Analyst Site Visit: EVRAZ Ukraine

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EVRAZ Ukraine assets

- **EVRAZ Sukha Balka** iron ore underground mine (Krivoy Rog)
  - Yubileynaya mine: productivity - 2.2 Mtpa; reserves - 65 Mt
  - Frunze mine: productivity - 1.1 Mtpa; reserves - 20 Mt
  - Potential productivity: 3.8 Mtpa of raw ore

- **EVRAZ DMZP steel mill**
  Dnepropetrovsk Integrated steelworks (includes a coke chemical plant)
  - Production in 2011:
    - Hot metal: 860 kt
    - Steel: 870 kt
    - Rolled steel: 800 kt
    - Coke: 500 kt
  - Current product portfolio:
    - Pig iron: 70 kt
    - Billets: 205 kt
    - Construction sections: 480 kt
    - Crane rails: 40 kt
    - Other: 10 kt

- **EVRAZ Bagleykoks** (Dneprodzerzhinsk)
  - Coke productivity: 780 ktpa
  - Average capacity utilisation in 2011: 70%
  - Coke was sold to market
Strategic rationale

- Ukraine is one of the best places to make steel
- EVRAZ Ukrainian steel business has all potential to create significant value.
  Advantages/disadvantages vs. EVRAZ ZSMK:
  - $70 per tonne of steel to revenue due to proximity to the markets
  - $35 per tonne of hot metal to revenue due to cost of iron ore
  - ($21) loss per tonne of hot metal due to price of natural gas (can be eliminated through PCI)
  - ($62) loss per tonne of hot metal due to high coke consumption (can be eliminated through improved coke quality, screening of iron ore fines, PCI and oxygen enrichment in blast furnace)
- EVRAZ DMZP business model is potentially attractive due to high prices for rolled products and low prices of iron ore
- Existing disadvantages can be eliminated via investment projects
EVRAZ Ukraine financial performance

- EVRAZ Ukraine has been a profitable business since its acquisition in late 2007:
  - EVRAZ Sukha Balka has been the key contributor to EVRAZ Ukraine EBITDA
  - EVRAZ DMZP has been the weakest part historically
EVRAZ Ukraine EBITDA H1 2012 vs. H1 2011

- **Main market developments:**
  - Further consolidation of steel industry in Ukraine
  - Excess of coke production capacity over demand in Ukraine
  - Stagnant coke/pig iron production in Ukraine (pig iron +2%; coke -1% vs. H1 2011)

- **Major negative factors:**
  - DMZP: export prices for construction products (channels) decreased by 4%
  - Bagleykoks: coke prices decreased by 35% (from $332/t to $214/t)
  - DKHZ: coke prices decreased by 22% (from $332/t to $260/t)
  - Sukha Balka: iron ore prices declined by 12%:
    - export (Fe60) from $74/t to $69/t
    - Ukraine (Fe56) from $66/t to $52/t

**EBITDA EVRAZ Ukraine, $m**

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<th>EBITDA H1 2011</th>
<th>DMZP</th>
<th>Bagleykoks</th>
<th>DKHZ</th>
<th>Sukha Balka</th>
<th>Other</th>
<th>EBITDA H1 2012</th>
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Strategic vision

- **EVRAZ Sukha Balka iron ore mine:**
  - Safety is the key focus
  - No major breakthroughs, stable to moderately higher production at 3.7 – 3.8 Mtpa of raw iron ore
  - Achieve higher productivity through operational and low cost improvements

- **EVRAZ DMZP steel mill:**
  - Eliminate fundamental operational inefficiencies focusing primarily on hot end (preparation of raw materials, stable operation of blast furnaces)
  - Staged investment programme
  - Stage 1: better capacity utilisation, no market risk implied, NPV of $400+m with total capex of $120-130m
  - Stage 2: maximum capacity utilisation; further investments into basic cost cutting initiatives, NPV $300m with total capex of $150m

- **EVRAZ Bagleykoks coke plant:**
  - Processor of EVRAZ excess Russian coal with access to attractive export markets
  - Creation of a more efficient business model integrated with EVRAZ Russian growing coal mining to ensure stable sale of coal
  - Realising natural cost advantage of EVRAZ Russian coal through an efficient integration of Ukrainian coke making with Russian coal mining
DMZP investment programme expected to add about US$100 million to our EBITDA

Starting from 2015 EBITDA is expected up to US$200 million assuming current market pricing is intact