

# EVRAZ Investor Day

19 October 2018, London



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# Today's speakers

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**Sir Michael Peat**  
Senior Independent  
Non-Executive Director



**Alexander Frolov**  
Chief Executive Officer



**Sergey Stepanov**  
Vice President,  
Head of the Coal Division



**Alexander Erenburg**  
Director,  
Head of the Vanadium Division



**Alexey Ivanov**  
Senior Vice President,  
Commerce and  
Business development



**Conrad Winkler**  
Chief Executive Officer,  
EVRAZ North America



**Nikolay Ivanov**  
Chief Financial Officer

# Agenda

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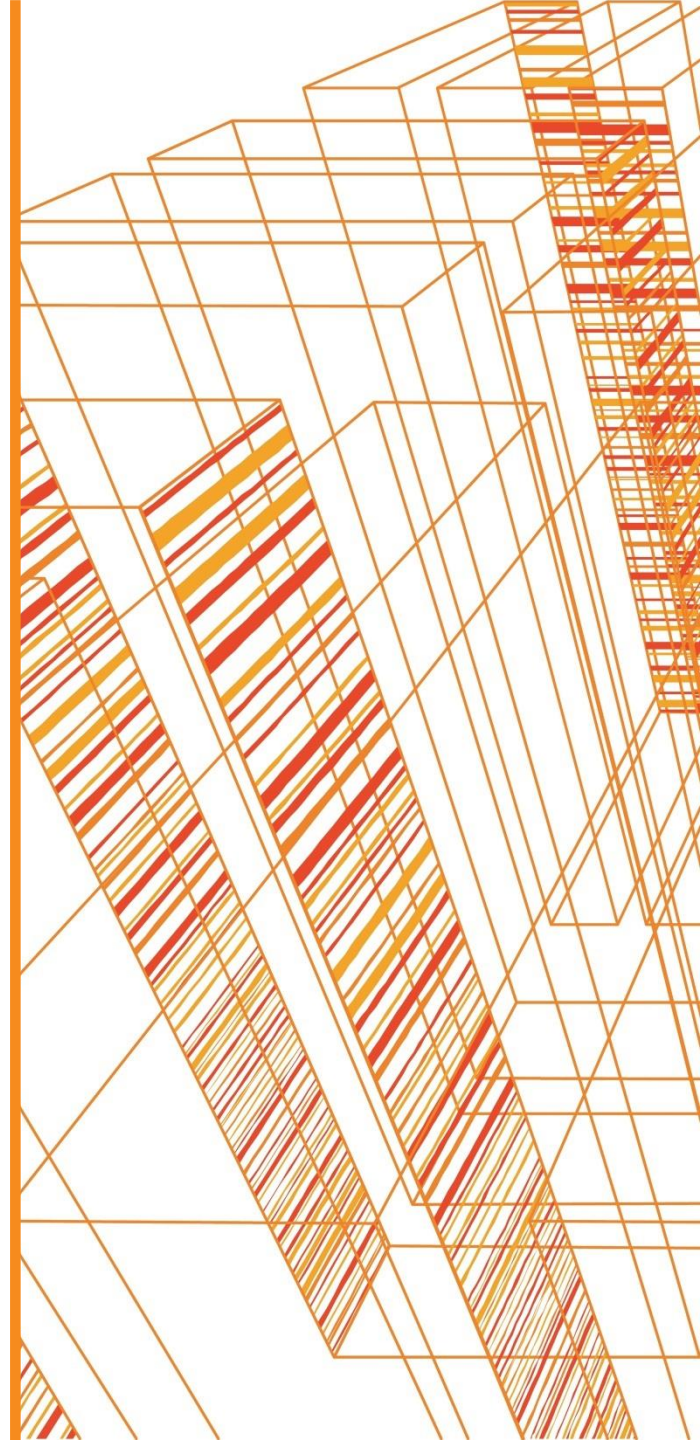
- 9:05 am**                    **Corporate governance**  
Sir Michael Peat, Senior Independent Non-Executive Director
- 9:10 am**                    **Strategic overview**  
Alexander Frolov, CEO
- 9:30 am**                    **Coal, Russia**  
Sergey Stepanov, Vice President, Head of the Coal Division
- 9:45 am**                    **Vanadium**  
Alexander Erenburg, Director, Head of the Vanadium Division
- 10:00 am**                  **Steel, Russia**  
Alexey Ivanov, Senior Vice President, Commerce and Business Development
- 10:20 am**                  **Steel, North America**  
Conrad Winkler, CEO, EVRAZ North America
- 10:35 am**                  **Financial overview**  
Nikolay Ivanov, CFO
- 10:50 am**                  **Q&A session**
- 11:30 am**                  Buffet lunch / informal interaction with management

# Corporate governance

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**Sir Michael Peat**

Senior Independent Non-Executive Director

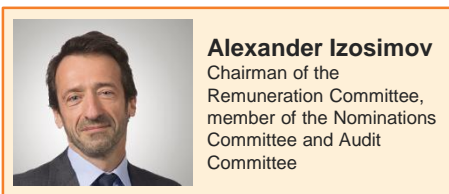
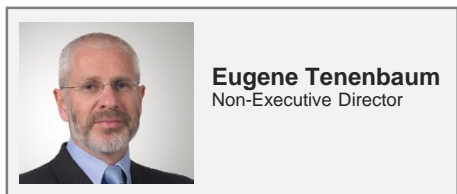
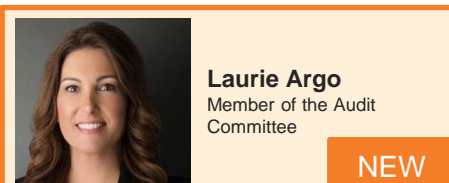
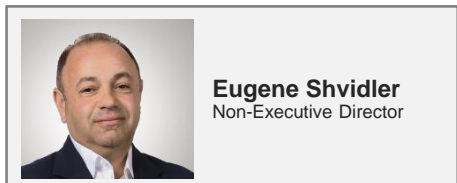
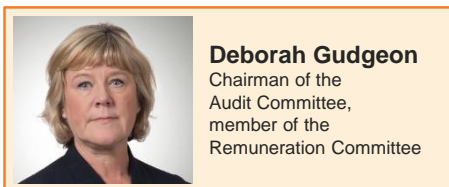
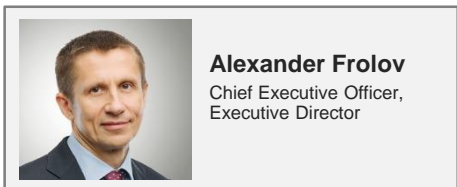
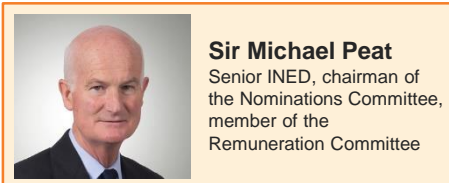
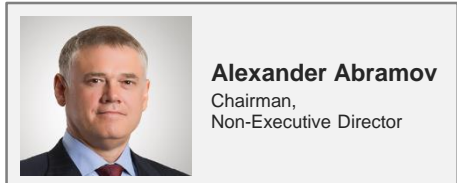


# Changes in composition of Board and committees

## Current Board composition

 Directors

 Independent Non-Executive Directors



## Changes and comments

**Appointed to the Board as independent non-executive director (effective 8 August 2018).**

**Appointed as a member of the Audit Committee.**

Her presence on the Board increases its expertise across both the industry and EVRAZ' geographic regions, as well as improving the Board's diversity in line with the recommendations of the report by Lord Davies and the Group's diversity policy.

**Stepped down from the Audit Committee.**



# Solid corporate governance

## Corporate governance

- EVRAZ approach to corporate governance is primarily based on the UK Corporate Governance Code published by the Financial Reporting Council in April 2016 and the Listing Rules of the UK Listing Authority
- EVRAZ complies with all provisions of the 2016 UK Corporate Governance Code except in relation to claw-back
- The Board and Board committees meet on a regular basis and run in-depth discussions of key matters in accordance with each committee's terms of reference
- Corporate governance policies are continuously reviewed to ensure that the Group's procedures are promptly aligned with the new requirements and best practices
- EVRAZ Audit Committee and Remuneration Committee are made up solely of independent directors
- An externally facilitated annual Board evaluation was conducted in September and October 2017 by Lintstock LLP; the Board's performance was deemed to be satisfactory
- The Board agreed an action plan that would allow it to increase its involvement in reviewing and considering the management's strategy proposals and enhance the focus on safety, the environment, other CSR issues and HR policy

## Board Performance

Meetings held:  
In 2017 – 10  
In 2018 – 8 so far

### Topics discussed:

- HSE updates
- Critical success factors for the Group's strategic development
- Performance of key businesses
- Investment project reviews
- Disposal of EVRAZ Nakhodka Trade Sea Port, EVRAZ Sukha Balka, EVRAZ Yuzhkoks, and EVRAZ DMZ
- The assumptions, stress-test scenarios and mitigating actions used in preparing the Group's viability statement
- EVRAZ Business System implementation over the next five years
- 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
- New Relationship Agreement with major shareholders

# Focus on environmental, social and governance commitment

- ❑ EVRAZ views environmental, social and governance (ESG) aspects as an integral part of its business and strives to address and monitor all relevant matters in this area
- ❑ EVRAZ places a top priority on continuously improving its health, safety and environment management throughout its operations
- ❑ EVRAZ strives to mitigate the potential environmental consequences of extracting metals and coal
- ❑ EVRAZ believes that its success depends on its employees, which is why it constantly invests in human capital development
- ❑ EVRAZ strives to adhere to international corporate social responsibility principles by making a meaningful contribution to local economies and supporting communities wherever it operates
- ❑ EVRAZ is constantly improving the corporate social responsibility section of its annual report, which provides an overview of the Group's policies and performance 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 further improve its performance in the years ahead
- ❑ EVRAZ intends to become increasingly transparent in its ESG reporting in the near future

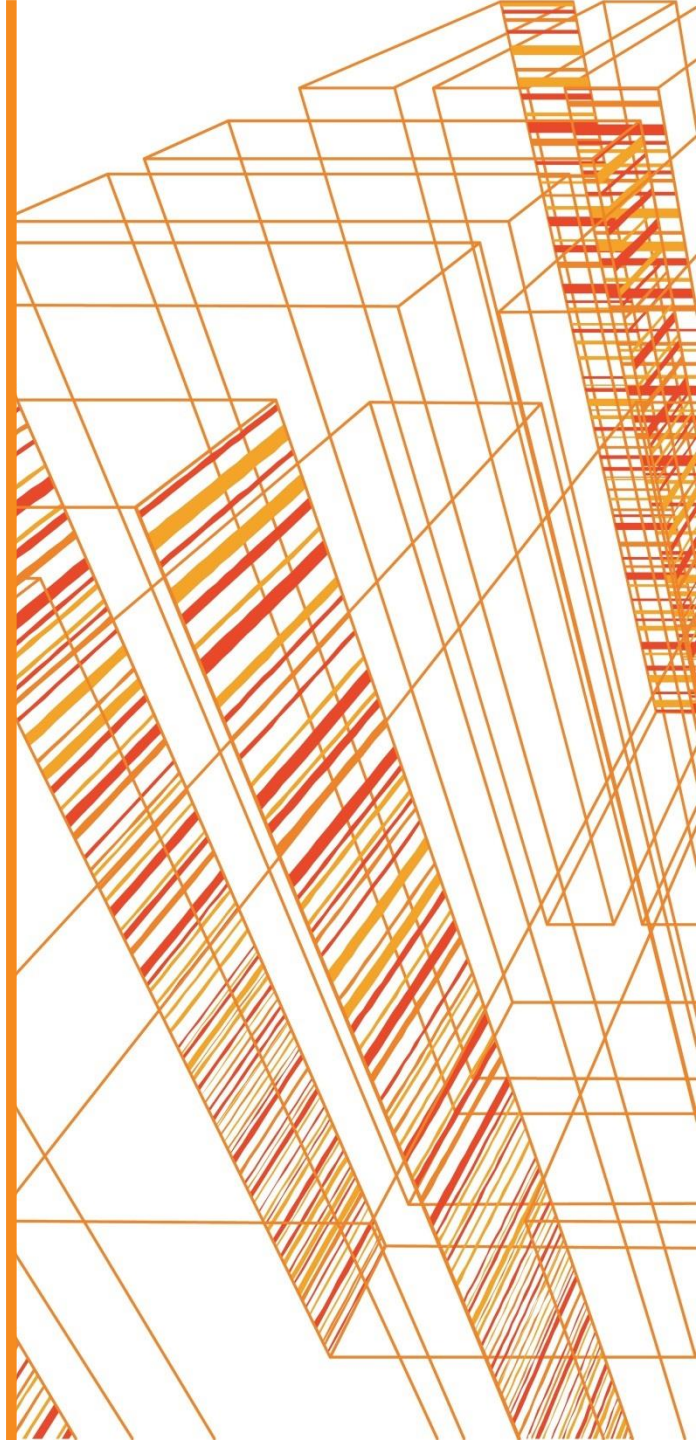




# Strategic overview

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**Alexander Frolov**  
Chief Executive Officer



# EVRAZ vision



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

## Coal

- ✓ **No1** in Russian coking coal market
- ✓ **No5** in global coking coal market
- ✓ **1<sup>st</sup> quartile** on global cost curve

## Vanadium

- ✓ **No2** global vanadium producer
- ✓ **Unique** resource base and production technology
- ✓ **Lowest** cash cost in the world





## Russian Steel

- ✓ **No1** in Russian rail and beam market
- ✓ **No1** in Russian construction steel product market
- ✓ **High level** of vertical integration with iron ore and coking coal

## EVRAZ North America

- ✓ **No1** producer of rails and large-diameter pipes in North America
- ✓ **No1** OCTG producer in Western Canada

# Global steel and raw materials market trends

Trend		Description
<p>1</p> <p>Chinese steel supply discipline</p>		<ul style="list-style-type: none"><li>□ In 2017, 140mt of illegal induction furnace capacity was shut down</li><li>□ Chinese programme to shut down 150mt of steelmaking capacity during 2016-20 is forecast to reach the target by the end of 2018</li><li>□ The 2018-19 winter production cuts are expected to have a limited impact on supply, as producers are now better equipped to meet environmental standards and local governments have flexibility on regulation</li></ul>
<p>2</p> <p>Global protectionism</p>		<ul style="list-style-type: none"><li>□ In March 2018, the United States launched 25% import tariffs on steel products under Section 232 with exclusions for certain countries (eg quotas for Brazil and South Korea) and products</li><li>□ In July 2018, the EU imposed preliminary safeguard measures for 23 steel product groups (including HRC, CRC, tubes and rebar); a 25% tariff will only be imposed once imports exceed the average over the last three years</li><li>□ In October 2018, Canada is to introduce a provisional 25% tariff on imported steel products for volumes above historical levels (heavy plate, rebar, energy tubes, HRC, etc.)</li></ul>
<p>3</p> <p>Positive raw materials demand supply balance</p>		<ul style="list-style-type: none"><li>□ Seaborne coking coal demand is strong and supports global prices given temporary supply shortages</li><li>□ Premiums for iron ore pellets and high-quality concentrates have reached new highs and are forecast to remain strong in the next couple of years</li></ul>
<p>4</p> <p>Vanadium price surge</p>		<ul style="list-style-type: none"><li>□ The vanadium market is in deficit mode due to the shutdowns of some Chinese producers, new rebar standard in China and scarce operating capacity of vanadium producers</li></ul>

# EVRAZ strategic priorities remained unchanged

- Medium-term Net Debt level below **US\$4bn**
- **Proactive** management of maturities
- Dividend payout according to **stated dividend policy**

**Debt management  
and stable  
dividends**

**Prudent  
CAPEX**

- Investment programme **expansion**
- Development of investments with **target IRR at least 20%**
- Total CAPEX within the range of **US\$830-990m** during 2019-22

- Generate improvements with an annual effect of **3% of COGS**
- Retain the position in the **1<sup>st</sup> quartile** of the global cost curve in integrated steel and coking coal

