



# FY 2016 Financial Results

1 March 2017



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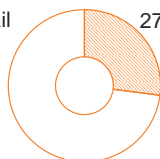
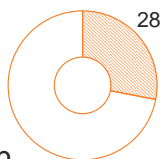
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# Core operations and distribution markets

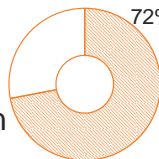
**No. 1**

among rail & LDP suppliers in North America



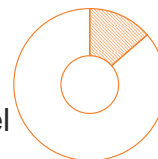
**No. 1**

among rail suppliers in Russia



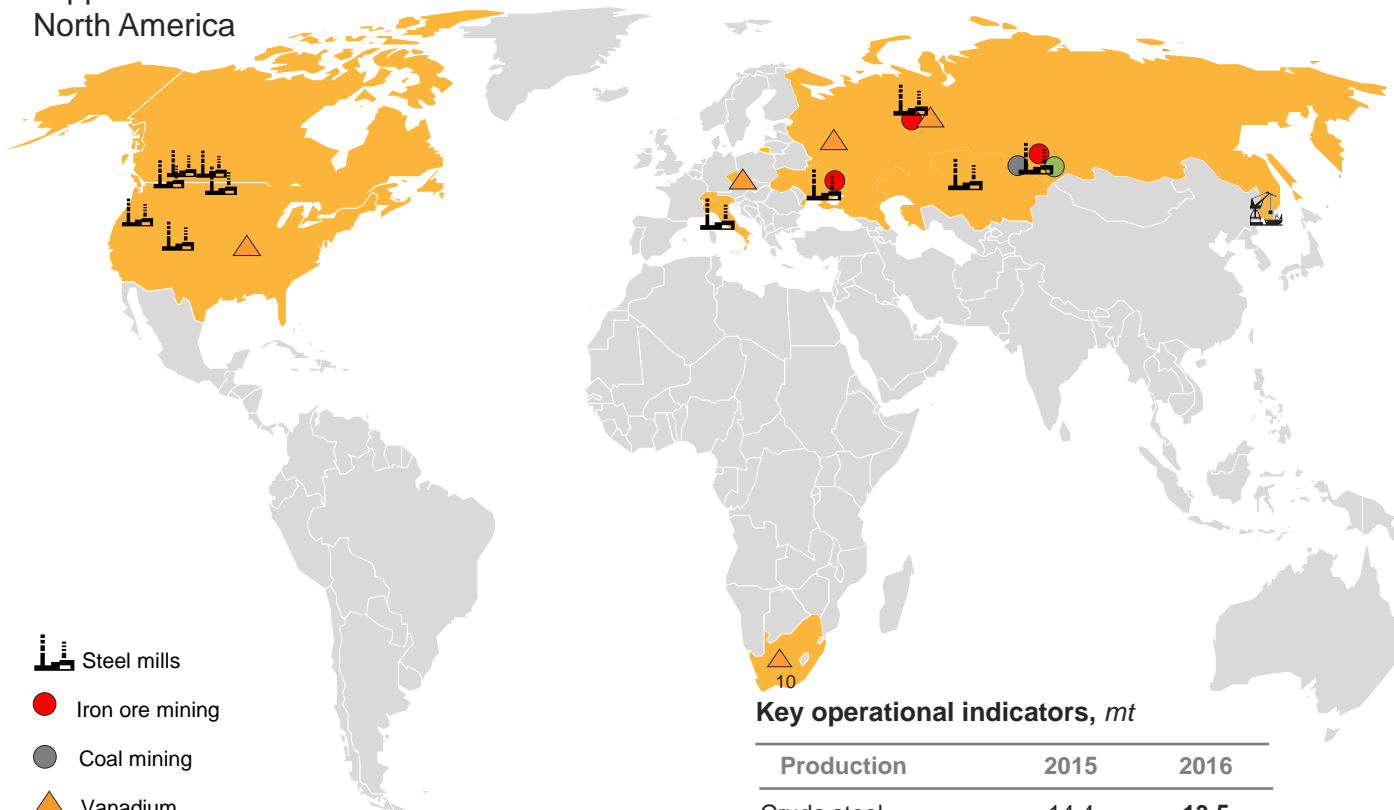
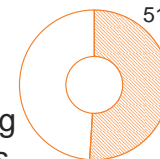
**No. 1**

in the rebar and construction steel market in Russia



**No. 1**

among the Russian coking coal producers

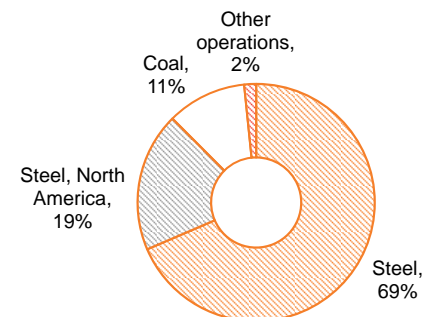


- Steel mills
- Iron ore mining
- Coal mining
- Vanadium
- Nakhodka sea port
- Greenfields: Mezhegy coal

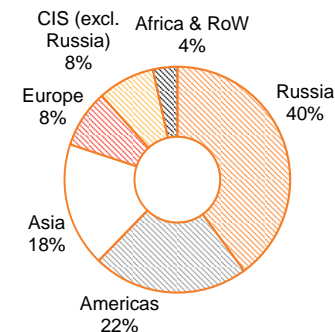
## Key operational indicators, mt

| Production        | 2015 | 2016        |
|-------------------|------|-------------|
| Crude steel       | 14.4 | <b>13.5</b> |
| Iron ore products | 20.4 | <b>19.7</b> |
| Raw coking coal   | 20.9 | <b>22.3</b> |

## Consolidated revenue by segments\*\*\*, %



## Consolidated revenue by region, %



Source: Company information

\* in 2016 according to Metal Expert by market share and sales volumes in Russia; Company's estimation for North America

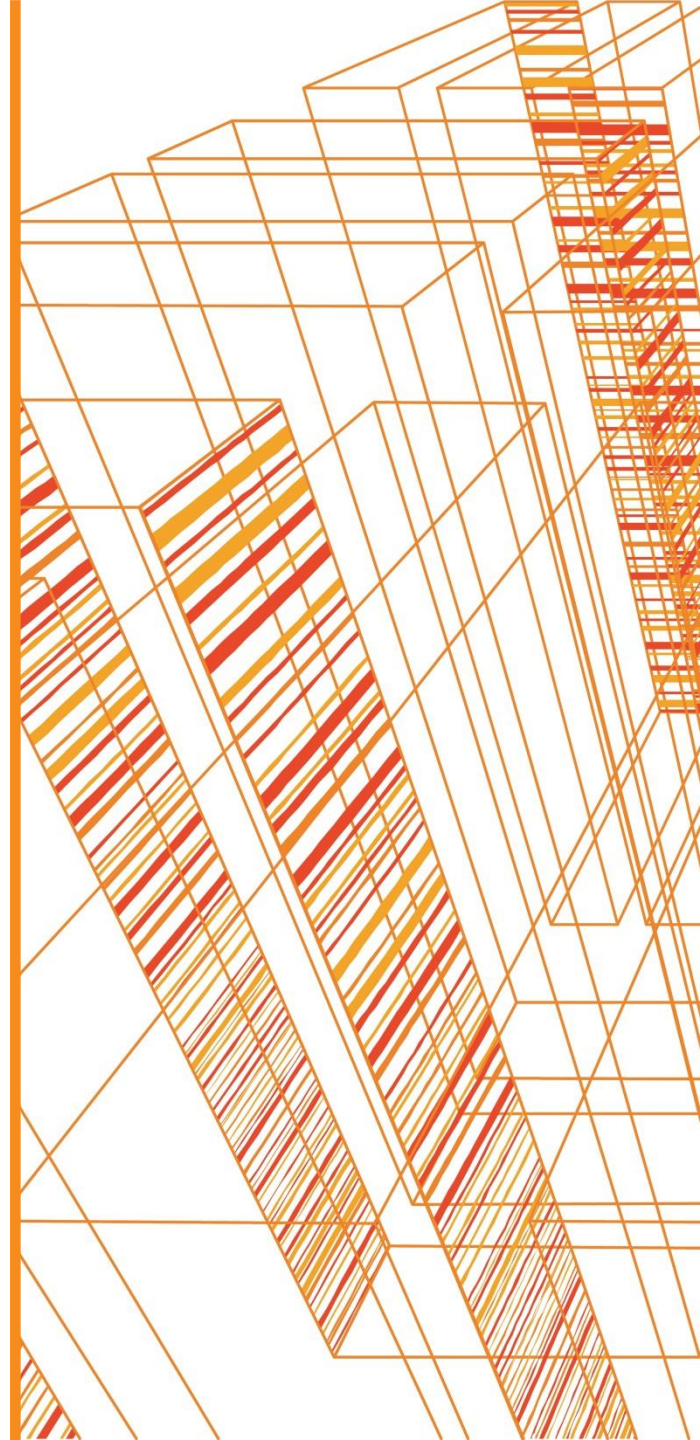
\*\*coking coal concentrate (Semi-hard coking coal high-volatile), in 2016 according to Metal Expert

\*\*\* EVRAZ's steel segment sales include sales of semi-finished and finished steel products, iron ore and vanadium products both to local and global markets

# Highlights

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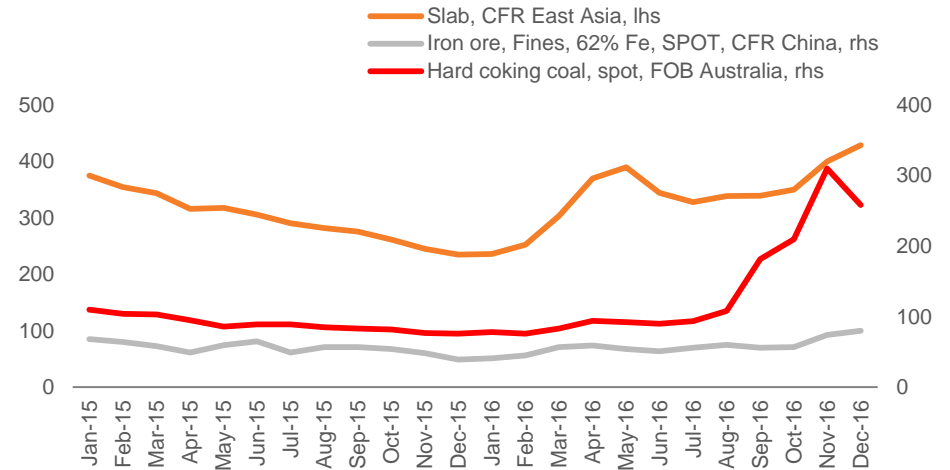
Alexander Frolov – Chief Executive Officer



