

EVRAZ plc (EC Plus)

EVRAZ PLC 1H 2015 FINANCIAL RESULTS

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Speakers:

- Alexander Frolov, CEO
- Pavel Tatyatin, Senior Vice President and Head of International Business

Participants asking questions:

- Seth Rosenfeld, Jefferies
- Neri Tollardo, Morgan Stanley
- Sergey Donskoy, Societe Generale
- Nikolay Sosnovskiy, UBS
- Barry Ehrlich, Citibank
- Vladimir Sergievskiy, Barclays Capital
- Kay Hope, Bank of America
- Mikhail Priklonsky, Credit Suisse

Operator: Ladies and gentlemen, thank you for standing by and welcome to EVRAZ 1H 2015 financial results conference call. At this time, all participants are in the listen-only mode. There will be a presentation followed by a Q&A session, at which time if you wish to ask a question, you will need to press “*1” on your telephone keypad. I must advise you this conference is being recorded today, on Wednesday, 27 August 2015. I would now like to hand the conference over to your speaker today, Mr Alexander Frolov. Please, go ahead, sir.

Alexander Frolov: Dear ladies and gentlemen, I would like to welcome you to our conference call to discuss the financial and operating results of EVRAZ for 1H 2015. I hope you have had an opportunity to download the webcast presentation which is available on our website, EVRAZ.com, as we will be following it during the call. Traditionally, before I begin, I would like to remind everyone that the matters discussed on this call will include forward-looking statements that are subject to many factors, risks and uncertainties that are described in detail on the second page of the presentation. We undertake no obligation to update any forward-looking statements.

Today, Pavel Tatyatin, our CFO will join me on the call today. I will begin today’s presentation with a brief overview of our half-year results, followed by a strategic update. I will then turn the call over to Pavel, he will go through the results in a greater detail. Turning to 1H financials shown on slide 4, we reported EBITDA of USD 922 m, with a drop of 14.6% mainly due to weak markets in Russia and North America. Our consolidated EBITDA margin grew to 18.8% reflecting the results of our cost optimisation efforts. Our coal segment EBITDA showed a 10% increase reflecting positive effects of the weak rouble and our cost initiatives and shutdown or disposal of non-core steam coal operations.

I am also pleased to see the continuing positive free cash flow generation, and ongoing progress in net debt reduction. On the next slide I would like to draw your attention to health and safety, the Lost Time Injury Frequency Rate (LTIFR) in 1H 2015 was 1.93. It is higher y-o-y, but we think it reflects our continuous efforts

to increase transparency of our reporting. Number of fatalities is lower y-o-y, but our target remains the same: zero fatalities.

On slide 7, we present a short summary of our strategic priorities and the results achieved. Customer focus is one of the main areas of our attention. We have expanded our portfolio of high added-value products and we have reached new exports markets with our rails and wheels in 1H 2015. This year, we already achieved our additional EBITDA of USD 38 m as a result of our customer focus initiatives. Our full-year target here is USD 75 m. The fundamental part of our strategy is to remain a low-cost producer. We delivered USD 149 m of cost reduction in 1H 2015, and we expect to reach USD 280 m by year-end. As a result of a comprehensive review of the Company's investment programme, we are trying to keep our CAPEX at a relatively low level targeting USD 500 m for this year. Now, I will hand over this call to Pavel Tatyatin. Pavel, please.

Pavel Tatyatin: Thank you, Alexander. Good afternoon, everybody, and good morning to [those of you who are dialling from] the United States and Canada. On slide 9, where I am going to start, we show revenue analysis. As a result of a negative trend in steel pricing, which eventually led to a decline in Steel segment revenues, consolidated revenues dropped by 28% to USD 4,894 m. Steel segment revenues decreased in 1H 2015 largely due to a lower revenue from steel product sales, which declined by 32%. Revenues from sales of steel products were also impacted by changes in the Company's sales volume and product mix. The shift in the sales mix reflected higher sales of semi-finished products and lower sales of finished goods. Since production volumes of flat-rolled and railway products declined, EVRAZ switched some of the semi-finished goods produced for internal consumption to external sales. Revenues from the Steel North America segment fell by 21%, including a 22% decrease of revenue from sales of steel products. It was driven by a decline in prices, sales volumes and changing product mix. Notably, sales of tubular goods declined as a slowdown in drilling activity impacted demand for oil country tubular goods (OCTG).

Coal segment revenues fell as a result of lower sales prices and volumes. In 1H 2015, the Company decreased its production to make adjustments to production plans in response to weak market conditions.