**Retention  
of low-cost  
position**

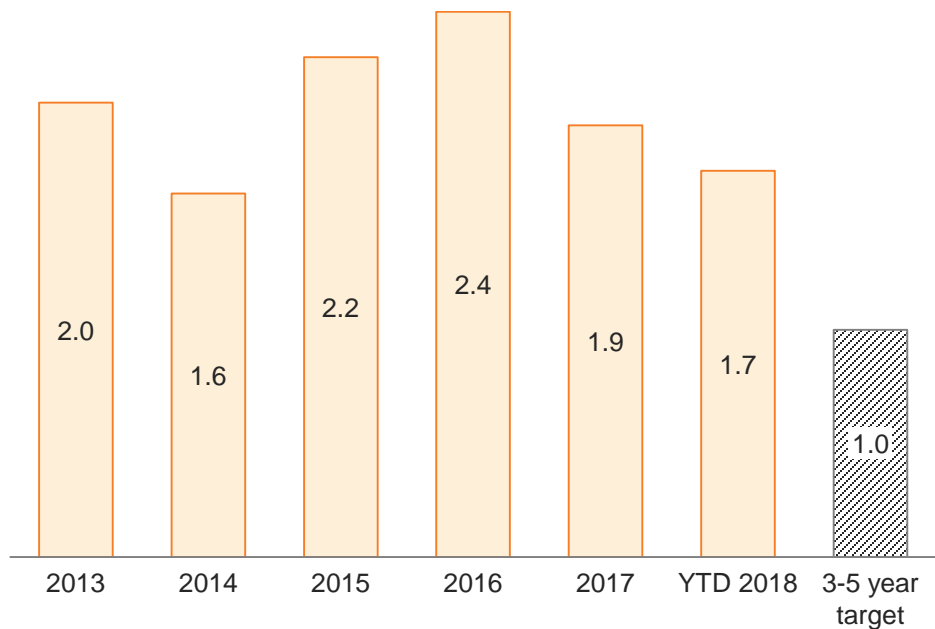
**Development  
of product  
portfolio and  
customer base**

- **Increase and diversify steel product sales** in the Russian market
- Increase coking coal production volumes in **scarce coal grades**
- Increase **large-diameter pipe** and **rail** sales in North America

# Safety as a base for business sustainability

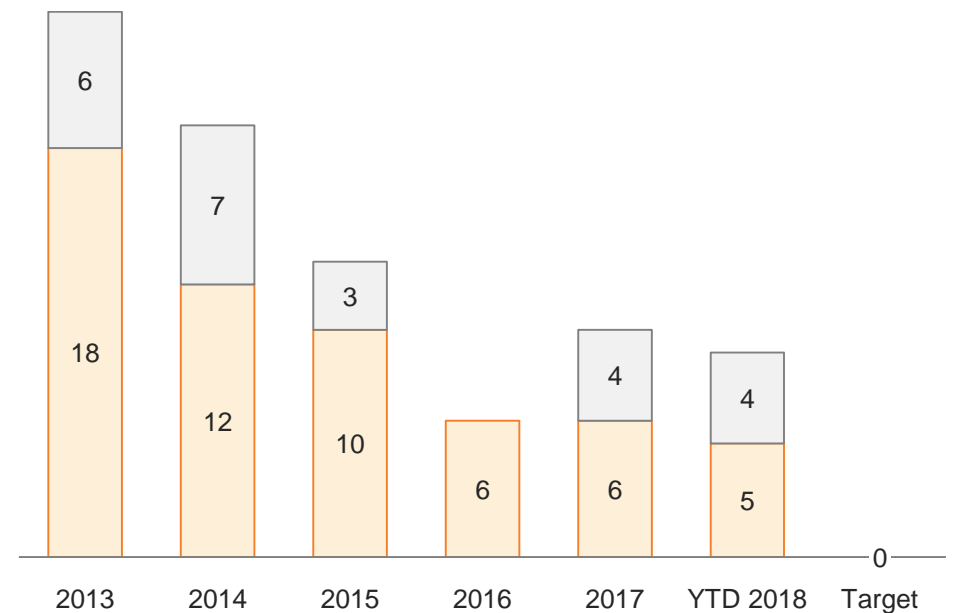
- In 2018, EVRAZ was able to reduce YTD LTIFR to 1.7x vs 1.9x in 2017 and is now focused on two major new initiatives:
  - Contractor safety programme
  - HSE performance assessment for operations managers
- EVRAZ remains committed to having zero fatal accidents at its sites and targets an LTIFR level of 1.0x

## Lost Time Injury Frequency Rate (LTIFR)\*



## Fatalities

□ Contractors
 □ Employees



Source: EVRAZ data

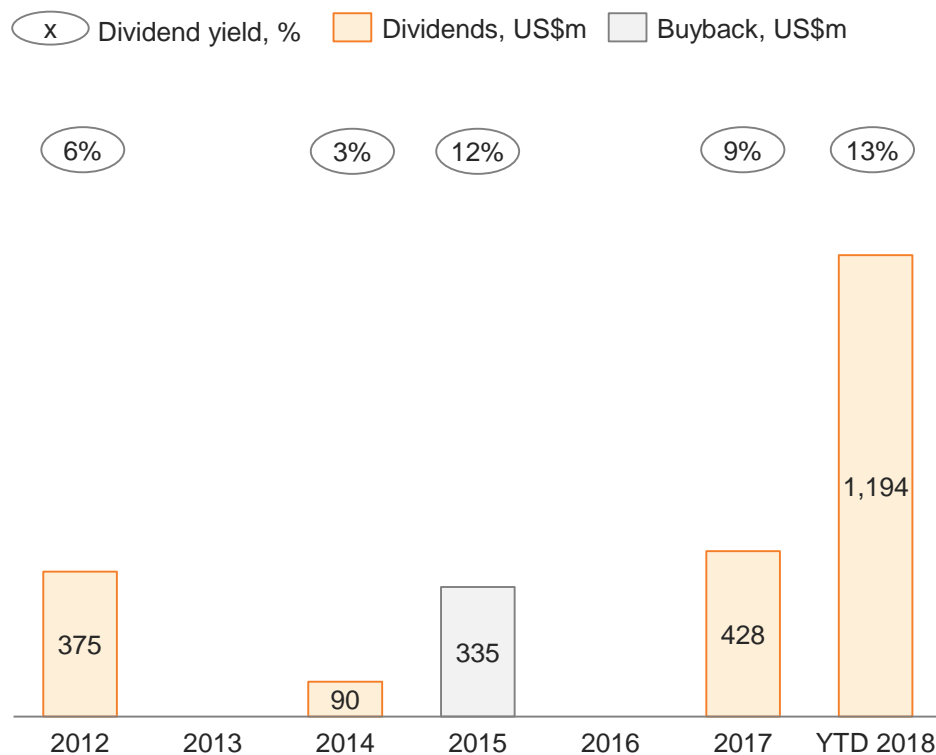
\* Calculated as number of lost working hours due to injuries, excl. fatalities, per 1 million hours worked



# Focus on stable dividends

## EVRAZ dividend payments

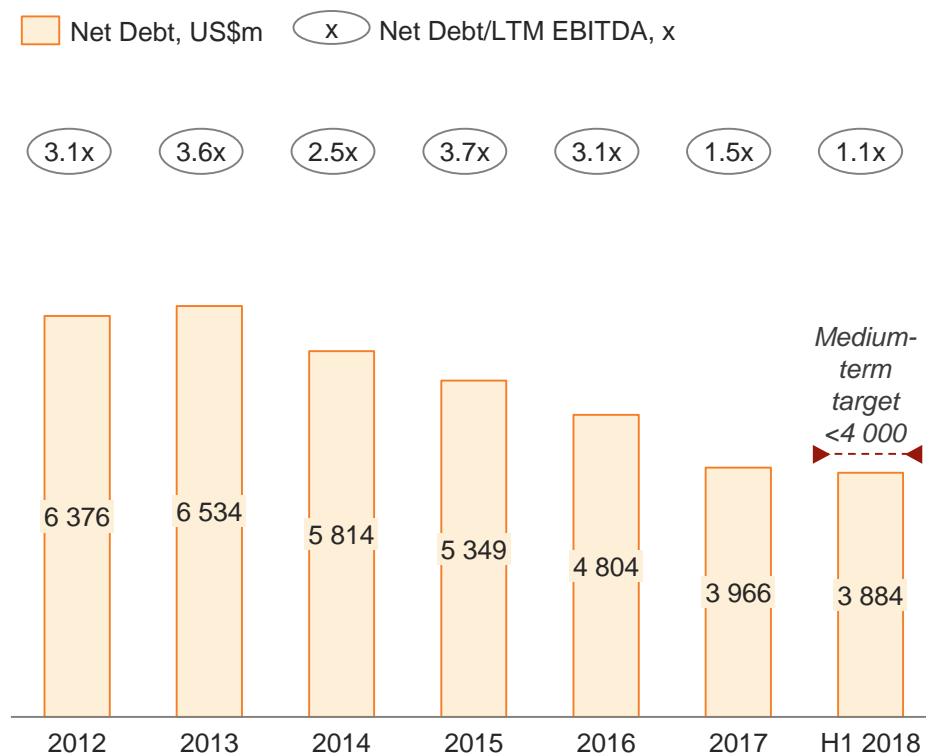
- In 2018, EVRAZ has returned to its shareholders more than US\$1.1bn, equivalent to a 13% yield, a record amount of dividends since its London listing in 2011
- EVRAZ remains committed to its stated dividend policy of paying a minimum annual amount of US\$300m unless Net Debt/EBITDA is above 3.0x



Source: EVRAZ data

## EVRAZ leverage

- In the medium term, EVRAZ targets to maintain its Net Debt level below US\$4bn
- In case of a market correction and weaker profitability figures, EVRAZ remains committed to a Net Debt / EBITDA target of 2.0x

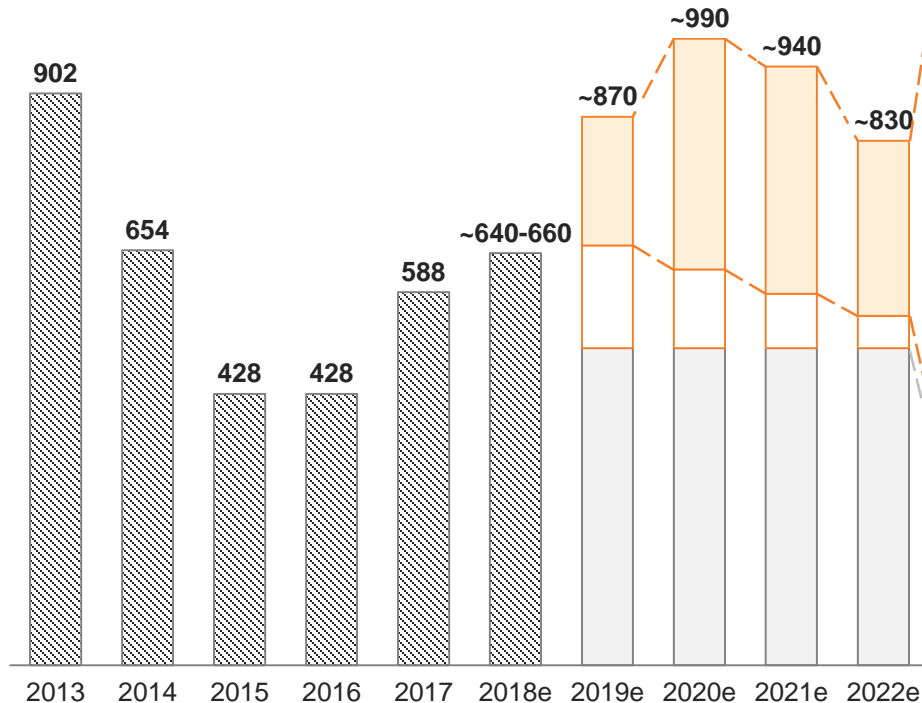


# Selective investments in development

- In 2019-22, EVRAZ expects its annual investment expenditures to be in the range of US\$830-990m
- Major development projects include the flat casting and rolling facility at EVRAZ ZSMK, the long rail mill at EVRAZ Pueblo, the rail and beam mill modernisation at EVRAZ NTMK and continuous casting machine 5 at EVRAZ NTMK
- Annual maintenance CAPEX is expected to be around US\$500m, incl. the major overhaul of blast furnace 6 at EVRAZ NTMK

## CAPEX, US\$m

- Development 19'-22' (to be approved)
- Development 19'-22' (approved)
- Maintenance 19'-22'



Source: EVRAZ data

## Key investment projects

Project description	CAPEX
 <p><b>Integrated flat casting and rolling facility at EVRAZ ZSMK</b> Product: HRC/CRC 1.2-25mm Capacity: 2.5mtpa</p>	~US\$490m
 <p><b>Long rail mill at EVRAZ Pueblo</b> Product: new 100-meter rails Capacity: 600ktpa</p>	~US\$480m
 <p><b>Rail and beam mill modernisation at EVRAZ NTMK</b> Product: Beam, sheet piles Additional volumes: ~280ktpa</p>	~US\$215m
 <p><b>New continuous casting machine 5 at EVRAZ NTMK</b> Product: Casted pipe blanks Additional sales volumes: 460ktpa</p>	~US\$120m
 <p><b>Blast furnace 6 major overhaul at EVRAZ NTMK</b> Pig iron capacity: 2.5mtpa</p>	~US\$150m

# Continuous focus on efficiency improvements

- EVRAZ places great emphasis on customer focus efforts and cost management, which are expected to have a US\$290-300m EBITDA effect in 2018
- The target is to maintain the pace of improvements with an effect of at least 3% of COGS (US\$250-300m per annum)

## Major sources of improvements



Voice of customer



EVRAZ Business System

(see slide 36 for details)

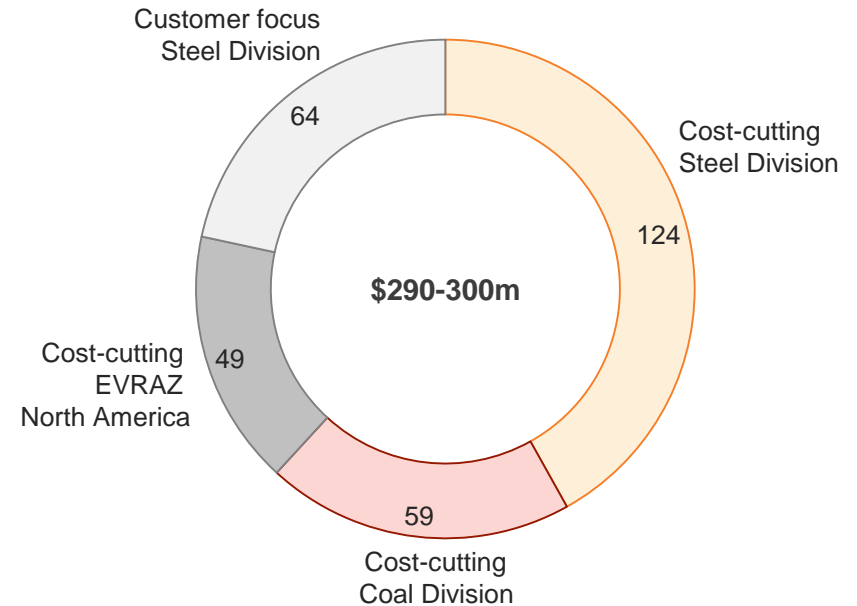


Small investment projects



Best practices implementation / benchmarking

## Efficiency improvement programme effect on EBITDA, 2018e, US\$m



Source: EVRAZ data

# Key takeaways

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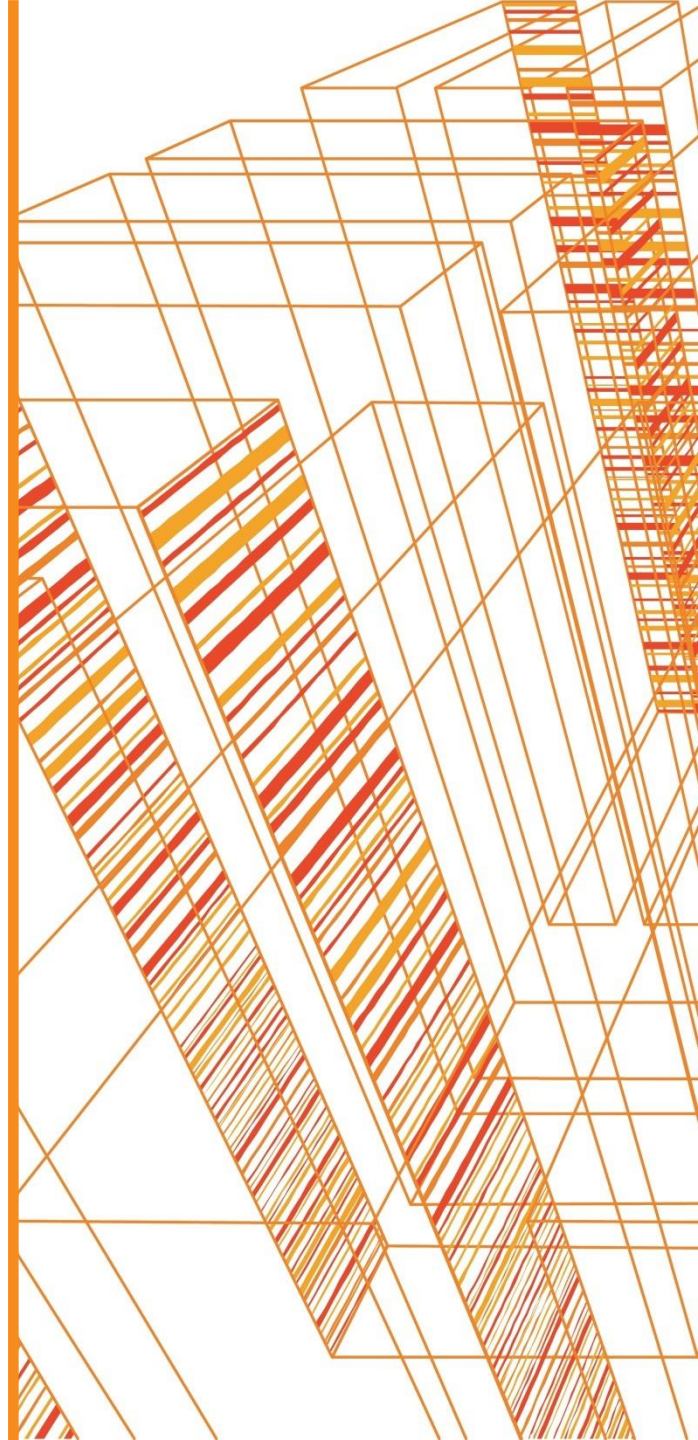
- EVRAZ remains committed to having zero fatal accidents at its sites and targets an LTIFR level of 1.0x
- EVRAZ will keep its medium-term leverage target below US\$4bn and manage maturities proactively
- EVRAZ is considering four major investment projects with the target to increase sales of finished steel products to local markets:
  - In Russia, EVRAZ aims to develop its long product portfolio and is considering entering the flat segment
  - In North America, EVRAZ aims to increase its share in the secured and growing US rail market
- EVRAZ remains focused on its efficiency improvement programme, including customer focus and cost-cutting efforts, and is on pace to generate improvements with an annual EBITDA effect of 3% of COGS in 2018 and going forward