# Key themes

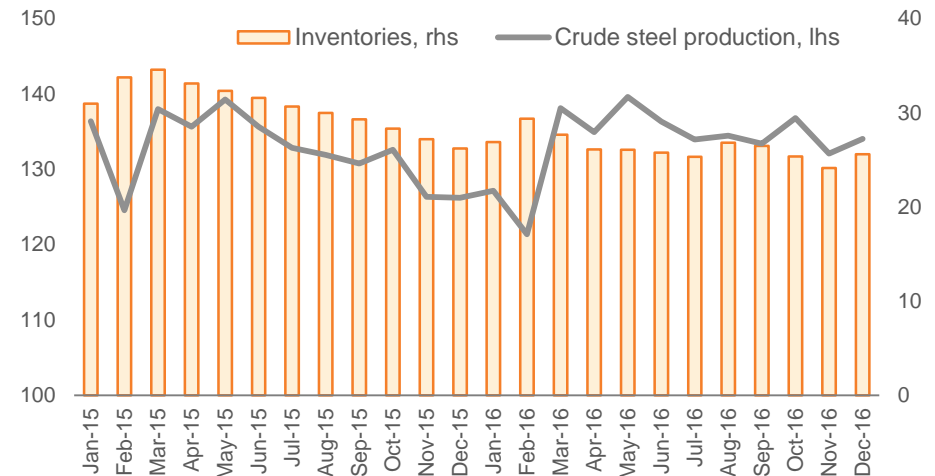
- During 2016, we saw positive global trends in steel and bulk commodities with several spikes primarily driven by developments in China
- EVRAZ demonstrated a stronger performance in H2 2016 vs H1 2016 due to a supportive pricing environment in its main markets
- EVRAZ continues to focus on its strategic priorities driven by market conditions and business fundamentals
- Customer focus programme has brought annual effect of \$169m on EBITDA
- Average annual EBITDA effect from cost-cutting initiatives totaled \$316m
- Consolidated EBITDA reached \$1,542m, up 7.2% YoY
- Debt repayment remains a priority over dividends and excessive CAPEX: EVRAZ was able to reduce debt by \$0.5bn, net leverage reduced to 3.1x

**Global steel and raw material prices, \$/t**



Source: Metal Expert, CRU

**Global crude steel production and inventory, mt**

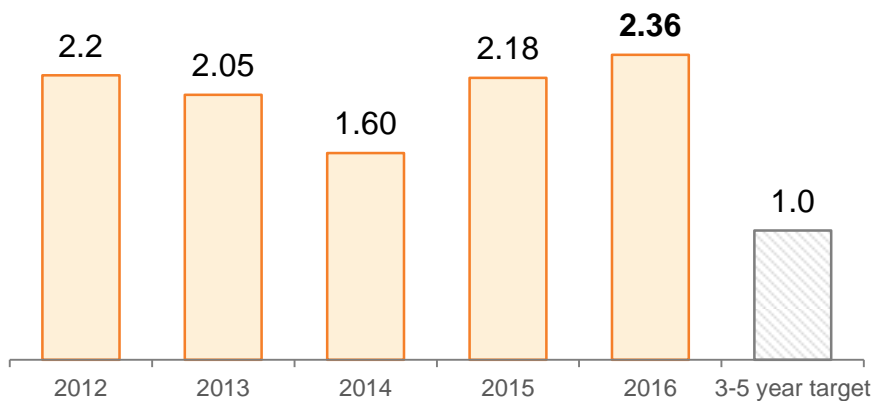


Source: Bloomberg, World Steel Association

# Safety as a base for business sustainability

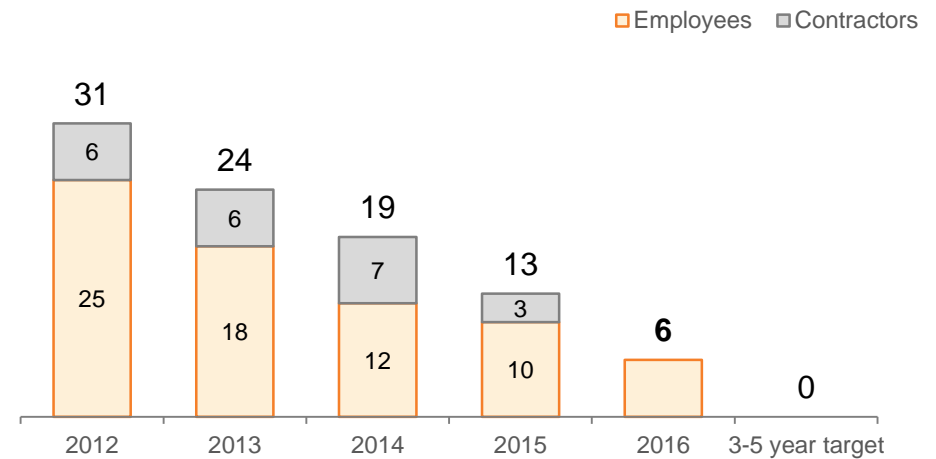
- Safety remains a key priority for EVRAZ
- EVRAZ substantially reduced number of fatalities over last five years
- Regrettably, 6 fatalities in 2016
- LTIFR demonstrated mixed dynamics due to ongoing efforts on safety improvement and a better reporting system introduced in 2015-2016
- We remain committed to having zero fatal accidents at our sites and target to reach LTIFR level of 1.0x

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



\*Calculated as number of lost working hours due to injuries, excluding fatalities, per 1 million hours worked  
Source: Company information

**Fatalities**



Source: Company information

# EVRAZ strategic priorities

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## *Global trends*

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- Global steel industry capacity utilisation is expected to gradually improve over the medium term
- Iron ore market is expected to stabilise over the next 2-3 years
- Strong seaborne demand provides opportunities in coking coal market




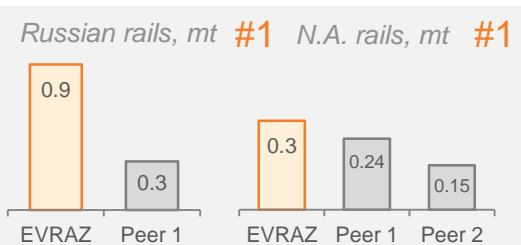

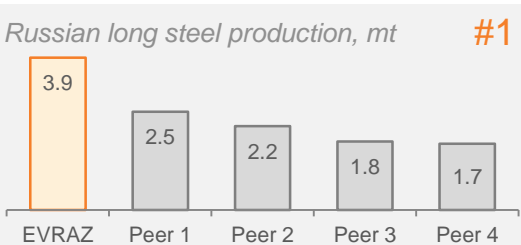

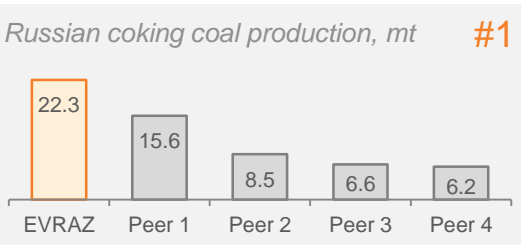

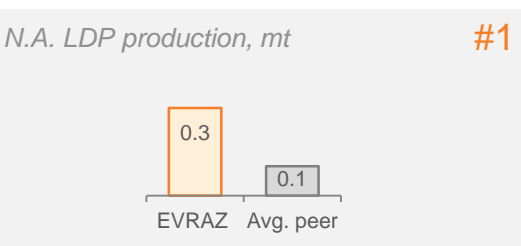
## *EVRAZ strategic priorities*

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- 1 Development of product portfolio and customer base
- 2 Retention of low-cost position
- 3 Prudent CAPEX strategy
- 4 Debt reduction

# Development of product portfolio and customer base

□ Strong market positions is a base for value creation across EVRAZ key product groups

| Product  | Production in 2016  | Priorities |                 |        |        |               |      |  |     |            |     |        |      |  |
|--|---|------------|-----------------|--------|--------|---------------|------|--|-----|------------|-----|--------|------|--|
| <div data-bbox="70 297 298 539"> <p>Rails</p> </div>                    | <p>Russian rails, mt #1 N.A. rails, mt #1</p>  <table border="1"> <caption>Rails Production (mt)</caption> <thead> <tr> <th>Category</th> <th>EVRAZ</th> <th>Peer 1</th> <th>Peer 2</th> </tr> </thead> <tbody> <tr> <td>Russian rails</td> <td>0.9</td> <td>0.3</td> <td>-</td> </tr> <tr> <td>N.A. rails</td> <td>0.3</td> <td>0.24</td> <td>0.15</td> </tr> </tbody> </table>  | Category   | EVRAZ           | Peer 1 | Peer 2 | Russian rails | 0.9  | 0.3  | -   | N.A. rails | 0.3 | 0.24   | 0.15 | <p>□ Secure position in domestic markets and increase export shipments</p> |
| Category   | EVRAZ   | Peer 1     | Peer 2          |        |        |               |      |  |     |            |     |        |      |  |
| Russian rails  | 0.9   | 0.3        | -               |        |        |               |      |  |     |            |     |        |      |  |
| N.A. rails   | 0.3   | 0.24       | 0.15            |        |        |               |      |  |     |            |     |        |      |  |
| <div data-bbox="70 554 298 796"> <p>Construction steel</p> </div>       | <p>Russian long steel production, mt #1</p>  <table border="1"> <caption>Russian long steel production (mt)</caption> <thead> <tr> <th>Company</th> <th>Production (mt)</th> </tr> </thead> <tbody> <tr> <td>EVRAZ</td> <td>3.9</td> </tr> <tr> <td>Peer 1</td> <td>2.5</td> </tr> <tr> <td>Peer 2</td> <td>2.2</td> </tr> <tr> <td>Peer 3</td> <td>1.8</td> </tr> <tr> <td>Peer 4</td> <td>1.7</td> </tr> </tbody> </table>      | Company    | Production (mt) | EVRAZ  | 3.9    | Peer 1        | 2.5  | Peer 2   | 2.2 | Peer 3     | 1.8 | Peer 4 | 1.7  | <p>□ Promote usage of high-value added products in construction</p>        |
| Company  | Production (mt)   |            |                 |        |        |               |      |  |     |            |     |        |      |  |
| EVRAZ  | 3.9   |            |                 |        |        |               |      |  |     |            |     |        |      |  |
| Peer 1   | 2.5   |            |                 |        |        |               |      |  |     |            |     |        |      |  |
| Peer 2   | 2.2   |            |                 |        |        |               |      |  |     |            |     |        |      |  |
| Peer 3   | 1.8   |            |                 |        |        |               |      |  |     |            |     |        |      |  |
| Peer 4   | 1.7   |            |                 |        |        |               |      |  |     |            |     |        |      |  |
| <div data-bbox="70 811 298 1053"> <p>Coking coal</p> </div>            | <p>Russian coking coal production, mt #1</p>  <table border="1"> <caption>Russian coking coal production (mt)</caption> <thead> <tr> <th>Company</th> <th>Production (mt)</th> </tr> </thead> <tbody> <tr> <td>EVRAZ</td> <td>22.3</td> </tr> <tr> <td>Peer 1</td> <td>15.6</td> </tr> <tr> <td>Peer 2</td> <td>8.5</td> </tr> <tr> <td>Peer 3</td> <td>6.6</td> </tr> <tr> <td>Peer 4</td> <td>6.2</td> </tr> </tbody> </table> | Company    | Production (mt) | EVRAZ  | 22.3   | Peer 1        | 15.6 | Peer 2   | 8.5 | Peer 3     | 6.6 | Peer 4 | 6.2  | <p>□ Benefit from market upside and improved efficiency</p>                |
| Company  | Production (mt)   |            |                 |        |        |               |      |  |     |            |     |        |      |  |
| EVRAZ  | 22.3  |            |                 |        |        |               |      |  |     |            |     |        |      |  |
| Peer 1   | 15.6  |            |                 |        |        |               |      |  |     |            |     |        |      |  |
| Peer 2   | 8.5   |            |                 |        |        |               |      |  |     |            |     |        |      |  |
| Peer 3   | 6.6   |            |                 |        |        |               |      |  |     |            |     |        |      |  |
| Peer 4   | 6.2   |            |                 |        |        |               |      |  |     |            |     |        |      |  |
| <div data-bbox="70 1068 298 1310"> <p>Large-diameter pipe</p> </div>  | <p>N.A. LDP production, mt #1</p>  <table border="1"> <caption>N.A. LDP production (mt)</caption> <thead> <tr> <th>Company</th> <th>Production (mt)</th> </tr> </thead> <tbody> <tr> <td>EVRAZ</td> <td>0.3</td> </tr> <tr> <td>Avg. peer</td> <td>0.1</td> </tr> </tbody> </table>   | Company    | Production (mt) | EVRAZ  | 0.3    | Avg. peer     | 0.1  | <p>□ Secure market share and further develop customer base</p> |     |            |     |        |      |  |
| Company  | Production (mt)   |            |                 |        |        |               |      |  |     |            |     |        |      |  |
| EVRAZ  | 0.3   |            |                 |        |        |               |      |  |     |            |     |        |      |  |
| Avg. peer  | 0.1   |            |                 |        |        |               |      |  |     |            |     |        |      |  |