Now, please turn to slide 10 to discuss our cost of revenue. Our cost cutting initiatives and Russian rouble devaluation positively impacted the Group's cost of revenue bringing it down by 31%. This was mostly due to a 32% fall in raw material costs impacted by lower iron ore and scrap costs and a 16% fall in staff costs reflecting the effect of the disposal and optimisation of assets, personnel optimisation programmes and the impact on cost of the Russian rouble and Ukrainian hryvna weakening.

Moving to slide 11. Here we show our EBITDA evolution and breakdown. We see a decline of 15% mostly attributable to our Steel and Steel North America segments. Steel segment EBITDA decreased y-o-y as a result of lower sales prices for steel products on export markets and in Russia and Ukraine, partially offset by a fall in expenses at Russian and Ukrainian subsidiaries in US dollar terms due to the depreciation of the local currencies. Lower prices for iron ore, coking coal and scrap, the deconsolidation of EVRAZ Highveld Steel and Vanadium and the disposal of EVRAZ Vitkovice Steel in 2014 – all had a positive effect on the segment's results. EBITDA from the Steel North America segment diminished, its contribution to the consolidated EBITDA was largely influenced by a downturn in the OCTG and flat-rolled product markets.

Coal segment EBITDA rose 10% reflecting the positive effects of the Russian rouble devaluation on costs, the implementation of the efficiency improvement programme, and asset optimisation at Yuzhkuzbassugol and the Rospadskaya coal company, which compensated the decline in coal product sales prices.

Let us turn to slide 12. As Alexander has already mentioned, we have managed to implement our efficiency savings plan, which resulted in USD 149 m savings with the main contributors being improvements in raw material consumption yields and in productivity, the energy efficiency programme, maintenance procedures, G&A expenses and asset optimisation. A fundamental part of our strategy is to remain a low-cost producer with simple and efficient operational processes.

On slide 13, I would like to take a moment to update you on our cash flow generation. Our net operating cash flow remains strong reaching relatively the same amount as in the last year. Free cash flow for the period was a positive USD 372 m. In April 2015, the Company completed a share buyback via a tender offer of 1.08 m ordinary shares for USD 3.10 per share. The total cash used amounted to USD 339 m.

Now, on slide 14, I would like to highlight our focus on continued debt reduction. Net debt was reduced to USD 5.7 bn with net leverage of 2.6x vs very similar 2.5x at year-end 2014.

Moving to slide 15. Now, proactive refinancing of short-term maturities and cost-efficient use of cash for total debt resulted in USD 229 m total debt reduction to the level of USD 6,679 m as at 30 June 2015. Importantly, cash on hand and committed credit facilities are sufficient to cover all of our refinancing needs for the remainder of 2015. Committed credit lines after the reporting date and cash drawn under the existing facilities that include rouble bond of RUB 15 bn and two bank loans along with cash drawdowns cover all our 2016 needs for debt repayment. Our debt structure is presented on slide 16. Our debt is mostly fixed rate with the average cost being generally stable at about 6.4% p.a. Average duration of our liabilities has been gradually falling, so our primary task will be extending our maturity profile. Our refinancing interest rates are very close to our weighted average cost of debt allowing us to stay flat in the cost of borrowing.

Going to slide 17, I would like to elaborate on CAPEX in our key projects. In 1H 2015, we continued to reduce our total expenditures due to devaluation, completion of capital-intensive projects, outlined in the table on the bottom right of the slide, as well as prudent capital management. So, our CAPEX as at 1H 2015 reached USD 251 m with investment CAPEX of USD 114 m and USD 137 m spent on maintenance.

Now, I would like to have a brief discussion of our segment performance. Please turn to slide 19. As Russia remains the core market for EVRAZ, Russian sales are experiencing some limitations. Russian demand for steel products dropped 8% in 1H 2015 to 19.7 mt altogether. In particular, consumption of rebars and construction profiles fell by 15% and 27%, respectively. Consumption of our rails decreased by just 2%. Russian steel production remains stable. In 1H 2015, as new EAF steelmaking facilities increased output, and export volumes of steel products rose 12% to reach 14.3 mt due to the rouble devaluation, which gave Russian producers a cost advantage over global peers. Russian steel prices came under pressure from the dynamics of the global steel market, slowing domestic consumption and currency fluctuations. In 1H 2015, construction and railway product prices decreased by 30% in US dollar terms y-o-y. In 1H 2015, EVRAZ demonstrated a greater flexibility in reallocating volumes from the Russian to export markets maintaining production levels and helping to increase profitability margins. Export shipments increased to 54% of the total sales in the period from 42% in 1H 2014. Despite the rise in export volumes, the Company's market share in Russia remained at 23% in 1H 2015, unchanged y-o-y. Crude steel output at EVRAZ's Russian steel mills was largely unchanged in 1H 2015 reaching 5.8 mt. Revenue from external steel product sales in Russia decreased by 43% y-o-y mainly due to lower prices, while sales volumes fell by 21%.