# Coal, Russia

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**Sergey Stepanov**

Vice President,  
Head of the Coal Division

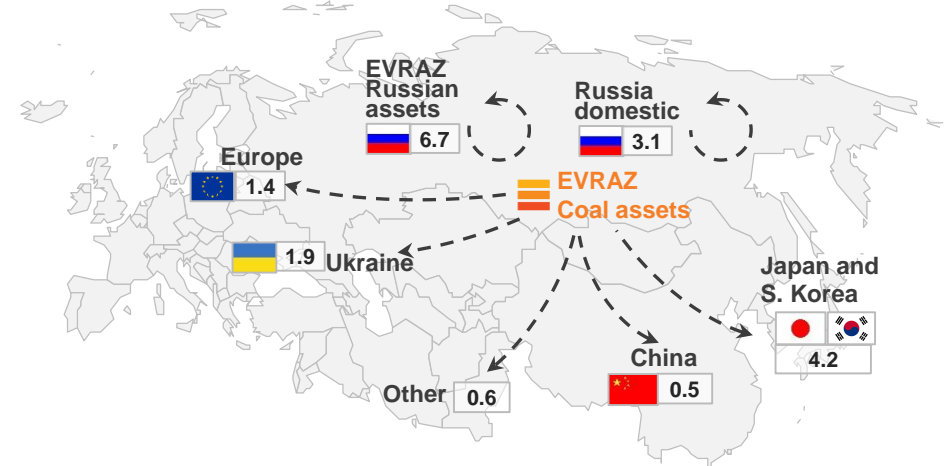




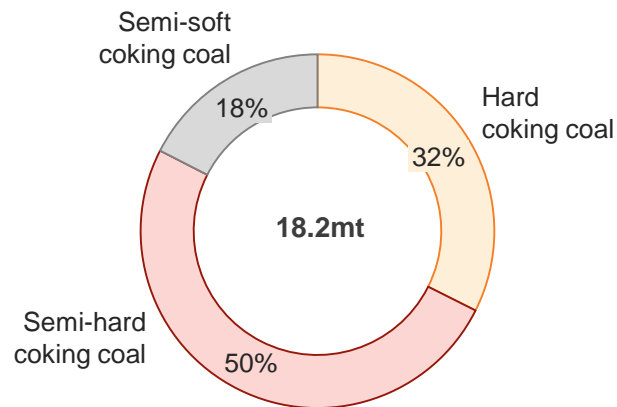
# EVRAZ is the leading Russian and global producer of coking coal

- Competitive cost position to serve local and global markets profitably
- High-quality product portfolio with >80% share of hard coking coal (HCC) and semi-hard coking coal (SHCC)
- Diversified client portfolio:
  - 6.7mt – Russia (intercompany)
  - 3.1mt – Russia (third parties)
  - 1.9mt – Ukraine
  - 4.2mt – Japan and South Korea

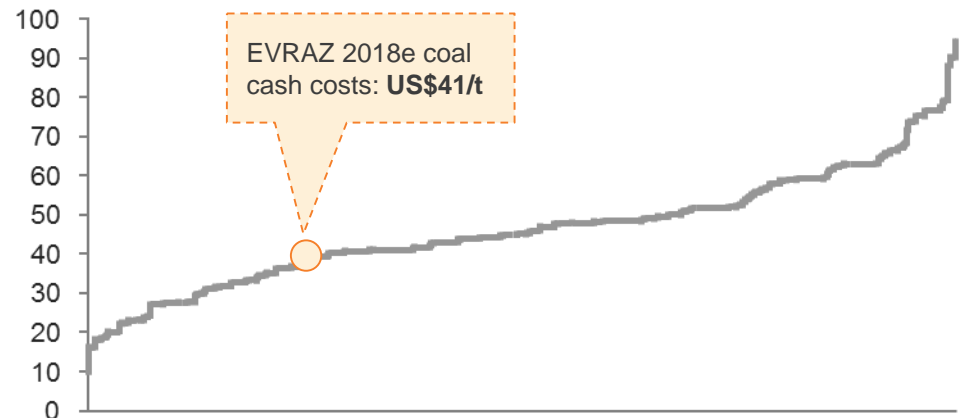
Key coking coal sales flows, 2018e, mt



EVRAZ coking coal product portfolio, 2018e, %



Global coking coal cost curve, EXW, 2018e, US\$/t

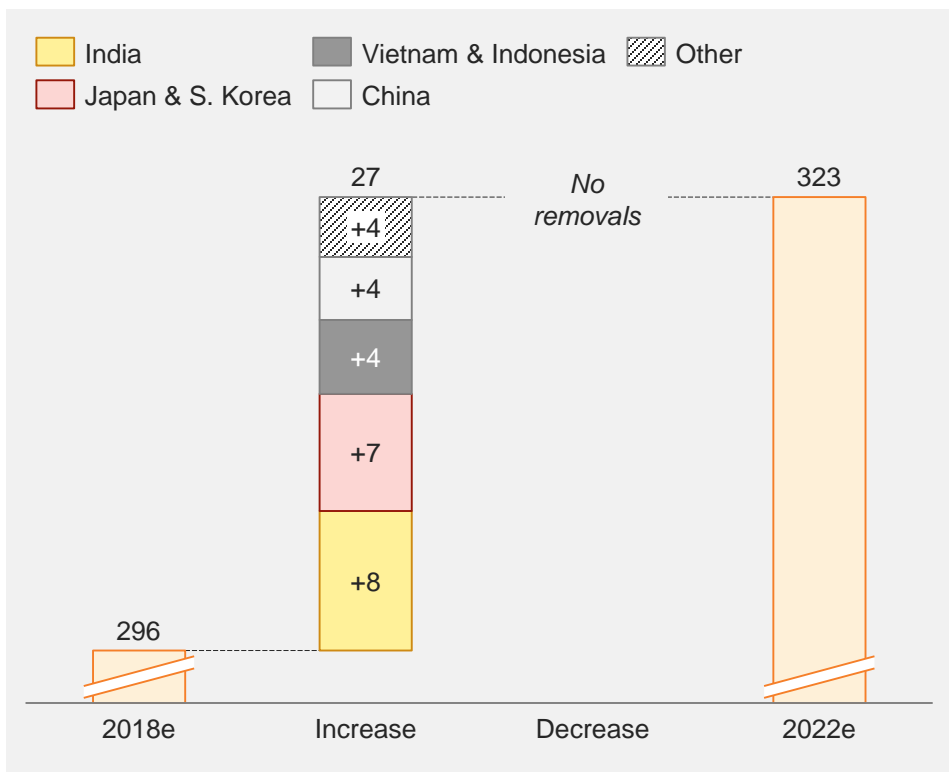


Source: Equity research, EVRAZ data

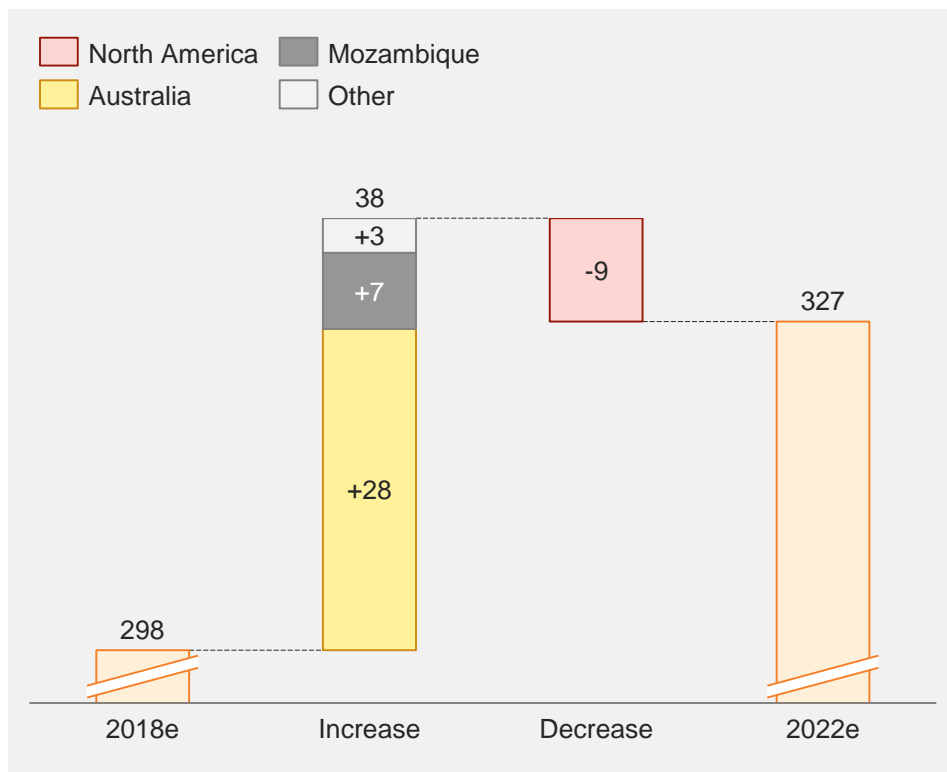
# Stronger demand for coking coal

- Global seaborne coking coal demand is expected to be driven by the growth of steel production in Asia and insufficient domestic supply (eg in India)
- Most of the increase will be met by producers from Australia and Mozambique
- North American producers, mostly small players, are forecast to partly reduce export volumes after record 2018 shipments due to relative high costs and lack of new big projects

Seaborne coking coal imports, 2018-22, mt



Seaborne coking coal exports, 2018-22, mt



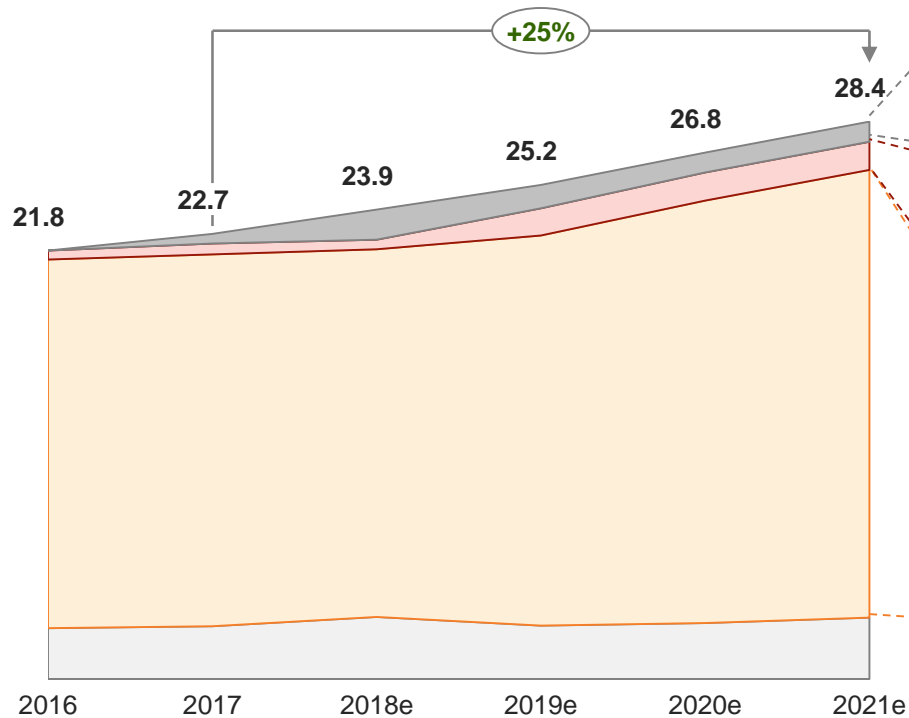
Source: CRU

# Coal Division volume growth

- In 2018, EVRAZ forecasts an increase in coal mining volumes of ~5% with KS and OS grades being major growth drivers
- EVRAZ expects to reach mining volumes of 28.4mt by 2021 (+25% vs 2017)

## Coal mining volumes breakdown, mt

■ OS ■ K ■ Zh, GZh, GZhO ■ KS



Source: EVRAZ data

## '21 vs '17 changes, mt

Total: **+5.7**

OS **+0.5**

K **+0.9**

Zh, GZh, GZhO **+3.9**

Other **+0.4**

## Key mining growth projects



OS **+0.5**  
Raspadskaya-Koksovaya open-pit development

K **+0.9**  
Longwall mining at Raspadskaya-Koksovaya mine

Zh, GZh, GZhO **+3.9**  
Seam 48 development at Uskovskaya mine

Zh, GZh, GZhO **+3.9**  
Seam 29 development at Esaulskaya mine

# Logistical improvements in coal shipments

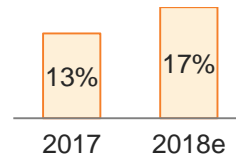
- Despite constraints and bottlenecks in railway logistics across Russia EVRAZ expects to increase export volumes by 15% in 2018

## Logistical improvements

Geographical diversification of export sales



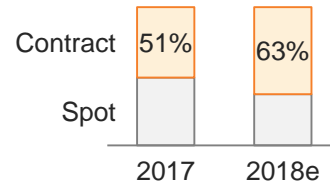
EVRAZ shipments to Europe, % of exports



Long-term contracts with railcar operators



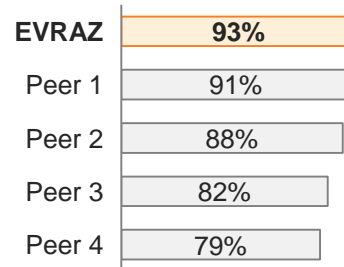
Railcar rental terms



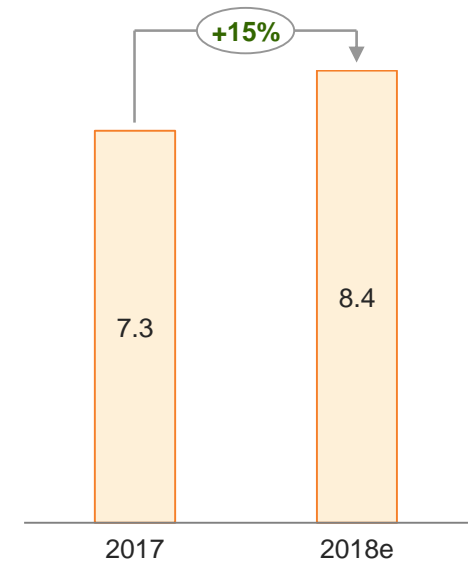
Efficient operational management of shipments to Russian Far East