Source: Metal Expert, Company information

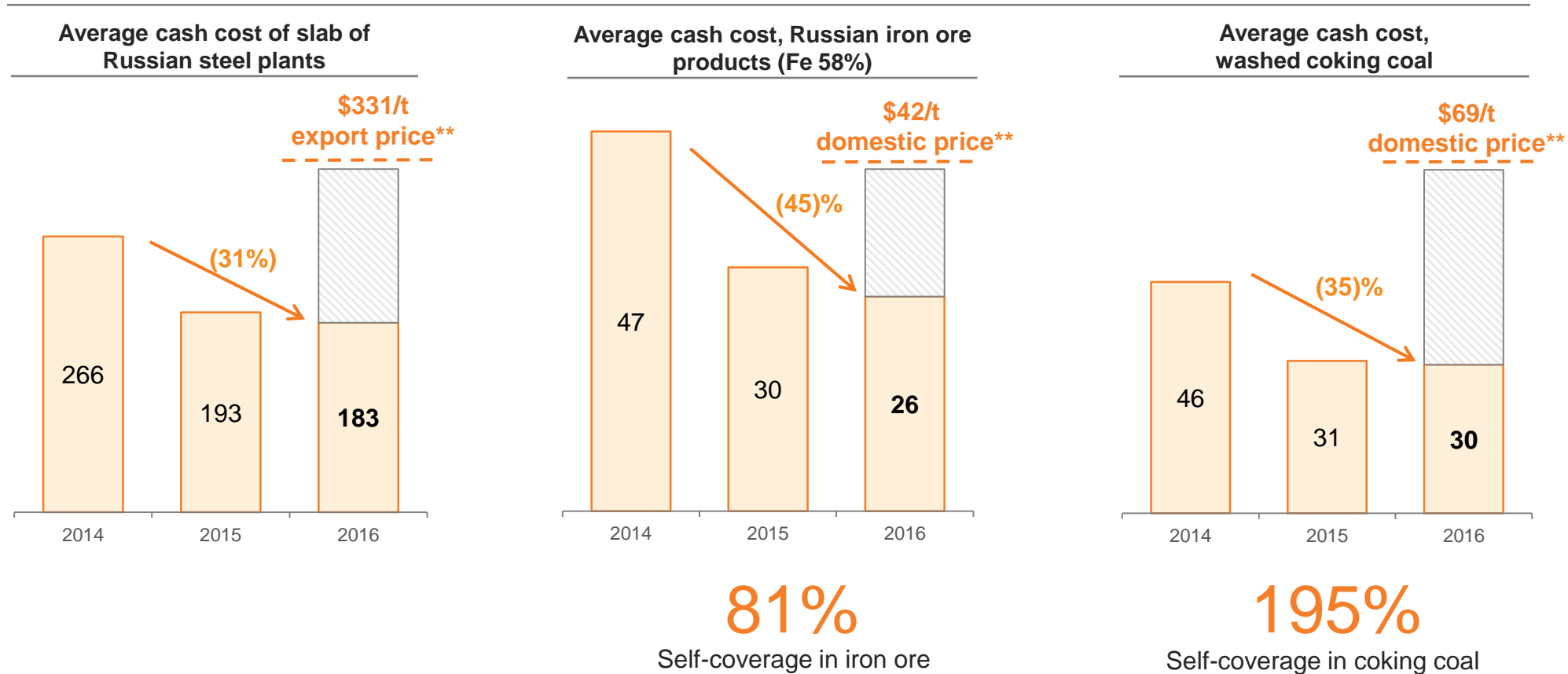


# Retention of low-cost position

## Vertically integrated business model supported by robust cost base

- Having low-cost operations is crucial for EVRAZ
- Significant progress in cash cost reduction due to implementation of cost-cutting initiatives amid rouble devaluation

### Enhanced cost positions\*, \$/t



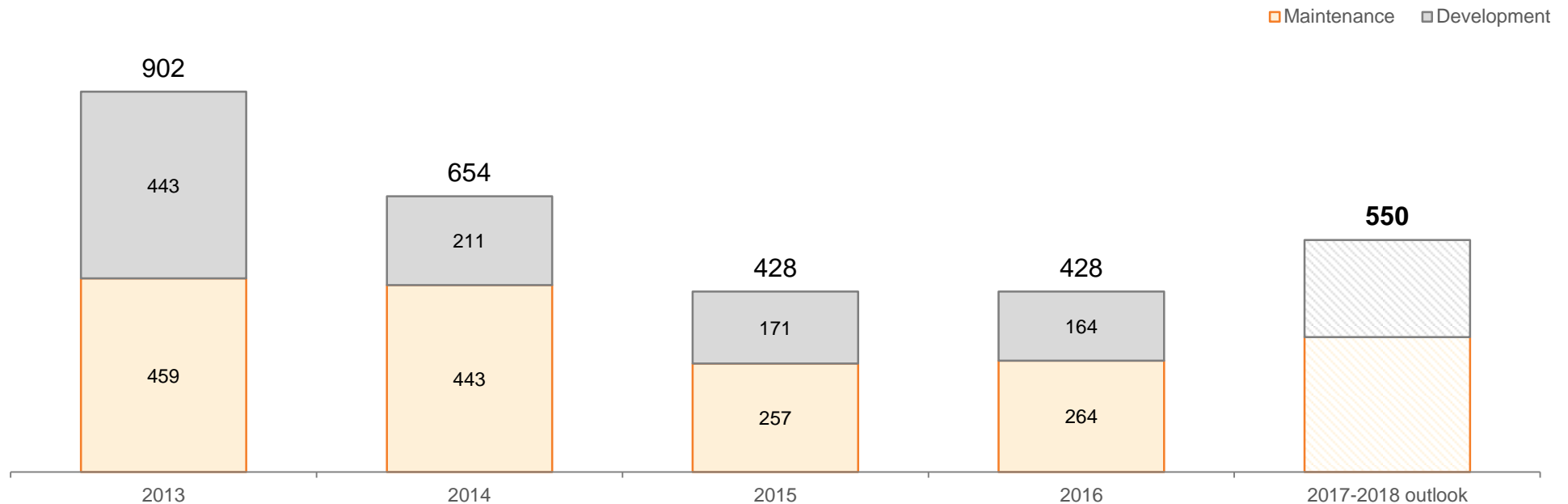
\* The data in this chart is derived from the unaudited monthly management accounts of EVRAZ in respect of the indicated periods

\*\* Average price for Slab – FOB Far East, Iron ore products – 65-66.5% Fe, EXW, Washed coking coal – GZh concentrate, EXW

# Prudent CAPEX strategy

- Significant CAPEX reduction over the last five years (both in development and maintenance)
- Over the medium term maintenance CAPEX will increase to support current capacities
- Development CAPEX will largely depend on market conditions and financing capabilities
- 53% of CAPEX is rouble denominated
- FY2017 target is c.\$550m

