | **–** | **–** | **–** | – | – | – | 165 | – | 165 |
| 12.95% rouble bonds due 2019 | **260** | **260** | **–** | 247 | 247 | – | 206 | 206 | – |
| 12.60% rouble bonds due 2021 | **260** | **260** | **–** | 247 | 247 | – | – | – | – |
| Other liabilities | **–** | **–** | **–** | – | – | – | – | – | – |
| Fair value adjustment to liabilities assumed in business combination | **–** | **–** | **–** | 1 | – | 1 | 7 | 7 | – |
| Unamortised debt issue costs | **(28)** | **(28)** | **–** | (44) | (44) | – | (54) | (54) | – |
| Interest payable | **86** | **–** | **86** | 97 | – | 97 | 66 | 12 | 54 |
| | **$ 5,391** | **$ 5,243** | **$ 148** | $ 5,894 | $ 5,502 | $ 392 | $ 6,347 | $5,850 | $ 497 |

The average effective annual interest rates were as follows at 31 December:

| | **Long-term borrowings** | | | **Short-term borrowings** | | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2015** | **2017** | **2016** | **2015** |
| US dollar | **6.00%** | 6.85% | 6.87% | **1.85%** | 3.31% | 2.86% |
| Russian rouble | **12.78%** | 12.71% | 11.84% | **–** | – | – |
| Euro | **3.77%** | 3.94% | 5.57% | **–** | – | – |

The liabilities are denominated in the following currencies at 31 December:

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| US dollar | **$ 4,604** | $ 4,911 | $ 5,412 |
| Russian rouble | **530** | 809 | 621 |
| Euro | **242** | 217 | 368 |
| Other | **43** | 1 | – |
| Unamortised debt issue costs | **(28)** | (44) | (54) |
| | **$ 5,391** | $ 5,894 | $ 6,347 |

## 22. Loans and Borrowings (continued)

The movement in loans and borrowings were as follows:

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| 1 January | **$ 5,894** | $ 6,347 | $ 6,231 |
| **Cash changes:** | | | |
| Cash proceeds from bank loans and notes, net of debt issues costs | **2,441** | 1,301 | 3,801 |
| Repayment of bank loans and notes, including interest | **(3,344)** | (2,428) | (3,961) |
| Net proceeds from/(repayment of) bank overdrafts and credit lines, including interest | **(139)** | (5) | (9) |
| Payments under covenants reset | **–** | (4) | – |
| **Non-cash changes:** | | | |
| Change in the balance of debt issues costs paid in subsequent reporting period | **(1)** | 7 | (7) |
| Non-cash proceeds (Note 29) | **8** | 46 | – |
| Interest and other charges expensed (Note 7) | **394** | 439 | 430 |
| Interest capitalised (Note 9) | **6** | 9 | 16 |
| Accrual of premiums and other charges on early repayment of borrowings (Note 7) | **78** | 50 | 15 |
| Transfer to disposal groups held for sale | **(6)** | – | – |
| Effect of exchange rate changes | **60** | 132 | (169) |
| 31 December | **$ 5,391** | $ 5,894 | $ 6,347 |

*Pledged Assets*

At 31 December 2016 and 2015, a 100% ownership interest in EVRAZ Inc NA and 51% in EVRAZ Inc NA Canada were pledged against a $350 million liability under 7.5% senior secured notes due 2019. In addition, at 31 December 2016, property, plant and equipment and inventory of these subsidiaries amounting to $1,013 million and $315 million, respectively (2015: $1,052 million and $382 million, respectively) were pledged as collateral under the notes. In 2017, these notes were fully repaid (Repurchase of Notes and Bonds).

At 31 December 2015, 100% of shares of EVRAZ Caspian Steel were pledged as collateral under a bank loan with a carrying value of $107 million at the end of 2015. In addition, property, plant and equipment of EVRAZ Caspian Steel amounting to $55 million at 31 December 2015 were pledged as collateral under the same loan. In 2016, the loan was fully repaid.

The Group’s pledged assets at carrying value included the following at 31 December:

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Property, plant and equipment | **$ 66** | $ 1,013 | $ 1,107 |
| Inventory | **438** | 315 | 383 |

## 22. Loans and Borrowings (continued)

*Issue of Notes and Bonds*

In March 2017, the Group issued 5.375% notes due 2023 in the amount of $750 million. The proceeds from the issue of the notes were used to finance the purchase of 9.50% notes due 2018, 6.75% notes due 2018 and 6.50% bonds due 2020 at the tender offers settled in March 2017 and to refinance other current indebtedness of the Group.

In June 2016, the Group issued 6.75% notes due 2022 in the amount of $500 million. The proceeds from the issue of the notes were used to finance the purchase of 7.40% notes due 2017, 9.50% notes due 2018, 6.75% notes due 2018 and 7.75% bonds due 2017 at the tender offer settled on 17 June 2016 and to refinance other current indebtedness of the Group.

In March 2016, the Group completed a placement of bonds in the total amount of 15,000 million Russian roubles ($247 million at 31 December 2016), which bear interest of 12.60% per annum and mature on 23 March 2021. The currency risk exposure of these bonds was not hedged.

In December 2015, the Group issued 8.25% notes due 2021 in the amount of $750 million. The proceeds from the issue of the notes were used to finance the purchase of 7.40% notes due 2017, 9.50% notes due 2018 and 6.75% notes due 2018 at the tender offer settled on 18 December 2015 and to refinance other current indebtedness of the Group.

In July 2015, the Group completed a placement of bonds in the total amount of 15,000 million Russian roubles ($206 million at 31 December 2015), which bear interest of 12.95% per annum and have the next put date on 26 June 2019. The currency risk exposure of these bonds was hedged (Note 25).

*Repurchase of Rouble-Denominated Bonds*

In 2016, the Group fully settled its 8.40% rouble bonds due 2016, there was no gain or loss on this transaction.

In March 2015, the Group fully settled the 8.75% bonds due 2015 with the nominal value of 3,885 million roubles ($65 million) at par. There was no gain or loss on this transaction.

In April 2015, the Group partially repurchased 9.95% bonds due 2015 for cash consideration of $80 million. The nominal value of the repurchased notes was 4,150 million roubles ($81 million). As a result, the Group recognised a $1 million gain within gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations. In October 2015, the Group settled the remaining 10,850 million roubles ($175 million) at par. There was no gain or loss on this transaction.

In July 2015, the Group partially repurchased 8.40% bonds due 2016 with the principal of 4,792 million roubles ($84 million at the exchange rate as of the date of the transaction) for cash consideration of 4,696 million roubles ($82.5 million at the exchange rate as of the date of the transaction). In September 2015, the Group repurchased additional 3,159 million roubles ($48 million) at par. There was no gain or loss on this transaction. At 31 December 2015, the amount of outstanding bonds was 12,049 million roubles ($165 million).

## 22. Loans and Borrowings (continued)

*Repurchase of US Dollar-Denominated Notes*

In 2017, the Group partially repurchased 9.50% notes due 2018 ($125 million), 6.75% notes due 2018 ($528 million) and 6.50% bonds due 2020 ($300 million). The premium over the carrying value on the repurchase and other costs relating to the transaction in the total amount of $8 million, $23 million and $23 million, respectively, were charged to the Gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations.

In 2017, the Group also fully settled $350 million under 7.5% senior secured notes due 2019. Loss on this transaction amounted to $17 million, including $13 million of premium.

In addition, the Group fully settled its 7.75% bonds due 2017 issued by Raspadskaya ($26 million), there was no gain or loss on this transaction. Previously, in 2015, the Group repurchased through a tender offer and market transactions $206 million at par. The difference between the carrying value of these bonds and the purchase consideration amounting to $7 million was credited to the Gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations.

In 2016, the Group partially repurchased 9.50% notes due 2018 ($228 million), 6.75% notes due 2018 ($268 million) and 7.75% bonds due 2017 ($160 million). The premium over carrying value on the repurchase in the amount of $20 million, $7 million and $5 million, respectively, was charged to the Gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations.

In 2016, the Group fully repurchased 7.40% notes due 2017 ($286 million) paying a premium over the carrying value of $14 million.

In December 2015, the Group partially repurchased 7.40% notes due 2017 ($314 million), 9.50% notes due 2018 ($156 million) and 6.75% notes due 2018 ($54 million). The premium over carrying value on the repurchase in the amount of $14 million, $11 million and $1 million, respectively, was charged the Gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations.

## 22. Loans and Borrowings (continued)

*Compliance with Financial Covenants*

Some of the loan agreements and terms and conditions of notes provide for certain covenants in respect of EVRAZ plc and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and profitability. EBITDA used for covenants compliance calculations is determined based on the definitions of the respective loan agreements and may differ from that used by management for evaluation of performance.

Several bank credit facilities totalling $1,772 million contain certain financial maintenance covenants. These covenants require EVRAZ plc to maintain two key ratios, consolidated net indebtedness to 12month consolidated EBITDA and 12-month consolidated EBITDA to adjusted 12-month consolidated interest expense, within certain limits. Also the covenants contain a limitation on the amount of EVRAZ plc total consolidated indebtedness. A breach of one or both of these ratios or excess of the indebtedness limit would constitute an event of default under the facility which in turn may trigger cross default events under other debt instruments of the Group. The terms of certain facilities also set certain limitations on acquisitions and disposals by EVRAZ plc.

In the first half of 2016, EVRAZ plc signed amendments to these facilities, whereby the testing of financial ratios was suspended for three semi-annual testing periods starting from 30 June 2016, subject to compliance with certain additional restrictions on indebtedness and dividends. Transaction costs relating to these amendments amounted to $4 million. In 2017, the Group sent notices to all respective creditors to resume testing of covenants from 31 December 2017.

Notes due 2020, 2021, 2022 and 2023, totalling $2,700 million issued by Evraz Group S.A., a holding company directly wholly owned by EVRAZ plc, have covenants restricting the incurrence of indebtedness by the issuer and its consolidated subsidiaries conditional on a gross leverage ratio. While the ratio level itself does not constitute a breach of covenants, exceeding the threshold of 3.5 times triggers a restriction on incurrence of consolidated indebtedness, which is removed once the ratio goes back below the threshold. The effect of the restriction is such that Evraz Group S.A. and its subsidiaries are not allowed to increase the consolidated indebtedness at the level of Evraz Group S.A., but are allowed to refinance existing indebtedness subject to certain conditions. As of 31 December 2017, gross leverage ratio for Evraz Group S.A. was below 3.5.

Several bank credit facilities totalling $326 million provide for certain covenants restricting the incurrence of indebtedness by Evraz North America plc and its subsidiaries conditional on a fixed charge ratio. Once the threshold for the ratio is exceeded, it triggers restrictions on incurrence of additional indebtedness by Evraz North America plc and its subsidiaries.

The incurrence covenants are in line with the Group's financial strategy and, therefore, do not constitute any excessive restriction on its operations.

During 2017 the Group was in compliance with all financial and non-financial covenants.

*Unamortised Debt Issue Costs*

Unamortised debt issue costs represent agent commission and transaction costs paid by the Group in relation to the arrangement and reset of loans and notes.

## 22. Loans and Borrowings (continued)

*Unutilised Borrowing Facilities*

The Group had the following unutilised borrowing facilities as of 31 December:

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| Committed | **$ 131** | $ 187 | $ 317 |
| Uncommitted | **1,251** | 883 | 663 |
| Total unutilised borrowing facilities | **$ 1,382** | $ 1,070 | $ 980 |

## 23. Employee Benefits

*Russian Plans*

Certain Russian subsidiaries of the Group provide regular lifetime pension payments and lump-sum amounts payable at retirement date. These benefits generally depend on years of service, level of remuneration and amount of pension payment under the collective bargaining agreements. Other post-employment benefits consist of various compensations and certain non-cash benefits. The Group funds the benefits when the amounts of benefits fall due for payment.

In addition, some subsidiaries have defined benefit plans under which contributions are made to a separately administered non-state pension fund. The Group matches 100% of the employees' contributions to the fund up to 4% of their monthly salary. The Group's contributions become payable at the participants' retirement dates. At the end of the reporting year the benefit obligation was valued based on the terms of the pension plan assuming that all defined benefit plan participants will continue to participate in the plan.

Defined contribution plans represent payments made by the Group to the Russian state pension, social insurance and medical insurance funds at the statutory rates in force, based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits.

*Ukrainian Plans*

The Ukrainian subsidiaries make regular contributions to the State Pension Fund thereby compensating 100% of preferential pensions paid by the fund to employees who worked under harmful and hard conditions. The amount of such pension depends on years of service and salary.

In addition, employees receive lump-sum payments on retirement and other benefits under collective labour agreements. These benefits are based on years of service and level of compensation. All these payments are considered as defined benefit plans.

The Ukrainian pension legislation provides for annual indexation of pensions, at least up to the level of CPI. Starting from 2018 the minimum annual indexation of pensions, which takes into account 50% of CPI and 50% of salary growth, becomes obligatory.The indexation of pensions at a level higher than minimally required depends on the availability of financial resources in the State pension fund. The subsidiaries are obliged to pay indexed preferential pensions. The Group determined the amount of defined benefit obligations based on the assumption that pensions will be indexed at a minimum required level.

## 23. Employee Benefits (continued)

*US and Canadian Plans*

The Group's subsidiaries in the USA and Canada have defined benefit pension plans that cover specified eligible employees. Benefits are based on pensionable years of service, pensionable compensation, or a combination of both depending on the individual plan. The subsidiaries also have U.S. and Canadian supplemental retirement plans ("SERP's"), which are non-qualified plans designed to maintain benefits for eligible employees at the plan formula level. The subsidiaries provide other unfunded post-retirement medical and life insurance plans ("OPEB's") for certain of their eligible employees upon retirement after completion of a specified number of years of service. For the pension plans, SERP's and OPEB's, the subsidiaries use a measurement date for plan assets and obligations of 31 December.

Certain employees that were hired after specified dates are no longer eligible to participate in the defined benefit pension plans. Those employees are instead enrolled in defined contribution plans and receive a contribution funded by the Group's subsidiaries equal to 3–7% of annual wages, including applicable bonuses. The defined contribution plans are funded throughout the year and, depending on their work location, participants' benefits vesting dates range from immediate to after three years of service. In addition, the subsidiaries have defined contribution plans available for eligible U.S. and Canadian-based employees in which the subsidiaries generally match a percentage of the participants' contributions.

Some Canadian employees participate in a retirement savings plan. For these employees, the participation may be voluntary, employee contributions are matched by the employer at 1-3% of annual wages, including applicable bonuses, and depending on the group of employees, are funded either annually or throughout the year.

In the third quarter of 2015, a U.S. subsidiary made lump-sum settlement offers to former employees vested in one of its three U.S.-based pension plans. Eligible participants were provided with a one-time opportunity to choose either a lump-sum settlement immediately, or to begin receiving their annuity payments in December 2015, irrespective of the former employee's age or retirement status. Approximately 749 employees, or 61% of those eligible, elected to take the lump-sum settlement, triggering settlement accounting for two of the U.S. subsidiary's plans.

*Other Plans*

Defined benefit pension plans and defined contribution plans are maintained by the subsidiaries located in Italy and the Republic of South Africa.

### Defined Contribution Plans

The Group's expenses under defined contribution plans were as follows:

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| Expense under defined contribution plans | **$ 246** | $ 212 | $ 254 |

### Defined Benefit Plans

The Russian, Ukrainian and other defined benefit plans are mostly unfunded and the US and Canadian plans are partially funded.

Except as disclosed above, in 2017 there were no significant plan amendments, curtailments or settlements.

The Group's defined benefit plans are exposed to the risks of unexpected growth in benefit payments as a result of increases in life expectancy, inflation, and salaries. As the plan assets include significant investments in quoted and unquoted equity shares, corporate and government bonds and notes, the Group is also exposed to equity market risk.

## 23. Employee Benefits (continued)

The components of net benefit expense recognised in the consolidated statement of operations for the years ended 31 December 2017, 2016 and 2015 and amounts recognised in the consolidated statement of financial position as of 31 December 2017, 2016 and 2015 for the defined benefit plans were as follows:

***Net benefit expense (recognised in the statement of operations within cost of sales and selling, general and administrative expenses and interest expense)***

**Year ended 31 December 2017**

| *US$ million* | **Russian plans** | **Ukrainian plans** | **US & Canadian plans** | **Other plans** | **Total** |
|---|---|---|---|---|---|
| Current service cost | **$ (2)** | **$ (1)** | **$ (18)** | **$ –** | **$ (21)** |
| Net interest expense | **(9)** | **(4)** | **(6)** | **–** | **(19)** |
| Net actuarial gains/(losses) on other long-term employee benefits obligation | **2** | **–** | **–** | **–** | **2** |
| Past service cost | **(3)** | **3** | **(3)** | **–** | **(3)** |
| Curtailment/settlement gain | **–** | **–** | **2** | **–** | **2** |
| Other | **–** | **–** | **(3)** | **–** | **(3)** |
| Net benefit expense | **$ (12)** | **$ (2)** | **$ (28)** | **$ –** | **$ (42)** |

**Year ended 31 December 2016**

| *US$ million* | **Russian plans** | **Ukrainian plans** | **US & Canadian plans** | **Other plans** | **Total** |
|---|---|---|---|---|---|
| Current service cost | $ (2) | $ (2) | $ (19) | $ – | $ (23) |
| Net interest expense | (9) | (5) | (8) | – | (22) |
| Net actuarial gains/(losses) on other long-term employee benefits obligation | 1 | – | – | – | 1 |
| Past service cost | (1) | 1 | – | – | – |
| Curtailment/settlement gain | 1 | – | – | – | 1 |
| Net benefit expense | $ (10) | $ (6) | $ (27) | $ – | $ (43) |

**Year ended 31 December 2015**

| *US$ million* | **Russian plans** | **Ukrainian plans** | **US & Canadian plans** | **Other plans** | **Total** |
|---|---|---|---|---|---|
| Current service cost | $ (4) | $ (2) | $ (23) | $ – | $ (29) |
| Net interest expense | (11) | (6) | (7) | – | (24) |
| Net actuarial gains/(losses) on other long-term employee benefits obligation | – | – | – | (1) | (1) |
| Past service cost | 7 | 2 | (3) | – | 6 |
| Curtailment/settlement gain | 2 | – | 1 | – | 3 |
| Net benefit expense | $ (6) | $ (6) | $ (32) | $ (1) | $ (45) |

# 23. Employee Benefits (continued)

***Gains/(losses) recognised in other comprehensive income***

**Year ended 31 December 2017**

| *US$ million* | **Russian plans** | **Ukrainian plans** | **US & Canadian plans** | **Other plans** | **Total** |
|---|---|---|---|---|---|
| Return on plan assets, excluding amounts included in net interest expense | **$ –** | **$ –** | **$ 48** | **$ –** | **$ 48** |
| Net actuarial gains/(losses) on post-employment benefit obligation | **6** | **(4)** | **(23)** | **–** | **(21)** |
| | **$ 6** | **$ (4)** | **$ 25** | **$ –** | **$ 27** |

In addition to the amounts presented in the table above, actuarial gains/(losses) recognised in other comprehensive income include $(1) million relating to a subsidiary classified as a disposal group held for sale.