% of requests for Russian Far East shipments accepted by railway, 2018



## EVRAZ coal export shipments, mt



Source: EVRAZ data

# Key takeaways

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- EVRAZ is the leading domestic and international coking coal supplier with a premium product portfolio, competitive cost position and geographically diverse client base
- Global demand for coking coal is forecast to grow, driven mainly by Asian countries
- EVRAZ development programme targets an increase of coal mining volumes from 23mt in 2017 to 28mt by 2021
- EVRAZ is successfully addressing logistical issues for Russian Far East shipments and expects to increase coal exports in 2018

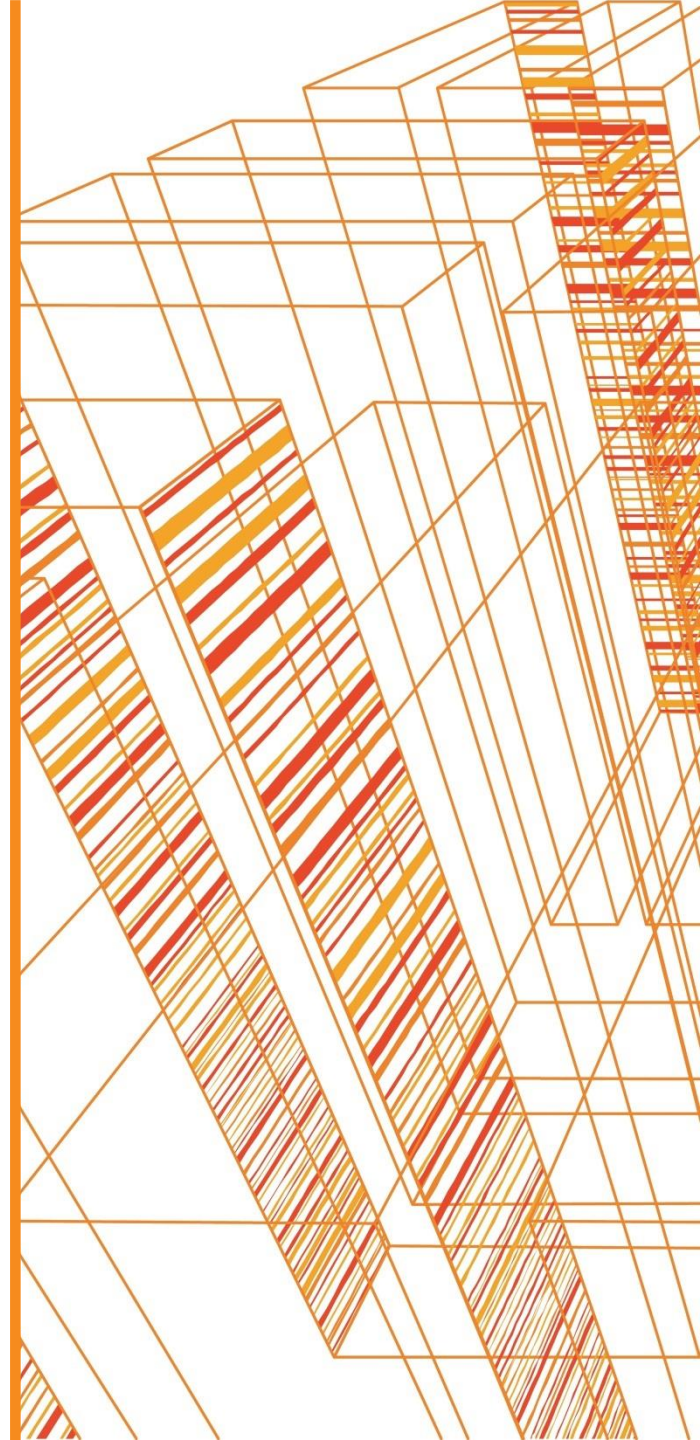


# Vanadium

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**Alexander Erenburg**

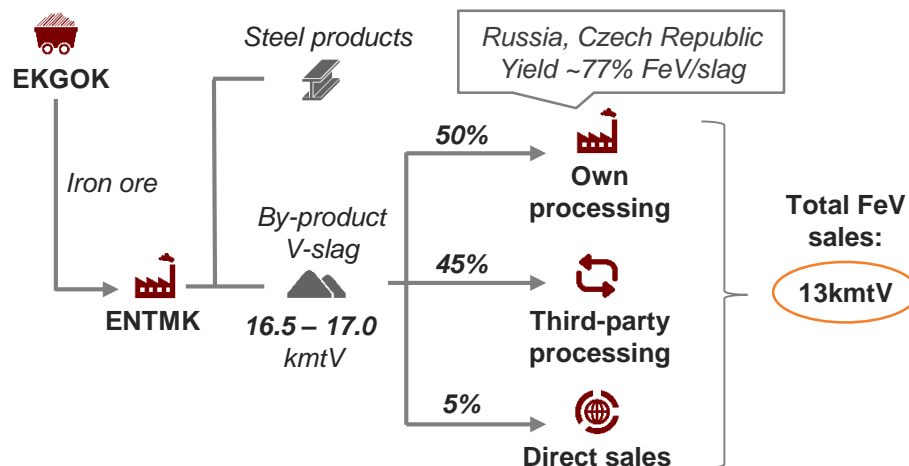
Director,  
Head of the Vanadium Division



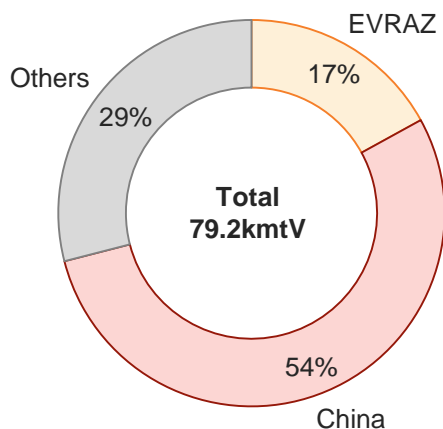
# EVRAZ Vanadium Division

- EVRAZ share of the global vanadium market is ~17%
- EVRAZ annual sales volumes average ~13kmtV\* (thousand metric tonnes of vanadium)
- EVRAZ produces FeV from slag (a by-product of steel production at EVRAZ NTMK), which makes it the lowest-cost producer in the world

## EVRAZ vanadium production model overview



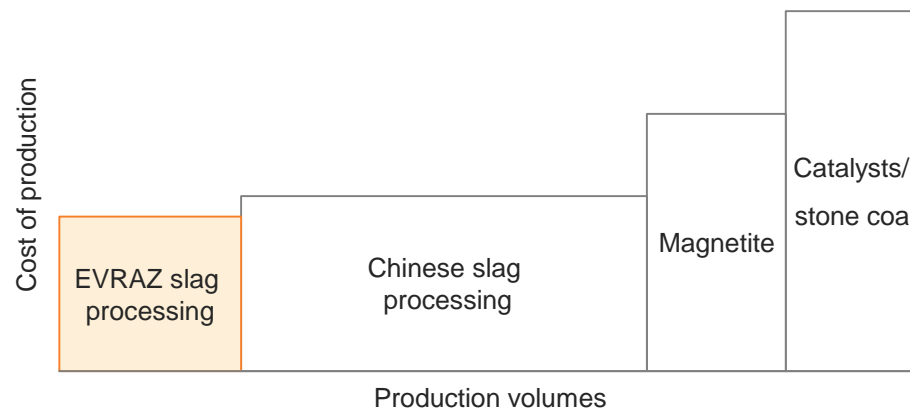
## Global vanadium supply, 2017, %



Source: Vanitec, EVRAZ data

\* Own EVRAZ NTMK slag feed related sales only, accounting for 75% to 95% of EVRAZ vanadium sales, depending on the year

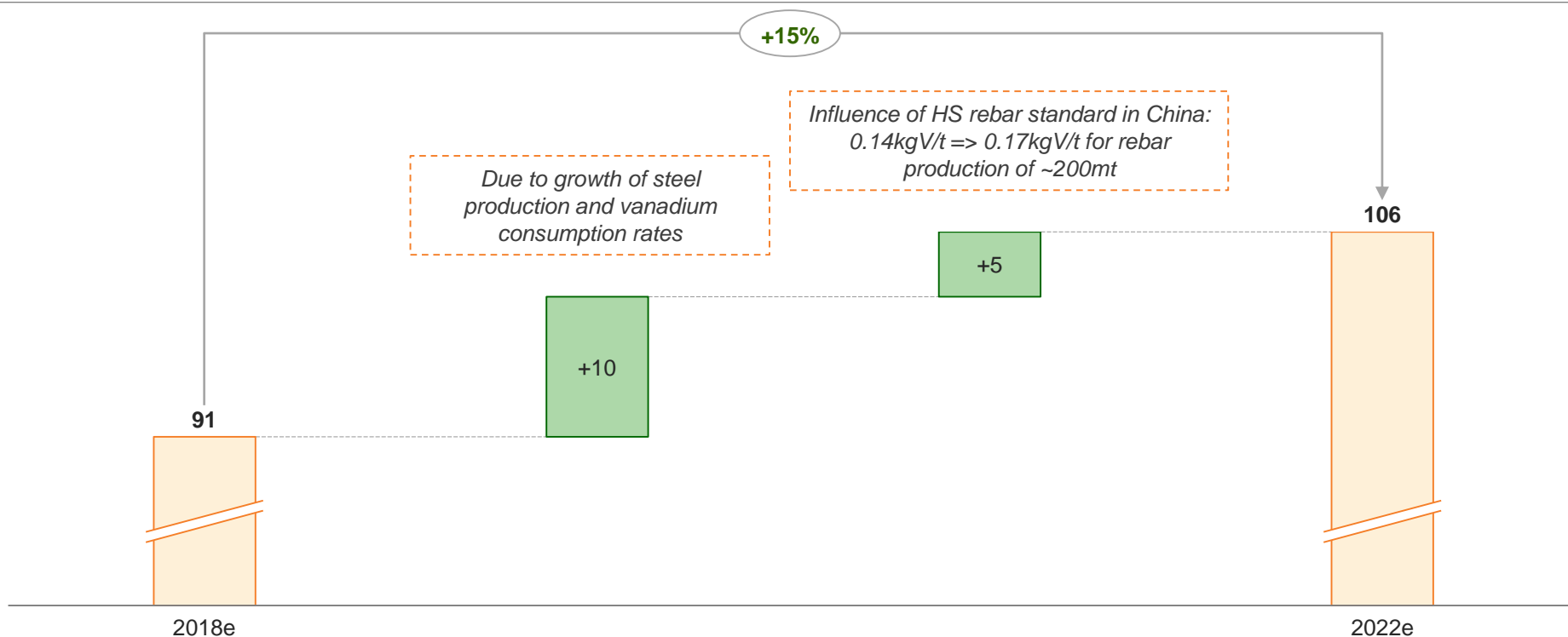
## Vanadium production cost curve



# Global vanadium demand could increase by 15% until 2022

- EVRAZ expects healthy growth rates of vanadium consumption at ~2.7% CAGR during 2018-22
- China's recently approved high-strength rebar standard will come into effect in November and could trigger additional vanadium demand of ~5kmtV (5-6% of global demand)
- Vanadium substitution by niobium is limited due to technical reasons and is already close to maximum
- The influence of vanadium-redox-flow battery (VRFB) technology on demand will be limited during the next couple of years; competitive prices of vanadium for VRFB are ~US\$15-20/kgV

## Global vanadium demand, kmtV

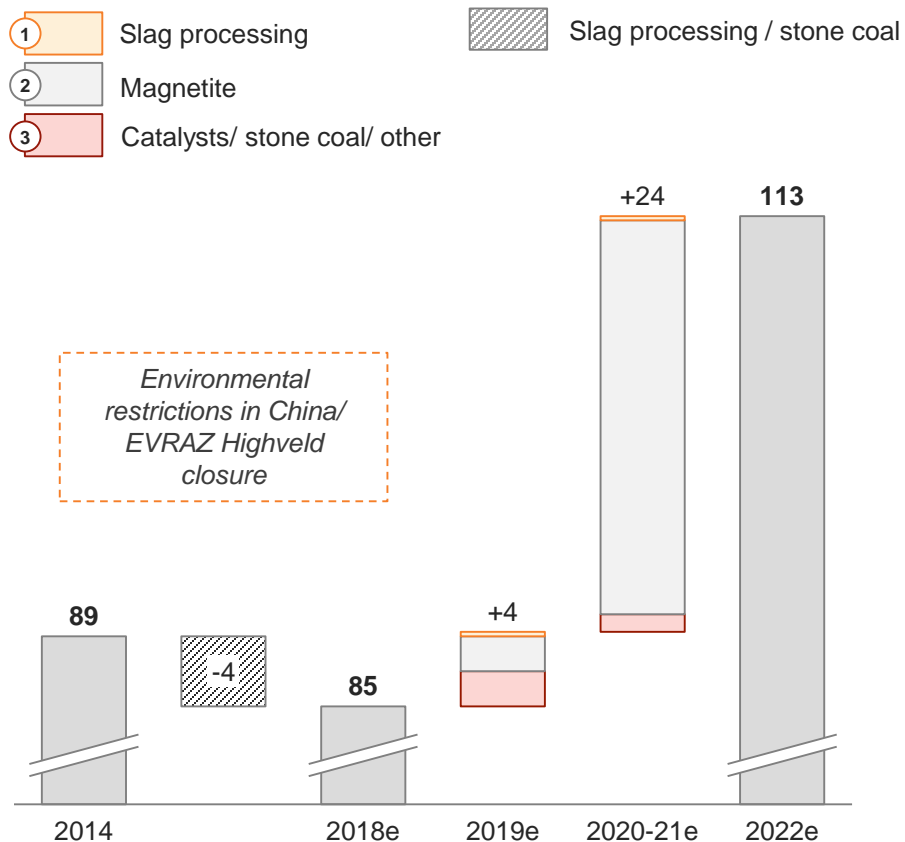


Source: Vanitec, EVRAZ data

# Significant supply growth is expected only after 2020

- In 2014-18, vanadium supply dropped by 4kmtV due to the closure of EVRAZ Highveld and ecological restrictions in China
- There is limited idle capacity that can come on line in the short term, new major Australian projects are at the initial stages and will bring ~25kmtV only by 2022