## CAPEX, \$m

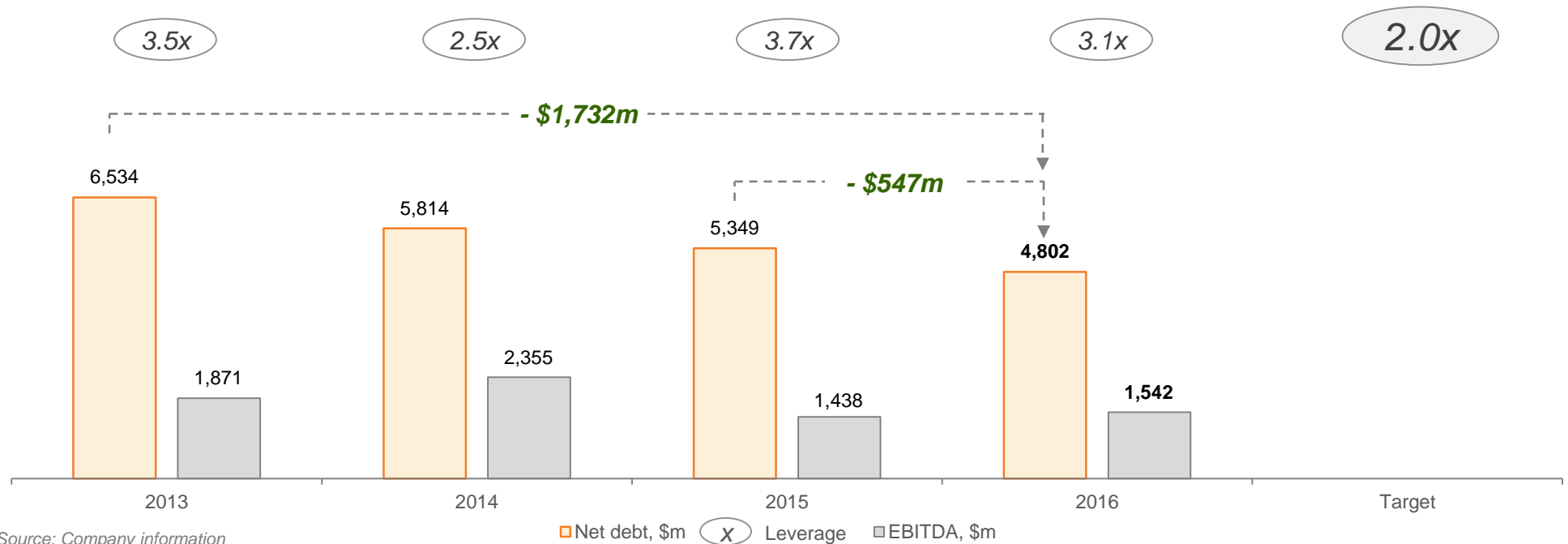


Source: Company information

# Debt reduction

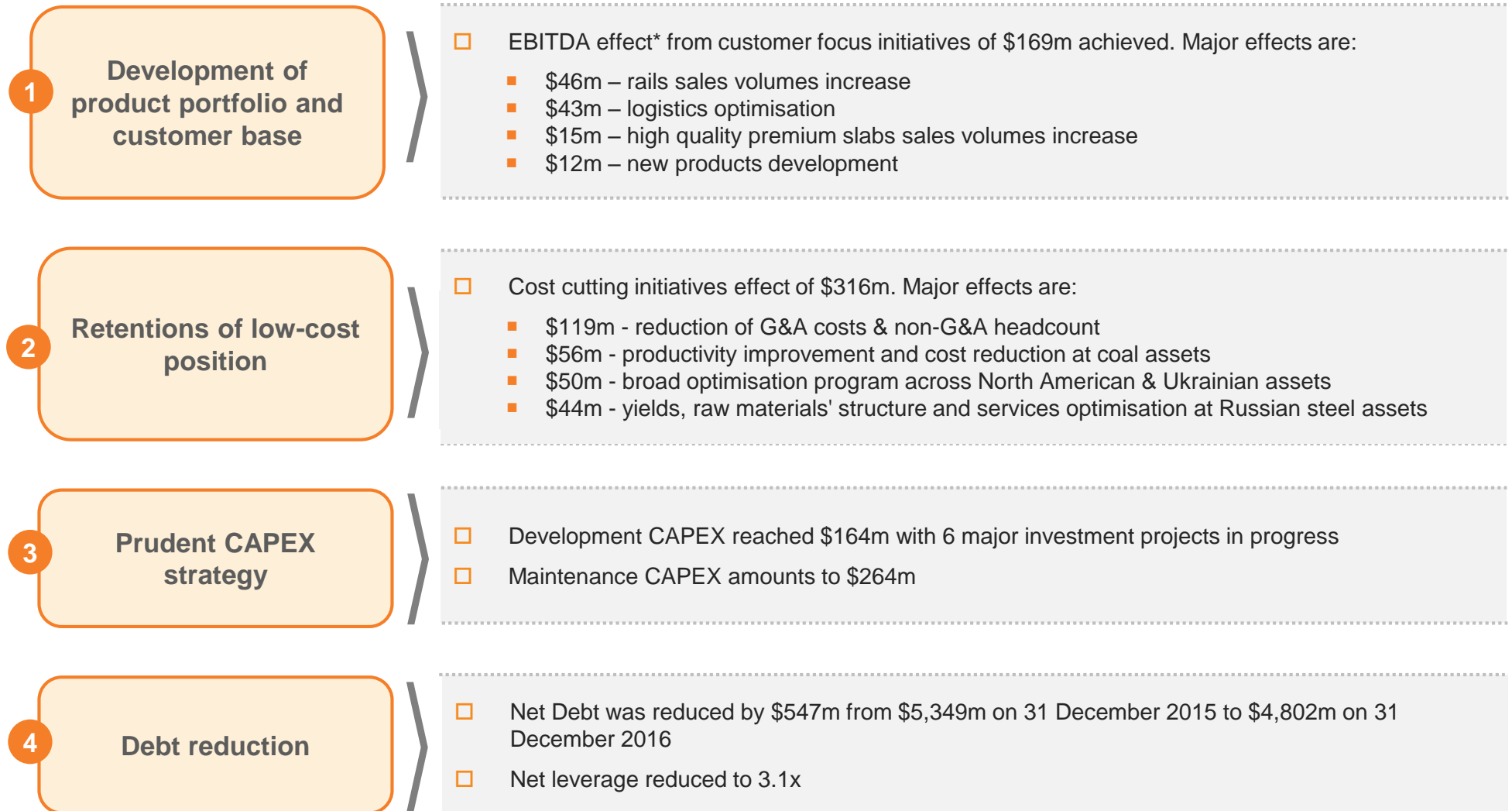
- Debt repayment remains a priority over dividends and excessive CAPEX
- EVRAZ was able to reduce net debt by \$1.7bn since 2013 and reach \$4.8bn in 2016
- Long-term target to reach 2.0x Net Debt/EBITDA level

## Net Leverage



# Strategic priorities - FY 2016 deliverables

## Key business priorities

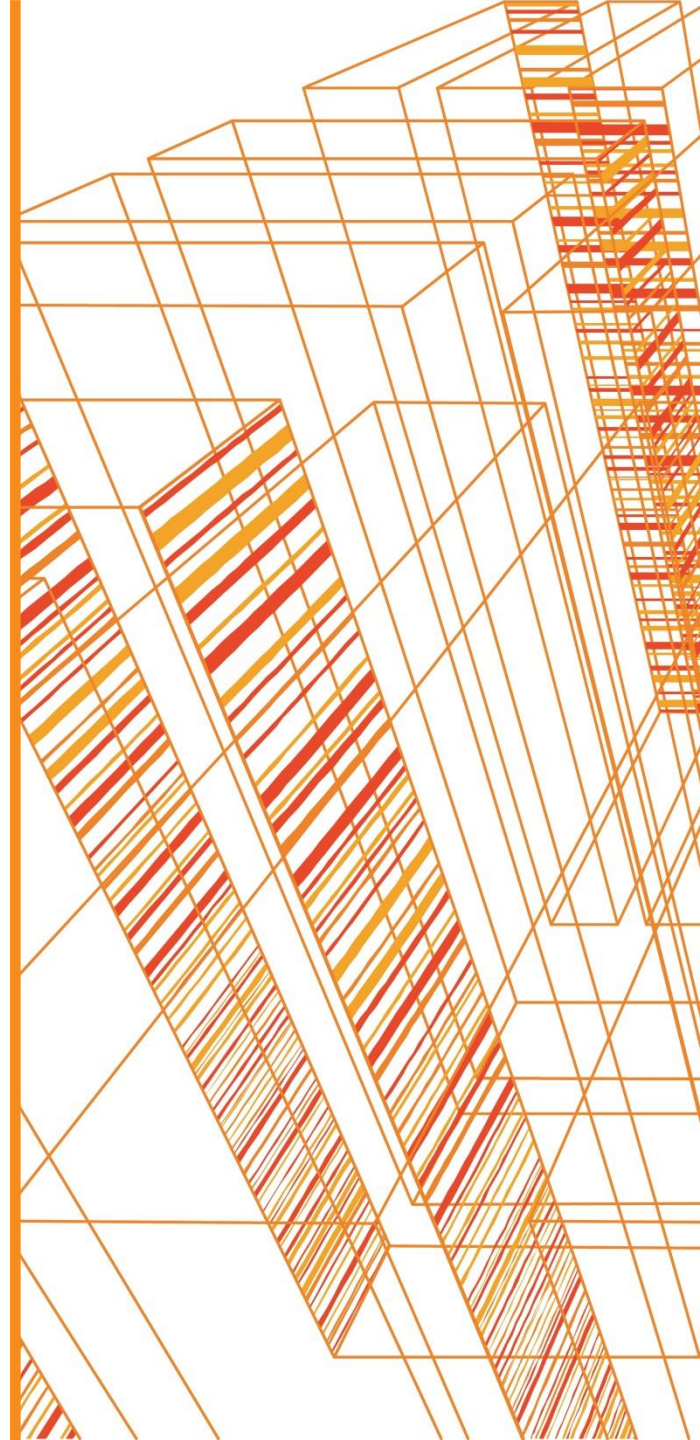


\*Incremental effect

# Financial Performance

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Nikolay Ivanov – Chief Financial Officer



# Performance improved

EBITDA reached \$1,542m, up 7.2% from \$1,438m in 2015, driving the EBITDA margin from 16.4% to 20.0% due to numerous improvement initiatives and more favourable market conditions

## Steel

- The Steel segment's EBITDA fell amid negative steel price trends and a reduction in sales volumes. This was partly offset by the effects of cost-cutting initiatives, as well as lower expenses in US dollar terms due to rouble depreciation

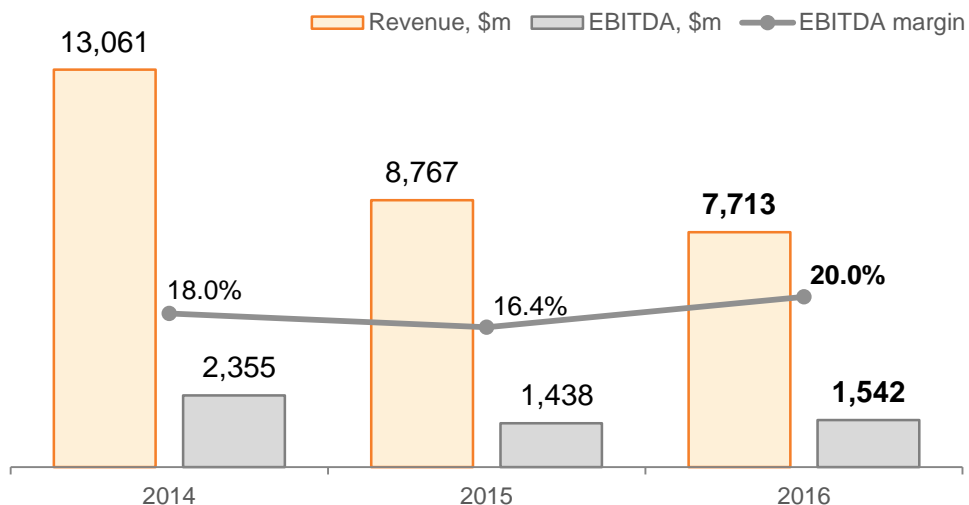
## Coal

- The Coal segment's EBITDA up 83.5% YoY on the back of higher sales prices and volumes, accompanied by the effects of cost-cutting initiatives and rouble depreciation with EBITDA margin reaching 48.7% in 2016

