Building competitive vertical integration in iron ore

Goldman Sachs Metals, Mining & Steel Conference
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One of the world’s largest vertically integrated steel and mining companies

Map of EVRAZ operations

- Top-20 steel producer in the world based on crude steel production
- Leader in Russian and CIS construction steel products
- Global leader in railway product markets
- No 1 producer of rails and large diameter pipes in North America
- Listed in the London Stock Exchange; constituent of the FTSE 250 index
- EVRAZ employs more than 90,000 people

Key operational indicators, mtpa

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>1H 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Steel Production</td>
<td>16.1</td>
<td>7.8</td>
</tr>
<tr>
<td>Iron ore (1)</td>
<td>20.1</td>
<td>8.1</td>
</tr>
<tr>
<td>Self-coverage in iron ore</td>
<td>95%</td>
<td>77%</td>
</tr>
<tr>
<td>Raw coking coal</td>
<td>18.9</td>
<td>9.8</td>
</tr>
<tr>
<td>Self-coverage in coking coal</td>
<td>169%</td>
<td>171%</td>
</tr>
</tbody>
</table>

Key financial indicators, $m (IFRS)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>1H 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>14,411</td>
<td>6,805</td>
</tr>
<tr>
<td>EBITDA (2)</td>
<td>1,821</td>
<td>1,080</td>
</tr>
<tr>
<td>Dividends paid</td>
<td></td>
<td>90.4</td>
</tr>
<tr>
<td>Net debt (3)</td>
<td>6,534</td>
<td>6,095</td>
</tr>
</tbody>
</table>

(1) Total EVRAZ’s Iron ore saleable products
(2) EBITDA represents profit from operations plus depreciation and amortization, impairment of assets, loss (gain) on disposal of PP&E and foreign exchange loss (gain)
(3) Net Debt represents long-term loans, net of current portion, plus short-term loans and current portion of long term loans less cash and cash equivalents (excluding restricted deposits).
Cautious view on global iron ore market prospects

- Long-term outlook is conservative as market fundamentals are changing
  - China steel production could be close to peak
  - Flattening of global cost curve due to new low cost capacities entering and high cost mines shutting down

- EVRAZ anticipated smoother transition to the new reality – the 2014 year iron ore price dynamics was surprisingly weak

- However, current expectations comprehend possibility of short-term price fall to $50-60/t levels (due to tactical reasons)

- Long-term price forecast $90-100/t

Source: CRU, IB Consensus, EVRAZ analysis
Vertical integration in Russia

- Fundamentally the best production model for integrated steel mills is to have resources nearby.
- That’s how Russian steelmaking capacities were built during the Soviet time: iron ore and steelmaking facilities were set in clusters.
- As a result, Russian steelmaking companies are usually vertically integrated in iron ore.
- Non-integrated iron ore market is limited.

**Iron ore self-coverage, 2014E**

<table>
<thead>
<tr>
<th>Company</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>OEMK (Metalloinvest)</td>
<td>&gt;100%</td>
</tr>
<tr>
<td>Ural Steel (Metalloinvest)</td>
<td>&gt;100%</td>
</tr>
<tr>
<td>CherMK (Severstal)</td>
<td>&gt;100%</td>
</tr>
<tr>
<td>NLMK</td>
<td>87%</td>
</tr>
<tr>
<td>ERVAZ</td>
<td>74%</td>
</tr>
<tr>
<td>Mechel</td>
<td>61%</td>
</tr>
<tr>
<td>MMK (SSGPO)</td>
<td>15%</td>
</tr>
</tbody>
</table>

**Main Russian vertically integrated metallurgical clusters**

Legend:
- Metallurgical plant
- Iron ore deposit
Interrelation of prices on global and local markets

- Russia is a net exporter of iron ore (18 mtpa in 2013, 17% of total production)
- In the environment of high prices in 2007-2013 local market prices were determined by export parity
- Under the condition of anticipated relatively low prices in the global market, the price in the domestic market will be supported by the local cost curve as imports of iron ore are unattractive due to high transportation costs inside Russia

Difference between import and export parity is at least $60/t

Potential transportation cost:
- Domestic iron ore producer
- Average transportation cost in Russia 15 $/t
- Steel plant
- Average transportation cost for import 30-40 $/t
- Global iron ore market
- Average transportation cost for export 30-40 $/t

Russian iron ore concentrate producers’ cost curve

- Cash costs are 62% Fe equivalent

![Graph showing cost curves and transportation costs](attachment:graph.png)
EVRAZ iron ore business transition

- In 2012, EVRAZ had 4 iron ore assets (KGOK, Evrazruda, VGOK and Sukha Balka) with average cash cost of ~67$/t and total production of 19.0 mtpa.
- In 2013, EVRAZ started a restructuring program: disposal of high cost VGOK, a major turnaround program at Evrazruda and general operational efficiency improvements at all assets.
- In 2014, average cash costs reached ~50$/t with 15.9 mtpa of production.
- 2015 cost reduction is mainly due to ruble devaluation.
- Further development is associated with development of low cost open pit in Southern Yakutia (Timir).