Please, also have a look at slide 20 for the sales mix of our external steel sales in more detail. Moving on to iron ore on slide 21. Russian iron ore production was stable in 1H 2015. Output of saleable iron ore concentrate totalled 26 mt, while that of pellets rose by 3% to 16.2 mt. In 1H 2015, EVRAZ consumed 90% of its iron ore products internally, so only 10% was really exposed to market fluctuations. 64%, or around 2/3 of our iron ore consumption was supplied by the Group's own operations. While domestic iron ore prices denominated in roubles remained stable due to the currency devaluation, prices in US dollars declined by 40%. Despite that decline, EVRAZ's iron ore business remains free cash flow positive due to its beneficial cost position. Our cash cost of iron ore products is USD 31 per tonne vs USD 48 a year ago, and we believe that vertical integration still remains value-creating, reducing our overall Steel segment costs.

Slide 22 speaks about our Coal segment. Overall revenues in the segment decreased amid a reduction in sales prices due to a sluggish demand and lower coal prices globally as well as a higher output in other coal-exporting countries. Sales volumes also decreased, as the Company mined less raw coal due to optimisation of the production programme. While steam coal mines that we used to own have been closed or sold, sales volumes of coking coal concentrate increased by 6%. Cash cost of coking coal concentrate dropped from USD 55 to USD 32 in 1H 2015. The decrease in the internal coal consumption resulted from the shutdown of two coke batteries and a greater use of the launched PCI plant, [so] we managed to ship more to our customers.

In 1H 2015, the Coal segment sales to Steel segment amounted to 210 mt, or 39% of sales vs 280 mt or 39.5% in 1H 2014. EVRAZ's steel mills remain the largest buyers of our coal, while 2/3 of our coal are sold externally. In the reporting period, around 78% of the coking coal consumed by EVRAZ's steelmaking operations came from its own operations vs 73% in 1H 2014.

Please go to page 23 to Steel North America segment. Steel North America is a segment which includes production of steel and steel products in the USA and Canada. EVRAZ remains the leading producer of large-diameter pipes and rails in the North America with the market share of 50% and 40%, respectively. Over the next 3–5 years, we expect the large-diameter pipe market to continue to expand from the current 0.8 mt p.a. to 1.7 mt p.a. due to the upcoming pipeline of major gas exploration projects in Western Canada and the upcoming pipeline of gas and oil transmission line projects in Western Canada and the USA. In addition, the rail market should be supported by the ambitious Class I railway corporate investment project plans.

The performance of our large-diameter pipe (LDP) and OCTG segments diverged significantly in 1H 2015. For LDP, volumes strengthened as mid-stream infrastructure companies initiated new projects to satisfy demand from energy producers seeking lower-cost access to markets. For OCTG, the rapid decline in drilling activities stemming from lower oil prices and higher inventories of distributors forced EVRAZ to curtail a significant part of its OCTG operations in Canada and Colorado, US. Revenues of the Steel North America segment decreased by 21% to USD 1.25 bn vs USD 1.58 bn a year before driven primarily by OCTG sales.

Finally, looking at slides 24–25, I would like to say a few words on our 2015 outlook. Main points here are as follows. Our results will continue to be affected by weak global steel and raw material markets and current volatility. We expect a moderate decline in demand for our steel products due to the reduced investment activity in Russia. China's weakening demand and recent FX devaluation should further impact pricing in Chinese export's competitiveness. Our outlook for North America remains stable with the key focus on LD pipes and rails. Importantly, EVRAZ continues to expect positive free cash flow and hence,

progress towards further reducing net debt in absolute terms. With this, I would like to thank you for listening to our presentation, and we are now ready to take your questions. Thank you!

Operator: Thank you. Ladies and gentlemen, as a reminder, if you wish to ask a question please press “*” followed by “1” on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the “#” key. And your first question comes from the line of Set Rosenfeld. Please, ask your question.

Set Rosenfeld: Hi. This is Seth Rosenfeld at Jefferies. I have a couple of questions on your Russian business. Could you give a bit more colour on the margins you are seeing in your Russian export sales. As of the beginning of this year, I think, you mentioned exports were surprisingly high-margin – perhaps, comparable to your domestic sales. But, I assume, they have come under of quite a bit of pressure, given the fall in the Chinese export prices. Can you just confirm what sort of margins you are seeing on your exports – at least, relative to your domestic sales? And then a follow-up on what you mentioned earlier – that you are now focused on targeting some new export destinations, that is Turkey and Brazil. Can you give a bit more colour on your strategy for expanding into these regions, and in what timeframe you think you can ramp up these sales? Thank you.