**Year ended 31 December 2016**

| *US$ million* | **Russian plans** | **Ukrainian plans** | **US & Canadian plans** | **Other plans** | **Total** |
|---|---|---|---|---|---|
| Return on plan assets, excluding amounts included in net interest expense | $ (1) | $ – | $ 7 | $ – | $ 6 |
| Net actuarial gains/(losses) on post-employment benefit obligation | 3 | 8 | (6) | – | 5 |
| | $ 2 | $ 8 | $ 1 | $ – | $ 11 |

**Year ended 31 December 2015**

| *US$ million* | **Russian plans** | **Ukrainian plans** | **US & Canadian plans** | **Other plans** | **Total** |
|---|---|---|---|---|---|
| Return on plan assets, excluding amounts included in net interest expense | $ – | $ – | $ (10) | $ – | $ (10) |
| Net actuarial gains/(losses) on post-employment benefit obligation | (8) | (5) | 24 | – | 11 |
| | $ (8) | $ (5) | $ 14 | $ – | $ 1 |

## 23. Employee Benefits (continued)

Actual return on plan assets was as follows:

| *US$ million* | **2017** | 2016 | 2015 |
|---|---|---|---|
| Actual return on plan assets | **$ 66** | $ 25 | $ 13 |
| including: | | | |
| US & Canadian plans | **66** | 26 | 13 |
| Russian plans | **–** | (1) | – |

***Net defined benefit liability***

*31 December 2017*

| *US$ million* | Russian Plans | Ukrainian plans | US & Canadian plans | Other plans | Total |
|---|---|---|---|---|---|
| Benefit obligation | **$ 111** | **$ 19** | **$ 765** | **$ –** | **$ 895** |
| Plan assets | **–** | **–** | **(611)** | **–** | **(611)** |
| | **111** | **19** | **154** | **–** | **284** |

*31 December 2016*

| *US$ million* | Russian Plans | Ukrainian plans | US & Canadian plans | Other plans | Total |
|---|---|---|---|---|---|
| Benefit obligation | $ 108 | $ 31 | $ 711 | $ 2 | $ 852 |
| Plan assets | – | – | (535) | – | (535) |
| | 108 | 31 | 176 | 2 | 317 |

*31 December 2015*

| *US$ million* | Russian Plans | Ukrainian plans | US & Canadian plans | Other plans | Total |
|---|---|---|---|---|---|
| Benefit obligation | $ 90 | $ 45 | $ 691 | $ 2 | $ 828 |
| Plan assets | (1) | – | (526) | – | (527) |
| | 89 | 45 | 165 | 2 | 301 |

## 23. Employee Benefits (continued)

***Movements in net defined benefit liability/(asset)***

| *US$ million* | Russian plans | Ukrainian plans | US & Canadian plans | Other plans | Total |
|---|---|---|---|---|---|
| **At 31 December 2014** | **$ 110** | **$ 58** | **$ 182** | **$ 14** | **$ 364** |
| Net benefit expense recognised in the statement of operations | 6 | 6 | 32 | 1 | 45 |
| Contributions by employer | (9) | (3) | (30) | (1) | (43) |
| (Gains)/losses recognised in other comprehensive income | 8 | 5 | (14) | – | (1) |
| Reclassification to liabilities directly associated with disposal groups classified as held for sale | (1) | – | – | (11) | (12) |
| Translation difference | (25) | (21) | (5) | (1) | (52) |
| **At 31 December 2015** | **$ 89** | **$ 45** | **$ 165** | **$ 2** | **$ 301** |
| Net benefit expense recognised in the statement of operations | 10 | 6 | 27 | – | 43 |
| Contributions by employer | (7) | (3) | (17) | – | (27) |
| (Gains)/losses recognised in other comprehensive income | (2) | (8) | (1) | – | (11) |
| Reclassification to liabilities directly associated with disposal groups classified as held for sale | – | (4) | – | – | (4) |
| Translation difference | 18 | (5) | 2 | – | 15 |
| **At 31 December 2016** | **$ 108** | **$ 31** | **$ 176** | **$ 2** | **$ 317** |
| Net benefit expense recognised in the statement of operations | 12 | 2 | 28 | – | 42 |
| Contributions by employer | (8) | (2) | (27) | – | (37) |
| (Gains)/losses recognised in other comprehensive income | (6) | 4 | (25) | – | (27) |
| Reclassification to liabilities directly associated with disposal groups classified as held for sale | – | (16) | – | (2) | (18) |
| Translation difference | 5 | – | 2 | – | 7 |
| **At 31 December 2017** | **$ 111** | **$ 19** | **$ 154** | **$ –** | **$ 284** |

## 23. Employee Benefits (continued)

***Movements in benefit obligation***

| *US$ million* | Russian plans | Ukrainian plans | US & Canadian plans | Other plans | Total |
|---|---|---|---|---|---|
| **At 31 December 2014** | **$ 110** | **$ 58** | **$ 790** | **$ 14** | **$ 972** |
| Interest cost on benefit obligation | 11 | 6 | 30 | – | 47 |
| Current service cost | 4 | 2 | 23 | – | 29 |
| Past service cost | (7) | (2) | 3 | – | (6) |
| Benefits paid | (8) | (3) | (35) | (1) | (47) |
| Actuarial (gains)/losses on benefit obligation related to changes in demographic assumptions | (1) | – | (8) | – | (9) |
| Actuarial (gains)/losses on benefit obligation related to changes in financial assumptions | 14 | 2 | (17) | 1 | – |
| Actuarial (gains)/losses on benefit obligation related to experience adjustments | (5) | 3 | 1 | – | (1) |
| Curtailment/settlement gain | (2) | – | (1) | – | (3) |
| Reclassification to liabilities directly associated with disposal groups classified as held for sale | (1) | – | – | (11) | (12) |
| Settlement of lump-sum payments | – | – | (31) | – | (31) |
| Translation difference | (25) | (21) | (64) | (1) | (111) |
| **At 31 December 2015** | **$ 90** | **$ 45** | **$ 691** | **$ 2** | **$ 828** |
| Interest cost on benefit obligation | 9 | 5 | 27 | – | 41 |
| Current service cost | 2 | 2 | 19 | – | 23 |
| Past service cost | 1 | (1) | – | – | – |
| Benefits paid | (7) | (3) | (43) | – | (53) |
| Actuarial (gains)/losses on benefit obligation related to changes in demographic assumptions | – | – | (10) | – | (10) |
| Actuarial (gains)/losses on benefit obligation related to changes in financial assumptions | (1) | (6) | 14 | – | 7 |
| Actuarial (gains)/losses on benefit obligation related to experience adjustments | (3) | (2) | 2 | – | (3) |
| Curtailment/settlement gain | (1) | – | – | – | (1) |
| Reclassification to liabilities directly associated with disposal groups classified as held for sale | – | (4) | – | – | (4) |
| Translation difference | 18 | (5) | 11 | – | 24 |
| **At 31 December 2016** | **$ 108** | **$ 31** | **$ 711** | **$ 2** | **$ 852** |
| Interest cost on benefit obligation | 9 | 4 | 24 | – | 37 |
| Current service cost | 2 | 1 | 18 | – | 21 |
| Past service cost | 3 | (3) | 3 | – | 3 |
| Benefits paid | (8) | (2) | (37) | – | (47) |
| Actuarial (gains)/losses on benefit obligation related to changes in demographic assumptions | – | – | (19) | – | (19) |
| Actuarial (gains)/losses on benefit obligation related to changes in financial assumptions | (11) | 4 | 48 | – | 41 |
| Actuarial (gains)/losses on benefit obligation related to experience adjustments | 3 | – | (6) | – | (3) |
| Curtailment/settlement gain | – | – | (2) | – | (2) |
| Reclassification to liabilities directly associated with disposal groups classified as held for sale | – | (16) | – | (2) | (18) |
| Translation difference | 5 | – | 25 | – | 30 |
| **At 31 December 2017** | **$ 111** | **$ 19** | **$ 765** | **$ –** | **$ 895** |

## 23. Employee Benefits (continued)

The weighted average duration of the defined benefit obligation was as follows:

| *Years* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Russian plans | **10.11** | 11.21 | 10.93 |
| Ukrainian plans | **8.00** | 8.26 | 8.76 |
| US & Canadian plans | **13.09** | 13.79 | 14.35 |
| Other plans | **7.46** | 9.12 | 9.66 |

***Changes in the fair value of plan assets***

| *US$ million* | Russian plans | Ukrainian plans | US & Canadian plans | Other plans | Total |
|---|---|---|---|---|---|
| **At 31 December 2014** | **$ –** | **$ –** | **$ 608** | **$ –** | **$ 608** |
| Interest income on plan assets | – | – | 23 | – | 23 |
| Return on plan assets (excluding amounts included in net interest expense) | – | – | (10) | – | (10) |
| Contributions of employer | 9 | 3 | 30 | 1 | 43 |
| Benefits paid | (8) | (3) | (35) | (1) | (47) |
| Settlement of lump-sum payments | – | – | (31) | – | (31) |
| Translation difference | – | – | (59) | – | (59) |
| **At 31 December 2015** | **$ 1** | **$ –** | **$ 526** | **$ –** | **$ 527** |
| Interest income on plan assets | – | – | 19 | – | 19 |
| Return on plan assets (excluding amounts included in net interest expense) | (1) | – | 7 | – | 6 |
| Contributions of employer | 7 | 3 | 17 | – | 27 |
| Benefits paid | (7) | (3) | (43) | – | (53) |
| Translation difference | – | – | 9 | – | 9 |
| **At 31 December 2016** | **$ –** | **$ –** | **$ 535** | **$ –** | **$ 535** |
| Interest income on plan assets | – | – | 18 | – | 18 |
| Return on plan assets (excluding amounts included in net interest expense) | – | – | 48 | – | 48 |
| Contributions of employer | 8 | 2 | 27 | – | 37 |
| Benefits paid | (8) | (2) | (37) | – | (47) |
| Other | – | – | (3) | – | (3) |
| Translation difference | – | – | 23 | – | 23 |
| **At 31 December 2017** | **$ –** | **$ –** | **$ 611** | **$ –** | **$ 611** |

The amount of contributions expected to be paid to the defined benefit plans during 2018 approximates $44 million.

The major categories of plan assets as a percentage of total plan assets were as follows at 31 December:

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| | Quoted | Unquoted | Quoted | Unquoted | Quoted | Unquoted |
| US & Canadian plans: | | | | | | |
| Equity funds and investment trusts | **47%** | **39%** | 45% | 40% | 50% | 34% |
| Corporate bonds and notes | **12%** | **–** | 13% | – | 13% | 1% |
| Property | **–** | **–** | – | – | – | – |
| Cash | **2%** | **–** | 2% | – | 2% | – |
| | **61%** | **39%** | 60% | 40% | 65% | 35% |

## 23. Employee Benefits (continued)

The principal assumptions used in determining pension obligations for the Group's plans are shown below:

| | 2017 | | | | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Russian plans | Ukrainian plans | US & Canadian plans | Other plans | Russian plans | Ukrainian plans | US & Canadian plans | Other plans | Russian Plans | Ukrainian plans | US & Canadian plans | Other plans |
| Discount rate | 7.6% | 11.6% | 3.6-4.0% | 3% | 8.2% | 17.5% | 3.9-4.2% | 2.8-9.1% | 9.6% | 13.0% | 3.9-4.5% | 2.8-9% |
| Future benefits increases | 5% | 6% | – | 3% | 7% | 11% | – | 3% | 8% | 8% | – | 3% |
| Future salary increase | 5% | 6% | 3% | – | 7% | 11% | 3% | – | 8% | 8% | 3–3.3% | – |
| Average life expectation, male, years | 68.6 | 65 | 85.3-87 | 81 | 68.6 | 65.5 | 85.8-86.6 | 77.1-81 | 68.5 | 65.5 | 86.3-87.5 | 78.1-79 |
| Average life expectation, female, years | 79.0 | 75 | 88-89 | 87 | 79.0 | 75.5 | 88.6-89.3 | 77.1-87 | 78.9 | 75.5 | 89-89.3 | 75.2-85 |
| Healthcare costs increase rate | – | – | 6.7% | – | – | – | 5-7% | 8.6% | – | – | 5.4-7% | 8.8% |

The following table demonstrates the sensitivity analysis of reasonable changes in the significant assumptions used for the measurement of the defined benefit obligations, with all other variables held constant.

| | | Impact on the defined benefit obligation at 31 December 2017, US$ million | | | | Impact on the defined benefit obligation at 31 December 2016, US$ million | | | | Impact on the defined benefit obligation at 31 December 2015, US$ million | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Reasonable change in assumption | Russian plans | Ukrainian plans | US & Canadian plans | Other plans | Russian plans | Ukrainian plans | US & Canadian plans | Other plans | Russian plans | Ukrainian plans | US & Canadian plans | Other plans |
| Discount rate | 10% | $(7) | $(2) | $(37) | $– | $(8) | $(4) | $(41) | $– | $(8) | $(5) | $(35) | $– |
| | (10%) | 8 | 2 | 40 | – | 10 | 5 | 44 | – | 10 | 6 | 37 | – |
| Future benefits increases | 10% | 5 | – | – | – | 7 | 1 | – | – | 7 | 1 | – | – |
| | (10%) | (4) | – | – | – | (7) | (1) | – | – | (6) | (1) | – | – |
| Future salary increase | 10% | – | 1 | 1 | – | 1 | 1 | 1 | – | 1 | 2 | 2 | – |
| | (10%) | – | (1) | (1) | – | (1) | (1) | (1) | – | (1) | (2) | (2) | – |
| Average life expectation, male, years | 1 | 1 | – | 12 | – | 1 | – | 13 | – | 1 | – | 14 | – |
| | (1) | (1) | – | (12) | – | (1) | – | (13) | – | (1) | – | (14) | – |
| Average life expectation, female, years | 1 | 1 | – | 6 | – | 1 | – | 5 | – | 1 | – | 4 | – |
| | (1) | (1) | – | (6) | – | (1) | – | (5) | – | (1) | – | (4) | – |
| Healthcare costs increase rate | 10% | – | – | 1 | – | – | – | 1 | – | – | – | – | – |
| | (10%) | – | – | (1) | – | – | – | (1) | – | – | – | – | – |

## 24. Provisions

At 31 December the provisions were as follows:

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| *US$ million* | **Non-current** | **Current** | **Non-current** | **Current** | **Non-current** | **Current** |
| Site restoration and decommissioning costs | **$ 260** | **$ 29** | $ 204 | $ 20 | $ 145 | $ 20 |
| Legal claims | **7** | **–** | – | 3 | – | 2 |
| Other provisions | **2** | **3** | 1 | 3 | 1 | 1 |
| | **$ 269** | **$ 32** | $ 205 | $ 26 | $ 146 | $ 23 |

In the years ended 31 December 2017, 2016 and 2015, the movement in provisions was as follows:

| *US$ million* | **Site restoration and decommissioning costs** | **Legal claims** | **Other provisions** | **Total** |
|---|---|---|---|---|
| **At 31 December 2014** | **$ 205** | **$ 3** | **$ 6** | **$ 214** |
| Additional provisions | 13 | 3 | 4 | 20 |
| Increase from passage of time | 13 | – | – | 13 |
| Effect of change in the discount rate | 35 | – | – | 35 |
| Effect of changes in estimated costs and timing | 19 | – | – | 19 |
| Utilised in the year | (20) | (1) | (6) | (27) |
| Unused amounts reversed | (4) | (2) | (2) | (8) |
| Loss of control over a subsidiary (Note 4) | (54) | – | – | (54) |
| Reclassification to liabilities directly associated with disposal groups classified as held for sale | (4) | – | – | (4) |
| Translation difference | (38) | (1) | – | (39) |
| **At 31 December 2015** | **$ 165** | **$ 2** | **$ 2** | **$ 169** |
| Additional provisions | 15 | 5 | 8 | 28 |
| Increase from passage of time | 14 | – | – | 14 |
| Effect of change in the discount rate | 17 | – | – | 17 |
| Effect of changes in estimated costs and timing | 5 | – | – | 5 |
| Utilised in the year | (9) | (1) | (5) | (15) |
| Unused amounts reversed | (9) | (3) | (1) | (13) |
| Translation difference | 26 | – | – | 26 |
| **At 31 December 2016** | **$ 224** | **$ 3** | **$ 4** | **$ 231** |
| Additional provisions | 11 | 8 | 6 | 25 |
| Increase from passage of time | 16 | – | – | 16 |
| Effect of change in the discount rate | 33 | – | – | 33 |
| Effect of changes in estimated costs and timing | 15 | – | – | 15 |
| Utilised in the year | (11) | – | (5) | (16) |
| Unused amounts reversed | (1) | (4) | – | (5) |
| Reclassification to liabilities directly associated with disposal groups classified as held for sale | (9) | – | – | (9) |
| Translation difference | 11 | – | – | 11 |
| **At 31 December 2017** | **$ 289** | **$ 7** | **$ 5** | **$ 301** |

## 24. Provisions (continued)

*Site Restoration Costs*

Under the legislation, mining companies and steel mills have obligations to restore mining sites and contaminated land. The majority of costs are expected to be paid after 2061.

At 31 December the respective liabilities were measured based on estimates of restoration costs, which are expected to be incurred in the future discounted at the following annual rates:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Russia | **8%** | 9% | 10% |
| Ukraine | **13.2%** | 13.2% | 12.8% |
| USA | **2.2%** | 1.5% | 1.5% |
| Others | **5%** | 4.9-7.4% | 5-7.5% |

## 25. Other Long-Term Liabilities

Other long-term liabilities consisted of the following as of 31 December:

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Derivatives not designated as hedging instruments | **$ –** | $ – | $ 274 |
| Hedging instruments | **3** | 22 | 59 |
| Dividends payable under cumulative preference shares of a subsidiary to a related party | **–** | 18 | 16 |
| Employee income participation plans and compensations | **5** | 5 | 2 |
| Tax liabilities | **1** | 3 | 5 |
| Finance lease liabilities | **8** | 5 | 5 |
| Other liabilities to related parties | **1** | 1 | 1 |
| Other financial liabilities | **45** | 62 | 43 |
| Other non-financial liabilities | **11** | 4 | – |
| | **74** | 120 | 405 |
| Less: current portion (Note 26) | **(20)** | (26) | (289) |
| | **$ 54** | $ 94 | $ 116 |

*Derivatives Not Designated as Hedging Instruments*

To manage the currency exposure on the rouble-denominated bonds, the Group partially economically hedged these transactions: in 2010-2013, the Group concluded currency and interest rate swap contracts under which it agreed to deliver US dollar-denominated interest payments at the rates ranging from 3.06% to 8.90% per annum plus the US dollar notional amount, in exchange for rouble-denominated interest payments plus the rouble notional amount. The exchange is exercised on approximately the same dates as the payments under the bonds.

The swap contracts, which were effective at 31 December 2015-2016, are summarised in the table below.

| | Year of issue | Bonds principal, millions of roubles | Hedged amount, millions of roubles | Swap amount, US$ million | Interest rates on the swap amount |
|---|---|---|---|---|---|
| 9.95 per cent bonds due 2015 | 2010 | 15,000 | 14,997 | 491 | 5.65% - 5.88% |
| 8.40 per cent bonds due 2016 | 2011 | 20,000 | 19,996 | 711 | 4.45% - 4.60% |
| 8.75 per cent bonds due 2015 | 2013 | 3,885 | 3,735 | 121 | 3.06% - 3.33% |

## 25. Other Long-Term Liabilities (continued)

*Derivatives Not Designated as Hedging Instruments (continued)*

In 2017, one of the swaps with a notional amount of $26 million did not meet the criteria for effectiveness for hedging instruments and ceased to be classified as a hedging instrument. This swap was reclassified into Derivatives Not Designated as Hedging Instruments.

The aggregate amounts under swap contracts translated at the year end exchange rates are summarised in the table below.

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| Bonds principal | **$ 28** | $ – | $ 165 |
| Hedged amount | **28** | – | 165 |
| Swap amount | **26** | – | 430 |

These swap contracts were not designated as cash flow or fair value hedges or excluded from such hedging instruments due to hedge inefficiency. The Group accounted for these derivatives at fair value which was determined using valuation techniques. The fair value was calculated as the present value of the expected cashflows under the contracts at the reporting dates. Future rouble-denominated cashflows were translated into US dollars using the USD/RUB implied yield forward curve. The discount rates used in the valuation were the non-deliverable forward rate curve and the interest rate swap curve for US dollar at the reporting dates.