## Global vanadium production dynamics, kmtV

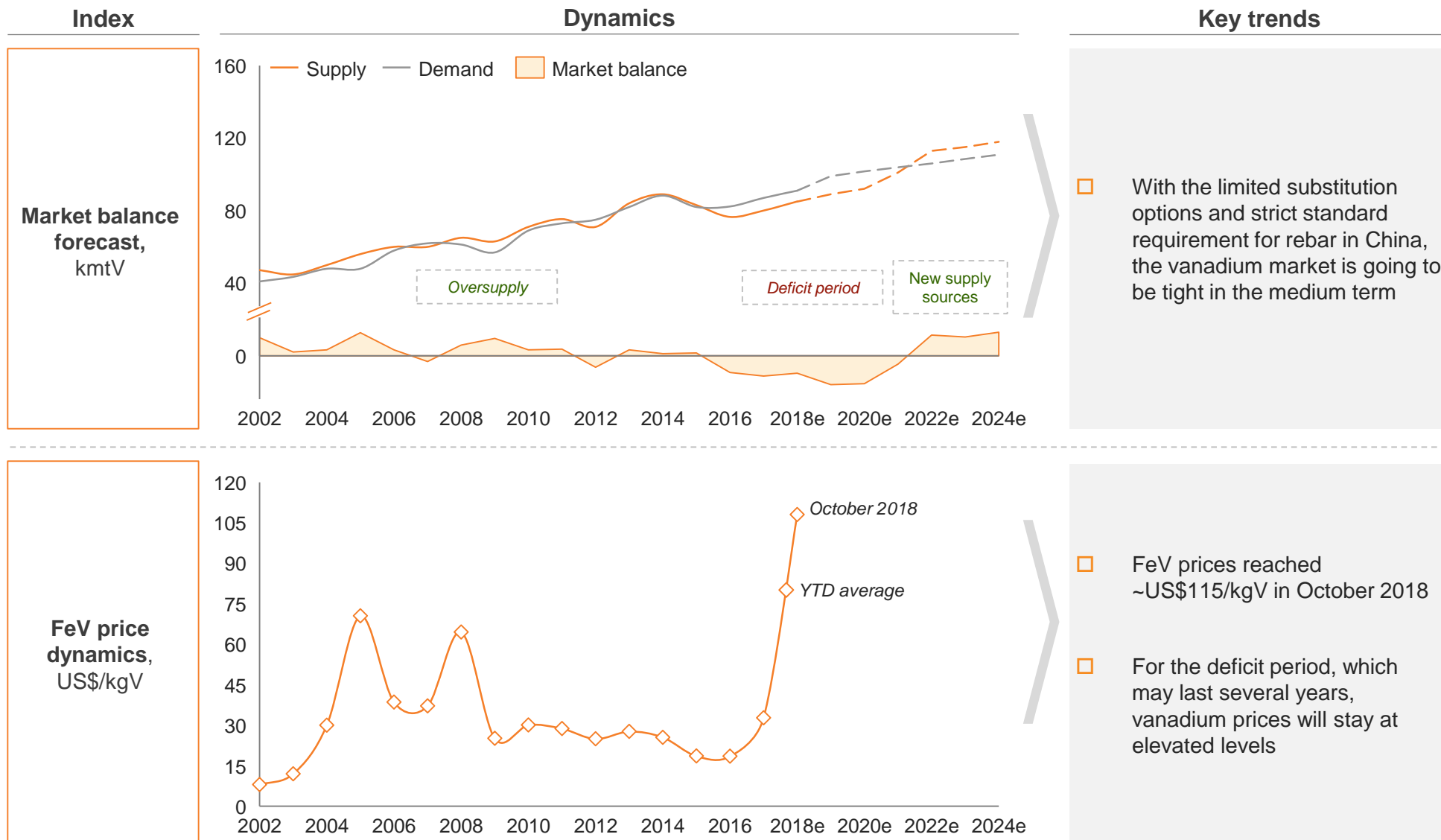


Source: Vanitec, USGS, EVRAZ data

## Supply changes by types of vanadium producers

Type	Description	'22 vs '18
1 Slag processing	<ul style="list-style-type: none"> <li>□ No significant production upside without expansion of steelmaking capacity</li> <li>□ Only operational improvements are possible</li> </ul>	0.5kmtV
2 Magnetite	<ul style="list-style-type: none"> <li>□ The primary increase of V-supply will come from direct extraction from ore in Australia</li> <li>□ The lead time of these projects is at least 4-5 years</li> </ul>	24.5kmtV
3 Catalysts / stone coal / other	<ul style="list-style-type: none"> <li>□ Stone coal producers suffer from ecological restrictions in China, unlikely to grow</li> <li>□ Catalyst amount is limited and depends on oil production</li> </ul>	3kmtV

# Vanadium deficit could last several years

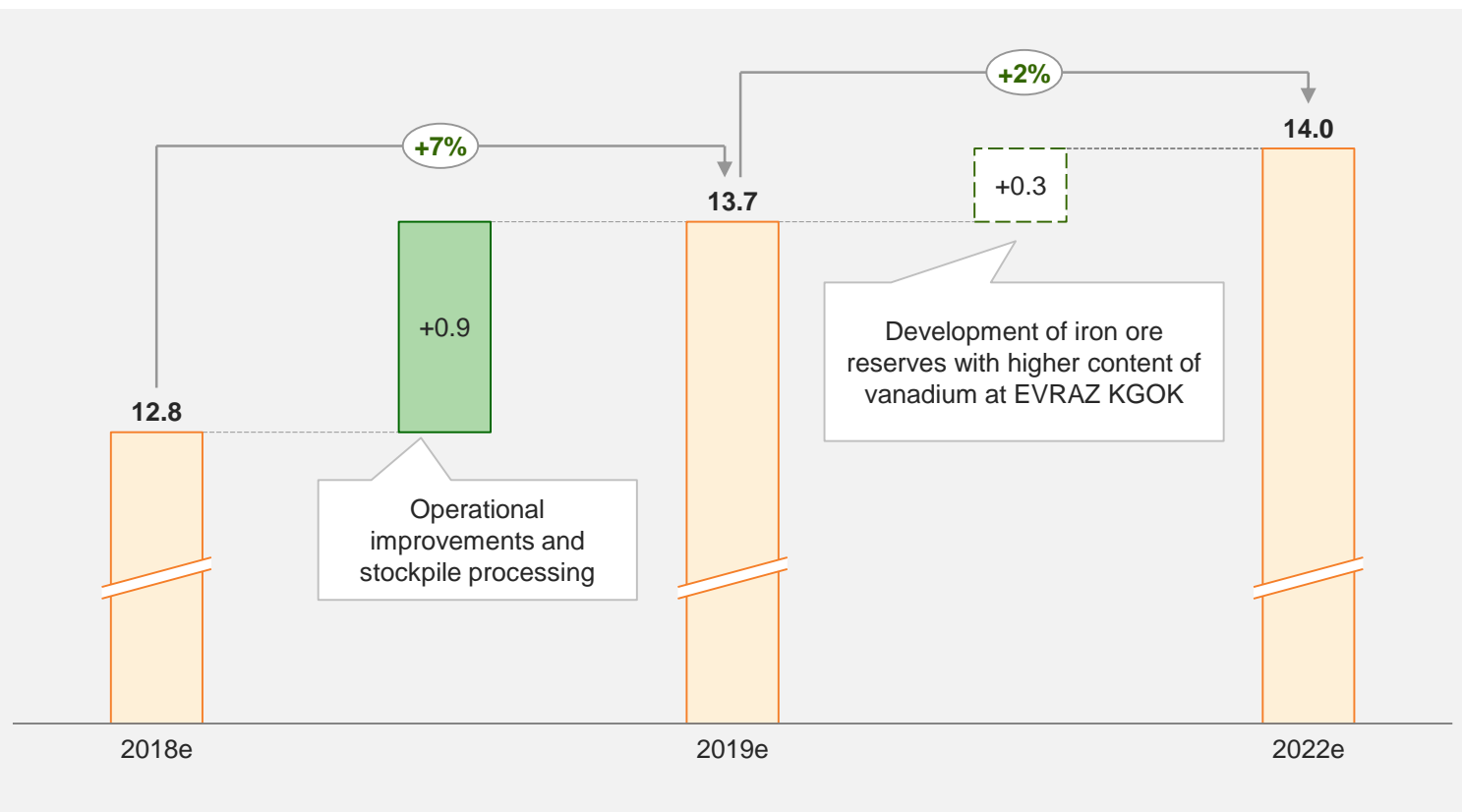
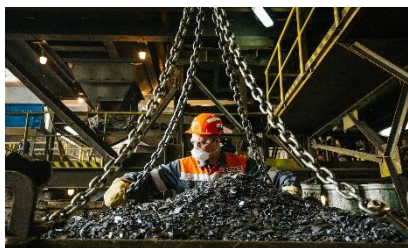


Source: Vanitec, TTP squared, SP, CRU, MB, EVRAZ data

# EVRAZ aims to increase vanadium sales in 2019

- EVRAZ is focused on operational improvements in order to deliver higher production and sales volumes in 2019
- In the medium term, EVRAZ is considering optimising the EVRAZ KGOK development programme

## Ferrovanadium sales, kmtV



Source: EVRAZ data



# Key takeaways

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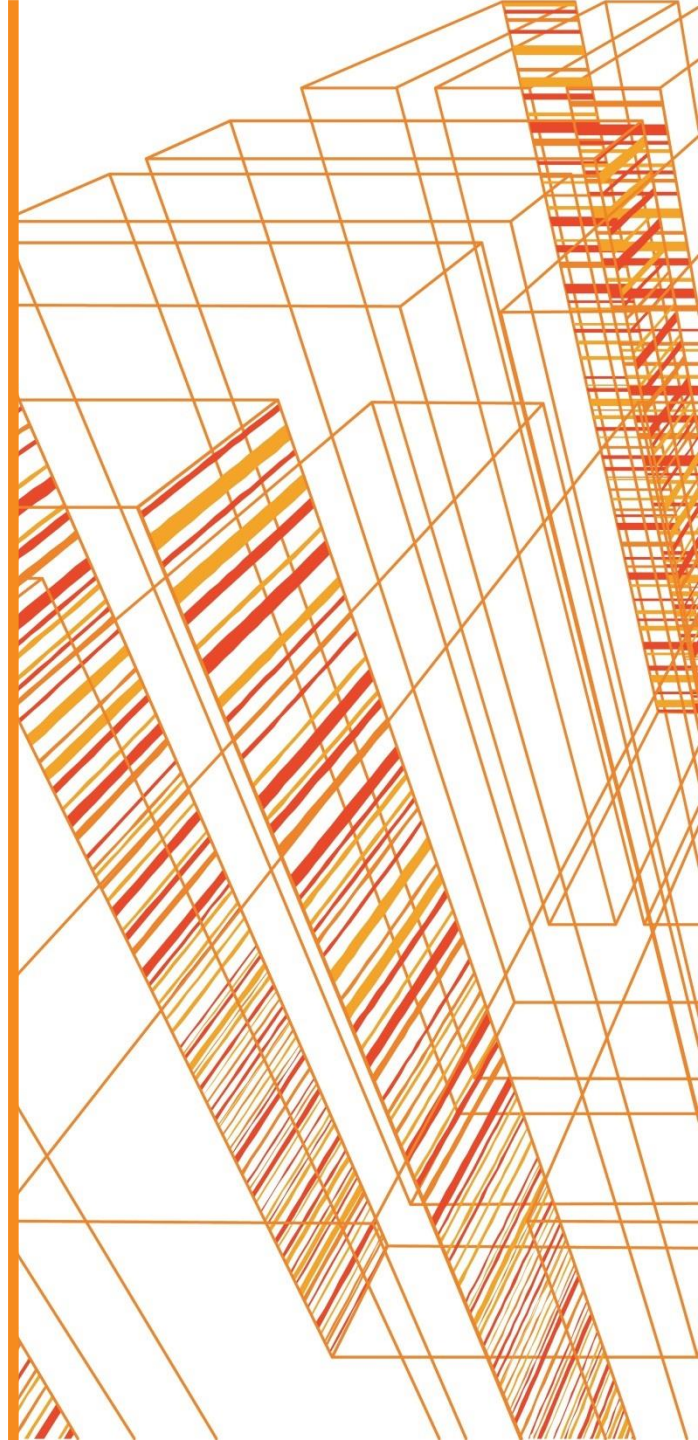
- EVRAZ is one of the lowest-cost vanadium producers in the world
- Global market vanadium supply is expected to grow significantly only after 2020, so demand for vanadium will exceed supply until that time
- For the deficit period, vanadium prices will stay at elevated levels
- EVRAZ is focused on increasing the efficiency of its current production chain and maximising vanadium production in 2019

# Steel, Russia

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**Alexey Ivanov**

Senior Vice President,  
Commerce and Business development



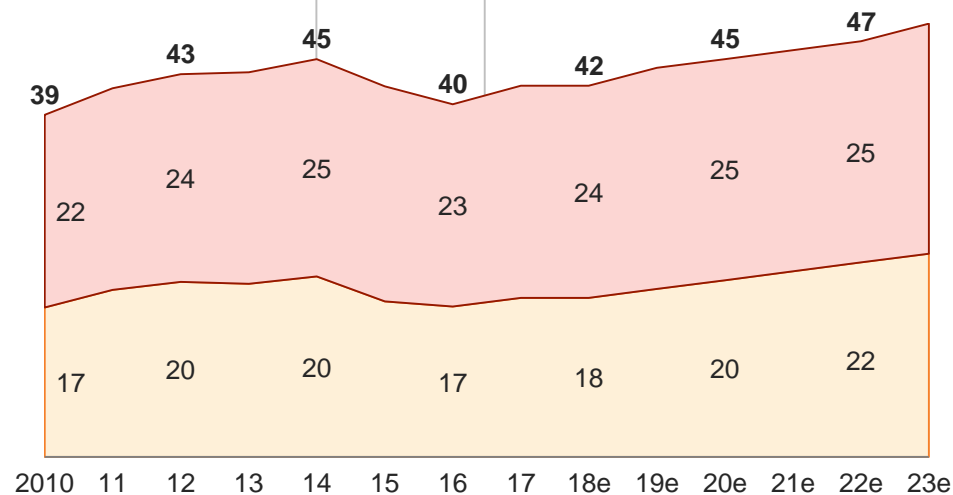
# Russian steel demand

- Since 2017, domestic steel demand is forecast to grow at an average CAGR of 2.5% (multiple to GDP growth of 1.6x)
- Demand for EVRAZ key products is forecast to increase at above-average rates due to the Russian government's strong infrastructure investment pipeline





## Finished steel demand, mt

	Recovery from crisis 2008-09	Recession 2015-16	Forecast stable growth 2017-23
GDP growth, %	3.2%	-1.5%	1.6%
Steel demand growth, %	3.9%	-5.8%	2.5%

Flat Long



## Demand for key long products

Product	'23 vs '17 growth, mt	'23 vs '17 CAGR, %
Beams 	+0.7mt	+10.7%
Pipe blanks 	+0.2mt	+6.3%
Rebars 	+2.8mt	+5.9%
Structurals 	+0.4mt	+3.6%
Rails 	+0.1mt	+0.9%

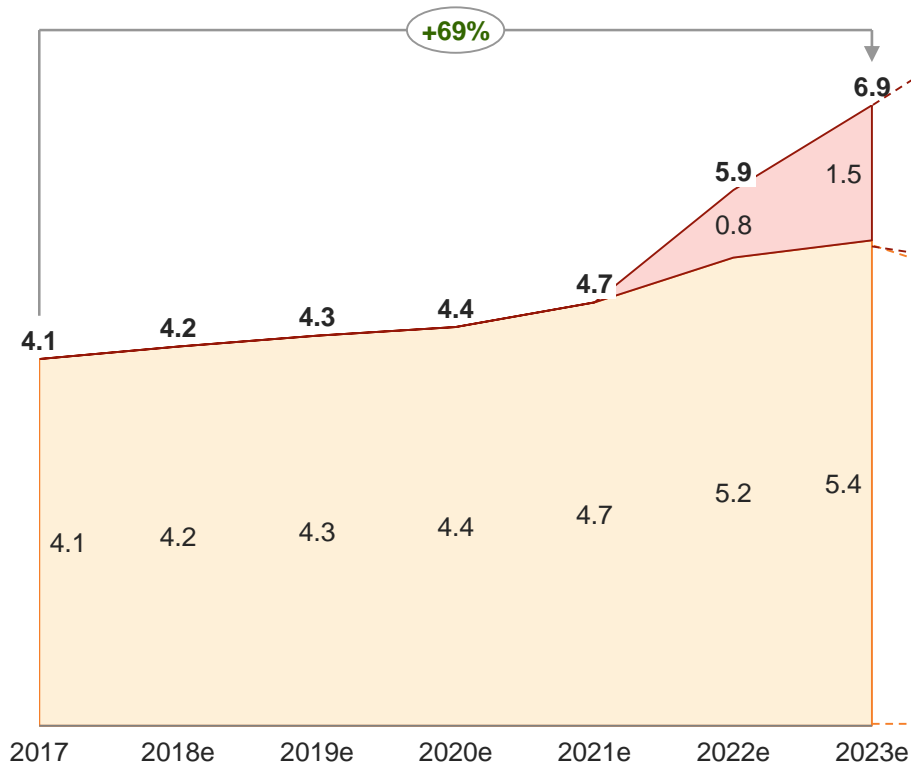
Source: CRU, World Bank, Federal Ministry of Economic Development, Metal Expert, EVRAZ data

# EVRAZ aims to enter flat product segment in Russia

- EVRAZ expects its domestic shipments to increase from 4.1mt in 2017 to 6.9mt by 2023
- A major effect comes from the entrance into flat products (+1.5mt of domestic sales) and beams sales growth (+0.5mt)

## EVRAZ finished steel sales in Russia, mt

Flat Long



+69%

## '23 vs '17 changes, mt

Total: +2.8

Flat +1.5

Long +1.3

## Key growth projects



Integrated flat casting and rolling mill at EVRAZ ZSMK

Rail and beam mill upgrade at EVRAZ NTMK

New continuous casting machine 5 at EVRAZ NTMK

Source: EVRAZ data

# Integrated flat casting and rolling facility at EVRAZ ZSMK

- In 2017, domestic flat products consumption in Russia was 24mt and the HRC vs slab spread equalled US\$145/t
- EVRAZ is considering constructing a 2.5mtpa integrated flat casting and rolling facility at EVRAZ ZSMK
- This project will allow EVRAZ to enter the flat product market with premium HRC/CRC products as well as replace 2.7mtpa of slabs and billets sales
- EVRAZ plans to supply 1.5mtpa of flat products to Russia with a focus on the Siberia and Urals regions; the remaining 1.0mtpa will be sold to export clients, mainly in Asia