## Steel, NA

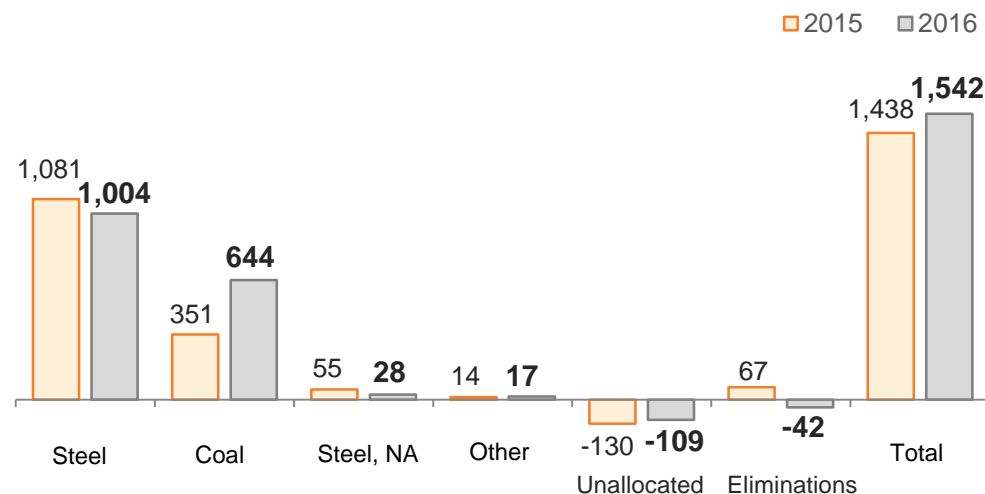
- The Steel, North America segment's EBITDA was impacted by lower sales volumes and prices, stemming from a downturn in the OCTG and rail markets

## Financial performance 2014 – 2016



Source: Company information

## EBITDA by segment, \$m

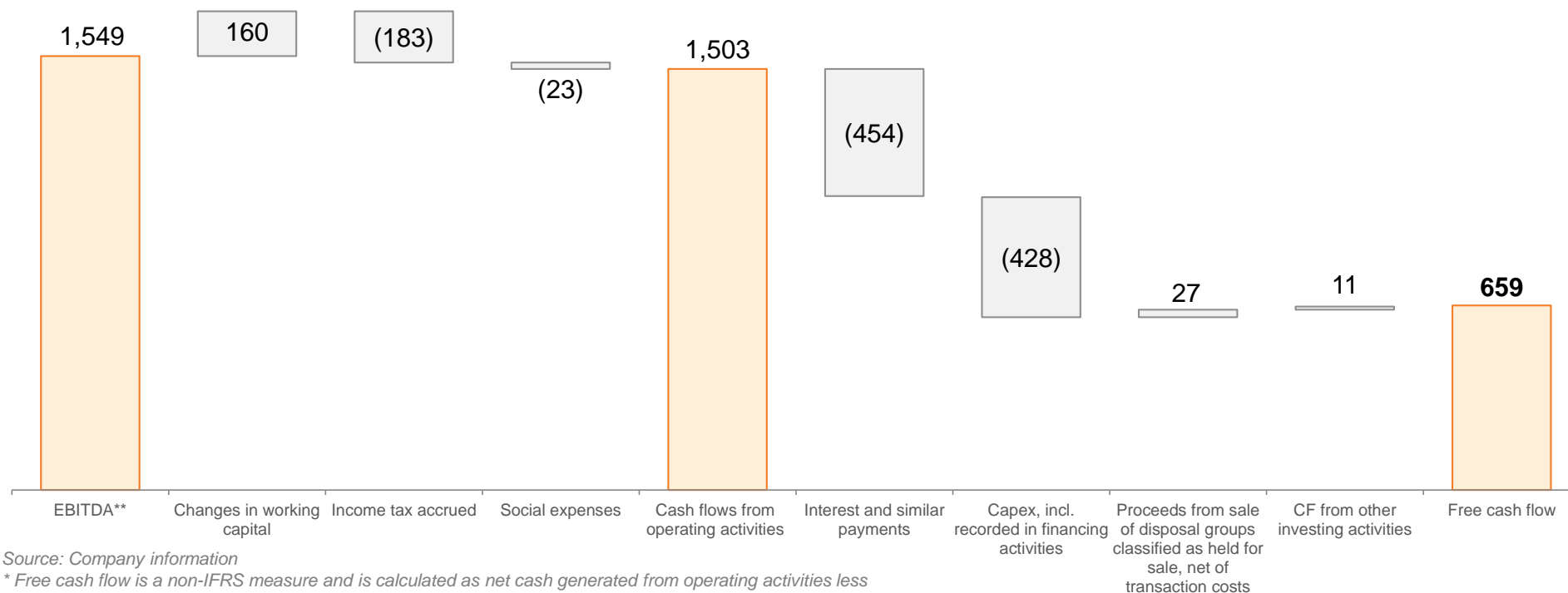


Source: Company information

# FY 2016 FCF generation

- Free cash flow for the period is a positive \$659m
- Net cash flow from operating activities contracted to \$1,503m in 2016 from \$1,622m in 2015 mainly due to lower release in working capital

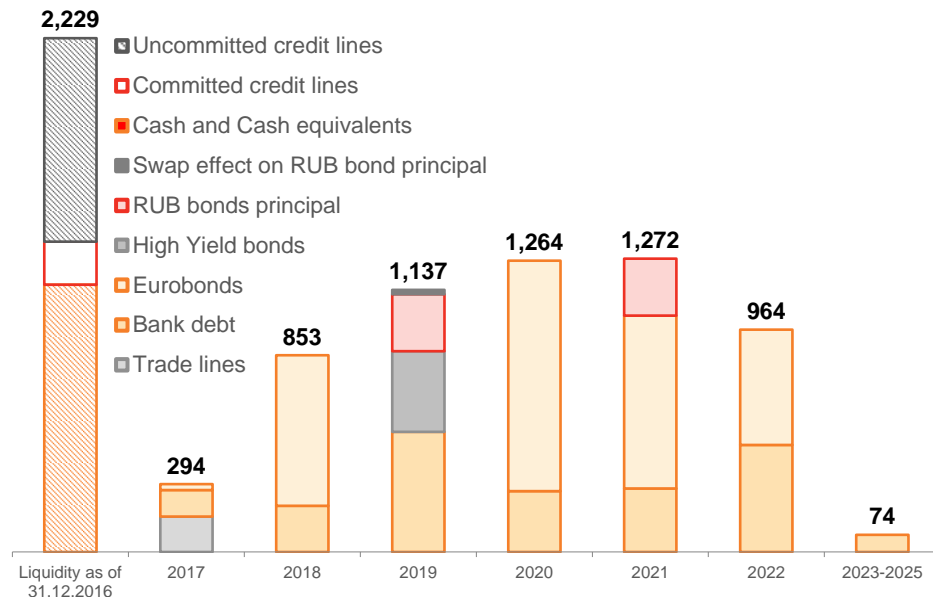
## EBITDA bridge to Free cash flow\* in 2016, \$m



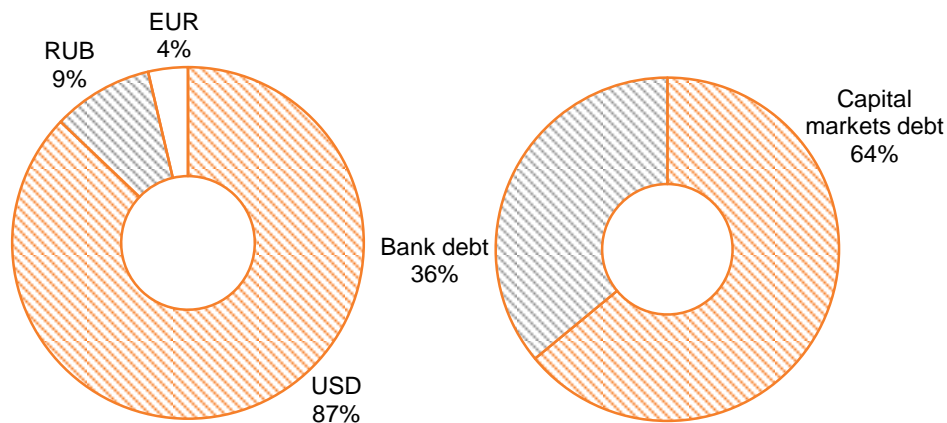
# Debt management

- Total debt was reduced by \$763m to \$5,961m via scheduled debt repayments and liability management initiatives
- RUB15 billion (c.\$221m) 12.60% bonds due in 2021 were issued in March
- \$500m 6.75% Eurobonds due 2022 were issued in June, effectively moving 2017-2018 maturities to 2022
- EVRAZ partly repurchased during two tender offers (in April and June), and from the open market:
  - \$496m of the outstanding principal of 2018 Eurobonds
  - \$160m of Raspadskaya's Eurobonds, and
  - \$109m of 2017 Eurobonds
- The remaining \$177m principal of 2017 Eurobonds was called in full and settled in August
- Liquidity remained solid with \$1,157m in cash and equivalents

## Maturity profile as of 31.12.2016\*, \$m



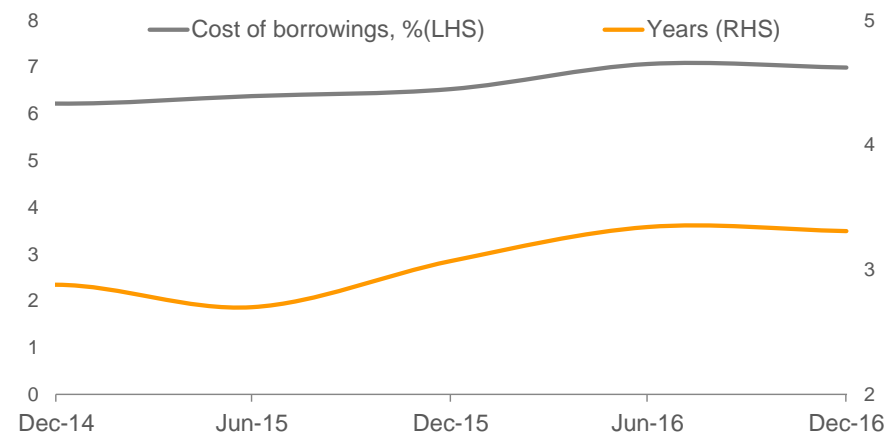
## Debt structure, %



Source: Company information

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

## Weighted average maturity and cost of borrowings

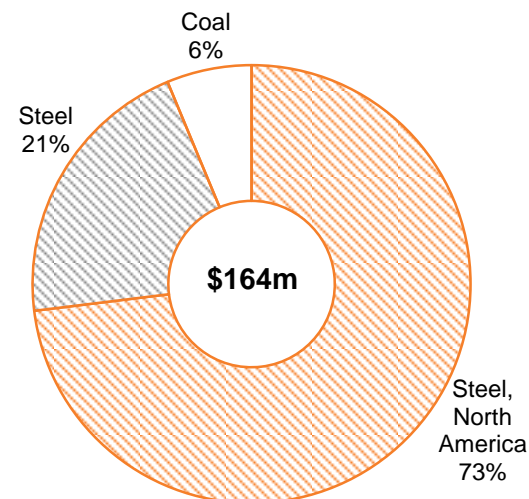




# Development CAPEX

- Over the last five years EVRAZ completed a substantial investment programme
- EVRAZ made good progress with the construction of an LDP mill at Regina, which should underpin its leadership position in LDP in 2017
- The Mezhegey coal mine project launched in Q2 2016 and is now ramping up production volumes
- EVRAZ NTMK continued implementing its grinding ball mill construction project and also started implementing the Blast Furnace 7 project