In 2017, 2016 and 2015, a change in fair value of the derivatives of $2 million, $273 million and $439 million, respectively, together with a realised gain/(loss) on the swap transactions, amounting to $2 million, $(250) million and $(464) million, respectively, was recognised within gain/(loss) on financial assets and liabilities in the consolidated statement of operations (Note 7).

In 2015–2016, upon repayment of the 8.40%, 9.95% and 8.75% bonds, the related swap contracts matured.

*Hedging Instruments*

In July 2015, the Group completed a placement of bonds in the total amount of 15,000 million Russian roubles ($260 million at 31 December 2017), which bear interest of 12.95% per annum and have the next put date on 26 June 2019. The Group used an intercompany loan to transfer the proceeds from the bonds within the Group. To manage the currency exposure, the Group entered into a series of cross currency swap contracts with several banks under which it agreed to deliver US-dollar denominated interest payments at rates ranging from 5.90% to 6.55% per annum plus the notional amount, totaling approximately $265 million, in exchange for rouble-denominated interest payments at the rate of 12.95% per annum plus notional, totaling 14,948 million roubles ($260 million at 31 December 2017).

| | **Year of issue** | **Bonds principal, millions of roubles** | **Hedged amount, millions of roubles** | **Swap amount, US$ million** | **Interest rates on the swap amount** |
|---|---|---|---|---|---|
| 12.95 per cent bonds due 2019 | 2015 | 15,000 | 13,310 | 239 | 5.90% - 6.55% |

The Group accounted for these swap contracts as cash flow hedges. In 2017, one of these swap contracts with the notional amount of $26 million did not meet the criteria for efficiency and ceased to be classified as hedging instruments. In 2017, 2016 and 2015, the change in fair value of these derivatives amounted to $20 million, $37 million and $(59) million, respectively. The realised gain on the swap transactions amounting to $14 million, $14 million and $5 million, respectively, was related to the interest portion of the change in fair value of the swap. Under IFRS the lesser of the cumulative gain or loss on the hedging instrument from inception of the hedge and the cumulative change in present value of the expected future cash flows on the hedged item from inception of the hedge is recognised in other comprehensive income and the remaining loss on the hedging instrument is recorded through the statement of operations. In 2017, the Group recognised a $9 million gain in other comprehensive income (2016 and 2015: $Nil). Most of the swaps were assessed as effective. Those swaps, which ceased to be effective, were reclassified into Derivatives Not Designated as Hedging Instruments. In 2017, 2016 and 2015, $11 million, $37 and $(59) million, respectively, were recorded in the Foreign exchange gains/(losses) caption in the consolidated statement of operations.

## 26. Trade and Other Payables

Trade and other payables consisted of the following as of 31 December:

| *US$ million* | **2017** | 2016 | 2015 |
|---|---|---|---|
| Trade accounts payable | **$ 822** | $ 737 | $ 621 |
| Accrued payroll | **158** | 134 | 122 |
| Other long-term obligations with current maturities (Note 25) | **20** | 26 | 289 |
| Other payables | **128** | 38 | 38 |
| | **$ 1,128** | $ 935 | $ 1,070 |

The maturity profile of the accounts payable is shown in Note 28.

## 27. Other Taxes Payable

Taxes payable were mainly denominated in roubles and consisted of the following as of 31 December:

| *US$ million* | **2017** | 2016 | 2015 |
|---|---|---|---|
| VAT | **$ 129** | $ 104 | $ 51 |
| Social insurance taxes | **42** | 39 | 30 |
| Property tax | **12** | 9 | 10 |
| Land tax | **6** | 4 | 4 |
| Personal income tax | **7** | 7 | 7 |
| Other taxes, fines and penalties | **16** | 6 | 5 |
| | **$ 212** | $ 169 | $ 107 |

## 28. Financial Risk Management Objectives and Policies

### Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable.

To manage credit risk related to cash, the Group maintains its available cash, mainly in US dollars, in reputable international banks and major Russian banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

The Group's trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. There are no significant concentrations of credit risk within the Group. The Group defines counterparties as having similar characteristics if they are related entities. In 2017, the major customers were Russian Railways, Sibuglemet Trading and Enbridge Inc. (4.1%, 1.7% and 1.5% of total sales, respectively).

Part of the Group's sales is made on terms of letter of credit. In addition, the Group requires prepayments from certain customers. The Group does not require collateral in respect of trade and other receivables, except when a customer applies for credit terms which are longer than normal. In this case, the Group requires bank guarantees or other collateral. The Group has developed standard credit terms and constantly monitors the status of accounts receivable collection and the creditworthiness of the customers.

Certain of the Group's long-standing Russian customers for auxiliary products, such as heat and electricity, represent municipal enterprises and governmental organisations that experience financial difficulties. The significant part of doubtful debts allowance consists of receivables from such customers. The Group has no practical ability to terminate the supply to these customers and negotiates with regional and municipal authorities the terms of recovery of these receivables.

## 28. Financial Risk Management Objectives and Policies (continued)

### Credit Risk (continued)

At 31 December the maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below.

| *US$ million* | **2017** | 2016 | 2015 |
|---|---|---|---|
| Restricted deposits at banks (Notes 13 and 18) | **$ 21** | $ 12 | $ 8 |
| Financial instruments included in other non-current and current assets (Notes 13 and 18) | **61** | 52 | 40 |
| Long-term and short-term investments (Notes 13 and 18) | **65** | 35 | 37 |
| Trade and other receivables (Notes 13 and 15) | **754** | 506 | 452 |
| Loans receivable | **31** | 34 | 28 |
| Receivables from related parties (Notes 13 and 16) | **19** | 8 | 7 |
| Cash and cash equivalents (Note 19) | **1,466** | 1,157 | 1,375 |
| | **$ 2,417** | $ 1,804 | $ 1,947 |

Receivables from related parties in the table above do not include prepayments in the amount of $1 million, $Nil and $Nil as of 31 December 2017, 2016 and 2015, respectively.

The ageing analysis of trade and other receivables, loans receivable and receivables from related parties at 31 December is presented in the table below.

| | **2017** | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| *US$ million* | **Gross amount** | **Impairment** | Gross amount | Impairment | Gross amount | Impairment |
| Not past due | **$ 671** | **$ (1)** | $ 408 | $ (1) | $ 385 | $ – |
| Past due | **187** | **(53)** | 187 | (46) | 150 | (48) |
| less than six months | **114** | **(2)** | 130 | (2) | 95 | (8) |
| between six months and one year | **20** | **(10)** | 7 | (2) | 9 | (2) |
| over one year | **53** | **(41)** | 50 | (42) | 46 | (38) |
| | **$ 858** | **$ (54)** | $ 595 | $ (47) | $ 535 | $ (48) |

In the years ended 31 December 2017, 2016 and 2015, the movement in allowance for doubtful accounts was as follows:

| *US$ million* | **2017** | 2016 | 2015 |
|---|---|---|---|
| At 1 January | **$ (47)** | $ (48) | $ (57) |
| Charge for the year | **(10)** | (1) | (18) |
| Utilised | **4** | 5 | 5 |
| Disposal of subsidiaries | **1** | 5 | 8 |
| Translation difference | **(2)** | (8) | 14 |
| At 31 December | **$ (54)** | $ (47) | $ (48) |

### Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

## 28. Financial Risk Management Objectives and Policies (continued)

### Liquidity Risk (continued)

The Group prepares a rolling 12-month financial plan which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities as they arise. The Group exercises a daily monitoring of cash proceeds and payments. The Group maintains credit lines and overdraft facilities that can be drawn down to meet short-term financing needs. If necessary, the Group refinances its short-term debt by long-term borrowings. The Group also uses forecasts to monitor potential and actual financial covenants compliance issues (Note 22). Where compliance is at risk, the Group considers options including debt repayment, refinancing or covenant reset. The Group has developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments.

### 31 December 2017

| *US$ million* | On demand | Less than 3 months | 3 to 12 months | 1 to 2 years | 2 to 5 years | After 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Fixed –rate debt** | | | | | | | |
| Loans and borrowings | | | | | | | |
| *Principal* | $ – | $ – | $ 4 | $ 269 | $ 2,580 | $ 799 | $ 3,652 |
| *Interest* | – | 90 | 179 | 252 | 416 | 22 | 959 |
| Finance lease liabilities | – | – | 1 | 4 | 1 | 6 | 12 |
| Financial instruments included in long-term liabilities | – | 14 | 3 | 20 | 15 | 4 | 56 |
| Amounts payable under put options for shares in subsidiaries | | | | | | | |
| *Principal* | – | – | – | 60 | – | – | 60 |
| *Interest* | – | – | – | 4 | – | – | 4 |
| **Total fixed-rate debt** | – | 104 | 187 | 609 | 3,012 | 831 | 4,743 |
| **Variable-rate debt** | | | | | | | |
| Loans and borrowings | | | | | | | |
| *Principal* | – | 1 | 57 | 408 | 1,013 | 202 | 1,681 |
| *Interest* | – | 19 | 57 | 64 | 113 | 4 | 257 |
| **Total variable-rate debt** | – | 20 | 114 | 472 | 1,126 | 206 | 1,938 |
| **Non-interest bearing debt** | | | | | | | |
| Financial instruments included in long-term liabilities | – | – | 1 | – | 1 | – | 2 |
| Trade and other payables | 143 | 770 | 37 | – | – | – | 950 |
| Payables to related parties | 237 | 18 | – | – | – | – | 255 |
| **Total non-interest bearing debt** | 380 | 788 | 38 | – | 1 | – | 1,207 |
| | $ 380 | $ 912 | $ 339 | $ 1,081 | $ 4,139 | $ 1,037 | $ 7,888 |

# 28. Financial Risk Management Objectives and Policies (continued)

## Liquidity Risk (continued)

### 31 December 2016

| *US$ million* | On demand | Less than 3 months | 3 to 12 months | 1 to 2 years | 2 to 5 years | After 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Fixed –rate debt** | | | | | | | |
| Loans and borrowings | | | | | | | |
| *Principal* | $ – | $ – | $ 26 | $ 656 | $ 2,763 | $ 726 | $ 4,171 |
| *Interest* | – | 74 | 250 | 295 | 563 | 28 | 1,210 |
| Finance lease liabilities | – | – | – | – | 1 | 5 | 6 |
| Financial instruments included in long-term liabilities | – | 17 | 5 | 19 | 58 | 19 | 118 |
| **Total fixed-rate debt** | – | 91 | 281 | 970 | 3,385 | 778 | 5,505 |
| **Variable-rate debt** | | | | | | | |
| Loans and borrowings | | | | | | | |
| *Principal* | 142 | 12 | 114 | 196 | 893 | 312 | 1,669 |
| *Interest* | 1 | 25 | 74 | 91 | 154 | 21 | 366 |
| Finance lease liabilities | – | – | 1 | – | – | – | 1 |
| **Total variable-rate debt** | 143 | 37 | 189 | 287 | 1,047 | 333 | 2,036 |
| **Non-interest bearing debt** | | | | | | | |
| Financial instruments included in other liabilities | 2 | – | – | 1 | 1 | 1 | 5 |
| Trade and other payables | 118 | 650 | 7 | – | – | – | 775 |
| Payables to related parties | 209 | 13 | – | – | – | – | 222 |
| **Total non-interest bearing debt** | 329 | 663 | 7 | 1 | 1 | 1 | 1,002 |
| | $ 472 | $ 791 | $ 477 | $ 1,258 | $ 4,433 | $ 1,112 | $ 8,543 |

### 31 December 2015

| *US$ million* | On demand | Less than 3 months | 3 to 12 months | 1 to 2 years | 2 to 5 years | After 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Fixed –rate debt** | | | | | | | |
| Loans and borrowings | | | | | | | |
| *Principal* | $ – | $ 4 | $ 188 | $ 498 | $ 3,012 | $ 780 | $ 4,482 |
| *Interest* | – | 8 | 301 | 309 | 517 | 35 | 1,170 |
| Finance lease liabilities | – | – | – | – | 1 | 5 | 6 |
| Financial instruments included in long-term liabilities | – | 9 | 278 | 11 | 124 | 17 | 439 |
| **Total fixed-rate debt** | – | 21 | 767 | 818 | 3,654 | 837 | 6,097 |
| **Variable-rate debt** | | | | | | | |
| Loans and borrowings | | | | | | | |
| *Principal* | 85 | 80 | 86 | 197 | 1,353 | 45 | 1,846 |
| *Interest* | – | 26 | 73 | 93 | 133 | 1 | 326 |
| Finance lease liabilities | – | – | 1 | 1 | – | – | 2 |
| **Total variable-rate debt** | 85 | 106 | 160 | 291 | 1,486 | 46 | 2,174 |
| **Non-interest bearing debt** | | | | | | | |
| Financial instruments included in other liabilities | 3 | – | – | 2 | 1 | 1 | 7 |
| Trade and other payables | 152 | 502 | 5 | – | – | – | 659 |
| Payables to related parties | 133 | 9 | – | – | – | – | 142 |
| **Total non-interest bearing debt** | 288 | 511 | 5 | 2 | 1 | 1 | 808 |
| | $ 373 | $ 638 | $ 932 | $ 1,111 | $ 5,141 | $ 884 | $ 9,079 |

Payables to related parties in the tables above do not include advances received in the amount of $1 million, $4 million and $1 million as of 31 December 2017, 2016 and 2015, respectively.

# 28. Financial Risk Management Objectives and Policies (continued)

## Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures, while optimising the return on risk.

***Interest Rate Risk***

The Group borrows on both a fixed and variable rate basis and has other interest-bearing liabilities, such as finance lease liabilities and other obligations.

The Group incurs interest rate risk on liabilities with variable interest rates. The Group's treasury function performs analysis of current interest rates. In case of changes in market fixed or variable interest rates management may consider the refinancing of a particular debt on more favourable terms.

The Group does not have any financial assets with variable interest rates.

*Fair Value Sensitivity Analysis for Fixed Rate Instruments*

The Group does not account for any fixed rate financial assets or liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect the Group's profits.

The Group does not account for any fixed rate financial assets as assets available for sale. Therefore, a change in interest rates at the reporting date would not affect the Group's equity.

*Cash Flow Sensitivity Analysis for Variable Rate Instruments*

Based on the analysis of exposure during the years presented, reasonably possible changes in floating interest rates at the reporting date would affect profit before tax ("PBT") by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

In estimating reasonably possible changes the Group assessed the volatility of interest rates during the reporting periods.

| | **2017** | | **2016** | | **2015** | |
|---|---|---|---|---|---|---|
| | **Basis points** | **Effect on PBT** | **Basis points** | **Effect on PBT** | **Basis points** | **Effect on PBT** |
| | | *US$ millions* | | *US$ millions* | | *US$ millions* |
| **Liabilities denominated in US dollars** | | | | | | |
| *Decrease in LIBOR* | **(11)** | **$ 2** | (11) | $ 1 | (12) | $ 2 |
| *Increase in LIBOR* | **11** | **(2)** | 11 | (1) | 50 | (8) |
| **Liabilities denominated in euro** | | | | | | |
| *Decrease in EURIBOR* | **(1)** | **–** | (4) | – | (25) | – |
| *Increase in EURIBOR* | **1** | **$ –** | 4 | $ – | 25 | $ – |
| **Liabilities denominated in roubles** | | | | | | |
| *Decrease in Bank of Russia key rate* | **(225)** | **–** | (200) | 6 | (525) | 13 |
| *Increase in Bank of Russia key rate* | **300** | **$ –** | 700 | $ (21) | 550 | $ (14) |

***Currency Risk***

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in currencies other than the functional currencies of the respective Group's subsidiaries. The currencies in which these transactions are denominated are primarily US dollars, Canadian dollars and euro. The Group does not have formal arrangements to mitigate currency risks of the Group's operations. However, management believes that the Group is partly secured from currency risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

# 28. Financial Risk Management Objectives and Policies (continued)

## Market Risk (continued)

***Currency Risk (continued)***

The Group's exposure to currency risk determined as the net monetary position in the respective currencies was as follows at 31 December:

| *US$ million* | **2017** | 2016 | 2015 |
|---|---|---|---|
| USD/RUB | **$ 2,589** | $ 1,242 | $ 304 |
| EUR/RUB | **(276)** | (75) | (399) |
| CAD/RUB | **–** | 335 | 312 |
| EUR/USD | **(11)** | (116) | 119 |
| USD/CAD | **(892)** | (672) | (499) |
| EUR/CZK | **(6)** | (1) | (1) |
| USD/CZK | **5** | 6 | 6 |
| USD/ZAR | **–** | (4) | (5) |
| USD/UAH | **(199)** | (136) | (113) |
| RUB/UAH | **(4)** | 4 | 1 |
| USD/KZT | **(163)** | (161) | (157) |

*Sensitivity Analysis*

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax. In estimating reasonably possible changes the Group assessed the volatility of foreign exchange rates during the reporting periods.

| | **2017** | | **2016** | | **2015** | |
|---|---|---|---|---|---|---|
| | **Change in exchange rate** | **Effect on PBT** | **Change in exchange rate** | **Effect on PBT** | **Change in exchange rate** | **Effect on PBT** |
| | % | *US$ millions* | % | *US$ millions* | % | *US$ millions* |
| USD/RUB | **(10.01)** | **(282)** | (20.02) | (325) | (13.00) | (60) |
| | **10.01** | **241** | 20.02 | 198 | 40.00 | 3 |
| EUR/RUB | **(11.35)** | **31** | (20.68) | 16 | (15.00) | 60 |
| | **11.35** | **(31)** | 20.68 | (16) | 43.00 | (172) |
| CAD/RUB | **(12.03)** | **–** | (22.38) | (75) | (14.00) | (44) |
| | **12.03** | **–** | 22.38 | 75 | 35.00 | 109 |
| EUR/USD | **(7.36)** | **1** | (9.16) | 10 | (12.50) | (16) |
| | **7.36** | **(1)** | 9.16 | (11) | 12.50 | 14 |
| USD/CAD | **(6.76)** | **61** | (9.16) | 62 | (6.00) | 30 |
| | **6.76** | **(60)** | 9.16 | (61) | 14.50 | (72) |
| EUR/CZK | **(3.08)** | **–** | (0.65) | – | (3.50) | – |
| | **3.08** | **–** | 0.65 | – | 3.50 | – |
| USD/CZK | **(7.95)** | **–** | (9.17) | (1) | (12.50) | (1) |
| | **7.95** | **–** | 9.17 | 1 | 12.50 | 1 |
| USD/ZAR | **–** | **–** | (21.23) | 1 | (8.00) | – |
| | **–** | **–** | 21.23 | (1) | 38.00 | (1) |
| EUR/ZAR | **–** | **–** | (19.62) | – | (10.00) | – |
| | **–** | **–** | 19.62 | – | 43.00 | – |
| USD/UAH | **(5.78)** | **12** | (9.88) | 13 | (18.00) | 20 |
| | **5.78** | **(11)** | 9.88 | (13) | 67.00 | (76) |
| RUB/UAH | **(11.99)** | **–** | (22.29) | (1) | (33.50) | – |
| | **11.99** | **–** | 22.29 | 1 | 50.00 | – |
| USD/KZT | **(6.30)** | **10** | (12.13) | 20 | (20.00) | 31 |
| | **6.30** | **(10)** | 12.13 | (20) | 60.00 | (94) |

## 28. Financial Risk Management Objectives and Policies (continued)

### Market Risk (continued)

***Currency Risk (continued)***

*Sensitivity Analysis (continued)*

In addition to the effects of changes in the exchange rates disclosed above, the Group is exposed to currency risk on derivatives (Note 25). The impact of currency risk on the fair value of these derivatives is disclosed below.