## Investment project



Integrated flat casting and rolling facility at EVRAZ ZSMK

## Production

- **Capacity:** 2.5mtpa of HRC/CRC and plate
  - Thickness 1.2-25mm
  - Width 900-1 600mm

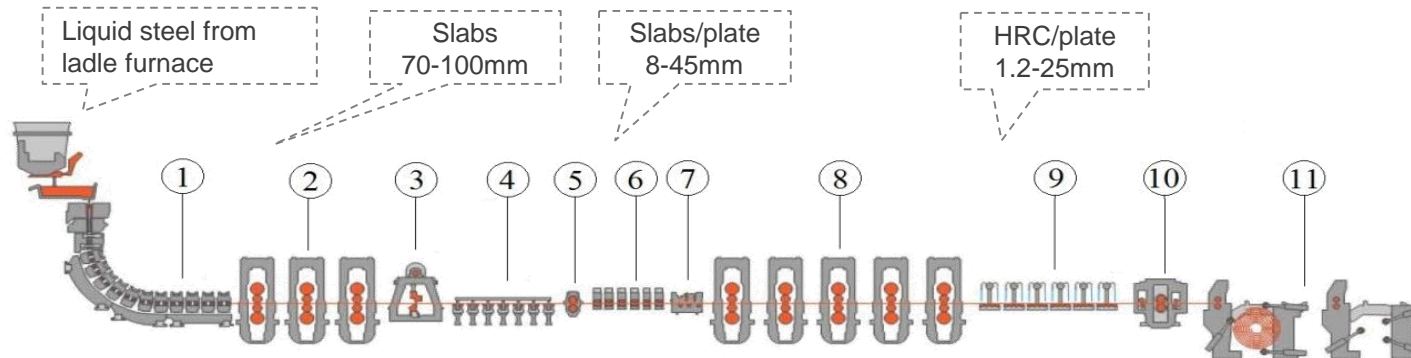
## Financials

- **CAPEX:** US\$490m
- **IRR:** 22%

## Timeline

- Design and engineering: 2019-20
- Construction and installation: 2020-21
- First coil: 2021
- Full capacity: 2022-23

For reference: Technological structure (ESP example):






## Equipment composition:

1. Thin Slab Caster
2. High reduction stands
3. Pendulum Shear
4. Piler
5. Crop Shear
6. Induction Heater
7. Water Descaler
8. Finishing Stands
9. Laminar Cooling System
10. High Speed Shear
11. Downcoilers

Source: EVRAZ data

# Other major Steel Division investment projects

- The current investment pipeline is mainly focused on product portfolio development

Investment projects	Production	Financials	Timeline
 <p>Rail and beam mill modernisation at EVRAZ NTMK</p>	<ul style="list-style-type: none"> <li>▪ <b>Additional volumes:</b> +230ktpa of beams, +50ktpa of sheet piles, option for rails</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>CAPEX:</b> US\$215m</li> <li>▪ <b>IRR:</b> 18%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Construction: 2019-21</li> <li>▪ Launch: 2021</li> </ul>
 <p>New continuous casting machine 5 at EVRAZ NTMK</p>	<ul style="list-style-type: none"> <li>▪ <b>Additional sales volumes:</b> +460ktpa of cast pipe blanks</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>CAPEX:</b> US\$120m</li> <li>▪ <b>IRR:</b> 29%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Construction: 2019-20</li> <li>▪ Launch: 2021</li> </ul>
 <p>Blast furnace 6 major overhaul at EVRAZ NTMK</p>	<ul style="list-style-type: none"> <li>▪ Maintenance project for EVRAZ NTMK, after which blast furnace 5 will shut down</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>CAPEX:</b> US\$150m</li> </ul>	<ul style="list-style-type: none"> <li>▪ Construction: 2019-20</li> <li>▪ Launch: 2021</li> </ul>

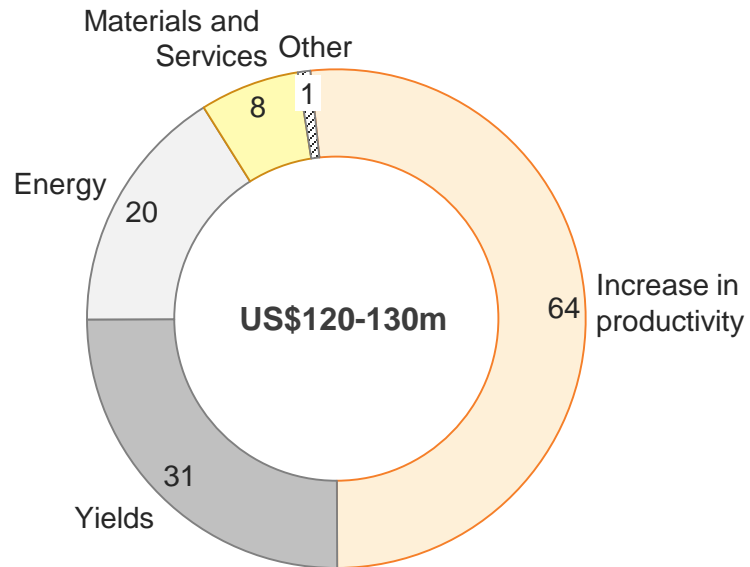
Source: EVRAZ data



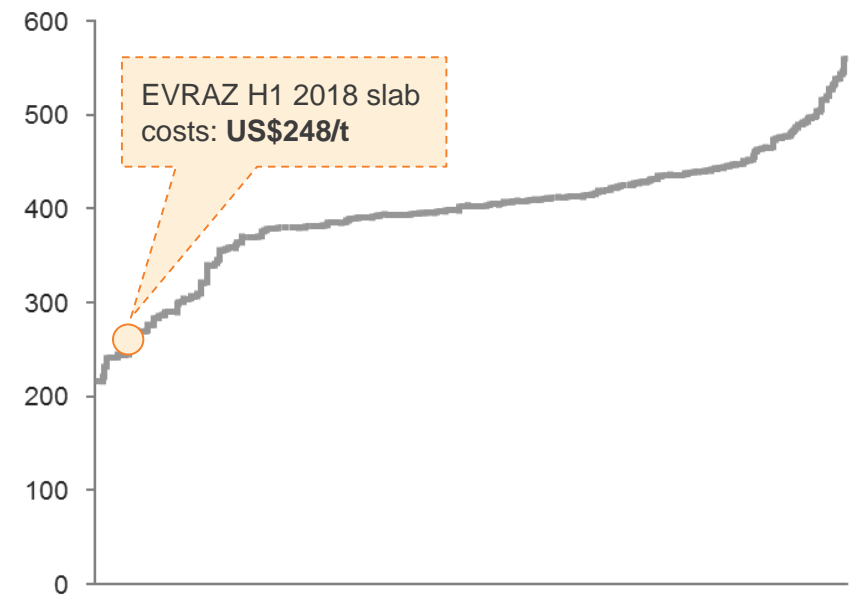
# Maintaining low-cost position

- In 2018, EVRAZ Steel division continues its cost-cutting efforts with an expected EBITDA effect of ~US\$120-130m
- The cost-cutting effect comes from increased productivity, improved yields and savings on materials and services
- These initiatives are helping EVRAZ to maintain its position as one of the lowest-cost global steelmakers (US\$248/t in H1 2018)

**Cost-cutting EBITDA effect of Steel segment, US\$m**



**Global slab cash cost curve, 2018e, US\$/t**



Source: WSD, EVRAZ data

# EVRAZ Business System (EBS) transformation progress

- The first stages of the EBS transformation have led to more than 12 000 ideas generated by employees and a total effect of US\$100m
- The long-term goal of EBS is to constantly generate initiatives to achieve an annual effect of 3% of COGS

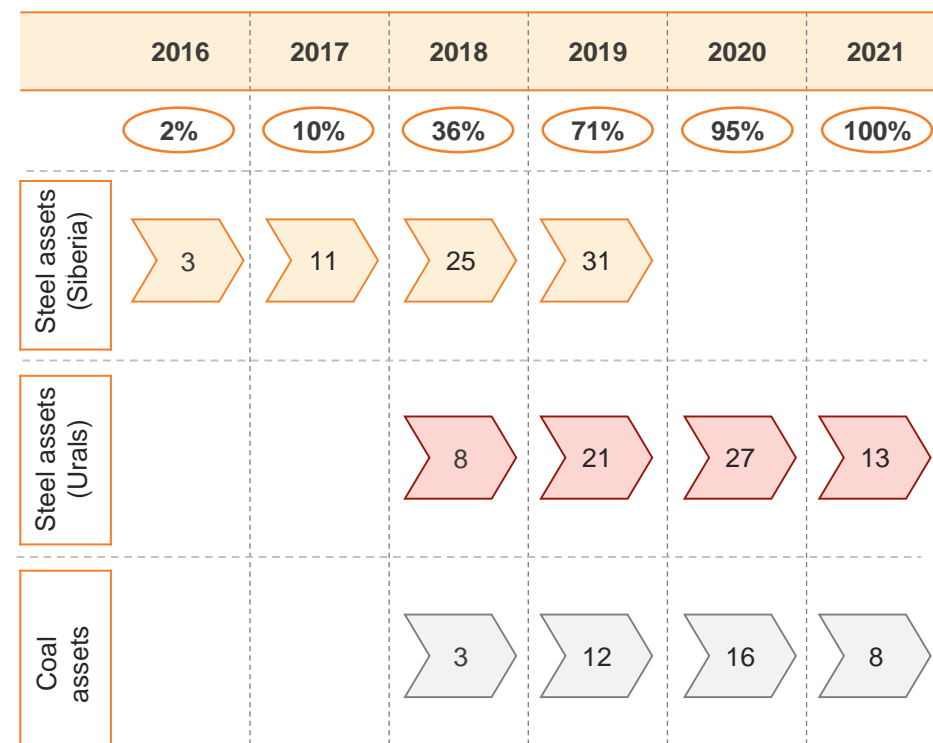
## Economic effects from EBS, US\$m



Source: EVRAZ data

## EBS transformation schedule

- X%** Cumulative total share of units covered by EBS transformation, %
- X** Number of units under transformation in a current year



# Key takeaways

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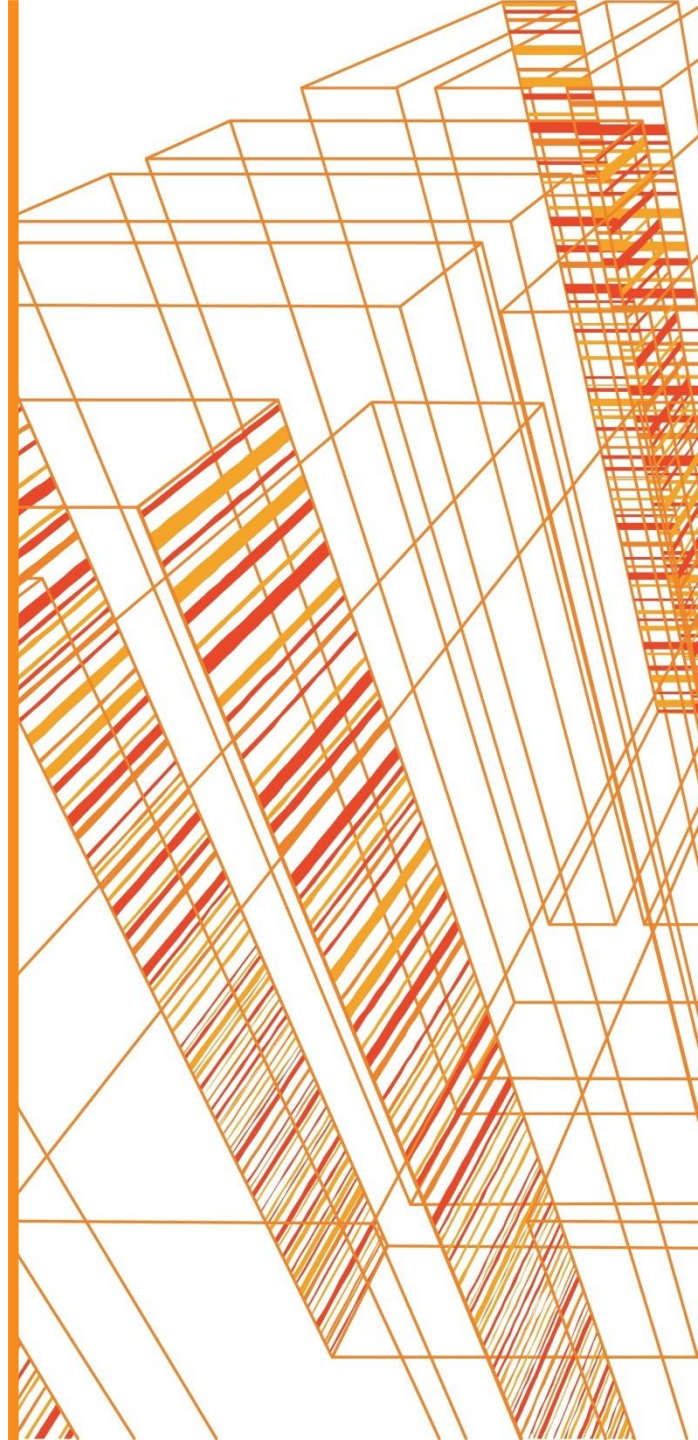
- EVRAZ has the potential to increase domestic steel sales from 4.1mtpa in 2017 to 6.9mtpa by 2023 due to the implementation of investment projects and on the back of organic market growth
- The biggest project is the construction of a 2.5mtpa integrated flat casting and rolling facility at EVRAZ ZSMK, which will enable EVRAZ to enter the flat products market in Russia
- EVRAZ Business System will be the main driver of future operational improvements

# EVRAZ North America

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**Conrad Winkler**

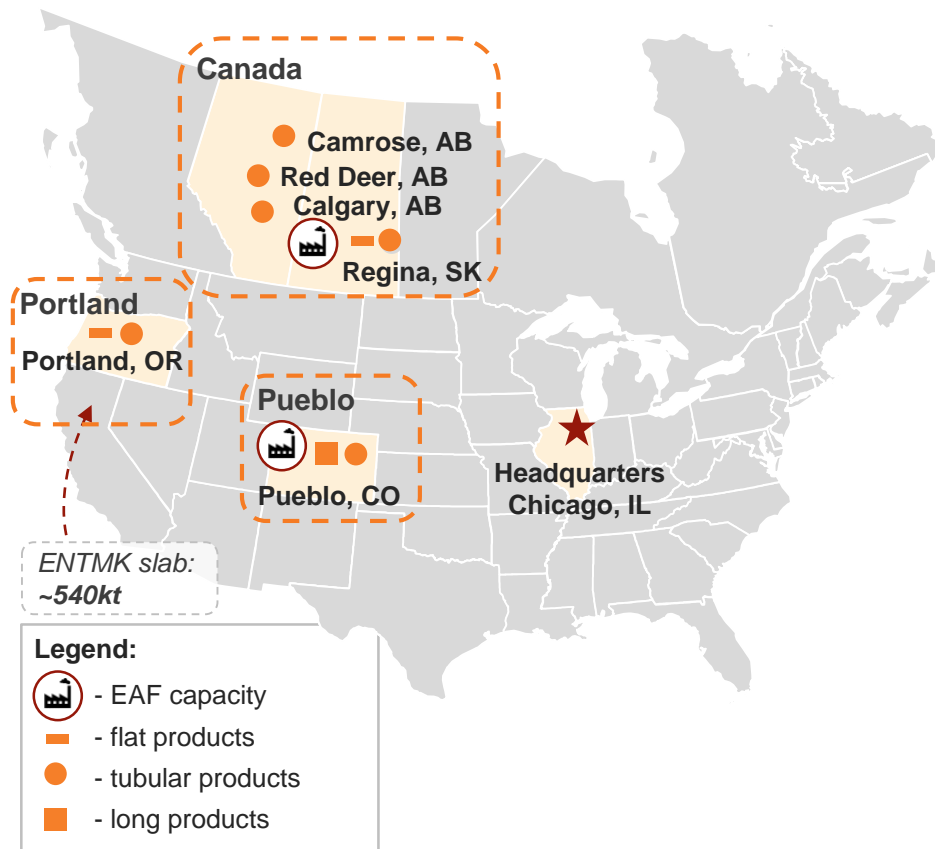
CEO, EVRAZ North America



# EVRAZ North America business overview

- EVRAZ North America (ENA) is a leading producer of high-quality engineered steel products with a focus on partnering with its customers
- ENA has three major segments across the US and Canada