Development CAPEX breakdown by segments, \$m



Source: Company information

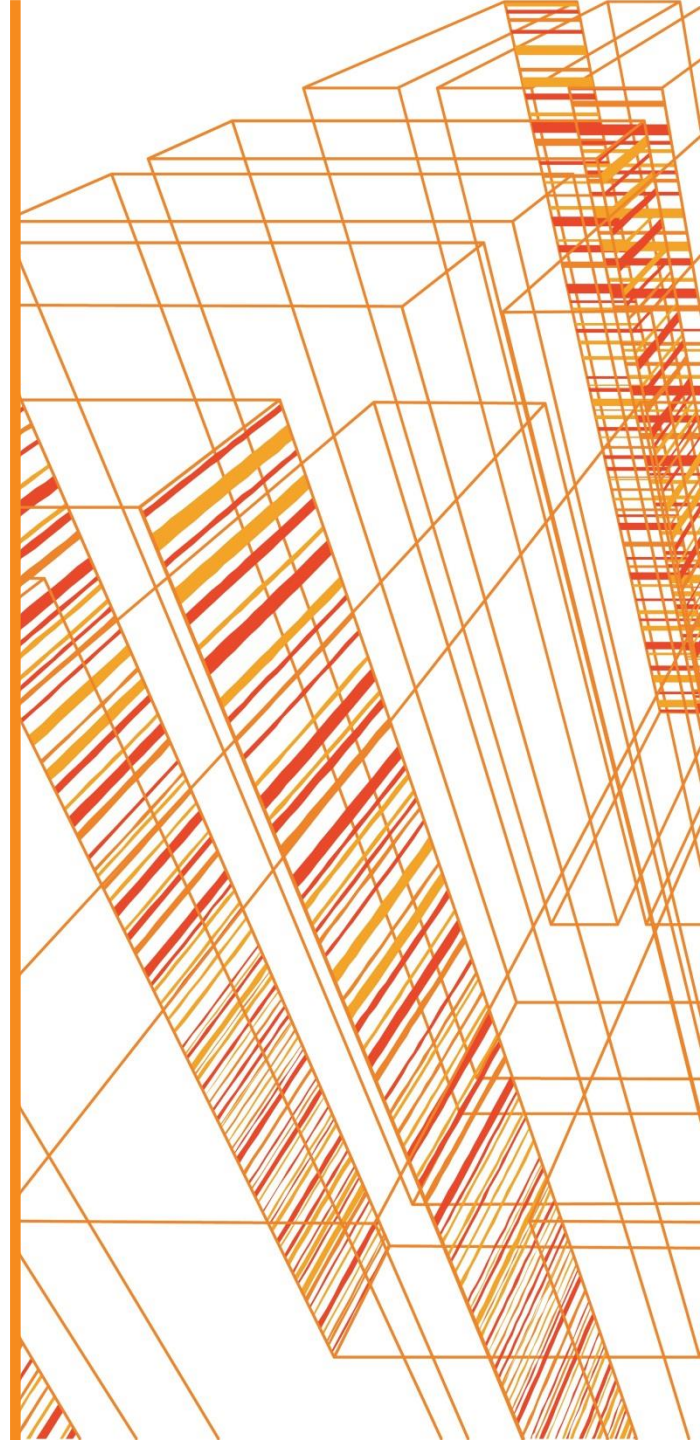
## Development CAPEX breakdown by key projects

| Projects                                     | Effect   | Launch year | Total, \$m | FY2016, \$m |
|--|--|-------------|------------|-------------|
| Steel mill upgrade (EVRAZ Regina)            | Improved steel quality, increased capacity for casting by 110kt and rolling by 250kt             | 2017        | 147        | 82          |
| Construction of an LDP mill (EVRAZ Regina)   | Additional capacity of 150kt of tubular products   | 2017        | 73         | 24          |
| Construction of Blast Furnace 7 (EVRAZ NTMK) | Stable production of pig iron at EVRAZ NTMK at 5mt per year                                      | 2018        | 191        | 10          |
| Iron ore mine capacity expansion (Sheregesh) | Decreased costs at Sheregesh mine by c.50% and increased iron ore self-sufficiency at EVRAZ ZSMK | 2015        | 76         | 5           |
| Grinding ball mill construction (EVRAZ NTMK) | Increased ball production to 300kt   | 2018        | 17         | 2           |
| <b>Total</b>                                 |  |             | <b>504</b> | <b>123</b>  |

Source: Company information

# Looking Forward

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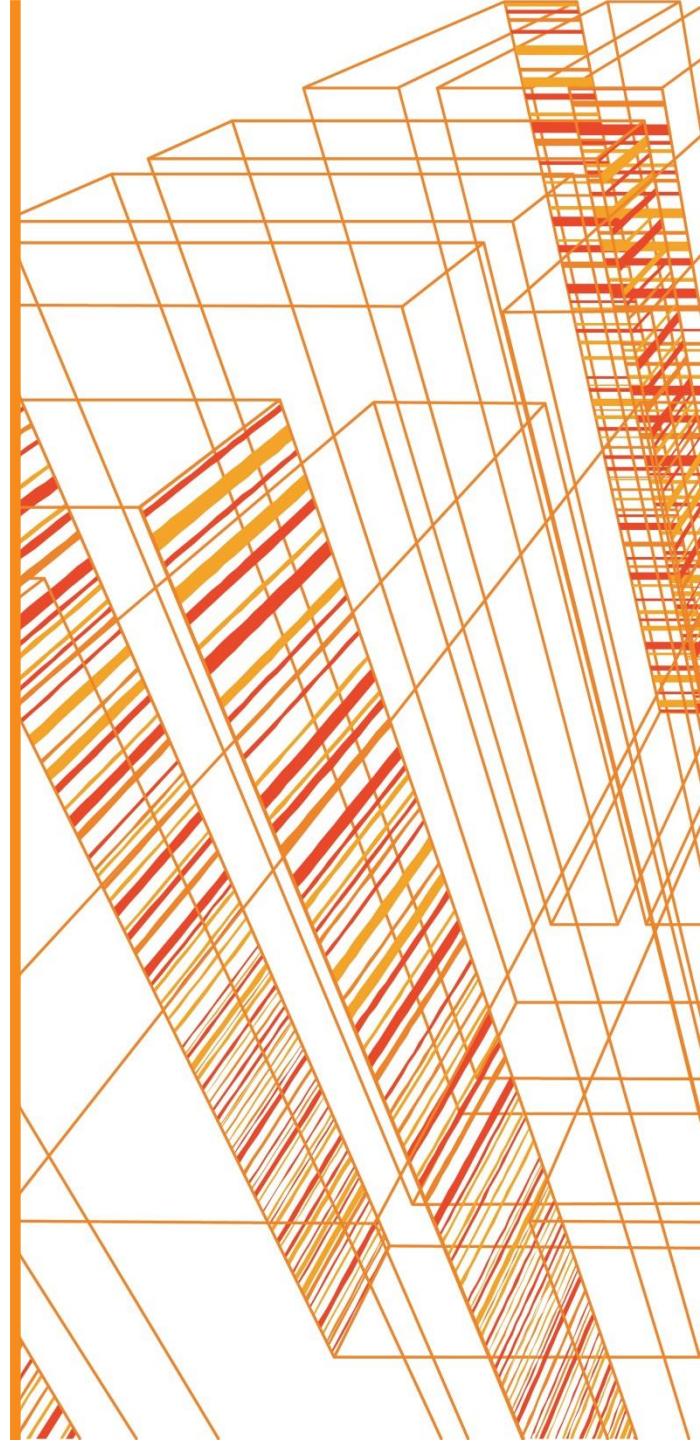
## Looking forward

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- While market sentiment is positive, our outlook remains cautious. Key risks include the pace of steel capacity optimisation in China and the general health of the country's economy
- To ensure our competitiveness, we remain vigilant in our cost control. We expect to keep the current pace of cost improvements with cost-cutting programme EBITDA effect of at least 2-3% of COGS per annum
- As we continue to focus on being cash positive and further deleveraging, our capital expenditures will be maintained at the moderate level required for the safe and efficient running of the Group's operations

# Operational update

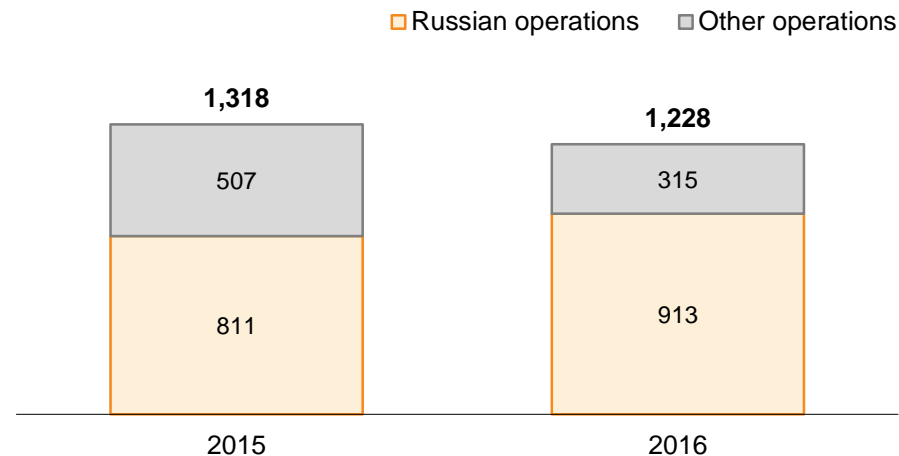
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# Significant presence in the Russian rail market

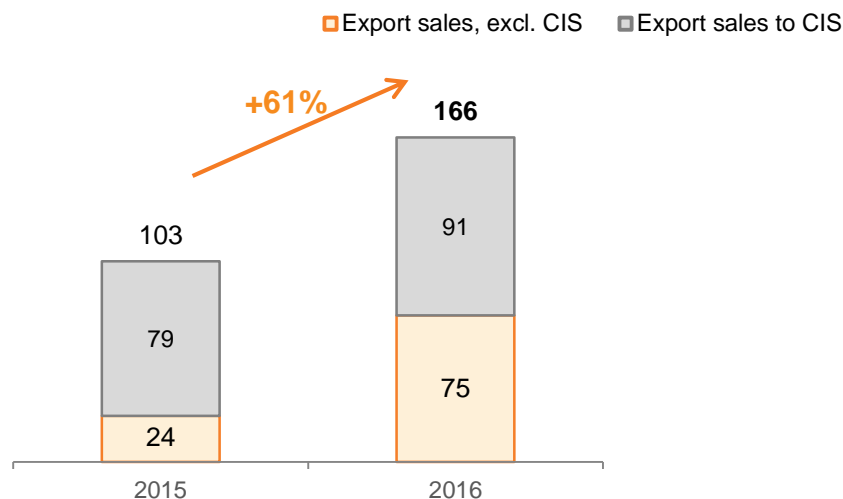
- Rail consumption in Russia reached 1.1mt in 2016, up 52% from 690kt in 2015, mainly driven by increased demand from Russian Railways
- EVRAZ remained the core supplier to Russian Railways
  - sales to RZD up 7% to reach 676kt vs 632kt in 2015
- EVRAZ continued to develop export shipments which were increased by 61% to reach 166kt of rails sales
  - significantly increased presence in the rail export market with new markets in South America and Asia
- EVRAZ remained the leader in Russian rail production with a 72% market share in 2016, having increased its production to meet the demand from the main customer