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| | Change in exchange rate | Effect on PBT | Change in exchange rate | Effect on PBT | Change in exchange rate | Effect on PBT |
| | % | US$ millions | % | US$ millions | % | US$ millions |
| USD/RUB | **(10.01)** | **66** | (20.02) | 65 | (13) | 55 |
| | **10.01** | **(49)** | 20.02 | (43) | 40 | (104) |

### Fair Value of Financial Instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data (unobservable inputs).

The carrying amounts of financial instruments, such as cash, short-term and long-term investments, short-term accounts receivable and payable, short-term loans receivable and payable and promissory notes, approximate their fair value.

At 31 December the Group held the following financial instruments measured at fair value:

| | 2017 | | | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| *US$ million* | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| **Assets measured at fair value** | | | | | | | | | |
| Derivatives not designated as hedging instruments (Note 25) | **–** | **3** | **–** | – | – | – | – | – | – |
| Hedging instruments (Note 25) | **–** | **1** | **–** | – | – | – | – | – | – |
| Available-for-sale financial assets (Note 13) | **33** | **–** | **–** | 3 | – | – | 5 | – | – |
| **Liabilities measured at fair value** | | | | | | | | | |
| Derivatives not designated as hedging instruments (Note 25) | **–** | **–** | **–** | – | – | – | – | 274 | – |
| Hedging instruments (Note 25) | **–** | **3** | **–** | – | 22 | – | – | 59 | – |

## 28. Financial Risk Management Objectives and Policies (continued)

### Fair Value of Financial Instruments (continued)

During the reporting period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table shows financial instruments for which carrying amounts differ from fair values at 31 December.

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| *US$ million* | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Long-term fixed-rate bank loans | **$ 427** | **$ 442** | $ 390 | $ 402 | $ 397 | $ 385 |
| Long-term variable-rate bank loans | **1,668** | **1,665** | 1,516 | 1,528 | 1,680 | 1,564 |
| *USD-denominated* | | | | | | |
| 7.40% notes due 2017 | **–** | **–** | – | – | 290 | 299 |
| 7.75% bonds due 2017 | **–** | **–** | 27 | 26 | 195 | 190 |
| 9.50% notes due 2018 | **–** | **–** | 126 | 137 | 354 | 379 |
| 6.75% notes due 2018 | **–** | **–** | 533 | 554 | 802 | 804 |
| 7.50% bonds due 2019 | **–** | **–** | 349 | 359 | 347 | 328 |
| 6.50% notes due 2020 | **707** | **752** | 1,010 | 1,066 | 1,009 | 955 |
| 8.25% notes due 2021 | **774** | **873** | 772 | 856 | 746 | 747 |
| 6.75% notes due 2022 | **512** | **560** | 515 | 544 | – | – |
| 5.375% notes due 2023 | **757** | **792** | – | – | – | – |
| *Rouble-denominated* | | | | | | |
| 8.40% rouble bonds due 2016 | **–** | **–** | – | – | 167 | 165 |
| 12.95% rouble bonds due 2019 | **260** | **280** | 247 | 260 | 205 | 208 |
| 12.60% rouble bonds due 2021 | **269** | **302** | 255 | 269 | – | – |
| | **$ 5,374** | **$ 5,666** | $ 5,740 | $ 6,001 | $ 6,192 | $ 6,024 |

The fair value of the non-convertible bonds and notes was determined based on market quotations (Level 1). The fair value of long-term bank loans was calculated based on the present value of future principal and interest cash flows, discounted at the Group's market rates of interest at the reporting dates (Level 3). The discount rates used for valuation of financial instruments were as follows:

| Currency in which financial instruments are denominated | 2017 | 2016 | 2015 |
|---|---|---|---|
| USD | **3.6 – 4.5%** | 3.7 – 6.4% | 4.1 – 9.8% |
| EUR | **1.7 – 3.9%** | 1.8 – 4.0% | 1.8 – 6.2% |
| RUB | **7.97%** | 11.03% | 12.77% |

## 28. Financial Risk Management Objectives and Policies (continued)

### Capital Management

Capital includes equity attributable to the equity holders of the parent entity. Revaluation surplus which is included in capital is not subject to capital management because of its nature.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of Directors reviews the Group's performance and establishes key performance indicators. There were no changes in the objectives, policies and processes during 2017.

The Group manages its capital structure and makes adjustments to it by the issue of new shares, dividend payments to shareholders, and the purchase of treasury shares. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividend payments taking into account cashflow and other constraints.

## 29. Non-cash Transactions

Transactions that did not require the use of cash or cash equivalents, not disclosed in the notes above, were as follows in the years ended 31 December:

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| Liabilities for purchases of property, plant and equipment | **$ 80** | $ 71 | $ 63 |
| Loans provided in the form of payments by banks for property, plant and equipment | **8** | 46 | – |

## 30. Commitments and Contingencies

*Operating Environment of the Group*

The Group is one of the largest vertically integrated steel producers globally and the largest steel producer in Russia. The Group's major subsidiaries are located in Russia, Ukraine, the USA and Canada. Russia and Ukraine are considered to be developing markets with higher economic and political risks. Steel consumption is affected by the cyclical nature of demand for steel products and the sensitivity of that demand to worldwide general economic conditions.

The political crisis over Ukraine led to uncertainty in the global economy. The unrest in the Southeastern region of Ukraine and the economic sanctions imposed on Russia caused the depreciation of national currencies in 2014-2015, economic slowdown, deterioration of liquidity in the banking sector, and tighter credit conditions within Russia and Ukraine. In addition, a significant drop in crude oil prices in 2015 continues to have a negative impact on the Russian economy. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth. If the Ukrainian crisis broadens and further sanctions are imposed on Russia, this could have an adverse impact on the Group's business.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

The global economic climate continues to be unstable and this may negatively affect the Group's results and financial position in a manner not currently determinable.

## 30. Commitments and Contingencies (continued)

*Taxation*

Russian and Ukrainian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed for additional taxes, penalties and interest. In Russia and Ukraine the periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on its best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities which were identified by management at the end of the reporting period as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in these financial statements could be up to approximately $23 million.

*Contractual Commitments*

At 31 December 2017, the Group had contractual commitments for the purchase of production equipment and construction works for an approximate amount of $148 million.

In 2010, the Group concluded a contract with PraxAir (Note 2, Accounting Judgements) for the construction of an air separation plant and for the supply of oxygen and other gases produced by a third party at this plant for a period of 20 years (extended to 25 years in 2015). Due to a change in plans of the third party provider and in management's assessment of the extent of sales of gases to third parties, effective from 2015 the Group no longer considers this supply contract to fall within the scope of IFRIC 4 “Determining whether an Arrangement Contains a Lease”. At 31 December 2017, the Group has committed expenditure of $612 million over the life of the contract.

*Social Commitments*

The Group is involved in a number of social programmes aimed to support education, healthcare and social infrastructure development in towns where the Group's assets are located. The Group budgeted to spend approximately $33 million under these programmes in 2018.

*Environmental Protection*

In the course of the Group's operations, the Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, improvements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement.

The Group has a number of environmental claims and proceedings which are at a stage of investigation. Environmental provisions in relation to these proceedings that were recognised at 31 December 2017 amounted to $21 million. Preliminary estimates available of the incremental costs indicate that such costs could be up to $186 million. The Group has insurance agreements, which will provide reimbursement of the costs to be actually incurred up to $228 million, of which $21 million relate to the accrued environmental provisions and have been recognised in non-current receivables at 31 December 2017. Management believes that an economic outflow of the additional costs is not probable and any pending environmental claims or proceedings will not have a material adverse effect on its financial position and results of operations.

In addition, the Group has committed to various environmental protection programmes covering periods from 2018 to 2022, under which the Group will perform works aimed at reductions in environmental pollution and contamination. As of 31 December 2017, the costs of implementing these programmes are estimated at $102 million.

## 30. Commitments and Contingencies (continued)

*Legal Proceedings*

The Group has been and continues to be the subject of legal proceedings, none of which has had, individually or in aggregate, a significant effect on the Group's operations or financial position.

The Group exercises judgement in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. As of 31 December 2017, possible legal risks approximate $21 million.

## 31. Auditor's Remuneration

The remuneration of the Group's auditor in respect of the services provided to the Group was as follows.

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Audit of the parent company of the Group | **$ 1** | $ 2 | $ 2 |
| Audit of the subsidiaries | **2** | 2 | 3 |
| **Total assurance services** | **3** | 4 | 5 |
| | | | |
| **Other services** | **1** | – | – |
| | **$ 4** | $ 4 | $ 5 |

## 32. Material Partly-Owned Subsidiaries

Financial information of subsidiaries that have material non-controlling interests is provided below.

| | | Non–controlling interests | | |
|---|---|---|---|---|
| **Name** | **Country of incorporation** | **2017** | **2016** | **2015** |
| Raspadskaya | Russia | **18.05%** | 18.05% | 18.05% |
| New CF&I (subsidiary of EVRAZ Inc NA) | USA | **10.00%** | 10.00% | 10.00% |

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Accumulated balances of material non-controlling interest | | | |
| Raspadskaya | **$ 149** | $ 92 | $ 56 |
| New CF&I (subsidiary of EVRAZ Inc NA) | **99** | 98 | 101 |
| Others | **(6)** | (4) | (24) |
| | **242** | 186 | 133 |
| Profit allocated to material non-controlling interest | | | |
| Raspadskaya | **51** | 23 | (32) |
| EVRAZ Highveld Steel and Vanadium Limited | **–** | – | 1 |
| New CF&I (subsidiary of EVRAZ Inc NA) | **1** | (3) | 3 |
| Others | **8** | 7 | (47) |
| | **$ 60** | $ 27 | $ (75) |

The summarised financial information regarding these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

# 32. Material Partly-Owned Subsidiaries (continued)

## Summarised statement of profit or loss

*Raspadskaya*

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Revenue | **$ 868** | $ 503 | $ 420 |
| Cost of revenue | **(430)** | (306) | (334) |
| **Gross profit/(loss)** | **438** | 197 | 86 |
| Operating costs | **(74)** | (67) | (79) |
| Impairment of assets | **9** | (17) | (91) |
| Foreign exchange gains/(losses), net | **13** | 77 | (114) |
| **Profit/(loss) from operations** | **386** | 190 | (198) |
| Non-operating gains/(losses) | **(21)** | (31) | (24) |
| **Profit/(loss) before tax** | **365** | 159 | (222) |
| Income tax benefit/(expense) | **(75)** | (33) | 44 |
| **Net profit/(loss)** | **$ 290** | $ 126 | $ (178) |
| **Other comprehensive income/(loss)** | **36** | 90 | (152) |
| **Total comprehensive income/(loss)** | **326** | 216 | (330) |
| attributable to non-controlling interests | **56** | 36 | (51) |
| dividends paid to non-controlling interests | **–** | – | – |

*EVRAZ Highveld Steel and Vanadium Limited*

| *US$ million* | 2017 | 2016 | From 1 January to 14 April 2015 |
|---|---|---|---|
| Revenue | **$ –** | $ – | $ 145 |
| Cost of revenue | **–** | – | (138) |
| **Gross profit/(loss)** | **–** | – | 7 |
| Operating costs | **–** | – | (21) |
| Impairment of assets | **–** | – | – |
| Foreign exchange gains/(losses), net | **–** | – | (2) |
| **Profit/(loss) from operations** | **–** | – | (16) |
| Non-operating gains/(losses) | **–** | – | 20 |
| **Profit/(loss) before tax** | **–** | – | 4 |
| Income tax benefit/(expense) | **–** | – | – |
| **Net profit/(loss)** | **$ –** | $ – | $ 4 |
| **Other comprehensive income/(loss)** | **–** | – | (1) |
| **Total comprehensive income/(loss)** | **–** | – | 3 |
| attributable to non-controlling interests | **–** | – | – |
| dividends paid to non-controlling interests | **–** | – | – |

# 32. Material Partly-Owned Subsidiaries (continued)

## Summarised statement of profit or loss (continued)

*New CF&I*

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| Revenue | **$ 558** | $ 384 | $ 635 |
| Cost of revenue | **(533)** | (391) | (565) |
| **Gross profit/(loss)** | **25** | (7) | 70 |
| Operating costs | **(54)** | (48) | (52) |
| Impairment of assets | **(2)** | – | – |
| Foreign exchange gains/(losses), net | **–** | – | – |
| **Profit/(loss) from operations** | **(31)** | (55) | 18 |
| Non-operating gains/(losses) | **18** | 21 | 20 |
| **Profit/(loss) before tax** | **(13)** | (34) | 38 |
| Income tax benefit/(expense) | **21** | 9 | (12) |
| **Net profit/(loss)** | **$ 8** | $ (25) | $ 26 |
| **Other comprehensive income/(loss)** | **(3)** | (4) | 4 |
| **Total comprehensive income/(loss)** | **5** | (29) | 30 |
| attributable to non-controlling interests | **1** | (3) | 3 |
| dividends paid to non-controlling interests | **–** | – | – |

## Summarised statement of financial position as at 31 December

*Raspadskaya*

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| Property, plant and equipment | **$ 1,047** | $ 1,004 | $ 883 |
| Other non-current assets | **11** | 30 | 51 |
| Current assets | **590** | 655 | 279 |
| **Total assets** | **1,648** | 1,689 | 1,213 |
| Deferred income tax liabilities | **72** | 65 | 54 |
| Non-current liabilities | **31** | 52 | 507 |
| Current liabilities | **599** | 952 | 247 |
| **Total liabilities** | **702** | 1,069 | 808 |
| **Total equity** | **946** | 620 | 405 |
| attributable to: | | | |
| equity holders of parent | **797** | 528 | 348 |
| non-controlling interests | **149** | 92 | 57 |

*New CF&I*

| *US$ million* | **2017** | **2016** | **2015** |
|---|---|---|---|
| Property, plant and equipment | **$ 167** | $ 184 | $ 214 |
| Other non-current assets | **921** | 957 | 967 |
| Current assets | **155** | 117 | 125 |
| **Total assets** | **1,243** | 1,258 | 1,306 |
| Deferred income tax liabilities | **12** | 30 | 42 |
| Non-current liabilities | **89** | 81 | 81 |
| Current liabilities | **156** | 166 | 173 |
| **Total liabilities** | **257** | 277 | 296 |
| **Total equity** | **986** | 981 | 1,010 |
| attributable to: | | | |
| equity holders of parent | **887** | 883 | 909 |
| non-controlling interests | **99** | 98 | 101 |

## 32. Material Partly-Owned Subsidiaries (continued)

### Summarised cash flow information

*Raspadskaya*

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Operating activities | **$ 406** | $ 176 | $ 107 |
| Investing activities | **19** | (100) | (32) |
| Financing activities | **(413)** | (89) | (49) |

*EVRAZ Highveld Steel and Vanadium Limited*

| *US$ million* | 2017 | 2016 | From 1 January to 14 April 2015 |
|---|---|---|---|
| Operating activities | **$ –** | $ – | $ – |
| Investing activities | **–** | – | (5) |
| Financing activities | **–** | – | (2) |

*New CF&I*

| *US$ million* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Operating activities | **$ (16)** | $ 5 | $ 101 |
| Investing activities | **16** | (5) | (101) |
| Financing activities | **–** | – | – |

## 33. Subsequent Events

*Dividends*

On 28 February 2018, the Board of directors of EVRAZ plc declared a second interim dividend for 2017 in the amount of $429.6 million, which represents $0.3 per share.

## 34. List of Subsidiaries and Other Significant Holdings

| Country of incorporation | Name | Relationship | effective ownership in 2017, % | Registered address | Notes |
|---|---|---|---|---|---|
| Austria | Hochvanadium Handels GmbH | indirect subsidiary | 85.11% | Renngasse 1, Freyung 1013 Wien | liquidated |
| Austria | Hochvanadium Holdings AG | indirect subsidiary | 85.11% | Renngasse 1, Freyung 1013 Wien | liquidated |
| Canada | Camrose Pipe Corporation | indirect subsidiary | 100.00% | 8735 Harborgate Portland, OR 97203 | |
| Canada | Canadian National Steel Corporation | indirect subsidiary | 100.00% | 700 - 9th Avenue S.W. Suite 3000 Calgary, AB T2P 3V4 | |
| Canada | Evraz Inc NA Canada | indirect subsidiary | 100.00% | 40 King Street West, Suite 5800, Toronto, Ontario M5H 3S1 | |
| Canada | EVRAZ Materials Recycling Inc. | indirect subsidiary | 100.00% | 40 King Street West Suite 5800 Toronto, ON. M5H 3S1 | |
| Canada | Evraz Wasco Pipe Protection Corporation | indirect subsidiary | 51.00% | 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 | |
| Canada | Genalta Recycling Inc. | joint venture | 50.00% | 2400, 525 8th Avenue SW Calgary AB T2P 1G1 | |
| Canada | General Scrap Partnership | indirect subsidiary | 100.00% | 308 Highway 2 East Minot, ND 58702 | |
| Canada | Genlandco Inc. | indirect subsidiary | 100.00% | 360 Main Street 30th FL Winnipeg, Manitoba R3C 4G1 | |
| Canada | Kar-basher Manitoba Ltd | joint venture | 50.00% | 200-233 Portage Avenue Winnipeg, Manitoba R3B 2A7 | |
| Canada | Kar-basher of Alberta Ltd | indirect subsidiary | 100.00% | 30th Floor, 360 Main Street, Winnipeg, MB, R3C 4G1 | |
| Canada | King Crusher Inc. | joint venture | 50.00% | 700 - 9th Avenue S.W. Suite 3000 Calgary, AB T2P 3V4 | |
| Canada | New Gensubco Inc. | indirect subsidiary | 100.00% | Aikins, MacAulay & Thorvaldson LLP 30th Floor, 360 Main Street, Winnipeg, MB, R3C 4G1 | |
| Canada | Sametco Auto Inc. | indirect subsidiary | 100.00% | 387 Broadway Winnipeg MB R3C 0V5 | |
| China | Delong Holdings Limited | investment | 15.04% | 55 Market Street Level 10 Singapore 048941 | |
| Cyprus | Actionfield Limited | indirect subsidiary | 100.00% | 3 Themistokli Dervi, Julia House, 1066, Nicosia | |
| Cyprus | Crownwing Limited | indirect subsidiary | 100.00% | 3 Themistokli Dervi, Julia House, 1066, Nicosia | liquidated |
| Cyprus | Dashuria Limited | indirect subsidiary | 100.00% | Themistokli Dervi, 3, Julia House, P.C. 1066, Nicosia, Cyprus | sold |
| Cyprus | Drampisco Limited | indirect subsidiary | 100.00% | Themistokli Dervi, 3, Julia House, P.C. 1066, Nicosia, Cyprus | |
| Cyprus | East Metals Limited | indirect subsidiary | 100.00% | 3 Themistokli Dervi, Julia House, 1066, Nicosia | |
| Cyprus | Fegilton Limited | indirect subsidiary | 100.00% | 3 Themistokli Dervi, Julia House, 1066, Nicosia | |
| Cyprus | Kadish Limited | indirect subsidiary | 100.00% | 3 Themistokli Dervi, Julia House, 1066, Nicosia | sold |
| Cyprus | Laybridge Limited | indirect subsidiary | 100.00% | 3 Themistokli Dervi, Julia House, 1066, Nicosia | |
| Cyprus | Malvero | indirect subsidiary | 100.00% | 3 Themistokli Dervi, Julia House, 1066, Nicosia | |
| Cyprus | Mastercroft Finance Limited | indirect subsidiary | 100.00% | 3 Themistokli Dervi, Julia House, 1066, Nicosia | |