Alexander Frolov: Thank you for your questions. Regarding the margins, you correctly mentioned the general dynamics since the beginning of the year. I do not think that we would be able to provide you with more detailed information, because those margins are, let us say, product-specific, and of course vary for different products and different regions. Even inside Russia, these margins are different depending on the destination of the product. Obviously, when we sell to the regions, which are close to our production sites, we have higher margins. If we sell for longer distances, we have a low margin. So, it is more or less a complex picture, and probably you should just look at an average number and an average EBITDA margin. Speaking about our strategy in new market development, our main focus is export sales of our rails and rail car wheels. So, basically, the markets which we are targeting there are Americas – I mean both South and North America. Also, for rails it is the Middle East which has been traditionally a big market for this type of product, and we want to have a history of supplying there. But, obviously, rails are a complex product, which requires a lot of customer communication, certification, tailoring of the deliveries to the customer’s needs, so the volumes would not grow very quickly there, but for us, it is important, especially having in mind potential weakness of rail demand in Russia and especially in CIS countries.

Set Rosenfeld: Great, thank you. I would like to ask one more follow-up question, shifting over to the US business. Can you give us a sense of your current order backlog both in large-diameter pipes and OCPG pipes as well, focusing on the large-diameter side? Has anything changed since your Capital Markets Day, when you first gave guidance for significant forecast market growth, given the fact we have subsequently seen a big collapse in oil and gas prices?

Pavel Tatyatin: I will respond. Let me let me tackle that one. As far as the large-diameter pipe market is concerned, we have not seen or heard anything new since the recent volatility in the oil prices. We remain in close contact with the customers, but our key customers, which are major transmission line builders and operators, are normally taking a very long term-view on their projects, and most of the projects go through a very long planning phase, which probably takes two to three years. We do not anticipate any immediate knee-jerk reaction in any negative way that would affect our overall backlog, so we are booking into 2016 right now. As far as our Canadian and Portland OCTG mills are concerned, during the last Capital Markets Day we had in London in June, we spoke about a slight improvement in the demand which allowed us to

rehire crews both in Canada and Pueblo Colorado, the United States. We are limited to 1–2 crew operations at most of our OCTG mills – we do not see that improving in the next quarter or so. The immediate effect of the recent oil price drop, especially on our Canadian operations, is still yet to be assessed. But again, we are starting from a very low number, so even if we need to curtail it back again, we do not think that will significantly impact our overall North America profitability in a negative way.

Set Rosenfeld: Great, thank you very much.

Operator: And your next question comes from the line of Neri Tollardo. Please, ask your question.

Neri Tollardo: Yes, thank you very much for the presentation. A few questions from my side. First, on CAPEX. Let us assume you enter a bear-case scenario, and you need to cut some CAPEX to preserve free cash flow. Which development project would you say is the most expendable or at least can be delayed more easily? Second question on your iron ore and coking coal – if you can give some guidance on production volumes for this year and maybe next year, and if you can remind us what the transportation costs are for external sales of both iron ore and coking coal. And the last question. There has been news in recent weeks about Rapsadskaya managing some coal assets of Sibuglemet. Can you give us a little bit of detail on that – what the strategic rationale is, and what the impact could be on EVRAZ. Thank you.

Alexander Frolov: Speaking about our CAPEX, we do not have a lot of big-size development projects which are currently under execution, we have finished almost all of them during the last year and during prior years. All projects which we conduct right now are sort of medium-size. I think that all of them could be delayed in case of need. Where we might have a difficulty in delaying spending is our Regina Steel Mill because the reconstruction which we are doing there is strongly linked to demand of our large-diameter pipe customers. But, on the other hand, we believe that this project is not so risky because it is backed up by a strong order book for large-diameter pipes we have in the US and Canada. Speaking about our coal and iron ore production volume, I do not think that we expect any major changes in the near future. I believe that volumes would remain flat in general. Probably one thing important to mention is that we increased production of Evrazruda on the back of completion of our expansion project at Sheregesh Mine. I think that this volume increase is already reflected in our 1H 2015 results – you can see that in our presentation. Speaking about the transportation cost, I think it is probably important for our coal sales to the Far East. With the current exchange rate, it probably equals to USD 25, then you should take another USD 10 for port handling charges. For the other products, especially for iron ore, the transportation cost is not so relevant, because these products, especially [within EVRAZ], do not travel over a long distance. You know that Kachkanar is situated very close to Nizhny Tagil, and Evrazruda is situated very close to ZapSib. We do not have too many third-party sales in our iron ore portfolio. Speaking about your last question and rumours about EVRAZ managing Sibuglemet, what we have there is more like an exchange of information. Also, in 1H 2015 we increased volumes of coal we purchase from Sibuglemet, and we see further possibilities for us to buy more coal from this company. We consider it being a reliable supplier and a low cost producer, so we are [planning] to continue this kind of more commercial cooperation. I do not think that, again, these rumours about management have any relevance to the real situation.