## ENA footprint



Source: EVRAZ data; Note: All data are given in metric tons

\* Prime sales only (excl. commercial and scrap)

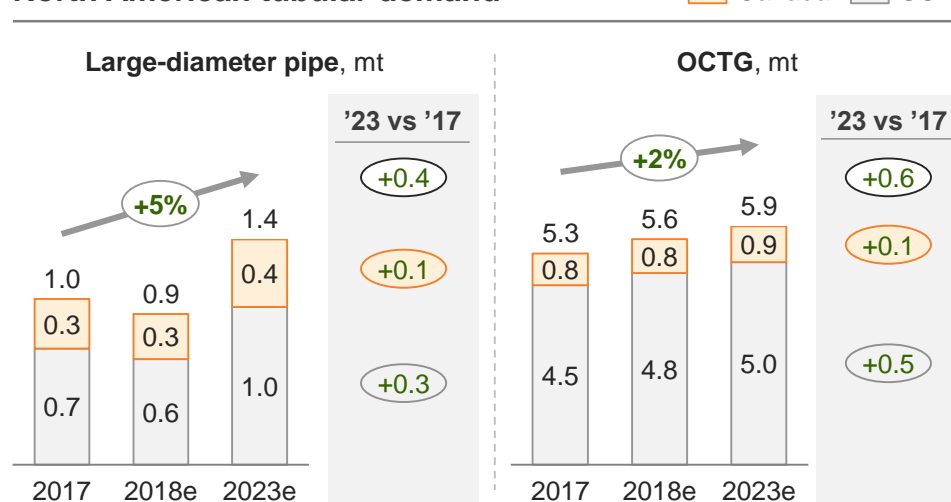
## Key segments of EVRAZ North America

Segment	2018e sales*, kt
<b>Canada</b> Regina, SK Red Deer, AB Calgary, AB Camrose, AB	 <p><b>Total: 825</b></p> <ul style="list-style-type: none"> <li>▪ LDP: 210</li> <li>▪ LP: 325</li> <li>▪ OCTG: 220</li> <li>▪ Flat: 70</li> </ul>
<b>Portland</b> Portland, OR	 <p><b>Total: 610</b></p>
<b>Pueblo</b> Pueblo, CO	 <p><b>Total: 795</b></p> <ul style="list-style-type: none"> <li>▪ Rails: 395</li> <li>▪ Seamless: 105</li> <li>▪ Rod &amp; Bar: 295</li> </ul>

# Recent investments & positive market outlook, opportunity for growth

- The large-diameter pipe market in Canada is expected to grow due to the new pipelines planned in Western Canada
- OCTG demand in Canada is forecast to stay strong due to the growth in drilling activity; this segment has low exports to the USA
- EVRAZ is focused on delivering operational improvements from realised steelmaking investments (mostly savings on alloys) and new LDP mill 5 (new quality and cost savings)
- US tariffs and Canadian retaliation, as well as increased offshore imports diverted to Canada, have negative effect on EVRAZ business in 2018. Improving Regina performance and Canada steel safeguard measures create a positive outlook in 2019

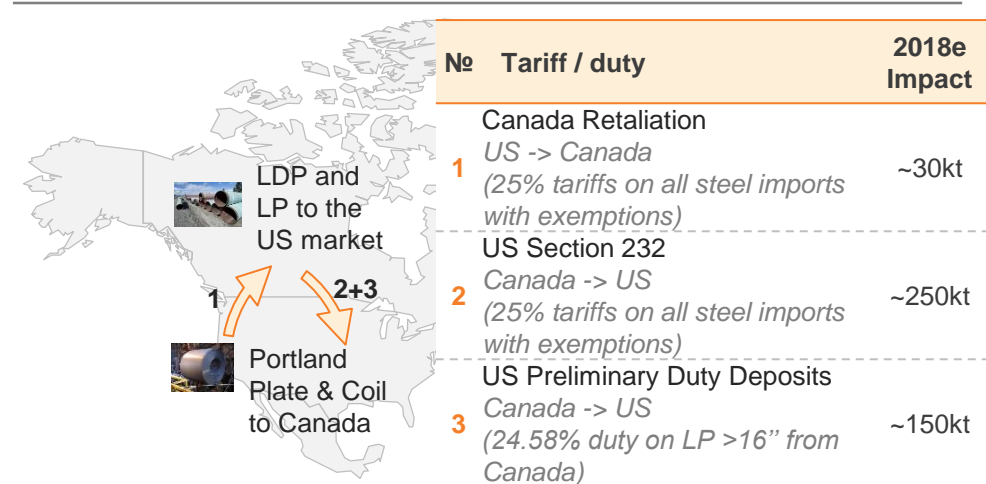
## North American tubular demand



## Regina operational metrics

		Before projects	Current	Long-term target
<b>Regina steelmaking</b>				
Slab production	ktpa	935	960	1 090
Heats degassed	%	0%	85%	95%+
<b>Regina LDP Production</b>				
LDP production	ktpa	225	260	450
First pass yield	%	35-45%	50-60%	70%

## Impact of tariffs and duties



Source: Preston Pipe research & Simdex, EVRAZ data; Note: All data are given in metric tons

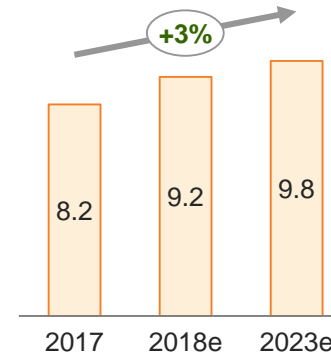


# Portland profitability is stable, despite the impact from tariffs

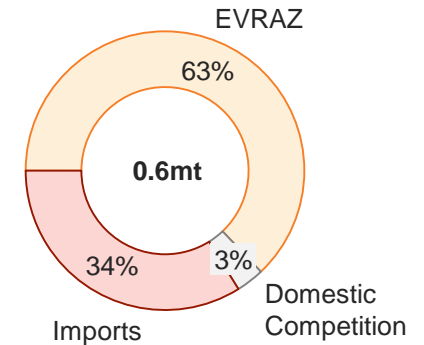
- Domestic plate demand in the US is forecast to grow by 3% annually until 2023 based on the general economic growth
- EVRAZ has leading positions in the Western US with a market share of more than 60%
- Tariffs under Section 232 have a negative impact on the Portland business as the mill is dependent on slab supplies from Russia and Mexico and other parts of the world
- Overall for the year, Portland profitability is close to average historical levels

## US plate market

US plate demand, mt

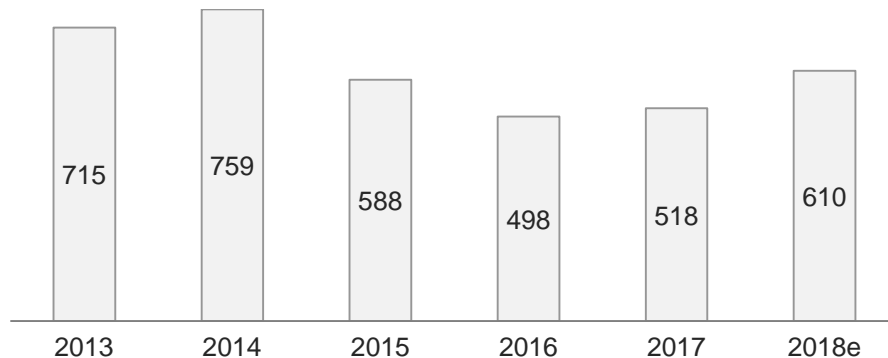


Western US market, 2018e



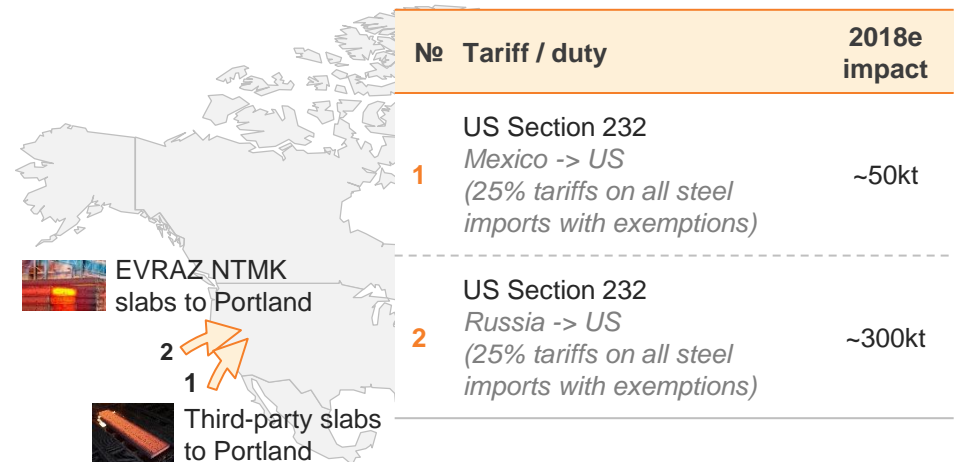
## Plate sales dynamic, kt

Sales tons (incl. intercompany)



Source: EVRAZ data; Note: All data are given in metric tons

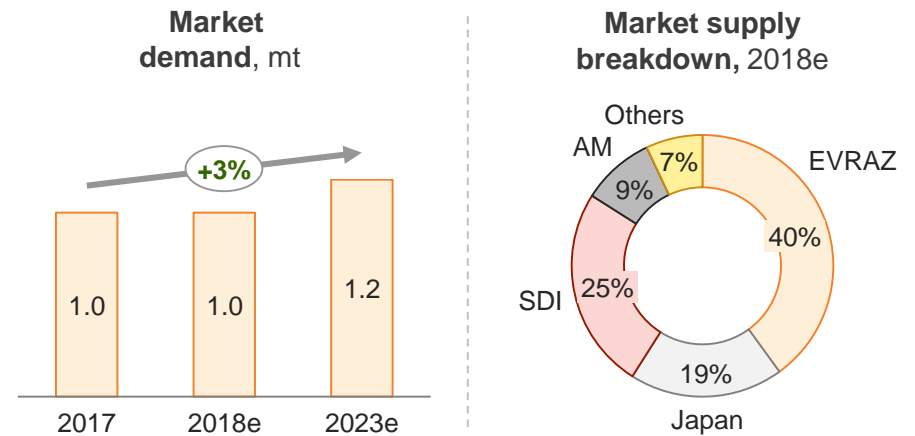
## Impact of tariffs



# Pueblo provides growth opportunity in rails

- EVRAZ is the leader in the North American rails market with a market share of ~40%
- EVRAZ has a strong technical team with deep relationships with each Class I customer
- The North American rail market is expected to see long-term growth in line with GDP growth
- Class I railroads' preference for long rail has experienced a marked increase in the last five years, becoming a critical purchasing decision factor
- EVRAZ is considering the construction of new 100-m rail mill in Pueblo to maintain technical leadership and continue shifting to a higher value product mix
- Major customers are supportive of the project with ~40% of forecasted volume locked in long term contracts – additional volume commitment are possible in the coming months

## North American rails market



### Project



Long rail mill at EVRAZ Pueblo

### Production

- **Product:** 100-m rails with optionality for beams
- **Capacity:** ~600ktpa (currently: 530ktpa)
- **Maximum rail length:** 100-m (currently: 25-m)
- **Equipment:** Universal mill (currently: Caliper mill)

### Financials

- **CAPEX:** US\$480m
- **IRR:** 18%

### Timeline

- Design and engineering: 2018-19
- Construction and installation: 2019-21
- Launch: Q4 2021

Source: EVRAZ data; Note: All data are given in metric tons

# Key takeaways

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- EVRAZ North America is a leading producer of engineered products with a diverse product mix in the tubular, long and flat segments

## Canada

- Canadian tubular demand is expected to grow steadily
- EVRAZ is focused on the operational performance of its steelmaking operations and large-diameter pipe production in Regina

## Portland

- Despite tariffs on imported slab, segment's profitability is expected to be close to historical levels, due to 232 and strong technical position with customers

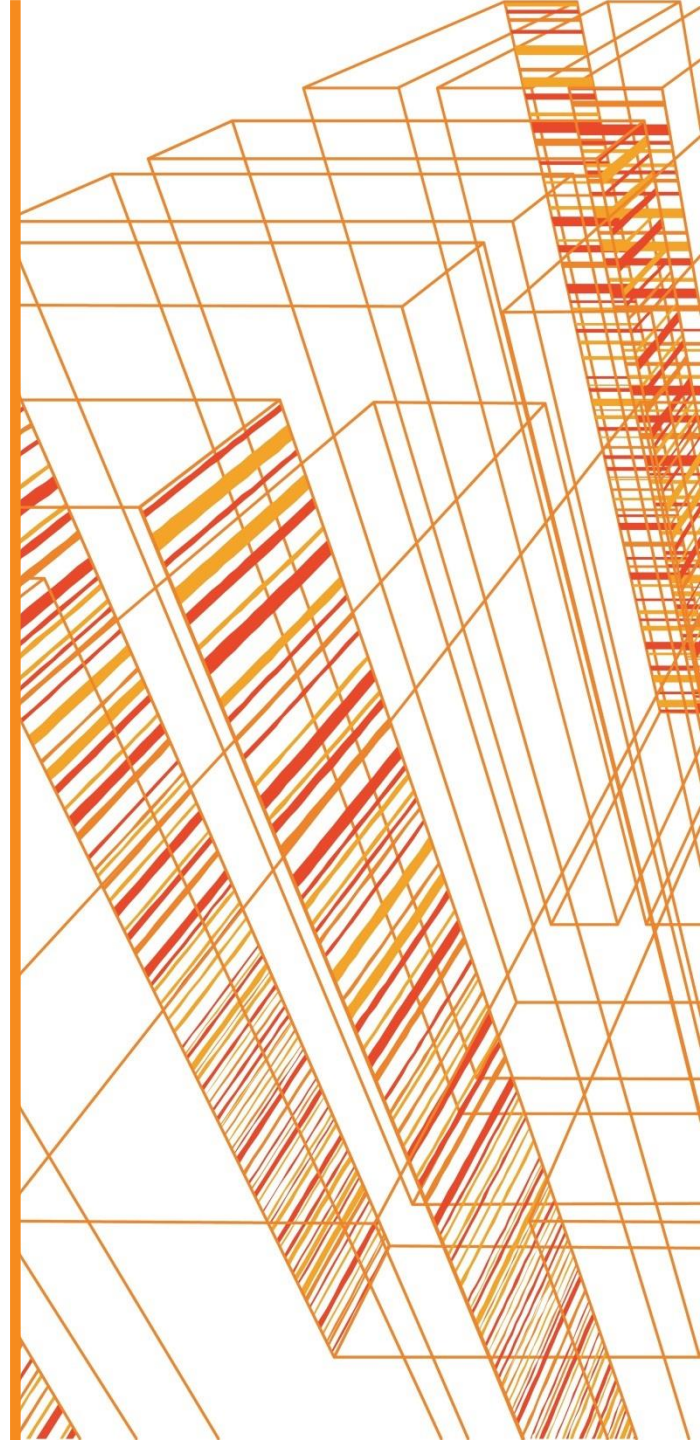
## Pueblo

- Rail demand in the US is expected to grow steadily, while benefiting from long term contracts and technical expertise
- EVRAZ is considering the construction of a new 100-m rail mill in order to provide leading rail products for the benefit of its clients

# Financial review

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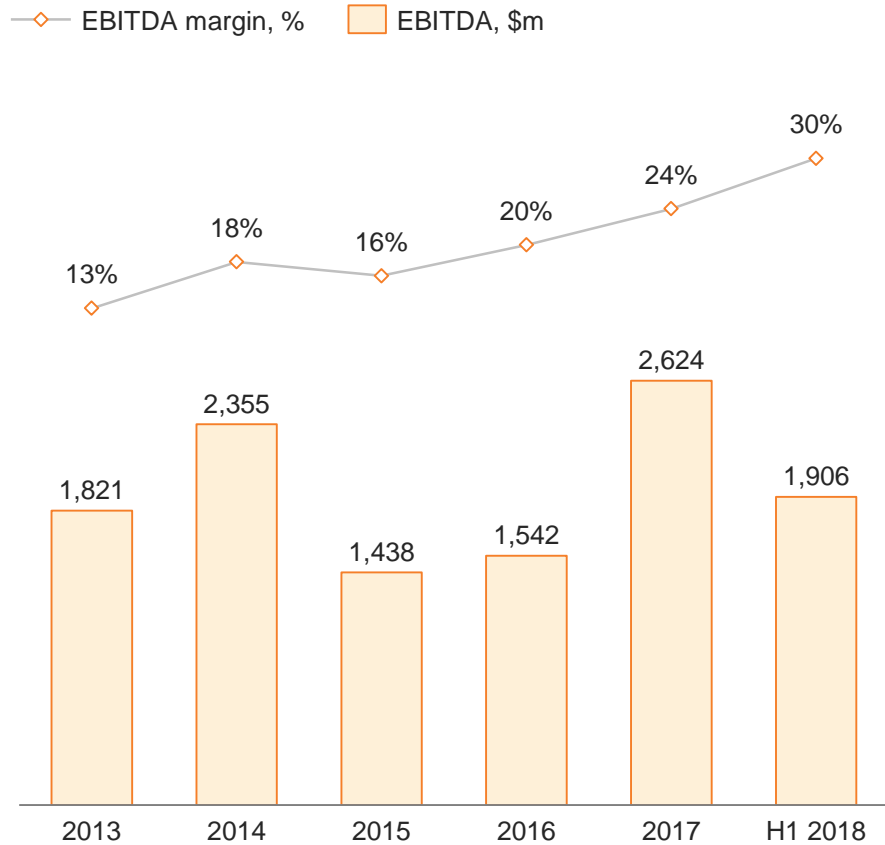
**Nikolay Ivanov**  
CFO