## 34. List of Subsidiaries and Other Significant Holdings (continued)

| Country of incorporation | Name | Relationship | effective ownership in 2017, % | Registered address | Notes |
|---|---|---|---|---|---|
| Cyprus | Mastercroft Mining Limited | indirect subsidiary | 100.00% | 3 Themistokli Dervi, Julia House, 1066, Nicosia | liquidated |
| Cyprus | Nafkratos Limited | indirect subsidiary | 100.00% | Themistokli Dervi, 3, Julia House, P.C. 1066, Nicosia, Cyprus | |
| Cyprus | RVK Invest Limited | associate | 42.61% | 3 Themistokli Dervi, Julia House, 1066, Nicosia | |
| Cyprus | Sinano Limited | indirect subsidiary | 100.00% | 3 Themistokli Dervi, Julia House, 1066, Nicosia | |
| Cyprus | Steeltrade Limited | indirect subsidiary | 100.00% | 3 Themistokli Dervi, Julia House, 1066, Nicosia | |
| Cyprus | Streamcore Limited | joint venture | 50.00% | 3 Themistokli Dervi, Julia House, 1066, Nicosia | |
| Cyprus | Tuva Railway Limited | indirect subsidiary | 60.02% | 3 Themistokli Dervi, Julia House, 1066, Nicosia | liquidated |
| Cyprus | Unicroft Limited | indirect subsidiary | 100.00% | Leoforos Archiepiskopou Makariou III, 135, EMELLE Building, flat/office 22, 3021, Limassol | |
| Cyprus | Vanston Limited | indirect subsidiary | 100.00% | 3 Themistokli Dervi, Julia House, 1066, Nicosia | liquidated |
| Cyprus | Velcast Limited | indirect subsidiary | 100.00% | 3 Themistokli Dervi, Julia House, 1066, Nicosia | |
| Czech Republic | EVRAZ Nikom, a.s. | indirect subsidiary | 100.00% | Czech Republic, Mnisek pod Brdy, Prazska 900, 25210 | |
| Italy | Evraz Palini e Bertoli S.r.l | indirect subsidiary | 100.00% | via E. Fermi 28, 33058 San Giorgio di Nogaro (UD) | |
| Kazakhstan | Evraz Caspian Steel | indirect subsidiary | 65.00% | 41, ul. Promyshlennaya, Kostanai, 110000 | |
| Kazakhstan | EvrazMetall Kazakhstan | indirect subsidiary | 100.00% | office 201, 9, shosse Alash, Saryarkinskiy raion, Astana | |
| Luxembourg | Evraz Group S.A. | direct subsidiary | 100.00% | 13, avenue Monterey, L2163, Luxembourg | |
| Mexico | Evraz NA Mexico | indirect subsidiary | 100.00% | Frida Kahlo 195-709, Valle Oriente, San Pedro Garza Carcia, Nuevo Leon, 66269 | |
| Netherlands | ECS Holdings Europe B.V. | indirect subsidiary | 65.00% | Hoogoorddreef 15, 1101 BA Amsterdam | |
| Netherlands | Palmrose B.V. | indirect subsidiary | 100.00% | Hoogoorddreef 15, 1101 BA Amsterdam | |
| Republic of S.Africa | Evraz Highveld Steel and Vanadium Limited | indirect subsidiary | 85.11% | Old Pretoria Road, Portion 93 of the Farm Schoongezicht 308 JS eMalahleni (Witbank) | deconsolidated in 2015 |
| Republic of S.Africa | Evraz Vametco Alloys (PTY) Ltd | indirect subsidiary | 59.07% | Main Motholung Road Extension, Motholung Brits 250 | sold |
| Republic of S.Africa | Evraz Vametco Holdings (PTY) Ltd | indirect subsidiary | 59.07% | Main Motholung Road Extension, Motholung Brits 250 | sold |
| Republic of S.Africa | Evraz Vametco Properties (PTY) Ltd | indirect subsidiary | 59.07% | Main Motholung Road Extension, Motholung Brits 250 | sold |
| Republic of S.Africa | Mapochs Mine (Proprietary) Limited | indirect subsidiary | 62.98% | Old Pretoria Road, Portion 93 of the Farm Schoongezicht 308 JS eMalahleni (Witbank) | deconsolidated in 2015 |
| Republic of S.Africa | Mapochs Mine Community Trust | indirect subsidiary | 0.00% | Portion 93 of the farm Schoongezicht No.308 JS, eMalahleni | deconsolidated in 2015 |
| Russia | Aktiv-Media | indirect subsidiary | 100.00% | Office 6, 35, ul. Ordzhonikidze, Novokuznetsk, Kemerovskaya obl., 654007 | |
| Russia | ATP Evrazruda | indirect subsidiary | 100.00% | 39, ul. Kondomskoe shosse, Novokuznetsk, Kemerovskaya obl., 654018 | merged |
| Russia | ATP Yuzhkuzbassugol | indirect subsidiary | 100.00% | 20, Silikatnaya, Novokuznetsk, Kemerovskaya obl., 654086 | |

## 34. List of Subsidiaries and Other Significant Holdings (continued)

| Country of incorporation | Name | Relationship | effective ownership in 2017, % | Registered address | Notes |
|---|---|---|---|---|---|
| Russia | AVT-Ural | indirect subsidiary | *51.00%* | 2, ul. Sverdlova, Kachkanar, Sverdlovskaya obl., 624351 | |
| Russia | Blagotvoritelniy fond Evraza - Sibir | indirect subsidiary - non-commercial | - | 1, ul. Ploshad Pobedy, Novokuznetsk, Kemerovskaya obl., 654010 | |
| Russia | Blagotvoritelniy fond Evraza - Ural | indirect subsidiary - non-commercial | - | office 4, 39, ul. Karl Marks, Nizhny Tagil, Sverdlovskaya obl., 622001 | |
| Russia | Briyanskmetallresursy | indirect subsidiary | *99.96%* | 14, ul. Staleliteinaya, Bryansk, 241035 | |
| Russia | Centr kultury i iskusstva NTMK | indirect subsidiary - non-commercial | - | 1, ul. Metallurgov, Nizhny Tagil, Sverdlovskaya obl., 622025 | |
| Russia | Centr podgotovki personala Evraz-Ural | indirect subsidiary - non-commercial | - | 1, ul. Metallurgov, Nizhny Tagil, Sverdlovskaya obl., 622025 | |
| Russia | Centr Servisnykh Resheniy | indirect subsidiary | *100.00%* | 1, ul. Rudokoprovaya, Novokuznetsk, Kemerovskaya obl., 654006 | |
| Russia | Centralnaya Obogatitelnaya Fabrika Abashevskaya | indirect subsidiary | *92.10%* | 12, Tupik Strelochny, Novokuznetsk, Kemerovskaya obl., 654086 | |
| Russia | Centralnaya Obogatitelnaya Fabrika Kuznetskaya | indirect subsidiary | *100.00%* | 16, Shosse Severnoe, Novokuznetsk, Kemerovskaya obl., 654000 | |
| Russia | Consortium Tuvinskie dorogi | indirect subsidiary | *100.00%* | 4, ul. Belovezhskaya, Moscow, 121353 | |
| Russia | Elekrosvyaz YKU | indirect subsidiary | *87.20%* | 33, Prospect Kurako, Novokuznetsk, Kemerovskaya obl., 654027 | |
| Russia | Evraz Consolidated West-Siberian metallurgical Plant | indirect subsidiary | *100.00%* | 16, ul. Shosse Kosmicheskoe, Novokuznetsk, Kemerovskaya obl., 654043 | |
| Russia | EVRAZ Kachkanarsky Ore Mining and Processing Plant | indirect subsidiary | *100.00%* | 2, ul. Sverdlova, Kachkanar, Sverdlovskaya obl., 624351 | |
| Russia | Evraz Nakhodka Trade Sea Port | indirect subsidiary | *100.00%* | 22, ul. Portovaya, Nakhodka, Primorsky krai, 692904 | sold |
| Russia | Evraz Nizhny Tagil Metallurgical Plant | indirect subsidiary | *100.00%* | 1, ul. Metallurgov, Nizhny Tagil, Sverdlovskaya obl., 622025 | |
| Russia | EVRAZ Vanady-Tula | indirect subsidiary | *100.00%* | 1, ul. Przhevalskogo, Tula, 300016 | |
| Russia | EvrazEK | indirect subsidiary | *100.00%* | 2B, ul. Khlebozavodskaya, Novokuznetsk, Kemerovskaya obl., 654006 | |
| Russia | Evrazenergotrans | indirect subsidiary | *100.00%* | 4, ul. Rudokoprovaya, Novokuznetsk, Kemerovskaya obl., 654006 | |
| Russia | EvrazHolding LLC | indirect subsidiary | *100.00%* | 4, ul. Belovezhskaya, Moscow, 121353 | |
| Russia | EvrazHolding-Finance | indirect subsidiary | *100.00%* | 4, ul. Belovezhskaya, Moscow, 121353 | |
| Russia | EvrazMetall Sibir | indirect subsidiary | *100.00%* | 30, Shosse Severnoe, Novokuznetsk, Kemerovskaya obl., 654043 | |
| Russia | Evrazruda | indirect subsidiary | *100.00%* | 21, ul. Lenina, Tashtagol, Kemerovskaya obl., 652990 | |
| Russia | Evraz-Service | indirect subsidiary | *100.00%* | 4, ul. Belovezhskaya, Moscow, 121353 | |
| Russia | Evraztekhnika | indirect subsidiary | *100.00%* | 4, ul. Belovezhskaya, Moscow, 121353 | |
| Russia | Gurievsky rudnik | indirect subsidiary | *100.00%* | 1, ul. Zhdanova, Gurievsk, Kemerovskaya obl., 652780 | |

## 34. List of Subsidiaries and Other Significant Holdings (continued)

| Country of incorporation | Name | Relationship | effective ownership in 2017, % | Registered address | Notes |
|---|---|---|---|---|---|
| Russia | Industrialnaya Vostochno-Evropeiskaya company | indirect subsidiary | 100.00% | 3, ul. Khimicheskaya, Taganrog, Rostovskaya obl., 347913 | |
| Russia | Evrazmetall Inprom | indirect subsidiary | 100.00% | 2-a, ul. Marshala Zhukova, Taganrog, Rostovskaya obl., 347942 | |
| Russia | Kachkanarskaya teplosnabzhauschaya company | indirect subsidiary | 100.00% | 17, 8 microraion, Kachkanar, Sverdlovskaya obl., 624350 | |
| Russia | Kulturno-sportivniy centr metallurgov | indirect subsidiary - non-commercial | - | 20, Prospect Metallurgov, Novokuznetsk, Kemerovskaya obl., 654007 | |
| Russia | Kuznetskpogruztrans | indirect subsidiary | 94.50% | 18, ul. Promyshlennaya, Novokuznetsk, Kemerovskaya obl., 654029 | |
| Russia | Kuznetskteplosbyt | indirect subsidiary | 100.00% | 4, ul. Rudokoprovaya, Novokuznetsk, Kemerovskaya obl., 654006 | |
| Russia | Magnit | indirect subsidiary | - | 1, ul. Turgeneva, Kachkanar, Sverdlovskaya obl., 624351 | |
| Russia | Management Company EVRAZ Mezhdurechensk | indirect subsidiary | 100.00% | 69, ul. Kirova, Novokuznetsk, Kemerovskaya obl., 654080 | |
| Russia | Medsanchast Vanady | indirect subsidiary | 100.00% | Zeleniy mys profilaktoriy, Kachkanar, Sverdlovskaya obl., 624350 | |
| Russia | Mekona | indirect subsidiary | 100.00% | 22, ul. Portovaya, Nakhodka, Promorsky krai | sold |
| Russia | Metallenergofinance | indirect subsidiary | 100.00% | 4, ul. Rudokoprovaya, Novokuznetsk, Kemerovskaya obl., 654006 | |
| Russia | Metalloservisnie centry | indirect subsidiary | 100.00% | 9, ul. Khimicheskaya, Taganrog, Rostovskaya obl., 347913 | merged |
| Russia | Metallurg-Forum | indirect subsidiary | 85.23% | 1, ul. Metallurgov, Nizhny Tagil, Sverdlovskaya obl., 622025 | |
| Russia | Mezhegeyugol Coal Company | indirect subsidiary | 100.00% | 62, ul. Internationalnaya, Kyzyl, Tyva Republic, 667000 | |
| Russia | Mezhegeyugol LLC | indirect subsidiary | 60.02% | 4, ul. Belovezhskaya, Moscow, 121353 | liquidated |
| Russia | Mine Abashevskaya | indirect subsidiary | 100.00% | 5, ul. Kavkazskaya, Novokuznetsk, Kemerovskaya obl., 654013 | |
| Russia | Mine Alardinskaya | indirect subsidiary | 100.00% | 56, ul. Ugolnaya, Malinovka, Kaltan, Kemerovskaya obl., 652831 | |
| Russia | Mine Esaulskaya | indirect subsidiary | 100.00% | 33, Prospect Kurako, Novokuznetsk, Kemerovskaya obl., 654027 | |
| Russia | Mine Kureinskaya | indirect subsidiary | 100.00% | 4, ul. Nevskogo, Novokuznetsk, Kemerovskaya obl. | merged |
| Russia | Mine Kusheyakovskaya | indirect subsidiary | 100.00% | 5, ul. Kavkazskaya, Novokuznetsk, Kemerovskaya obl., 654013 | merged |
| Russia | Mine Osinnikovskaya | indirect subsidiary | 100.00% | 3, ul. Shakhtovaya, Osinniki, Kemerovskaya obl., | |
| Russia | Mine Uskovskaya | indirect subsidiary | 100.00% | 33, Prospect Kurako, Novokuznetsk, Kemerovskaya obl., 654027 | |
| Russia | Mining Metallurgical Company "Timir" | joint venture | 51.00% | 4, Prospect Geologov, Neryungri, Republic of Saha (Yakutia), 678960 | |
| Russia | Montazhnik Raspadskoy | indirect subsidiary | 81.95% | office 408; 106, ul. Mira, Mezhdurechensk, Kemerovskaya obl.,652870 | merged |

## 34. List of Subsidiaries and Other Significant Holdings (continued)

| Country of incorporation | Name | Relationship | effective ownership in 2017, % | Registered address | Notes |
|---|---|---|---|---|---|
| Russia | Mordovmetallotorg | indirect subsidiary | *99.90%* | 39, Aleksandrovskoe Shosse, Saransk, Respublica Mordovia, 430006 | |
| Russia | MUK-96 | indirect subsidiary | *81.95%* | 106, ul. Mira, Mezhdurechensk, Kemerovskaya obl.,652870 | merged |
| Russia | Nizhny Tagil Telecompany Telecon | indirect subsidiary | - | 74, ul. Industrialnaya, Nizhny Tagil, Sverdlovskaya obl., 622025 | |
| Russia | Novokuznetskmetallopttorg | associate | *48.51%* | 16, ul. Chaikinoi, Novokuznetsk, Kemerovskaya obl., 654005 | |
| Russia | Obogatitelnaya Fabrika Raspadskaya | indirect subsidiary | *81.95%* | office 203; 106, ul. Mira, Mezhdurechensk, Kemerovskaya obl.,652870 | |
| Russia | Ohothichie hozyaistvo | indirect subsidiary - non-commercial | - | 1, ul. Metallurgov, Nizhny Tagil, Sverdlovskaya obl., 622025 | |
| Russia | Olzherasskoye shakhtoprokhodcheskoye upravlenie | indirect subsidiary | *81.95%* | office 331; 106, ul. Mira, Mezhdurechensk, Kemerovskaya obl.,652870 | |
| Russia | Osinnikovsky remontno-mekhanichesky zavod | indirect subsidiary | *84.43%* | 130, ul. Lenina, Osinniki, Kemerovskaya obl., 652810 | |
| Russia | Parus | joint venture | *50.00%* | office 3; 51, ul. Industrialnaya, Nizhny Tagil, Sverdlovskaya obl., 622025 | |
| Russia | Penzametalltorg | indirect subsidiary | *100.00%* | 100, ul. Baidukova, Penza, 440015 | merged |
| Russia | Promuglepoject | indirect subsidiary | *100.00%* | 4, ul. Nevskogo, Novokuznetsk, Kemerovskaya obl., 654027 | |
| Russia | Publishing House IKaR | indirect subsidiary | - | 4, ul. Sverdlova, Kachkanar, Sverdlovskaya obl., 624356 | |
| Russia | Raspadskaya | indirect subsidiary | *81.95%* | 106, ul. Mira, Mezhdurechensk, Kemerovskaya obl.,652870 | |
| Russia | Raspadskaya ugolnaya company | indirect subsidiary | *81.95%* | 33, Prospect Kurako, Novokuznetsk, Kemerovskaya obl., 654027 | |
| Russia | Raspadskaya-Energo | indirect subsidiary | *81.95%* | 106, ul. Mira, Mezhdurechensk, Kemerovskaya obl.,652870 | merged |
| Russia | Raspadskaya-Koksovaya | indirect subsidiary | *81.95%* | office 424; 106, ul. Mira, Mezhdurechensk, Kemerovskaya obl.,652870 | |
| Russia | Razrez Raspadskiy | indirect subsidiary | *81.95%* | office 213; 106, ul. Mira, Mezhdurechensk, Kemerovskaya obl.,652870 | |
| Russia | Regional Media Company | indirect subsidiary | - | 4, ul. Belovezhskaya, Moscow, 121353 | |
| Russia | Regionalniy Centr podgotovki personala Evraz-Sibir | indirect subsidiary - non-commercial | - | 4, ul. Nevskogo, Novokuznetsk, Kemerovskaya obl., 654027 | |
| Russia | Rembytcomplect | indirect subsidiary | *100.00%* | 8, 8 microraion, Kachkanar, Sverdlovskaya obl., 624351 | |
| Russia | Samarskiy mekhanicheskiy zavod | indirect subsidiary | *100.00%* | 1A, ul. Groznenskaya, Samara, 443004 | merged |
| Russia | Sanatoriy-porfilactory Lenevka | indirect subsidiary - non-commercial | - | Lenevka, Prigorodny raion, Sverdlovskaya obl., 622911 | |
| Russia | Sfera | indirect subsidiary | *100.00%* | office 315; 205, ul. 8 Marta, Ekaterinburg, Sverdlovskaya obl., 620085 | |