**EVRAZ iron ore average cash cost, $/t EXW**

<table>
<thead>
<tr>
<th>Year</th>
<th>KGOK</th>
<th>Evrazruda</th>
<th>VGOK</th>
<th>Sukha Balka</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>67</td>
<td>63</td>
<td>50</td>
<td>40</td>
</tr>
<tr>
<td>2013</td>
<td>63</td>
<td>50</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>2014E</td>
<td>50</td>
<td>40</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>2015E</td>
<td>40</td>
<td>30</td>
<td>25</td>
<td></td>
</tr>
</tbody>
</table>

**Production of saleable iron ore products, kt**

<table>
<thead>
<tr>
<th>Year</th>
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<th>VGOK</th>
<th>Sukha Balka</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>9.7</td>
<td>9.8</td>
<td>9.8</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>10.1</td>
<td>10.1</td>
<td>10.1</td>
<td></td>
</tr>
<tr>
<td>2014E</td>
<td>10.1</td>
<td>10.1</td>
<td>10.1</td>
<td></td>
</tr>
<tr>
<td>2015E</td>
<td>10.1</td>
<td>10.1</td>
<td>10.1</td>
<td></td>
</tr>
</tbody>
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* In accordance with JORC as of 1 July 2013
** A+B+C1 reserves of Tayezhnoe deposit under Russian geological classification
*** Excluding Evrazruda’s production of concentrate from 3rd parties iron ore
EVRAZ KGOK: focus on preserving low cost positions

Main achievements

- Successfully delivered debottlenecking program, boosting crude ore production from 50 mtpa to 57 mtpa (vs. original target of 55 mtpa)
- Cost reduction initiatives:
  - 5% labor productivity improvement
  - Lower downtime through introduction of lean practices at repair shops and beneficiation plant

Key priorities

- Further cost cutting initiatives will be centered on:
  - Operational improvements in blasting, crushing and primary beneficiation
  - Energy efficiency
  - Labor productivity
  - Auxiliary materials

* Maintaining current operations, excludes development of Sobstvenno-Kachkanarskoye deposit
Evrazruda: a turnaround story

Main achievements

- Asset restructuring program completed:
  - 2013: 6 mines with span over 600 km, 2 beneficiation plants, 9,962 employees, 4.4 mtpa
  - Shutdown of a mine; divestment of 2 mines, a beneficiation plant and non-core assets
  - Today: a compact mining operation with 3 mines located within 180 km from EVRAZ ZSMK, one beneficiation plant, 5,600 employees, 4.2 mtpa capacity from H2 2014

Key priorities

- Major expansion project in Sheregesh mine completed in July 2014 adding 1.5 mtpa capacity with cash cost of $70/t

* Excluding production of concentrate from 3rd parties iron ore in 2014, 2015
Timir project

- JV between EVRAZ (51%) and Alrosa
- 680 mt reserves @ 40% Fe suitable for open pit mining
- Located within 5 km from the railway, motorway and power grid infrastructure
- 3mtpa mining capacity with stripping ratio of 1.1x
- Iron ore to be processed at Evrazruda’s beneficiation plant
- Capex c.$180m, cash costs of $70/t CPT EVRAZ ZSMK (exchange rate ~35 USD/RUB)
- Execution is subject to project finance availability

Project timeline

- 2013: JV with Alrosa
- 2014: Feasibility Study & engineering
- 2015: Start of construction works
- 2016: Start of mining
- 2017: 3 mtpa run of mine

Timir location

Legend:
- Metallurgical plant
- Iron ore deposit
- Iron ore greenfield
Summary

- Long-term outlook on global iron ore prices is conservative as market fundamentals are changing.

- Vertical integration in iron ore in Russia is vitally important for a steelmaking company.

- Price in the Russian market will be supported by the local cost curve, as imports of iron ore are unattractive due to high transportation costs inside the country.

- Disposal of high cost VGOK in 2013-2014 as well as a major turnaround program at Evrazruda reduced average costs from 67$/t in 2012 to 50$/t in 2014.

- Timir open pit greenfield is an option to reach 100% vertical integration during next 3-5 years.