Neri Tollardo: Thank you. Just a follow-up on your call. So, your cash costs in 1H 2015 was USD 32 per tonne, and on top of that we should add another USD 35 per tonne to get to an FOB cost, correct?

Alexander Frolov: Yes, it is roughly that. But we should not forget that the production cost is basically a RUB-denominated cost. So, if we speak about the current situation you should take into account a weaker RUB-USD exchange rate.

Neri Tollardo: OK, thank you.

Operator: And your next question comes from the line of Sergey Donskoy. Please, ask your question.

Sergey Donskoy: Thank you very much. I have three questions. First of all, could you remind me of the reason for discrepancy between the IFRS and the management accounts in respect EBITDA? I think the 1H 2015 EBITDA, according to the management accounts, was about USD 15 m lower than what was reported and what was based on IFRS numbers. Secondly, could you give us some guidance for your FY production in the coal division – and, if possible, separately for Raspadskaya and for Yuzhkuzbassugol? And, lastly, just a house-keeping question. Could you tell me what, currently, the transportation cost is for your semi-finished products from Nizhny Tagil and ZapSib at FOB? Thank you.

Pavel Tatyatin: Thank you, Sergey, for these questions. Let me tackle the first one. Let me ask you a quick one. Do you refer to the relevant section of our financial statements and disclosures which talk about the differences between management accounts and IFRS?

Sergey Donskoy: Yes, precisely. The one in the first opening sections of the IFRS statement.

Pavel Tatyatin: OK. The key thing is basically explained by the fact that for our management accounting purposes, which drive our day-to-day decision-making and business decision-making, we do not account for change in the unrealised profit adjustment, which is basically the unrealised profit that we accumulate in our inventory, as our vertically integrated business contains a significant part of it at various parts of the value chain. So, as our inventories grow lower or as our overall locked-in profit, that sits in our inventory, decreases due to the generally reduced profitability of our overall operations, this URP adjustment is unlocked, i. e. that basically translates in the 1H 2015 additional profit so that, as at June 30, we had less URP sitting in our inventory. So, for our day-to-day decision-making, which is basically what we use the management accounts for, we do not account for this unlock of URP. As we close our books on a quarterly basis for our internal reporting purposes, we are more accurate in unlocking this URP, unrealised profit adjustment. That is the reason for the change, and you can refer to page 48 of our financial statements, which basically show the unrealised profit adjustment of USD 73 m, which is basically the key discrepancy.

Sergey Donskoy: Understood.

Pavel Tatyatin: On the coal volumes side, referring to what Alexander has mentioned earlier on the second half of this year, our overall view is that our coal sales will be largely flat H-o-H. And to tackle your third one, which is the delivery cost for our slabs from Nizhny Tagil to the Far East, that will be between USD 70–75 per tonne.

Sergey Donskoy: This is based on the current exchange rate?

Pavel Tatyatin: More or less, let us say, 65–67. It can be a little lower, if it climbs to 72 again.

Sergey Donskoy: Lovely. Tanks a lot.

Pavel Tatyatin: Thank you.

Operator: And your next question comes from the line of Nikolay Sosnovskiy, please ask your question.

Nikolay Sosnovskiy: Hello, thanks a lot for the presentation. I have several questions, first of all on your EBITDA. Considering we have seen lots of changes in the market through 1H 2015, can you please roughly split your EBITDA into Q1 and Q2, i. e. what was earned in Q1 and Q2?

Pavel Tatyatin: I am afraid we do not do it, otherwise we would have reported on a quarterly basis, sorry about that.

Nikolay Sosnovskiy: Maybe roughly? 50/50? 60/40?

Pavel Tatyatin: I am afraid my title disallows me from doing rough calculations, sorry about that.

Nikolay Sosnovskiy: OK, the second one is on your debt. Your cost of borrowing has been quite stable throughout the last several years, but now you have a lot of coming repayments, and you need to refinance. Can you please elaborate on what the current difference is between your existing cost of borrowing and the rates that are currently offered by the market and what would be the potential impact if the whole situation stays for the next couple of years? What would be the cost of borrowing and interest payments?