EVRAZ' rail shipments, kt



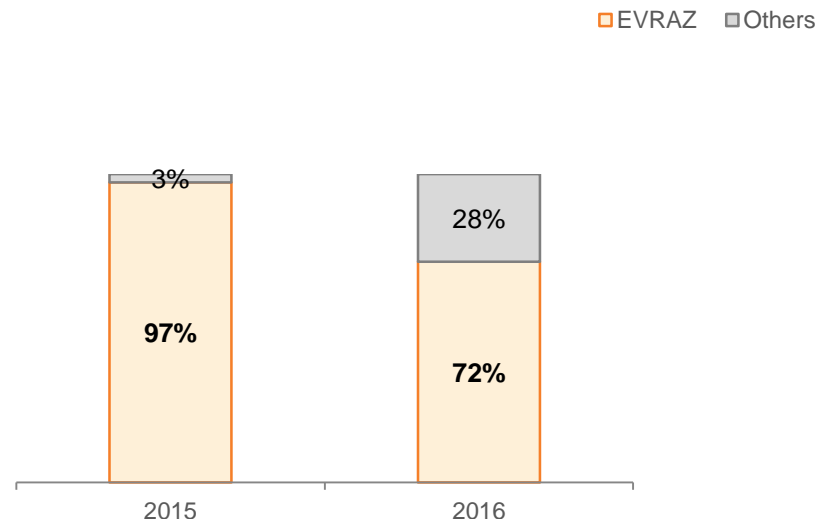
Source: Company information

EVRAZ' export sales of rails from Russia, kt



Source: Company information

EVRAZ' market shares in Russia, %

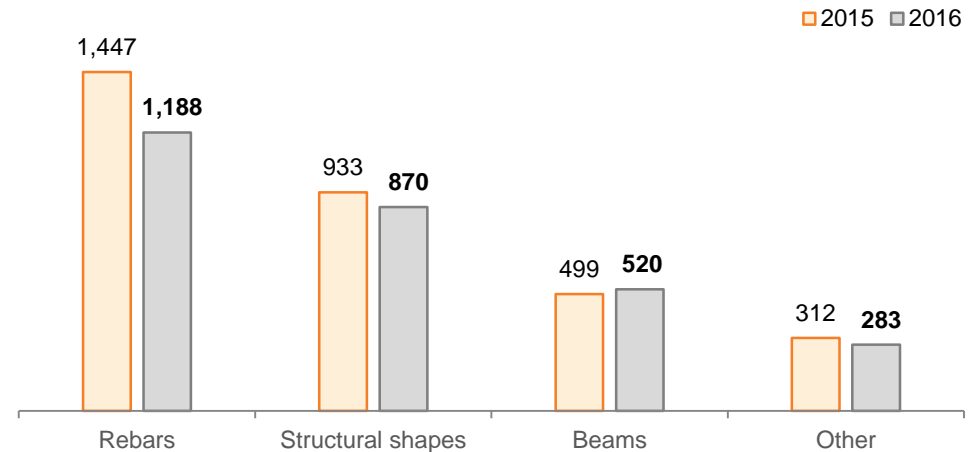


Source: Company information

# Construction steel: robust market position in Russia

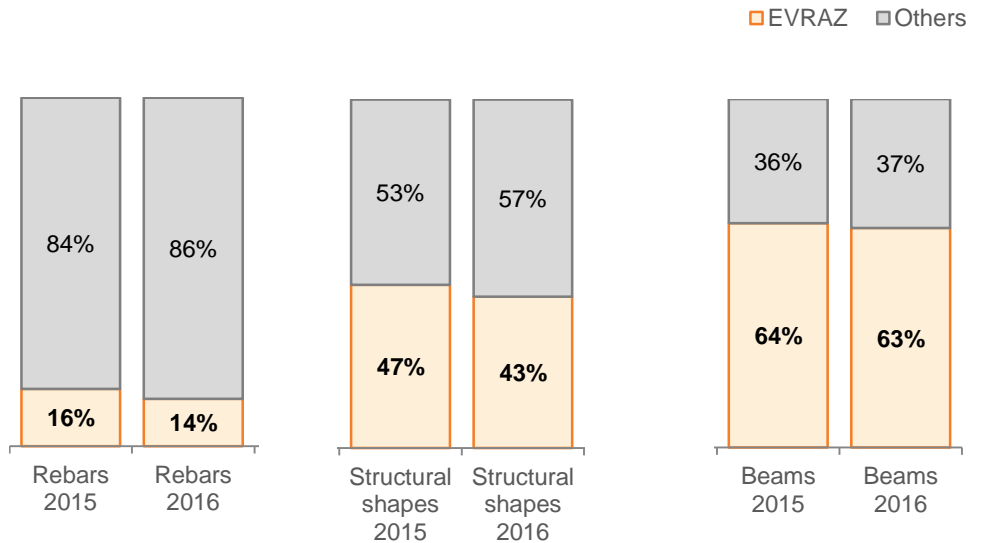
- Despite slower domestic shipments during the year, the Group sustained its strong positions in key high-value-added product segments. Domestic beam market share held stable at 63%
- The price-over-volume strategy helped to increase profitability of rebar sales despite a slight decrease in market size and share
- Construction products sales volumes declined mainly due to lower demand
- Beam sales increased by 4% YoY thanks to portfolio development

EVRAZ' construction steel sales volumes in Russia, kt



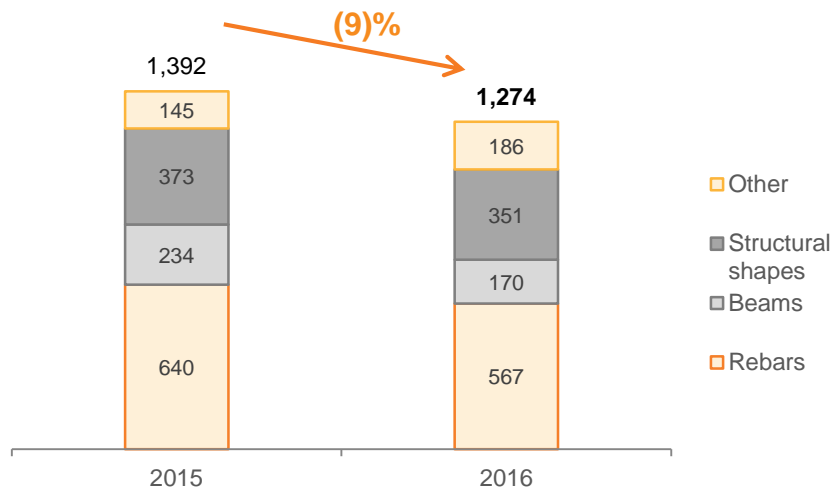
Source: Company information

EVRAZ' market shares in Russia, %



Source: Metal Expert, Company information

EVRAZ' export sales \*, kt



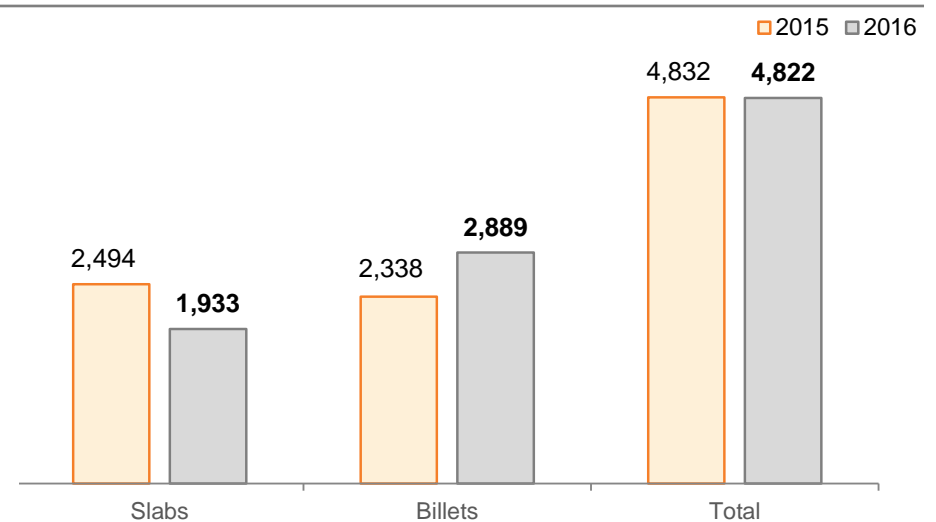
Source: Company information

\*Structural shapes (structural) are angles and channels

# Semi-finished steel

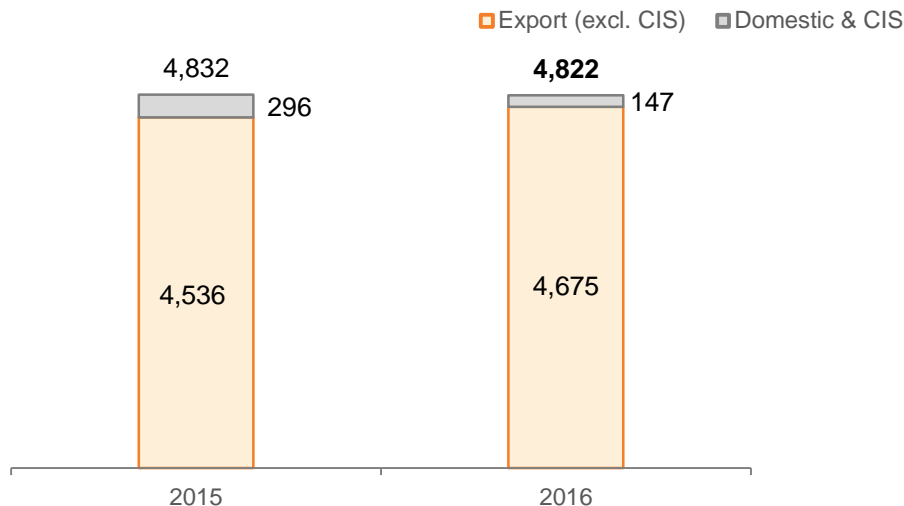
- EVRAZ has substantially increased value-added slabs and billets sales to the domestic and export markets with average premium of \$10-12/t to base grade margin
- Lower total slab sales volumes (mainly to the Russian and European markets) were partially offset by increased billet shipments to Africa
- Cash costs of semi-finished products totalled US\$185/t in 2016, down by 4.7% from US\$195/t in 2015 due to operational improvements, volume stability and product mix optimisation