## 34. List of Subsidiaries and Other Significant Holdings (continued)

| Country of incorporation | Name | Relationship | effective ownership in 2017, % | Registered address | Notes |
|---|---|---|---|---|---|
| Russia | Sibirskaya registratsionnaya company | investment | 10.06% | 57, Prospect Stroiteley, Novokuznetsk, Kemerovskaya obl., 654005 | |
| Russia | Sibir-VK | joint venture | 50.00% | 37A, ul. Kutuzova, Novokuznetsk, Kemerovskaya obl., 654041 | |
| Russia | Sibmetinvest | indirect subsidiary | 100.00% | Office 10; 1, 1st km of Rublevo-Uspenskoye shosse, der. Razdory, Odintsovo area, Moscow region, 143082 | |
| Russia | Specializirovannoye Shakhtomontazhno-naladochnoye upravlenie | indirect subsidiary | 79.14% | 28, proezd Zaschitny, Novokuznetsk, Kemerovskaya obl., 654034 | |
| Russia | Sportivniy complex Uralets | indirect subsidiary - non-commercial | - | 36, Gvardeisky bulvar, Nizhny Tagil, 622005 | |
| Russia | Sportivno-Ozdorovitelny complex Metallurg-Forum | indirect subsidiary - non-commercial | - | office 26; 61, ul. Krasnogvardeiskaya, Nizhny Tagil, Sverdlovskaya obl., 622013 | |
| Russia | Tagilteplosbyt | indirect subsidiary | 100.00% | 67, Prospect Lenina, Nizhny Tagil, Sverdlovskaya obl., 622034 | |
| Russia | Tomusinskoye pogruzochno-transportnoye upravlenie | indirect subsidiary | 48.01% | office 209; 106, ul. Mira, Mezhdurechensk, Kemerovskaya obl.,652870 | |
| Russia | Torfagregat | indirect subsidiary | 100.00% | 1B, ul. Poselok Mekhzavoda, Ryazan, 390007 | merged |
| Russia | Trade Company EvrazHolding | indirect subsidiary | 100.00% | 4, ul. Belovezhskaya, Moscow, 121353 | |
| Russia | Trade House EvrazHolding | indirect subsidiary | 100.00% | 4, ul. Belovezhskaya, Moscow, 121353 | |
| Russia | Tulametallopttorg | indirect subsidiary | 100.00% | 36, Aleksinskoe shosse, Tula, 300000 | merged |
| Russia | TV-Most | indirect subsidiary | - | office 164, 31, Moscovsky prospect, Kemerovo, 650065 | |
| Russia | TVN | indirect subsidiary | - | 35, ul. Ordzhonikidze, Novokuznetsk, Kemerovskaya obl., 654007 | |
| Russia | Uliyanovskmetall | indirect subsidiary | 99.37% | 20, 11 proezd Inzhenerny, Ulyanovsk, 432072 | |
| Russia | United accounting systems | indirect subsidiary | 100.00% | office 205; 1, ul. Rudokoprovaya, Novokuznetsk, Kemerovskaya obl., 654006 | |
| Russia | United Coal Company Yuzhkuzbassugol | indirect subsidiary | 100.00% | 33, Prospect Kurako, Novokuznetsk, Kemerovskaya obl., 654027 | |
| Russia | Upravlenie po montazhu, demontazhu i remontu gornoshakhtnogo oborudovaniya | indirect subsidiary | 100.00% | 130, ul. Lenina, Osinniki, Kemerovskaya obl., 652810 | |
| Russia | Vanadyservice | indirect subsidiary | 100.00% | 11a, 10 microraion, Kachkanar, Sverdlovskaya obl., 624351 | |
| Russia | Vanady-transport | indirect subsidiary | 100.00% | 2, ul. Sverdlova, Kachkanar, Sverdlovskaya obl., 624351 | |
| Russia | Vladimirmetallopttorg | indirect subsidiary | 95.63% | 57, ul. P. Osipenko, Vladimir, 600009 | |
| Russia | Vtorresurspererabotka | joint venture | 50.00% | 37A, ul. Kutuzova, Novokuznetsk, Kemerovskaya obl., 654041 | |
| Russia | Yuzhno-Kuzbasskoye geologorazvedochnoye upravlenie | indirect subsidiary | 100.00% | 33, Prospect Kurako, Novokuznetsk, Kemerovskaya obl., 654027 | |
| Russia | Yuzhny Stan | indirect subsidiary | 100.00% | 1, ul. Zarechnaya, rabochy poselok Ust-Donetsky, Ust-Donetsky raion, Rostovskaya obl., 346550 | |
| Russia | ZAO Irkutskvtorchermet | associate | 42.61% | office 212, bld. ZAO Vtorchermet, ul. Severny Promuzel, Irkutsk, 664053 | |
| Russia | ZAO Vtorchermet | associate | 42.61% | office 211, bld. ZAO Vtorchermet, ul. Severny promuzel, Irkutsk, 664053 | |
| Russia | Zapsibzhilstroy | indirect subsidiary | 100.00% | 16, ul. Shosse Kosmicheskoe, Novokuznetsk, Kemerovskaya obl., 654043 | merged |
| Russia | Zavod metallurgicheskih reagentov | associate | 50.00% | 1, ul. Metallurgov, Nizhny Tagil, Sverdlovskaya obl., 622025 | |
| Switzerland | East Metals A.G. | indirect subsidiary | 100.00% | Baarerstrasse 131, 6300 Zug | |

## 34. List of Subsidiaries and Other Significant Holdings (continued)

| Country of incorporation | Name | Relationship | effective ownership in 2017, % | Registered address | Notes |
|---|---|---|---|---|---|
| Switzerland | East Metals Shipping A.G. | indirect subsidiary | *100.00%* | Baarerstrasse 131, 6300 Zug | |
| Ukraine | Bon Life | indirect subsidiary | *97.73%* | 26, ul. Starokazatskaya, Dnepr, Dnepropetrovskaya obl., 49000 | sold |
| Ukraine | Evraz Dneprovsky Metallurgical Plant | indirect subsidiary | *97.73%* | 3, ul. Mayakovskogo, Dnepr, Dnepropetrovskaya obl., 49064 | |
| Ukraine | Evraz Sukha Balka | indirect subsidiary | *99.4193%* | 5, ul. Konstitutsionnaya, Krivoy Rog, Dnepropetrovskaya obl., 50029 | sold |
| Ukraine | Evraz Ukraine | indirect subsidiary | *100.00%* | 31, ul. Udarnikov, Dnepr, Dnepropetrovskaya obl., 49064 | |
| Ukraine | Evraz Yuzhkoks | indirect subsidiary | *94.96%* | 1, ul. Vyacheslav Chernovil, Kamenskoye, Dnepropetrovskaya obl., 51909 | sold |
| Ukraine | Evraztrans-Ukraine | indirect subsidiary | *100.00%* | 3, ul. Mayakovskogo, Dnepr, Dnepropetrovskaya obl., 49064 | |
| Ukraine | LK Adzhalyk | indirect subsidiary | *100.00%* | kv.97, 1, Prospekt Pravdy, Kharkov, 61022 | |
| Ukraine | Trade House Evraz Ukraine | indirect subsidiary | *97.73%* | 31, ul. Udarnikov, Dnepr, Dnepropetrovskaya obl., 49064 | |
| Ukraine | United accounting systems Ukraine | indirect subsidiary | *100.00%* | 3, ul. Mayakovskogo, Dnepr, Dnepropetrovskaya obl., 49064 | |
| United Kingdom | Evraz North America plc | indirect subsidiary | *100.00%* | 20-22 Bedford Row London England WC1R 4JS | |
| United Kingdom | Viscaria 2 Limited | indirect subsidiary | *100.00%* | 20 – 22 Bedford Row, London WC1R 4JS | liquidated |
| USA | CF&I Steel LP | indirect subsidiary | *90.00%* | 1612 E Abriendo Pueblo, CO 81004 | |
| USA | Colorado and Wyoming Railway Company | indirect subsidiary | *90.00%* | 2100 S. Freeway Pueblo, CO 81004 | |
| USA | East Metals North America, LLC | indirect subsidiary | *100.00%* | Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware | |
| USA | East Metals Services Inc. | indirect subsidiary | *100.00%* | 200 E. Randolph Drive Suite 7800 Chicago, IL 60601 | |
| USA | Evraz Claymont Steel, Inc. | indirect subsidiary | *100.00%* | 4001 Philadelphia Pike, Claymont, Delaware 19703 | |
| USA | Evraz Inc. NA | indirect subsidiary | *100.00%* | 200 E. Randolph Drive Suite 7800 Chicago, IL 60601 | |
| USA | Evraz Stratcor, Inc. | indirect subsidiary | *100.00%* | 4285 Malvern Road, Hot Springs, AR 71901 | |
| USA | Evraz Trade NA LLC | indirect subsidiary | *100.00%* | 200 E. Randolph Drive Suite 7800 Chicago, IL 60601 | |
| USA | Fremont County Irrigating Ditch Co. | investment | *13.80%* | 113 W. 5th Street Florence, CO 81226 | |
| USA | General Scrap Inc. | indirect subsidiary | *100.00%* | 3101 Valley Street Minot, ND 58702 | |
| USA | New CF&I Inc. | indirect subsidiary | *90.00%* | 1612 E Abriendo Pueblo, CO 81004 | |
| USA | Oregon Ferroalloy Partners | indirect subsidiary | *60.00%* | 14400 Rivergate Blvd. Portland, OR 97203 | |
| USA | Oregon Steel Mills Processing Inc. | indirect subsidiary | *100.00%* | 200 East Randolph Drive, #7800 Chicago, IL 60601 | |
| USA | OSM Distribution Inc. | indirect subsidiary | *100.00%* | 200 E. Randolph Drive Suite 7800 Chicago, IL 60601 | |
| USA | Strategic Minerals Corporation | indirect subsidiary | *78.76%* | 4285 Malvern Road, Hot Springs, AR 71901 | sold |
| USA | Union Ditch and Water Co. | indirect subsidiary | *57.59%* | 113 W. 5th Street Florence, CO 81226 | |
| USA | US Tungsten | indirect subsidiary | *78.76%* | 4285 Malvern Road, Hot Springs, Arkansas 71901 | sold |

# EVRAZ plc
# Separate Financial Statements
# for the year ended 31 December 2017

## Separate Statement of Comprehensive Income

In millions of US dollars

| | Notes | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| General and administrative expenses | | **$ (9)** | $ (7) |
| Operating income | **6** | **7** | 11 |
| Reversal of impairment/(impairment) of investments | **3** | **6** | (21) |
| Foreign exchange losses | **3** | **(1)** | (4) |
| Interest expense | **3,6,7** | **(19)** | (14) |
| Other non-operating losses | **7** | **(1)** | (39) |
| **Net loss** | | **(17)** | (74) |
| **Total comprehensive loss** | | **$ (17)** | $ (74) |

*The accompanying notes form an integral part of these separate financial statements.*

# Separate Statement of Financial Position

In millions of US dollars

| | Notes | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non–current assets** | | | |
| Investments in subsidiaries | 3 | $ 3,182 | $ 3,165 |
| Investments in joint ventures | 3 | 24 | 18 |
| Receivables from related parties | 6 | 17 | 18 |
| | | 3,223 | 3,201 |
| **Current assets** | | | |
| Receivables from related parties | 6 | 10 | 14 |
| Cash and cash equivalents | | – | 2 |
| | | 10 | 16 |
| **TOTAL ASSETS** | | 3,233 | 3,217 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Issued capital | 4 | 1,507 | 1,507 |
| Treasury shares | 4 | (231) | (270) |
| Reorganisation reserve | 4 | (584) | (584) |
| Merger reserve | 4 | 127 | 127 |
| Share-based payments | 5 | 134 | 117 |
| Accumulated profits | | 1,472 | 1,958 |
| | | 2,425 | 2,855 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Trade and other payables | 3,7 | 27 | 41 |
| Loans payable to related parties | 6 | 630 | 274 |
| Financial guarantee liabilities | 6 | 17 | 18 |
| | | 674 | 333 |
| **Current liabilities** | | | |
| Trade and other payables | 3,7 | 17 | 17 |
| Payables to related parties | 6 | 1 | – |
| Loans payable to related parties | 6 | 108 | 3 |
| Financial guarantee liabilities | 6 | 8 | 9 |
| | | 134 | 29 |
| **TOTAL LIABILITIES** | | 808 | 362 |
| **TOTAL EQUITY AND LIABILITIES** | | $ 3,233 | $ 3,217 |

The Financial Statements on pages 244–255 were approved by the Board of Directors on 28 February 2018 and signed on its behalf by Alexander Frolov, Chief Executive Officer.

*The accompanying notes form an integral part of these separate financial statements.*

# Separate Statement of Cash Flows

In millions of US dollars

| | Notes | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net loss | | **$ (17)** | $ (74) |
| Adjustments to reconcile net loss to net cash flows from operating activities: | | | |
| Operating income | **6** | **(7)** | (11) |
| (Reversal of impairment)/impairment of investments | **3** | **(6)** | 21 |
| Foreign exchange losses | **3** | **1** | 4 |
| Interest expense | **3,6,7** | **19** | 14 |
| Other non-operating losses | **7** | **1** | 39 |
| | | **(9)** | (7) |
| Changes in working capital: | | | |
| Receivables from related parties | **6** | **11** | 11 |
| Trade and other payables | **7** | **(8)** | (8) |
| **Net cash flow used in operating activities** | | **(6)** | (4) |
| **Cash flows from investing activities** | | | |
| Investments in subsidiaries | **3** | **–** | (300) |
| Return of funds by subsidiaries | **3** | **–** | 32 |
| **Net cash flow used in investing activities** | | **–** | (268) |
| **Cash flows from financing activities** | | | |
| Dividends paid to shareholders | **4** | **(430)** | – |
| Proceeds from loans provided by related parties | **6** | **662** | 305 |
| Repayment of loans provided by related parties, including interest | **6** | **(217)** | (39) |
| Payments for investments on deferred terms, including interest | **3** | **(11)** | (8) |
| **Net cash flow from financing activities** | | **4** | 258 |
| Net decrease in cash and cash equivalents | | **(2)** | (14) |
| Cash and cash equivalents at the beginning of the year | | **2** | 16 |
| **Cash and cash equivalents at the end of the year** | | **$ –** | $ 2 |
| **Supplementary cash flow information:** | | | |
| Interest paid | | **(17)** | (8) |

*The accompanying notes form an integral part of these separate financial statements.*

# Separate Statement of Changes in Equity

In millions of US dollars

| | Notes | Issued capital | Treasury shares | Reorganisation reserve | Merger reserve | Share-based payments | Accumulated profits | Total |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2015** | | $ 1,507 | $ (305) | $ (584) | $ 127 | $ 101 | $ 2,067 | $ 2,913 |
| Total comprehensive loss for the year | | – | – | – | – | – | (74) | (74) |
| Share-based payments | **5** | – | – | – | – | 16 | – | 16 |
| Transfer of treasury shares to participants of the Incentive Plans | **4** | – | 35 | – | – | – | (35) | – |
| **At 31 December 2016** | | **$ 1,507** | **$ (270)** | **$ (584)** | **$ 127** | **$ 117** | **$ 1,958** | **$ 2,855** |
| Total comprehensive loss for the year | | **–** | **–** | **–** | **–** | **–** | **(17)** | **(17)** |
| Share-based payments | **5** | **–** | **–** | **–** | **–** | **17** | **–** | **17** |
| Dividends declared | **4** | **–** | **–** | **–** | **–** | **–** | **(430)** | **(430)** |
| Transfer of treasury shares to participants of the Incentive Plans | **4** | **–** | **39** | **–** | **–** | **–** | **(39)** | **–** |
| **At 31 December 2017** | | **$ 1,507** | **$ (231)** | **$ (584)** | **$ 127** | **$ 134** | **$ 1,472** | **$ 2,425** |

*The accompanying notes form an integral part of these separate financial statements.*

# EVRAZ plc
# Notes to the Separate Financial Statements
# For the year ended 31 December 2017

## 1. Corporate Information

These separate financial statements were authorised for issue by the Board of Directors of EVRAZ plc on 28 February 2018.

EVRAZ plc ("EVRAZ plc" or "the Company") was incorporated on 23 September 2011 as a public company limited by shares under the laws of the United Kingdom. The Company was incorporated under the Companies Act 2006 with the registered number in England 7784342. The Company's registered office is at 5th Floor, 6 St. Andrew Street, London, EC4A 3AE, United Kingdom.

The Company, together with its subsidiaries (the "Group"), is involved in the production and distribution of steel and related products and coal and iron ore mining.  In addition, the Group produces vanadium products. The Group is one of the largest steel producers globally.

Lanebrook Limited (Cyprus) is the ultimate controlling party of the Group.

## 2. Significant Accounting Policies

### Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union and in accordance with the Companies Act 2006.

International Financial Reporting Standards are issued by the International Accounting Standard Board ("IASB").  IFRSs that are mandatory for application as of 31 December 2017, but not adopted by the European Union, are not expected to have a significant impact on the Company's financial statements.

These financial statements have been prepared on a going concern basis as the directors believe there are no material uncertainties which could create a significant doubt as to the Company's ability to continue as a going concern in the foreseeable future.

### Foreign Currency Transactions

The presentation and functional currency of the Company is the US dollar. Transactions in foreign currencies are initially recorded in US dollars at the rate on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

## 2. Significant Accounting Policies (continued)

### Investments

Investments in subsidiaries, associates or joint ventures are initially recorded at acquisition cost. Write–downs are recorded if, in the opinion of the management, there is any impairment in value.

The initial cost of the investment in Evraz Group S.A. was measured at the carrying amount of the equity items of Evraz Group S.A. as a separate legal entity at the date of the reorganisation (Note 3).

Dividend income is recognised as revenue when the Company's right to receive the payment is established.

All purchases and sales of investments are recognised on the settlement date, which is the date when the investment is delivered to or by the Company.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the end of the reporting period or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of operations. Reversals of impairment losses in respect of equity instruments are not recognised in the statement of operations. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the statement of operations.

### Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

### Borrowings

Borrowings are initially recognised at fair value, net of directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest rate method; any difference between the amount initially recognised and the redemption amount is recognised as interest expense over the period of the borrowings.

### Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

## 2. Significant Accounting Policies (continued)

### Financial Guarantee Liabilities

Financial guarantee liabilities issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts between the Company and banks providing loans to the Company's subsidiaries are recognised initially as a liability at fair value, being equal to the estimated future cash inflows receivable from the subsidiaries under the guarantee agreements, with a corresponding recognition of the same amount as receivables from related parties. Subsequently, the liability is amortised over the lives of the guarantees through the statement of comprehensive income, unless it is considered probable that a guarantee will be called, in which case it is measured at the value of the guaranteed amount payable, if higher.

## 3. Investments in Subsidiaries and Joint Ventures

Investments in subsidiaries and joint ventures consisted of the following as of 31 December:

| | Ownership interest | | Cost, net of impairment US$ million | |
|---|---|---|---|---|
| **Subsidiaries** | **2017** | **2016** | **2017** | **2016** |
| Evraz Group S.A. | 100% | 100% | **3,182** | 3,165 |
| **Joint Ventures** | | | | |
| OJSC Mining and Metallurgical Company Timir | 51.00001% | 51.00001% | **24** | 18 |

The movement in investments was as follows:

| *$US million* | Evraz Group S.A. | EVRAZ Greenfield Development S.A. | Timir | Total |
|---|---|---|---|---|
| **31 December 2015** | **$ 2,849** | **$ 31** | **$ 40** | **$ 2,920** |
| Additional investments | 300 | – | – | 300 |
| Share-based compensations | 16 | – | – | 16 |
| Liquidation of investments | – | (32) | – | (32) |
| Impairment (loss recognition)/reversal | – | 1 | (22) | (21) |
| **31 December 2016** | **$ 3,165** | **$ –** | **$ 18** | **$ 3,183** |
| Share-based compensations | 17 | – | – | 17 |
| Impairment loss (recognition)/reversal | – | – | 6 | 6 |
| **31 December 2017** | **$ 3,182** | **$ –** | **$ 24** | **$ 3,206** |

*Evraz Group S.A.*

The Company acquired Evraz Group S.A. in 2011 by means of the share exchange offer made by the Company to the shareholders of Evraz Group S.A. The cost of investments in Evraz Group S.A. was measured at the carrying amount of the equity items shown in the separate accounts of Evraz Group S.A. at the dates of the share exchange.

## 3. Investments in Subsidiaries and Joint Ventures (continued)

*Evraz Group S.A. (continued)*

In 2016, the Company made a cash contribution to the share capital of Evraz Group S.A. in the amount of $300 million.

In addition, the Company recognises share-based payments made to employees of subsidiaries under control of Evraz Group S.A. as an addition to the cost of its investments in Evraz Group S.A. (Note 5). In 2017 and 2016, such share-based compensations amounted to $17 million and $16 million, respectively.

*EVRAZ Greenfield Development S.A. ("EGD")*

In 2016, EGD transferred the Mezhegey coal project to Evraz Group S.A. and was liquidated. The Company received from EGD $32 million in cash as a return of shareholder's funds. Consequently, the Company reversed impairment of $1 million being the difference between cash proceeds from EGD and its carrying value before liquidation.