Pavel Tatyatin: OK, thank you for that. Just to reiterate again. I think maybe I was not clear enough in the main presentation. Statement 1: as of now, our cash on hand plus signed facilities, which we will draw in the next 30–60 days, fully committed, will cover all the financial requirements to redeem our debt between now and end of 2016. That is statement 1. Statement 2 is that post the balance sheet date, we signed and partially drew against three bilaterals, which are all disclosed in our financial statements. There is an Alfa-Bank loan, and there are two facilities – one from Nordea Bank and another one from UniCredit. All are Russian subsidiaries of the international banks. And to add to that, we did place a five-year rouble bond, which was a RUB 15 bn bond with a 12.59% rouble coupon, which we all swapped into USD through a series of currency hedges. All these facilities come at or below the average cost of debt as it stands now, so the new money that we are borrowing now shows that banks have an appetite to lend money to us at rates which are at or even below our weighted average cost of debt. So, as the debt comes out, and as the debt that will be coming out will be the debt, which will be around or even higher than our weighted average cost of debt, we believe that in the next 16 months between now and the end of 2016, our average cost of debt will not be adversely impacted.

Nikolay Sosnovskiy: OK, that is very clear. Thank you. The third question is on your North American operations. You reported quite a noticeable decline in earnings there. So, my question is what the 1H 2015 amount of free cash flow would be considering your maintenance and expansionary CAPEX there and interest payments, if any? What was the free cash flow, and if it is negative, what was the amount?

Pavel Tatyatin: I do not think I want to disclose the exact number as our North American business will have a separate earnings call tomorrow on the back of their Q2 2015 results. So, I would invite you to log in to their webcast tomorrow. The details are available on their website. We can put that up on our website as well, for your reference. Most of the decline in the EBITDA generation by North America came out as a result of the overall decline in volumes, particularly from the OCTG market segment. As a result, we had to curtail our operations at the seamless mill in Pueblo and our OCTG mills in Canada. This reduced our overall

requirement in working capital, and that created a significant improvement for our overall free cash flow generation. All in all, in 1H 2015, we were free cash flow positive in North America.

Nikolay Sosnovskiy: OK, thank you. The final one is on the Russian construction market. I assume you have got books visible till the end of September, even maybe early October. What are the major points in terms of price negotiations? Are you able to increase domestic rouble prices for construction products or are your customers reluctant to accept any increases as the construction season is coming to its end?

Alexander Frolov: That is Alexander Frolov. I think that your point about construction seasonality is quite a correct point – we do not see any real possibilities for a material price increase during September. We are speaking to our customers, of course, but for the moment, I think the market is more or less stable.

Nikolay Sosnovskiy: So, is it fair to assume that the current rouble prices for the construction products will hold for the entire Q4 2015 or maybe the beginning of Q1 2016 and only in February we can see something changing?

Alexander Frolov: I think that probably it is a little bit early to say because the recent rouble weakening has happened more or less over the last couple of weeks. We need more time for the market to digest and see what the supply-demand balance will be.

Nikolay Sosnovskiy: OK, super. Thank you a lot.

Operator: And your next question comes from the line of Barry Ehrlich. Please ask your question.

Barry Ehrlich: Yes, hello. Thank you very much for the call today. Can you give us a little bit more sense of how you see steel [product] sales in key domestic product categories, such as rail and rebar, developing in 2H 2015 and to what degree is there visibility on those key markets? Second question: are there any discussions or efforts that you are aware of at the government policy level that may suggest some infrastructure project work being put in place for the next year? And, finally, how much further do the cost optimisation efforts that you have discussed and have been working on, have to run in your view going into 2016?

Alexander Frolov: Let me start. Speaking about domestic volumes, I would start with rails. As you probably know, we have a five-year contract with Russian Railways. Volumes are fixed on annual basis, so we have quite good transparency on the volumes till the end of the year. They are going to be slightly lower than the ones we saw in 1H 2015, but without a very material difference, I would expect.

On the rebar side, again, I would not expect any major difference because as you have probably seen in our presentation, volumes did not change even compared with 1H 2014.

Regarding other products, I think it will be very difficult to make any forecasts. Again, we have to see how the market will develop.

Talking about potential government efforts and potential big projects for the next year, I do not think we know anything which would be different from the public domain knowledge.

On cost cutting efforts, Pavel, maybe you could [answer this].