Sales volumes of slabs & billets, kt



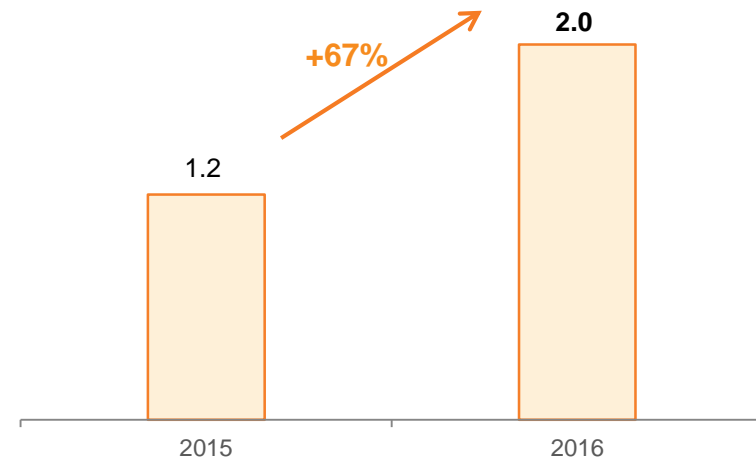
Source: Company information

Sales volumes of slabs & billets by region, kt



Source: Company information

Value-added semi-finished products sales, mt

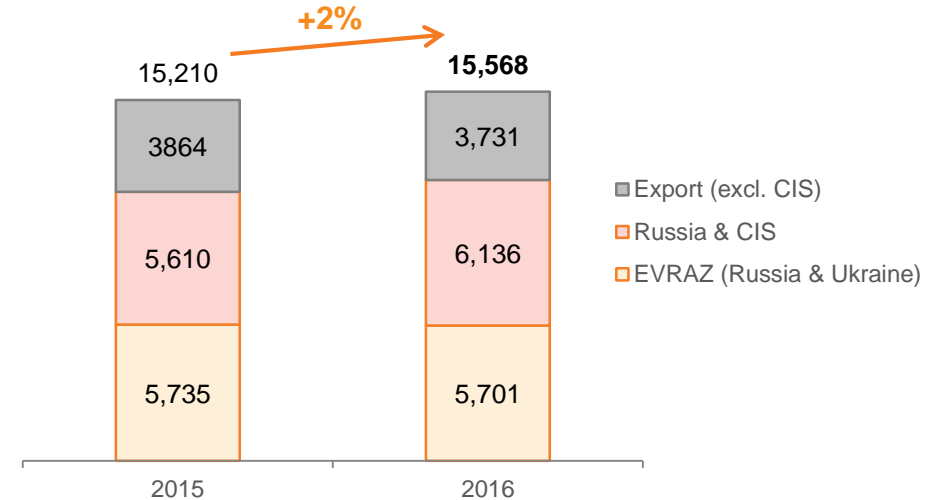


Source: Company information

# Russia's largest coking coal producer

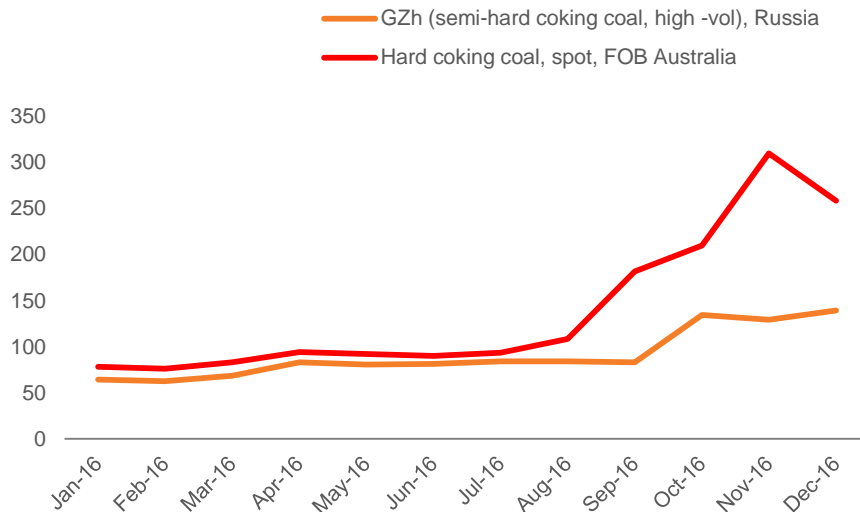
- Overall revenues in the segment increased in 2016, due to the recovery of global demand
- Local coking coal prices improved in 2016, driven by global benchmark trends
- EVRAZ maintained its leading position with 33% market share in high-volatile hard-coking coal grades
- The Group's coal sales to Ukraine increased by 42% to 2.0mt, while sales to premium Asian markets totalled 2.6mt
- A customer focused initiative to switch to formula-based contracts with domestic clients enabled EVRAZ to benefit from the surge in global coking prices during the year

Coal products sales by market, kt



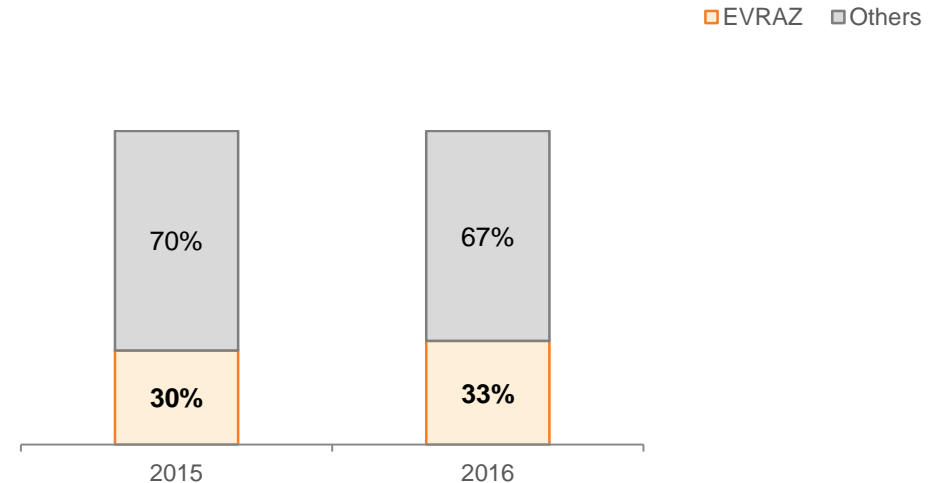
Source: Company information

Local coking coal price vs export benchmark, \$/t



Source: Company information

EVRAZ' market shares in Russia, %



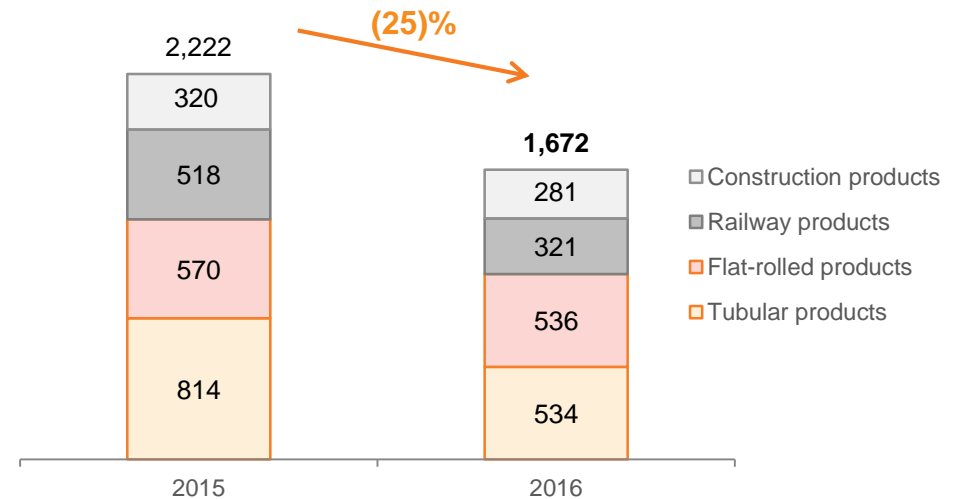
Source: Metal Expert, Company information  
\* Hard coking coal high-volatile



# Leading market positions in LDP & rail in North America

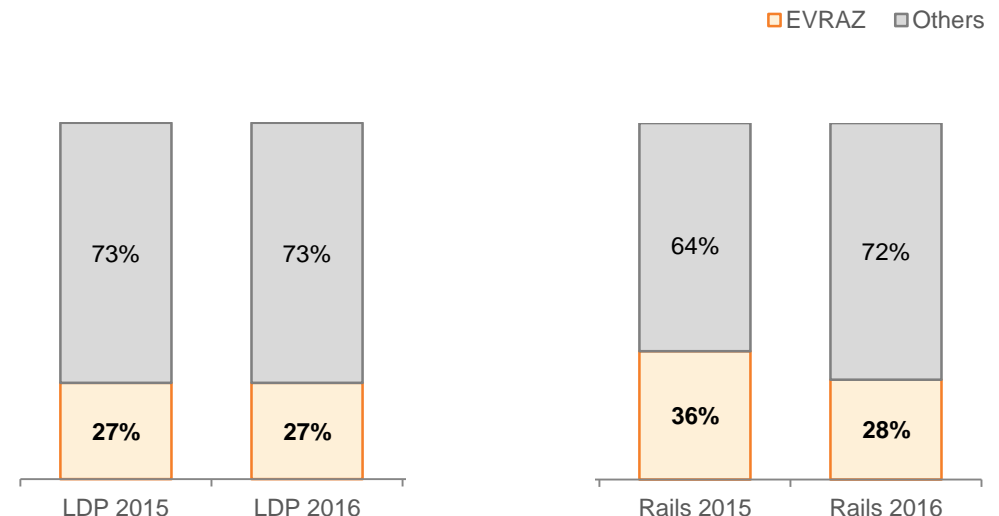
- Despite fairly strong large-diameter pipe (LDP) market fundamentals during the reporting period, demand fell to 1.1 mt from 1.5 mt in 2015 because of pipeline project delays
  - EVRAZ LDP sales volumes declined 16% to 305kt
- EVRAZ obtained a favourable ruling in the trade case it brought in Canada against imports of LDP from China and Japan, which should result in a more favorable pricing environment
- In 2016, the Group completed the construction of an LDP mill at Regina, which should underpin its leadership position in LDP in 2017
- North American rails market was negatively influenced by low activity in the oil and coal industries, as well as the moderate CAPEX outlays from Class-I railroad
  - EVRAZ sold 321kt of railway products in 2016, down by 38% from 518 kt in 2015, amid lower demand from major customers
- EVRAZ North America maintained its leadership in rails and LDP during 2016 with market shares of roughly 28% by volume and 27%, respectively
- EVRAZ North America's steel product sales volumes fell by 24.8% from 2.2mt in 2015 to 1.7mt in 2016 due to market headwinds

EVRAZ' steel products sales in North America in 2016, kt



Source: Company information

EVRAZ' market shares in North America, %



Source: Company information



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