Remuneration report

Alexander Izosimov
Independent Non-Executive Director,
Chairman of the Remuneration Committee

I am pleased to present EVRAZ annual report on directors' remuneration and to confirm that the Committee has taken decisions fully in line with the shareholder-approved policy. This policy is designed to help to deliver the Group's sustainable business objectives and maximise long-term rewards to shareholders. The Committee's Terms of Reference have now been updated in line with the 2018 UK Corporate Governance Code.
I would like to welcome Laurie Argo, who joined the Committee as a member on 13 December 2019.

INTRODUCTION

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 (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 2018 UK Corporate Governance Code (July 2018).

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 and therefore the next occasion will be at the AGM in 2020.

This policy is broadly the same as the previous version as, following a review by the Committee, it was felt to still be appropriate for the Group's requirements.

Annual remuneration report

The second part of the report, the Annual Remuneration Report, sets out details of remuneration paid in 2019 and how the Group intends to apply its Remuneration Policy in 2020. This section will be put to an advisory shareholder vote at the forthcoming AGM.

Key decisions taken during the year

During the year, the Committee reviewed the suitability of the current policy, reflecting on how it had operated in the past and what was needed for the future. While the updated UK Corporate Governance Code required certain changes to be made, these are fairly minor in nature. The Committee operated under its terms of reference (as described **on page 138**) without conflicts of interest and having sought advice to determine the future policy.

The Committee assessed performance of the CEO against predetermined KPIs and targets as well as the overall performance of the Group. From an operational and financial perspective the performance of the Group has been strong, meeting most of the set targets and showing good progress on strategic projects. During the year the Group significantly increased its focus on health and safety, placing the paramount importance on the measures aimed to improve the safety culture.
However, taking into account the increase

in fatalities in 2019, driven by the crew bus accident at Raspadskaya mine, after the discussion with and with the agreement of the CEO, the Committee decided not to award the CEO bonus. Although changes in behavior and practices take time to achieve improved safety figures, the CEO considers the increase in the number of fatalities unacceptable.

Through the ongoing dialog with the management, the Committee maintained its thorough understanding of the operation of remuneration arrangements throughout the Group and under its amended terms of reference approved the remuneration of the senior executives operating immediately below the CEO.

In line with its commitment to good corporate governance, the Group 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.

Link with business strategy

EVRAZ actualised strategic priorities define the selection of KPIs for the CEO.

These strategic priorities are reflected in the Group's approach to executive remuneration and a large proportion of the CEO's remuneration is linked to performance through the annual bonus.

Achievement within the annual bonus is based on the Group's key quantitative financial, operational and strategic measures to ensure focus is spread across the key aspects of Group's performance and strategy. The exact measures and associated weighting are determined on an annual basis according to the Company's strategic priorities for the year.

For 2019, 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), Cash Cost Index and the Committee's assessment of overall performance against strategic objectives. The KPIs are specific and focus on deliverables to support the Group's strategy.

How business strategic priorities align to overall reward at EVRAZ

CEO KPIs	Weighting	Sustainable development	EVRAZ Business System	Debt management and stable dividends	Prudent CAPEX	Retention of Low-cost position	Development of product portfolio and customer base
LTIFR	20%	X	X				
EBITDA	20%		X	X	X	X	X
Adjusted FCF	20%		X	X	X	X	X
Cash Cost Index	20%		X		X	X	
Strategic Objectives	20%	X	X		X	X	X

POLICY REPORT

Shareholder approval is to be sought at the 2020 AGM for an updated policy (which is outlined on pages 131-135) which will, subject to that shareholder approval.

This updated policy contains the following key changes to the policy approved in 2017 by shareholders (which is available at https://ar2017.evraz.com/en/governance/remuneration-report):

- Future executive directors will receive a pension benefit no higher than that provided (as a percentage of salary) to the workforce level
- Introduction of formal shareholding guidelines requiring any future executive director to build over time and then retain shares worth at least 200% of salary normally for the period of two years after ceasing to be an executive director
- The ability for the Committee to reduce bonus payments to reflect EVRAZ overall performance, as well as safety record and procedures

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 Group's business objectives, encourages a high level of performance and aligns the interests of management with those of shareholders.

The 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 below 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 Committee may adjust bonus payments downwards to reflect the Group's overall performance including safety underlying practices and resulting 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 the 2018 UK Corporate Governance Code.

The Committee may make minor amendments to the Remuneration Policy set out below (for regulatory, exchange control, tax or administrative purposes, or to take account of a change in legislation) without obtaining shareholder approval for that amendment.