Pavel Tatyatin: I guess we have the yearly target on cost cutting which is slightly under USD 3 m and which we believe we will meet for the full year. We delivered USD 149 m for 1H 2015. That includes the same areas, such as overall raw material consumption yield improvement, energy efficiency, G&A costs reduction and inventory and transportation costs optimisation. We have all these now in a very detailed way and at a very advanced stage internally, so we believe that we will get there.

Operator: Does that answer your question, Mr Ehrlich?

Barry Ehrlich: Yes, it does. Thank you.

Operator: Wonderful. As a reminder, ladies and gentlemen, if you wish to ask a question, please press “*” followed by “1” on your telephone keypad and wait for your name to be announced. It is “*1” to ask a question. If you wish to cancel your request, please press the “#” key. And your next question comes from the line of Vladimir Sergievskiy. Please ask your question.

Vladimir Sergievskiy: Hi, gentlemen. Thank you a lot for the call. A quick question on working capital from me. The release in 1H 2015 nicely supported cash flow generation. What do you think about 2H 2015? Within this, do you see any changes in the quality of your receivables? Have you seen any changes in the recent months? Thank you a lot.

Pavel Tatyatin: This is Pavel. Let me tackle that one again. Let me start in the reverse order because I think that will take me logically to the overall 2H 2015 working capital release number. For the time being, we do not see any significant deterioration or reduction in the quality of our receivables. Our overall overdue receivables do not grow, and we are in a very focused mode where we control and review that on a ten- to fifteen-day basis throughout the entire Group. Coming to the first part of your question, for the time being, it is a little early to understand what type of impact the recent volatility in the Russian exchange rate will make on our customers and their ability to continue to pay on time or provide advanced payments for shipments. Therefore, I think there will be a combination of tailwind and headwind developments, but the overall view is that the amount of capital that we will deploy or redeploy from the working capital allocation will be less than the one we had in 1H 2015.

Vladimir Sergievskiy: That is very clear. Thank you a lot.

Operator: And your next question comes from the line of Kay Hope. Please ask your question.

Kay Hope: Hello and thank you for the call today. A couple of quick questions related to the debt. First: can you give a breakdown of the debt due in 2016, say, 1H 2016 vs 2H 2016? I do see that cash on hand and committed credit facilities cover refinancing for the remainder of 2015, but I thought you said on the call 2016. Can you just clarify for me there? And, finally, with the debt you are drawing in the next 30–60 days and with the facilities you have drawn recently, can you give a sense where you expect gross debt to be at the end of the year?

Pavel Tatyatin: OK. Let me tackle that in order of appearance. Most of our debt in 2016 is coming due in Q2 2016. We had about USD 550 m of outstanding rouble bonds that also include the swap agreements. Most of them come due on the very last days of May – early June 2016. If you refer to page 15 of the presentation, the remaining part is a combination of smaller amounts of various amortising loans that are pretty much equally distributed throughout the rest of the year. So, the key bullet is USD 550 m, sorry, I said it mistakenly, it is USD 450 m that is coming due in Q2 2016. Referring to the sources and the use of

our debt, what we would say at page 15, the last bullet, is the position we had as of 30 June 2015 whereby cash on hand and committed facilities were sufficient to cover our requirement for debt refinancing needs for the remainder of 2015. Post the balance sheet date, we did place the rouble bond, we drew against a USD 200 m loan from Alfa-Bank and we did sign, but have not drawn yet under the UniCredit and Nordea facilities, which, again, we will draw in the next 30–60 days. All these drawdowns will come against the requirement to redeem debt as it comes due between now and the end of the year. As far as total debt levels are concerned, I do not see this number changing in any significant fashion as we are looking at 31 December 2015.

Kay Hope: OK, great. Thank you.

Pavel Tatyatin: Thank you.

Operator: And your next question comes from the line of Mikhail Priklonsky. Please ask your question.

Mikhail Priklonsky: This is Mikhail Priklonsky from Credit Suisse. Thank you very much for the presentation. I have two questions. The first one is on volumes for long steel given that we have already seen quite a weak Q2 2015. What are the volumes in Q3 2015? Given that Q4 2015 is usually seasonally weaker, do you expect that Q4 2015 will be even weaker than Q2 2015 in terms of volumes? Thank you.

Alexander Frolov: I already answered a very similar question a few minutes ago. As I said, seasonality is a factor. In order to better understand what volumes are going to be for the majority of products with the exception of rails, we just need to see how the market will develop. I do not think we can make any intelligent forecast here.

Mikhail Priklonsky: OK. Another question is on the potential return of money to the shareholders in any way – in dividends or buybacks. Is there any chance that something may happen in 2015? If you are doing it in 2016, what should trigger your decision to do dividends or buybacks?