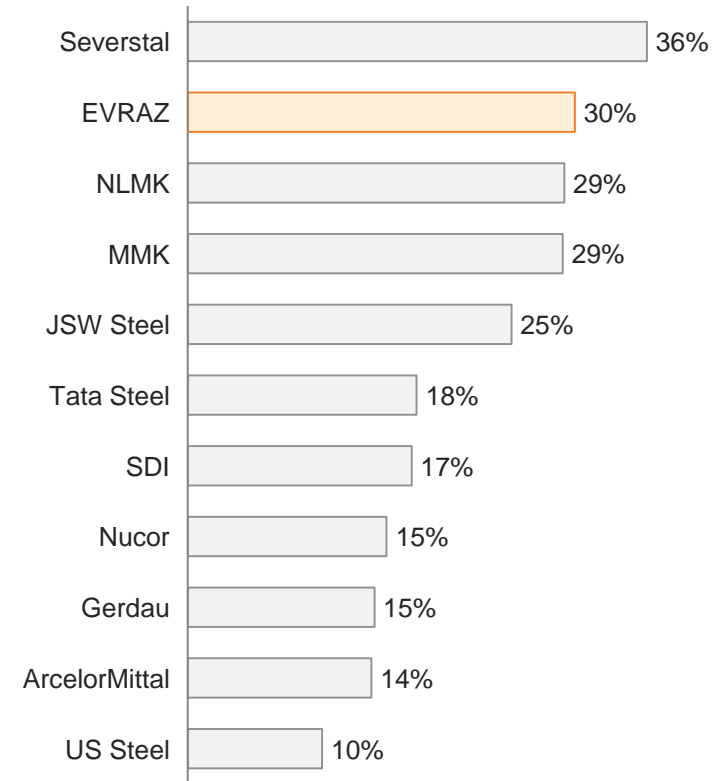
# Strong EBITDA margin

- Since 2013, EVRAZ has steadily improved its EBITDA margin, which reached 30% in H1 2018
- In H1 2018, EVRAZ had the second-highest EBITDA margin among global industry peers

## EBITDA margin performance



## EBITDA margin comparison with steel companies, %, H1 2018

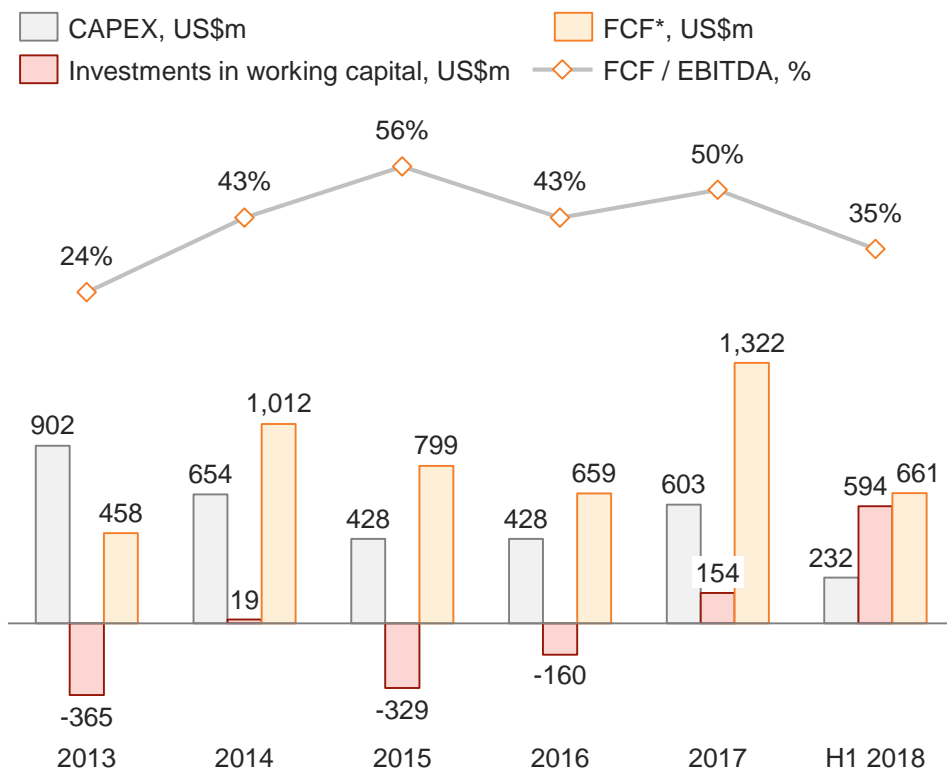


Source: Companies' data, EVRAZ data

# Robust FCF generation

## EVRAZ financials

- Since 2013 EVRAZ was able to generate strong Free Cash Flows at the average level of ~US\$820m

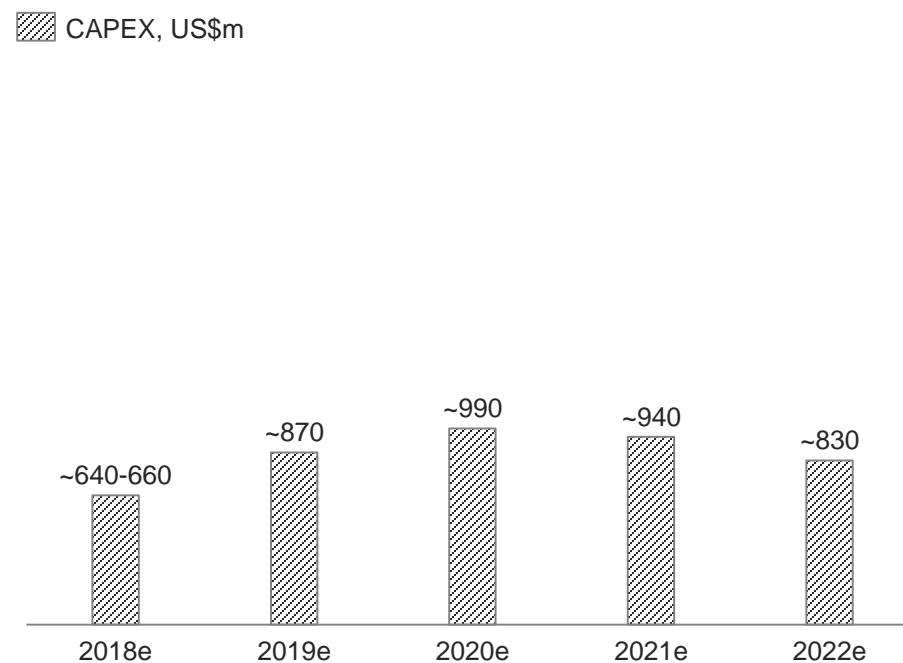


Source: EVRAZ data

\* Free Cash Flow is based on the methodology shown in financial results taking into account EBITDA, working capital changes, tax accrued changes, interest payments, CAPEX, M&A activities and non-cash charges

## CAPEX forecast

- Despite increasing investments for development programme in 2019 – 22, CAPEX will be below US\$1bn level and is expected to be financed from operating cash flows

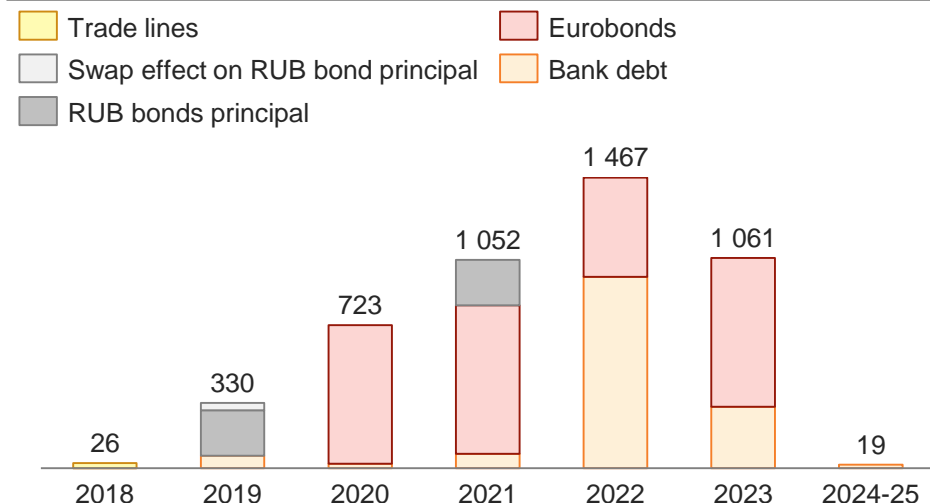




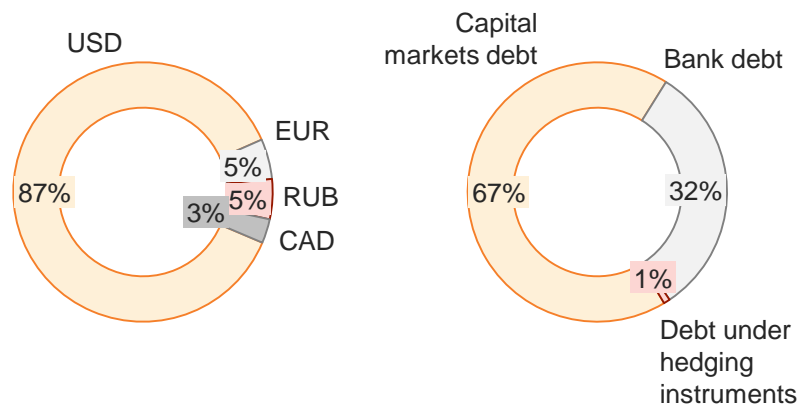
# Debt management

- Total debt reduced by ~US\$0.7bn to ~US\$4.8bn in 9M 2018
- Credit profile improvements were recognised by major international rating agencies with current ratings standing at:
  - BB / Positive from Standard and Poor's
  - Ba2 / Stable from Moody's
  - BB / Stable from Fitch Ratings

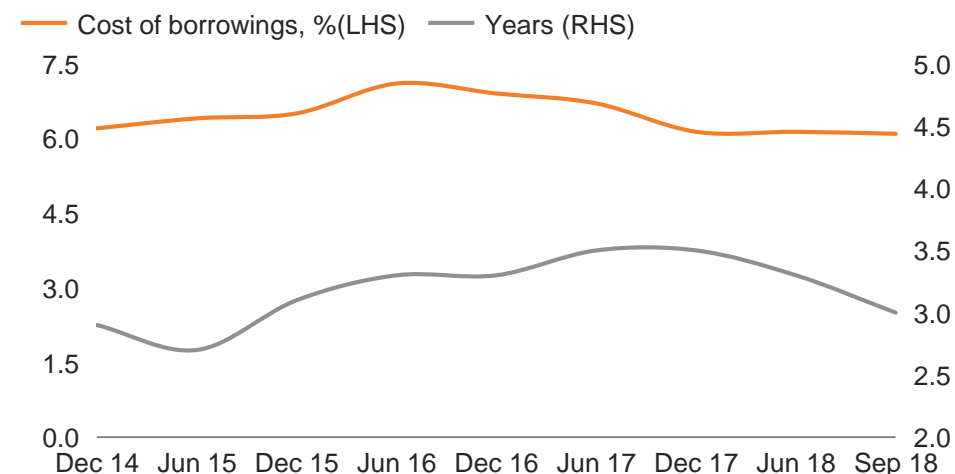
## Debt maturity profile, as of 30.09.2018\*, US\$m



## Debt structure, as of 30.09.2018, %



## Weighted average maturity and cost of borrowings



Source: EVRAZ data

\* Principal of loans and borrowings (incl. hedging exposure and excl. interest payments)

# Updated cash-flow priorities

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1

## Dividends

- **Formal dividend policy** announced in March 2018
- **Dividends paid in 2017 amounted to US\$428m in total; the dividend yield reached 9.2%**
- **Dividends paid in 2018 YTD amounted to US\$1,194m in total; the dividend yield reached 13.4%**

2

## Reinvestment

- **Selective investments** in development
- **New investment opportunities** will be focused on the development of the steel products portfolio in Russia and North America

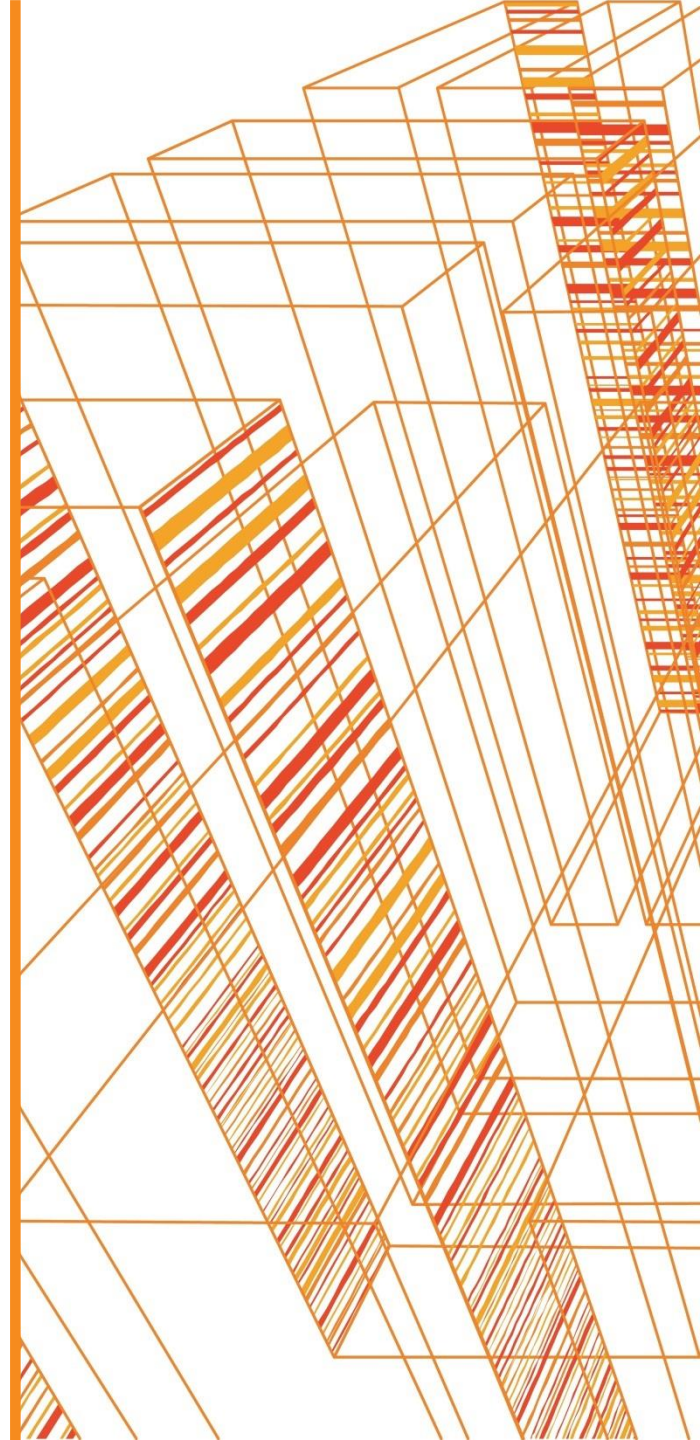
3

## Debt management

- **Further gross debt reduction** leading to lower interest expense
- **Net debt/EBITDA** level of 1.1x as of 30.06.2018 which is well below target level of 2.0x

# Q&A

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