*OJSC Mining and Metallurgical Company Timir*

Since 2013 the Company has owned a 51% ownership interest in the joint venture with Alrosa for the development of iron ore deposits in the Yakutia region in Russia. The Company's consideration for this stake of 4,950 million roubles was recognised as $149 million being the present value of the expected cash outflows at the exchange rate as of the date of the transaction.

In 2017 and 2016, the Company recognised interest charges on deferred installments of $2 million and $3 million, respectively, within interest expense.

In 2017 and 2016, the Company paid 500 million roubles ($8 million and $7 million, respectively) of purchase consideration and $3 million and $1 million, respectively, of interest charges.

In 2017 and 2016, the Company recognised $1 million and $4 million, respectively, of foreign exchange losses on liabilities for Timir.

At 31 December 2017 and 2016, trade and other accounts payable included liabilities relating to this acquisition in the amount of $19 million and $27 million, respectively.

At 30 September 2017 and 30 September 2016, the Company assessed the recoverability of its investment in Timir. The recoverable amount of the asset was its fair value less costs to sell, which was determined using cash flow projections based on business plans approved by management and an appropriate discount rate reflecting time value of money and risks associated with the asset. The discount rates were 11.56% and 11.75% in 2017 and 2016, respectively. As a result, in 2017 the Company recognised an impairment reversal of $6 million (2016: impairment losses of $22 million). The major drivers that led to impairment losses in 2016 were the decrease in the expected long-term prices for iron ore, the increase in the amount of the required capital expenditure to maintain production at budgeted capacities and the postponement of the start of production for 2 years. In 2017, the long-term prices for iron ore were revised and this led to a partial reversal of impairment.

Additional information regarding Timir is provided in Note 11 of the consolidated financial statements.

Any change to the key assumptions in the value in use calculations could materially impact the recoverable value and result in further impairment or a reversal of previously recognised impairment. For further analysis of these key assumptions please refer to Note 11 of the consolidated financial statements.

*Indirect Subsidiaries and Other Significant Holdings*

The full list of indirect subsidiaries and other significant holdings of EVRAZ plc is presented in Note 34 of the consolidated financial statements.

## 4. Equity

*Share Capital*

| Number of shares | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Ordinary shares of $1 each, issued and fully paid | **1,506,527,294** | 1,506,527,294 |

EVRAZ plc does not have an authorised limit on its share capital.

*Treasury Shares*

| Number of shares | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Treasury shares | **74,474,663** | 87,015,878 |

In 2015, EVRAZ plc purchased 108,458,508 of its own shares. These shares are used for the Company's Incentive Plans (Note 21 of the consolidated financial statements). Under these plans, in 2017 and 2016, the Company transferred to the participants of Incentive Plans 12,541,215 and 11,465,371 shares, respectively.

*Reorganisation Reserve*

Reorganisation reserve represents the difference between the net assets of Evraz Group S.A. at the date of the Group's reorganisation (7 November 2011) and the par value of the issued shares of EVRAZ plc. This charge to equity reduced the amount of distributable reserves.

*Merger Reserve*

The merger reserve arose in 2013 in connection with the purchase of 50% in Corber Enterprises S.à r.l. ("Corber") in accordance with section 612 of the Companies Act 2006. Impairments of the carrying value of this investment were transferred to the merger reserve.

The disposal of the investment in Corber to Evraz Group S.A., the Company's subsidiary, in 2015 (Note 3) was made for non-cash consideration which does not meet the criteria for qualifying consideration. The balance of the merger reserve will be presented as a separate component of equity in the Company's statement of financial position until such time as Evraz Group S.A. is sold for qualifying consideration, and the merger reserve will be re-allocated to accumulated profits and become distributable.

*Dividends*

In 2017, the Company declared dividends:

| | Date of declaration | To holders registered at | Dividends declared, US$ million | US$ per share |
|---|---|---|---|---|
| Interim for 2017 | 09/08/2017 | 18/08/2017 | 430 | 0.30 |

No dividends were declared in 2016.

*Distributable Reserves*

| *$US million* | 2017 | 2016 |
|---|---|---|
| Accumulated profits | **1,472** | 1,958 |
| Reorganisation reserve | **(584)** | (584) |
| 31 December | **888** | 1,374 |

## 5. Share-based Payments

As disclosed in Note 21 of the consolidated financial statements, the Group has incentive plans under which certain employees ("participants") can be gifted shares of the Company.

In 2017 and 2016, the Company recognised share-based compensation expense amounting to $17 million and $16 million, respectively, as a cost of investment in Evraz Group S.A. with a corresponding increase in equity.

## 6. Related Party Transactions

Related parties of the Company include its direct and indirect subsidiaries, associates and joint venture partners, key management personnel and other entities that are under the control or significant influence of the key management personnel, the Company's parent or its shareholders.

*Loans received from Related Parties*

The following movements in loans payable to related parties were in 2016-2017.

| *US$ million* | Currency | Interest rate per contract | Maturity | Balance at 31 December 2016 | Loans received from related parties | Interest expense | Repayment of loans | Balance at 31 December 2017 |
|---|---|---|---|---|---|---|---|---|
| **Indirect subsidiaries** | | | | | | | | |
| Evrazholding Finance | USD | 6.31% | 2021 | **$ 203** | **$ –** | **$ 4** | **$ (207)** | **$ –** |
| East Metals A.G. | USD | 3.75% | 2018 | **69** | **–** | **3** | **(6)** | **66** |
| East Metals A.G. | USD | 3.13% | 2018 | **5** | **32** | **1** | **(1)** | **37** |
| East Metals A.G. | USD | 3.32% | 2020 | **–** | **200** | **4** | **(3)** | **201** |
| East Metals A.G. | USD | 2.73% | 2019 | **–** | **430** | **4** | **–** | **434** |
| | | | | **$ 277** | **$ 662** | **$ 16** | **$ (217)** | **$ 738** |

| *US$ million* | Currency | Interest rate per contract | Maturity | Balance at 31 December 2015 | Loans received from related parties | Interest expense | Repayment of loans | Balance at 31 December 2016 |
|---|---|---|---|---|---|---|---|---|
| **Indirect subsidiaries** | | | | | | | | |
| Evrazholding Finance | USD | 6.31% | 2021 | $ – | $ 200 | $ 9 | $ (6) | $ 203 |
| East Metals A.G. | USD | 3.75% | 2018 | – | 100 | 2 | (33) | 69 |
| East Metals A.G. | USD | 3.13% | 2018 | – | 5 | – | – | 5 |
| | | | | $ – | $ 305 | $ 11 | $ (39) | $ 277 |

*Guarantees*

In 2014-2017, the Company issued guarantees to several banks in respect of the liabilities of EVRAZ NTMK and EVRAZ ZSMK, indirect subsidiaries of the Company, under certain loans totalling $1,772 million at 31 December 2017 (2016: $1,784 million). The loans are due for repayment during the period from 2020 to 2024. The Company earns guarantee fees in respect of these guarantees and in 2017 it accrued $5 million of such income (2016: $9 million). In 2017, the Company recognised an additional financial guarantee liability of $3 million (2016: $5 million).

In addition, in 2017 the Company accrued $1 million of guarantee fees for the issued guarantees to East Metals A.G. for liabilities of Evraz Group S.A., both indirect subsidiaries of the Company, and $1 million of guarantee fees (2016:$1 million) for the issued guarantees to several banks for liabilities of East Metals A.G amounting to $66 million as of 31 December 2017 (2016: $141 million).

In 2016, the Company accrued $1 million of guarantee fees for the issued guarantees to East Metals A.G. for liabilities of Mastercroft Finance Limited, both indirect subsidiaries of the Company.

## 6. Related Party Transactions (continued)

*Other Transactions*

In 2017, OOO Evrazholding, an indirect subsidiary of the Company, rendered consulting services in the amount of $1 million (2016: $1 million).

As of 31 December 2017, the Company owed $1 million to Evraz Inc North America, an indirect subsidiary of the Company.

Other disclosures on directors' remuneration required by Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts & Reports) regulations 2008 and those specified for audit by the Directors' Remuneration Report Regulations 2002 are included in the Directors' Remuneration Report.

## 7. Other non-operating loss

In 2017, other non-operating losses represent $1 million of related expenses paid by the Company for the sale of EVRAZ Nakhodka Trade Sea Port, an indirect subsidiary of the Company.

In 2016, other non-operating losses represent $39 million (including $8 million paid in 2016) relating to the settlement of the Company's guarantee under a long-term take-or-pay supply contract of a former indirect subsidiary of the Company.

In 2017, the Company paid $7 million under the guarantee and recognised interest expense of $1 million. At 31 December 2017 and 2016, trade and other accounts payable included liabilities relating to this guarantee in the amount of $25 million and $31 million, respectively.

## 8. Financial Instruments

### Liquidity Risk

The following tables summarise the maturity profile of the Company's financial liabilities based on contractual undiscounted payments, including interest payments.

*31 December 2017*

| *US$ million* | On demand | Less than 3 months | 3 to 12 months | 1 to 2 years | 2 to 5 years | After 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Fixed –rate debt** | | | | | | | |
| Loans payable to related parties | | | | | | | |
| *Principal* | $ – | $ – | $ 102 | $ 430 | $ 200 | $ – | $ 732 |
| *Interest* | – | – | 7 | 18 | 18 | – | 43 |
| Trade and other payables | | | | | | | |
| *Principal* | – | 12 | 3 | 15 | 15 | – | 45 |
| *Interest* | – | 2 | – | 1 | – | – | 3 |
| Financial guarantees | – | – | 8 | 7 | 10 | – | 25 |
| **Total fixed-rate debt** | – | 14 | 120 | 471 | 243 | – | 848 |
| **Non-interest bearing debt** | | | | | | | |
| Payables to related parties | 1 | – | – | – | – | – | 1 |
| **Total non-interest bearing debt** | 1 | – | – | – | – | – | 1 |
| | $ 1 | $ 14 | $ 120 | $ 471 | $ 243 | $ – | $ 849 |

## 8. Financial Instruments (continued)

### Liquidity Risk (continued)

*31 December 2016*

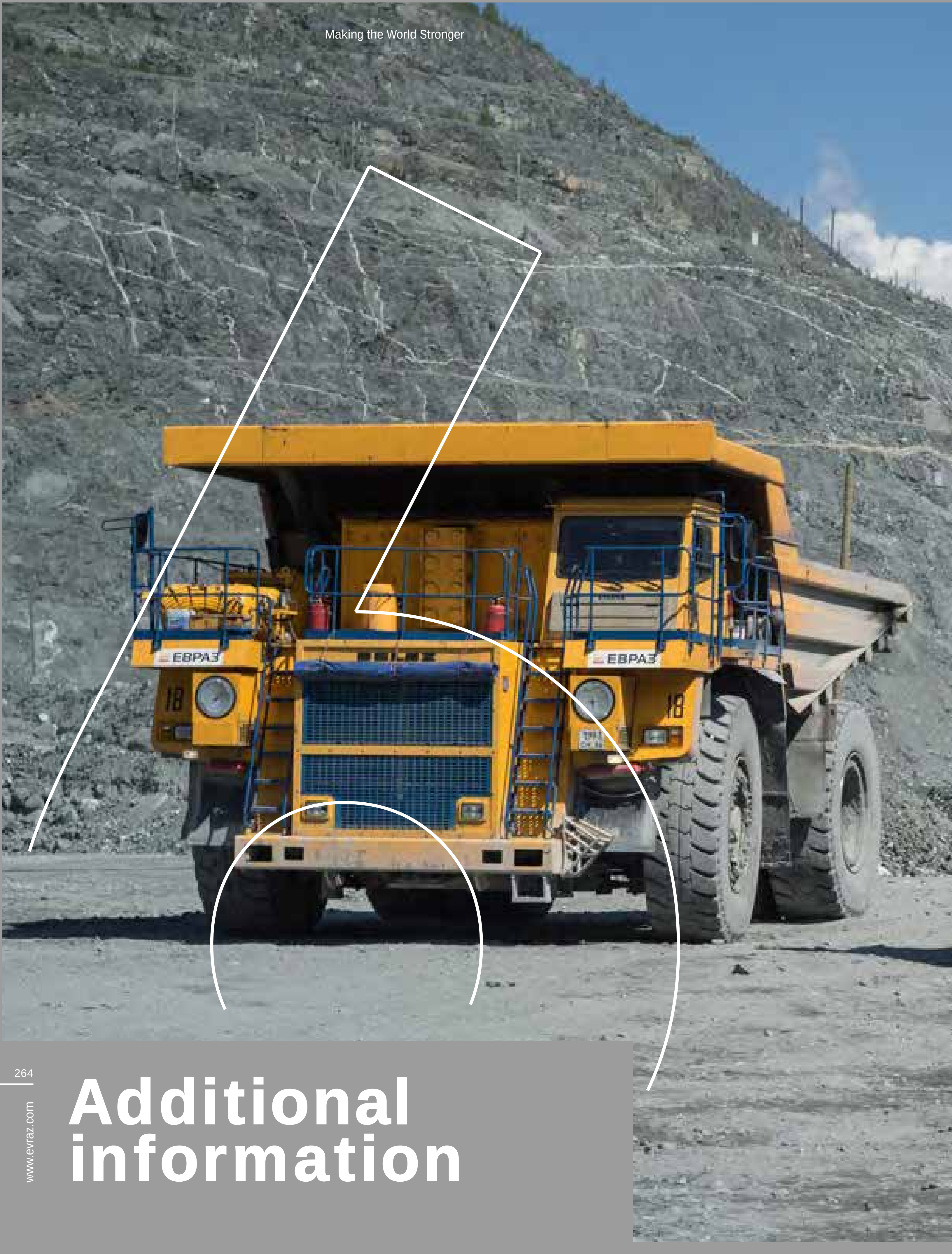
| *US$ million* | **On demand** | **Less than 3 months** | **3 to 12 months** | **1 to 2 years** | **2 to 5 years** | **After 5 years** | **Total** |
|---|---|---|---|---|---|---|---|
| **Fixed –rate debt** | | | | | | | |
| Loans payable to related parties | | | | | | | |
| *Principal* | $ – | $ – | $ – | $ – | $ 74 | $ 200 | $ 274 |
| *Interest* | – | – | 3 | 28 | 29 | 28 | 88 |
| Trade and other payables | | | | | | | |
| *Principal* | – | 12 | 3 | 15 | 25 | 4 | 59 |
| *Interest* | – | 3 | – | 2 | – | 1 | 6 |
| Financial guarantees | – | – | 9 | 7 | 10 | 1 | 27 |
| **Total fixed-rate debt** | – | 15 | 15 | 52 | 138 | 234 | 454 |

*Fair Value of Financial Instruments*

The carrying amounts of financial instruments, such as cash, accounts receivable and payable, loans payable to related parties, approximate their fair value.

## 9. Subsequent Events

On 28 February 2018, the Board of directors of EVRAZ plc declared a second interim dividend for 2017 in the amount of $429.6 million, which represents $0.3 per share.






# Additional information

# Stock performance indicators and shareholder information

## Information about shares of EVRAZ plc

The issued share capital of EVRAZ plc ("the Company") is 1,506,527,294 ordinary shares with a nominal value of US$1 each. As at 31 December 2017, the number of shares outstanding was 1,432,053,343, the Company held 74,473,951[1] ordinary shares in treasury. The total number of voting rights attaching to the ordinary shares of the Company was therefore 1,432,053,343.

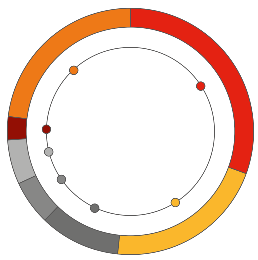
*[1]The number of shares differs from figure in the Financial statements for the amount of shares held in Trust.*

**THE SHARES OF EVRAZ PLC TRADES ON THE MAIN MARKET OF LONDON STOCK EXCHANGE**

| | |
|---|---|
| **Ticker (Bloomberg)** | EVR LN |
| **Trading service** | SETS |
| **Market** | MAIN MARKET |
| **Listing category** | Premium Equity Commercial Companies |
| **FTSE index** | FTSE 100 |
| **FTSE sector** | Industrial Metals & Mining |
| **FTSE sub-sector** | Iron & Steel |
| **Country of share register** | GB |
| **Segment** | STMM |
| **MiFID Status** | Regulated Market |
| **SEDOL** | B71N6K8 |
| **ISIN number** | GB00B71N6K86 |

## Shareholder structure

**ULTIMATE BENEFICIAL OWNERS, % of voting rights[1]**



| | |
|---|---|
| Roman Abramovich[3] | 30.76 |
| Alexander Abramov[4] | 21.09 |
| Alexander Frolov[4] | 10.53 |
| Gennady Kozovoy[5] | 5.85 |
| Alexander Vagin[5] | 5.79 |
| Eugene Shvidler[3] | 3.06 |
| Other | 22.92 |

*[1]The Group is aware of the following beneficiaries who have an interest in three percent or more of EVRAZ plc's share capital (in each case, except for Gennady Kozovoy, held indirectly).*
*[2]The number of shares as per TR-1 Form: Notification of major interest in shares dated 10 May 2017. Includes pro-rata shareholding held via Lanebrook and additional shares held outside Lanebrook.*
*[3]The number of shares as per PDMRs dealing notification dated 05 September 2017.*
*[4]The number of shares is as per TR-1 Form: Notification of major interest in shares dated 6 February 2013. For Mr Kozovoy, includes shares held directly.*

## Share price

**RELATIVE SHARE PRICE DYNAMICS IN 2017, 52w**


## Unsolicited telephone calls and correspondence

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. These are typically from overseas-based 'brokers' who target US or UK shareholders, offering to sell them what often turns out to be worthless or high risk shares.

These operations are commonly known as 'boiler rooms' and the 'brokers' can be very persistent and extremely persuasive.

If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation.
- Check that they are properly authorised by the FSA before getting involved by visiting www.fsa.gov.uk/fsaregister and contacting the firm using the details on the register.
- Report the matter to the FSA either by calling 0845 606 1234 or visiting www.fsa.gov.uk/scams.
- If the calls persist, hang up.

Details of any share dealing facilities that the company endorses will be included in Company mailings.

## Electronic shareholder communications

EVRAZ uses its website www.evraz.com as its primary means of communication with its shareholders provided that the shareholder has agreed or is deemed to have agreed that communications may be sent or supplied in that manner in accordance with the Companies Act 2006. Electronic communications allow shareholders to access information instantly as well as helping EVRAZ reduce its costs and its impact on the environment.

Shareholders can sign up for **relectronic communications** via Computershare's Investor Centre website at: www.investorcentre.co.uk.

Shareholders that have consented or are deemed to have consented to electronic communications can revoke their consent at any time by contacting the Company's registrar, Computershare.

# Definitions of selected alternative performance measures

The Group uses alternative performance measures (APMs) to improve comparability of information between reporting periods and business units, either by adjusting for uncontrollable or one-off factors which impact upon IFRS measures or, by aggregating measures, to aid the user of the Annual Report in understanding the activity taking place across the Group's portfolio.

## Definition of Free Cash Flow

Free Cash Flow represents EBITDA, net of noncash items, less changes in working capital, income tax paid, interest paid and covenant reset charges, conversion premiums, premiums on early repurchase of bonds and realised gain/(losses) on interest payments under swap contracts, interest income and debt issue costs, less capital expenditure, including recorded in financing activities, purchases of subsidiaries, net of cash acquired, proceeds from sale of disposals classified as held for sale, net of transaction costs, less purchases of treasury shares for participants of the incentive plans, plus other cash flows from investing activities.

Free Cash Flow is not a measure under IFRS and should not be considered as an alternative to other measures of financial position. EVRAZ' calculation of Free Cash Flow may be different from the calculation used by other companies and therefore comparability may be limited.