Pavel Tatyatin: I guess our overall dividend policy remains unchanged. We are committed to considering paying dividends only if two conditions are met: first of all, our overall Net Debt/EBIDTA needs to be below 3x. And for every given period, which is six months as we report on a semi-annual basis, we need to continuously show reduction in the absolute amount of net debt. Therefore, depending on these two conditions being met, we will be ready to present our views to the Board. However, our overall focus remains on continuous net debt reduction. That will be the primary use of our free cash flow not only in 2H 2015, but I would imagine in 2016, as well. This remains our key focus and commitment, and that is how we will be driving our decision making.

Mikhail Priklonsky: Just a small follow-up here. Looking at the performance of the share price, could you potentially consider a buyback in the near term, maybe in 2016, not as a tender offer, but maybe a buyback from the market in order to support the share price as the companies usually do in a similar situation?

Pavel Tatyatin: This is Pavel again. I guess there are different schools of thought in the market that would address this type of pricing development. Not all these school of thought would immediately support the idea of the shareholder buyback. We remain focused and committed to maintaining our overall free float. We think that liquidity of our shares is a very important factor that determines the overall share price and our overall market positioning. Therefore, we would need to take this into consideration very carefully before we make any decision on any buyback or similar actions to support the share price. Our key focus

will be on making sure that we will redeem our debt and continue to redeem our debt, and the key focus will be to deliver against our cost-cutting and operational improvement initiatives. That is the key management focus now.

Mikhail Priklonsky: You have mentioned that the Management Board will be presenting the result of your decision making process to the Board. What is the date of this presentation to the Board?

Pavel Tatyatin: Some time in 2016.

Mikhail Priklonsky: Not in 2015. OK, thank you.

Operator: And your next question comes from the line of Neri Tollardo. Please ask your question.

Neri Tollardo: Yes, I have a follow-up question on your cash flow statement. You had a USD 123 m cash outflow from loss on derivatives, which is quite sizeable compared to the size of your overall free cash flow for 1H 2015. I was wondering if you could give us a little bit of detail on what these derivatives are and which variables we should be looking at to estimate whether it is going to be a loss or a gain, of this size especially.

Pavel Tatyatin: Thank you for this question. One would argue this may be called wonders of the IFRS accounting. The underlying situation is as follows: when we borrow in roubles (and we do that primarily and exclusively as we placed the rouble bonds in the Russian market), around the same date we immediately enter into some hedging or swap agreements with the financial institutions where we would hedge our overall rouble exposure and effectively convert this debt to be the debt with a USD bearing interest. As we were redeeming our rouble bonds in 1H 2015, we also had to unwind the respective swaps that came due in the similar period. So, we never showed the gain that we had in the overall debt as part of the overall cash flow statement, but the fact that our swaps were kind of out of the money, in a sense that we had to pay additional amounts under these swaps because of exchange rates moves, had to be shown in the separate line item. In similar terms, if we borrow at the date of borrowing about USD 500 m worth of rouble bonds, we hedge this to be the USD 500 m worth of rouble bonds. As we will be redeeming this, say, in five years, we will be showing the respective amount of the redeemed debt at the exchange rate on the date of redemption whatever the exchange rate will be, and the difference will be shown as an outflow under the hedging agreements. This is not something that we are doing because we are playing with the market or the derivative instrument. This is basically what accounting tells us to disclose in the financial statements. The underlying business decision is as per my explanation earlier. Does that answer your question?

Neri Tollardo: Yes, as far as I understand that is the unwinding of the sort of whether it is in the money or not, whatever you have to pay to settle it.

Pavel Tatyatin: I mean in similar terms, if it is USD 500 m worth of rouble bonds and if these rouble bonds devalue reducing USD value because of the rouble value change, we have to pay USD 300 m in USD terms to repay the same amount of roubles at the redemption date, but we will pay the difference between USD 500 m and USD 300 m as the cost of unwinding the hedging instrument. It will be the same USD 500 m, but we will break this down in two different lines and show a lower value of the redeemed loan because the loan is fundamentally in roubles, and we will show the difference as the cost of unwinding the derivative. In aggregate, it will be the same USD 500 m as if we had borrowed in USD from day one.

Neri Tollardo: Great, thank you.

Pavel Tatyatin: Thank you. Sorry, that was a little boring.

Operator: We have no further questions at this time, please continue.

Lady speaker: Ladies and gentlemen, thank you very much for joining us on this call. If you have any further queries, please call and write to the IR Department. Thank you again and good evening.

Operator: Ladies and gentlemen, let us conclude our conference for today. Thank you for participating. You may all disconnect.