## Definition of EBITDA

EBITDA is determined as a segment's profit/(loss) from operations adjusted for social and social infrastructure maintenance expenses, impairment of assets, profit/(loss) on disposal of property, plant and equipment and intangible assets, foreign exchange gains/(losses) and depreciation, depletion and amortisation expense.

In 2015, management changed the definition of segment expense and EBITDA to make these indicators more comparable with the Russian steel peers. Starting from the 2015 consolidated financial statements, segment expense does not include social and social infrastructure maintenance expenses, and profit/(loss) from operations is adjusted for these expenses in arriving at EBITDA.

See note 3 of the consolidated financial statement on page 180 for additional information.

## Cash and short-term bank deposits

Cash and short-term bank deposits is not a measure under IFRS and should not be considered as an alternative to other measures of financial position. EVRAZ' calculation of cash and short-term bank deposits may be different from the calculation used by other companies and therefore comparability may be limited.

## Total debt

Total debt represents the nominal value of loans and borrowings plus unpaid interest, finance lease liabilities, loans of assets classified as held for sale, and the nominal effect of cross-currency swaps on principal of rouble-denominated notes. Total debt is not a measure under IFRS and should not be considered as an alternative to other measures of financial position. EVRAZ' calculation of total debt may be different from the calculation used by other companies and therefore comparability may be limited. The current calculation is different from that used for covenant compliance calculations.

## Net debt

Net debt represents total debt less cash and liquid short-term financial assets, including those related to disposals classified as held for sale. Net debt is not a measure under IFRS and should not be considered as an alternative to other measures of financial position. EVRAZ' calculation of net debt may be different from the calculation used by other companies and therefore comparability may be limited. The current calculation is different from that used for covenant compliance calculations.

**CASH AND SHORT-TERM BANK DEPOSITS CALCULATION,** US$ million

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Cash and cash equivalents | 1,466 | 1,157 |
| Cash of disposal groups classified as held for sale | – | 2 |
| Collateral under swaps | – | – |
| **Cash and short-term bank deposits** | **1,466** | **1,159** |

**CALCULATION OF TOTAL DEBT,** US$ million

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Long-term loans, net of current portion | 5,243 | 5,502 |
| Short-term loans and current portion of long-term loans | 148 | 392 |
| Add back: Unamortised debt issue costs and fair value adjustment to liabilities assumed in business combination | 28 | 43 |
| Nominal effect of cross-currency swaps on principal of rouble-denominated notes | 5 | 19 |
| Finance lease liabilities, including current portion | 8 | 5 |
| **Total debt** | **5,432** | **5,961** |

**CALCULATION OF NET DEBT,** US$ million

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| **Total debt** | **5,432** | **5,961** |
| Short-term bank deposits | – | – |
| Cash and cash equivalents | (1,466) | (1,157) |
| Cash of assets classified as held for sale | – | (2) |
| Collateral under swaps | – | – |
| **Net debt** | **3,966** | **4,802** |

### Labor productivity, US$/t

P=S/V

**S** — Labor Costs (asset and A-category subsidiaries), exclusive of tax, local currency (on Division consolidation sites with different currencies, $)
**V** — production volume, tn.
(for steel assets: V — metal products shipped)

### LTIFR

The KPI is calculated on a year-to-date basis for the company employees only.

LTIFR = X • 1000000/Y

**X** is the total number of occupational injuries resulted in lost time among the company employees in the reporting period. Fatalities are not included.
**Y** is the actual total number of man-hours worked by all company employees in the reporting period.

### Semi-finished products cash costs, US$/t

Cash cost of semi-finished products is defined as the production cost less depreciation, the result is divided by production volumes of steel semi-products. Raw materials from EVRAZ coal and iron ore producers are accounted for on at-cost-basis. Costs of semi-finished steel products of EVRAZ NTMK, EVRAZ ZSMK are then weighted averaged by the total saleable semi-finished products production volume.

### Coking coal concentrate cash cost, US$/t

Cash cost of coking coal concentrate is defined as cost of revenues less depreciation and SG&A, the result is divided by sales volumes.

### Number of EBS transformations

Number of EBS transformations implemented at the key assets during the reporting year.

### Customer focus and cost-cutting effects

Each project effect is calculated as an absolute deviation of targeted metric year to year multiplied by relevant price or volume depending on project's focus.

# Data on mineral reserves

In 2017, EVRAZ conducted valuation of the mineral reserves in compliance with JORC Code. The valuation was conducted as of 1 July 2017 by IMC Montan.

## Coal

**YUZHKUZBASSUGOL JORC EQUIVALENT COAL PROVED AND PROBABLE RESERVES, kt**

| Mine | As of 31 December 2017 |
|---|---|
| Alardinskaya | 89,623 |
| Yesaulskaya | 13,558 |
| Erunakovskaya-8 | 117,506 |
| Osinnikovskaya | 75,989 |
| Uskovskaya | 120,160 |
| **Total** | **416,836** |

**RASPADSKAYA JORC EQUIVALENT COAL PROVED AND PROBABLE RESERVES, kt**

| Mine | As of 31 December 2017 |
|---|---|
| Raspadskaya | 924,637 |
| Raspadskaya Koksovaya (incl. Razrez Koksovy) | 208,372 |
| MUK-96 | 113,058 |
| Razrez Raspadskiy | 109,357 |
| **Total** | **1,355,424** |

**MEZHEGEYUGOL JORC EQUIVALENT COAL PROVED AND PROBABLE RESERVES, kt**

| Mine | As of 31 December 2017 |
|---|---|
| Mezhegeyugol | 88,026 |

## Iron ore

**EVRAZRUDA JORC EQUIVALENT COAL PROVED AND PROBABLE RESERVES, kt**

| Mine | As of 31 December 2017 | Fe, % | S, % |
|---|---|---|---|
| Kaz | 7,257 | | |
| Tashtagol | 66,554 | | |
| Sheregesh | 93,200 | | |
| **Total** | **167,011** | **31.90** | **1.39** |

**KACHKANARSKY GOK (EVRAZ KGOK) JORC EQUIVALENT COAL PROVED AND PROBABLE RESERVES, kt**

| Mine | As of 31 December 2017 | Fe, % | $V_2O_5$, % |
|---|---|---|---|
| Gusevogorskoe | 3,136,320 | | |
| Kachkanar Proper (Sobstvenno-Kachkanarskoye) | 6,743,222 | | |
| **Total** | **9,879,542** | **15.9** | **0.13** |

# Short summary of relevant anti-corruption policies

## Code of Conduct

The Code of Conduct is the key document that all employees are requested to adhere to and act in full accordance with. Every new employee is trained on the Code of Conduct on their first day of work. The document is available on the corporate intranet and stresses the ultimate importance of ethical behaviour in all circumstances. Anti-corruption training and the tone set from the top of the organisation emphasise the role of the Code of Conduct in the Group's daily life.

## Anti-corruption policy

EVRAZ' Anti-corruption Policy establishes and explains key principles that all assets have adopted to prevent corruption. The policy is easily accessible on the corporate intranet for employees, interested parties and partners, who are all expected to be compliant with relevant anti-corruption legislation and the principles upheld by EVRAZ.

## Anti-corruption training policy

Consistent anti-corruption education efforts are an integral element of a well-thought-out compliance system. The policy adopted in December 2015 defines what positions and levels of authority are to undergo training in anti-corruption awareness. Specifically, all managers and specialists from compliance, legal, controlling, asset protection, investor and government relations, and HR are to receive training and pass a corresponding test. The same refers to all decision makers and/or client managers from procurement and sales. Compliance managers are assigned discreet authority to analyse risk areas and decide who else needs to be trained.

## Sponsorship and charity policy

This policy regulates all aspects of EVRAZ' sponsorship and charity efforts as necessary. Under it, the Group may consider supporting low-income or physically challenged individuals, and those suffering from conflicts or natural disasters. EVRAZ may choose to support certain projects in education, sport, health care, culture, and environmental protection. All petitions are carefully considered in terms of legitimacy and transparency of purpose, the amount sought, and the reputation of the petitioner. The decisions are then taken by the Group CEO. When support is granted, sponsorship being its preferred form, such instances are followed up by experts under the vice president for corporate communications and by compliance managers. This ensures full accountability and strict adherence of those supported to EVRAZ' policy requirements.

## Gift and business entertainment policy

EVRAZ believes that business gifts and hospitality are accepted ways to demonstrate and further develop good relationships. At the same time, adequate and consistent control over such expenses is highly important and is one of the key areas for anti-corruption compliance to watch. The policy defines rules and strict approval procedures to be followed when extending or receiving gifts and hospitality. In particular, all amounts above US$100 for a personal gift (received or given) and US$500 for hospitality (received or extended to a person) must be approved by the responsible compliance manager. Corresponding amounts in U.S. and Canada are US$50 and US$250 respectively. To this end, an electronic notification system has been developed. The internal audit function conducts regular checks of the completeness and accuracy of records, either planned or requested by a compliance manager, and compliance specialists act on any recommendations promptly.

## Hotline policy and whistle-blowing procedures

EVRAZ encourages employees to raise concerns to their line managers if they believe the company's policies or cardinal principles are somehow violated. If employees, clients, or contractors feel unable to do so via other means and procedures, a confidential hotline is available 24/7.

## Candidate background and criminal record checks

EVRAZ consistently performs thorough background and criminal record checks on all potential employees. Among other requirements and norms, the policy specifies that all necessary effort is invested only after the candidate gives written permission to work with his/her personal data. The company is committed to protecting each individual's privacy and works in full compliance with relevant laws on personal data.

## Conflict of interest policy

A conflict of interest is a set of circumstances in which employees have financial or other personal considerations that may compromise or influence their professional judgment or integrity in carrying out their work responsibilities. The policy specifies how to identify, consider, and duly take care of situations with signs of such conflicts. HR together with compliance managers routinely check whether there are conflicts of interests in the Group, whereas employees and particularly their managers are expected to provide information about any potentially risky situations. Special commissions consider cases that are reported and found to come up with the best possible solution to each individual situation.

## Contractor/supplier due diligence checks

To guard against unscrupulous, unreliable, or suspicious would-be agents and partners, the company runs comprehensive due diligence checks on a business or person prior to signing a contract. EVRAZ fervently upholds a know-your-partner/client policy and in doing so is fully compliant with the applicable anti-corruption laws. The investigation includes but is not limited to checking the company's business reputation and solvency, as well as its top management's profile and reputation.

# Terms and abbreviations

## B

**Basic oxygen furnace**
Basic oxygen furnace is a frunace used in a method of primary steelmaking in which carbon-rich molten pig iron is made into steel. Blowing oxygen through molten pig iron lowers the carbon content of the alloy and changes it into low-carbon steel. The process is known as basic because fluxes of burnt lime or dolomite, which are chemical bases, are added to promote the removal of impurities and protect the lining of the converter.

**Beam**
A structural element. Beams are characterised by their profile (the shape of their cross-section). One of the most common types of steel beam is the I-beam, also known as H-beam, or W-beam (wide-flange beam), or a 'universal beam/column'. Beams are widely used in the construction industry and are available in various standard sizes, eg 40-k beam, 60Sh beam, 70Sh beam as mentioned in this report.

**Billet**
A usually square, semi-finished steel product obtained by continuous casting or rolling of blooms. Sections, rails, wire rod and other rolled products are made from billets.

**Blast furnace**
The blast furnace is the classic production unit to reduce iron ore to molten iron, known as hot metal. It operates as a counter-current shaft system, where iron ore and coke is charged at the top. While this charge descends towards the bottom, ascending carbon containing gases and coke reduces the iron ore to liquid iron. To increase efficiency and productivity, hot air (often enriched with oxygen) is blown into the bottom of the blast furnace. In order to save coke, coal or other carbon containing materials are sometimes injected with this hot air.

**By-product**
A secondary product which results from a manufacturing process or chemical reaction.

## C

**Cash cost of coking coal concentrate**
Cash cost of coking coal concentrate is defined as the production cost less depreciation , incl. SG&A and Maintenance CAPEX, the result is divided by production volumes. This measure is used to monitor segment competitiveness improvement.

**CAPEX**
Capital expenditure.

**CFR**
Cost and freight, the seller must pay the costs and freight to bring the goods to the port of destination. However, risk is transferred to the buyer once the goods are loaded on the vessel. Insurance for the goods is not included.

**Channel**
U-shaped section for construction.

**Coal washing**
The process of removing mineral matter from coal usually through density separation, for coarser coal and using surface chemistry for finer particles.

**Coke**
A product made by baking coal without oxygen at high temperatures. Unwanted gases are driven out of the coal. The unwanted gases can be used as fuels or processed further to recover valuable chemicals. The resulting material (coke) has a strong porous structure which makes it ideal for use in a blast furnace.

**Coke battery**
A group of coke ovens operating as a unit and connected by common walls.

**Coking coal**
Highly volatile coal used to manufacture coke.

**Concentrate**
A product resulting from iron ore / coal enrichment, with a high grade of extracted mineral.

**Construction products**
Include beams, channels, angles, rebars, wire rods, wire and other goods.

**Converter**
A type of furnace that uses pure oxygen in the process of producing steel from cast iron or dry mix.

**Conversion costs**
Conversion costs is defined as production costs without raw materials and depreciation, incl. SG&A and Maintenance CAPEX. This measure is used to monitor segment competitiveness improvement.

**Continuous casting machine**
Process whereby molten metal is solidified into a "semi-finished" billet, bloom, or slab for subsequent rolling in the finishing mills.

**Crude steel**
Steel in its solidified state directly after casting. This is then further processed by rolling or other treatments, which can change its properties.

## D

**Debottlenecking**
Increasing capacity of a supply or production chain through the modification of existing equipment or infrastructure to improve efficiency.

**Deposit**
An area of coal resources or reserves identified by surface mapping, drilling or development.

## E

**Electric arc furnace**
A furnace used in the steelmaking process which heats charged material via an electric arc.

## F

**Feasibility study**
A comprehensive engineering estimate of all costs, revenues, equipment requirements and production levels likely to be achieved if a mine is developed. The study is used to define the technical and economic viability of a project and to support the search for project financing.

**Finished products**
Products that have completed the manufacturing process but have not yet been sold or distributed to the end user.

**Flat products or Flat-rolled steel products**
Include commodity plate, specialty plate and other products in flat shape such as sheet, strip and tin plate.

## G

**Greenfield**
The development or exploration of a new project not previously examined.

**Grinding balls**
Balls used to grind material by impact and pressure.

## H

**Head-hardened rails**
High strength rails with head hardened by heat treatment.

**Heat-treatment**
A group of industrial and metalworking processes used to alter the physical, and sometimes chemical, properties of a material.

**HiPo**
High potential employee.

## I

**Iron ore**
Chemical compounds of iron with other elements, mainly oxygen, silicon, sulphur or carbon. Only extremely pure (rich) iron-oxygen compounds are used for steelmaking.

**ISO 14001**
The International Standardisation Organisation's standard for environmental management systems.

**ISO 9001:2008**
The International Standardisation Organisation's standard for a quality management system.

## J

**JORC Code**
The Australasian Joint Ore Reserves Committee, which is widely accepted as a standard for professional reporting of Mineral Resources and Ore Reserves.

## K

**Kt**
Thousand tonnes.

## L

**Labour productivity**
Labour productivity is defined as labour costs exclusive of tax divided by production volumes of steel products. The measurement of performance enables the Company to monitor labour efficiency.

**Ladle furnace**
The secondary metallurgy vessel used between steelmaking and casting operations to allow the composition of molten steel to be brought to the required customer specification.

**Lean**
Lean is philosophy of managing the business that is based on a set of principles that define the way of work.

**Long products**
Include bars, rods and structural products that are 'long' rather than 'flat' and are produced from blooms or billets.

**Longwall**
An underground mining process in which the coal face is dug out by a shearer and transported above ground by conveyors.

**LTIFR**
Lost time injury frequency rate, which represents the number of lost time injuries (1 day or more of absence) divided by the total number of hours worked expressed in millions of hours.

**Lumpy ore**
Iron ore between 6mm and 30mm in size. Lump is preferred in the blast furnace as its particle size allows oxygen to circulate around the raw materials and melt them efficiently.

## M

**Model line**
Model line is as a value stream within a single facility or operation, provides a focused and controlled playground for implementing lean. Serve as internal benchmark for the Company. The measurement of performance enables the Company to monitor lean implementation.

**Mt**
Million tonnes.

**Mtpa**
Million tonnes per annum.

## O

**Open pit mine**
A mine working or excavation open to the surface where material is not replaced into the mined out areas.

**OCTG pipe**
Oilfield Casing and Tubing Goods or Oil Country Tubular Goods – pipes used in the oil industry.

## P

**Pellet**
An enriched form of iron ore shaped into small balls or pellets. Pellets are used as raw material in the steel making process.

**Pig iron**
The solidified iron produced from a blast furnace used for steel production. In liquid form, pig iron is known as hot metal.

**Pipe blank**
A flat sheet of metal, a semi-finished product, sold to pipemakers to manufacture pipes.

**Plate**
A long thin square shaped construction element made from slabs.

**Pulverised coal injection (PCI)**
A cost-reducing technique in iron-making, where cheaper coal is prepared to replace normal coking coal in the blast furnace. The coal is pulverised into very small particles before injection into the furnace.

## R

**Railway products**
Include rails, rail fasteners, wheels, tyres and other goods for the railway sector.

**Rebar**
Reinforcing bar, a commodity grade steel used to strengthen concrete in highway and building construction. Rebar A500SP is a type of reinforcing bar that allows for a reduction in the metallic component of reinforced concrete, thereby significantly lowering construction costs.

**Rolled steel products**
Products finished in a rolling mill; these include bars, rods, plate, beams etc.

**Rolling mill**
A machine which converts semi-finished steel into finished steel products by passing them through sets of rotating cylinders which form the steel into finished products.

## S

**SG&A**
Selling, General and Administrative Expenses.

**Saleable products**
Products produced by EVRAZ mines or steel mills which are suitable for sale to third parties.

**Self-coverage**
The raw material requirement of EVRAZ' steelmaking facilities fulfilled by EVRAZ owned mines.

**Scrap**
Iron containing recyclable materials (mainly industrial or household waste) that is generally remelted and processed into new steel.

**Semi-finished products**
The initial product forms in the steel making process including slabs, blooms, billets and pipe blanks that are further processed into more finished products such as beams, bars, sheets, tubing etc.

**Sinter**
An iron rich clinker formed by heating iron ore fines and coke in a sinter line. The materials, in pellet form, combine efficiently in the blast furnace and allow for more consistent and controllable iron manufacture.

**Slab**
A common type of semi-finished steel product which can be further rolled into sheet and plate products.

**Slag**
Slag is a byproduct generated when non-ferrous substances in iron ore, limestone and coke are separated from the hot metal in metallurgical production. Slag is used in cement and fertiliser production as well as for base course material in road construction.

**Steam coal**
All other types of hard coal not classified as coking coal. Coal of this type is also commonly referred to as thermal coal.

## T

**Tailings**
Also called mine dumps, are the materials left over after the process of separating the valuable content from the uneconomic remainder (gangue) of an ore. These materials can be reprocessed using new methods to recover additional minerals.

**Tubular products**
Include large diameter line pipes, ERW pipes and casings, seamless pipes and other tubular products.

## U

**Unrealised profit (URP)**
Inter-segment unrealised profit or loss (URP) is a change in the sales margin included in balances of inventories purchased from segments other than the reportable segment between the end and the beginning of the reporting period.

## V

**Vanadium**
A grey metal that is normally used as an alloying agent for iron and steel. It is also used to strengthen titanium based alloys.

**Vanadium pentoxide**
The chemical compound with the formula V2O5: this orange solid is the most important compound of vanadium. Upon heating, it reversibly loses oxygen.

**Vanadium slag**
Vanadium slag produced from pig iron in the converter shop and used as a raw material by producers of ferroalloys and vanadium products.

# Contact details

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