EVRAZ plc (EC Plus)

EVRAZ PLC FY 2014 FINANCIAL RESULTS

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Speakers:

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

Participants asking questions:

- Seth Rosenfeld, Jefferies
- Neri Tollardo, Morgan Stanley
- Edward Faritov, Bank of America
- Ksenia Mishankina, UBS
- Barry Ehrlich, Citibank
- Egor Fedorov, ING Bank
- Sergey Donskoy, Societe Generale
- Nikolay Sosnovskiy, UBS
- Dmitrij Tichonov, Commerzbank
- Semyon Mironov, Credit Suisse

Operator: Ladies and gentlemen, thank you for standing by and welcome to EVRAZ FY 2014 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. I must advise you this conference is being recorded today, on Wednesday, 01 April 2015. I would now like to hand the conference over to your speaker today, Alexander Frolov. Please, go ahead.

Alexander Frolov: Thank you very much. Dear ladies and gentlemen, I would like to welcome you to our conference call to discuss the financial and operating results of EVRAZ for 2014. 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.

To start the presentation, I would like you to turn to slide 4 with our key highlights. I am pleased to say that once again our results demonstrated continuous improvement in our operating performance. Despite many challenges, EVRAZ delivered a strong financial performance showing significant increase in profitability. Despite lower revenue, which is attributable to lower sales price, our EBITDA increased by 28% to US$ 2.3bn. We achieved strong free cash flow and further debt reduction. Positive free cash flow allowed net debt to fall by 11%.

Now please turn to slide 5. The safety of our employees remains a priority for EVRAZ. In 2014, we successfully reduced lost time injury frequency rate (LTIFR) from 1.96 to 1.60, following sustained efforts and investment in this area in the recent years. We are committed to achieving the target of zero fatalities and continue with a range of initiatives to further improve EVRAZ safety performance.

On slide 6 I would like to make a very important point about our continuous focus on previously stated strategy which allowed us to make notable progress in our strategic objectives during the year. We have implemented an operational efficiency plan to reduce costs and improve operational performance which resulted in total reduction of costs by US$ 420m. We continued to streamline our business. In April, we sold our operations in Czech Republic, EVRAZ Vitkovice Steel, for US$ 287m. At the same time, we finalized the ramp up of Raspadskaya, transforming our coal business into a large-scale market participant in Russia and internationally.

More than that, we further extended our portfolio of high value added products and enhanced the quality of our customer service. As an example, we have become the first Russian producer of 100-meter rails. Despite the considerable progress made already, we are pursuing a new initiative which has a potential to make an impact similar to this year result.

Now I will hand over this call to Pavel Tatyanin, who will discuss 2014 financial results in detail. Pavel, please.

Pavel Tatyanin: Thank you, Alexander. Good morning, ladies and gentlemen, to those of you who are dialing in from the States, and good afternoon to all of you who are dialing in from Europe. We will begin with an overview of our performance in 2014. An important point to start with is to identify our new reporting segments. In 2014, EVRAZ regrouped its operations into different operating segments, compared to 2013, in order to better reflect the resource allocation in relations between business divisions. Therefore, for the year ended 31 December 2014, we have reported our financial performance based on the following new segments: Steel, excluding North American steel operations; Steel, North America; Coal and other operations.

Now please turn to slide 8 for revenue analysis. As a result of a negative trend in steel pricing which eventually led to a decline in Steel segment revenues, consolidated revenue dropped 9% to US$ 13,061bn. Steel segment revenues were also impacted by changes in product mix related to closure of EVRAZ Claymont Steel in US, EVRAZ Palini e Bertoli in Italy, EVRAZ Vitkovice Steel disposal, as well as the closure of EVRAZ ZSMK plate rolling mill. And this was also attributable to a decline in the production of railway products.

Revenues of the Steel, North America segment increased by 4% to US$ 3,160m compared to US$ 3,036m a year before, driven by higher sales volume, particularly of tubular and railway products. The Coal segment revenues dropped by 11%, primarily due to reduced selling prices, partially offset by increased volumes. Russia and Americas remain our key markets together accounting for 2/3 of our total revenues.

Now please turn to slide 9 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 15%. This was mostly due to a 9% fall in raw materials costs, due to lower coking coal and scrap costs, staff optimisation programmes, disposal of facilities and EVRAZ Vitkovice Steel disposal, and a 62% fall in costs of semi-finished products primarily connected with lower consumption of slabs purchased from third parties by EVRAZ North America.

Moving to slide 10. A vivid picture of our strategic objective progress. As our CEO has already mentioned, we have managed to implement our efficiency savings plan which resulted in a US$ 420m savings including, as planned, approximately a US$ 55m reduction in G&A costs before the Russian rouble and Ukrainian hryvnia devaluation effect, which all together contributed to the overall G&A contraction. G&A expenses declined by 15% y-o-y due to the asset portfolio optimisation and G&A expense reduction programme implemented in 2014, as well as, as mentioned, due to a partitive effect of the local currency devaluation in Russia and Ukraine. As a result, our G&A expenses reduced to 5.7% of our revenues compared to 6.1% a year before.

Please turn to the next slide. Slide 11, please. Thanks to the solid operational results and positive developments in certain markets, EVRAZ was able to demonstrate a significant growth in operating profitability during the year. Its EBITDA reached US$ 2,325m, an almost 28% improvement compared to 2013. 80% of the Group's EBITDA come from the Steel segment, which, in its turn, demonstrated an EBITDA growth of 15% to reach US$ 1.912m, Steel segment EBITDA in 2014 was higher than in 2013 as a result of the asset optimisation and cost reduction activities, as well as a decrease in expenses in US$ terms in Russian and Ukrainian subsidiaries due to the local currencies devaluation in 2014. Russia and North America account for the largest portion of EBITDA.

Let us turn to the next slide. Slide 12, please. Free cash flow for the period is positive at US$ 1,012m Cash flows from operating activities before changes in working capital increased by 35% last year to be US$ 1,976m compared to US$ 1,535m a year before, reflecting better operational results.

Now please turn to slide 13 to review our debt bridge and net leverage. In 2014, in line with our financial strategic priorities, we focused on effective liquidity management, positive FCF generation and debt reduction. 2014 started with the total debt of US$ 8,166m, and during the year a number of refinancing actions and debt repayments have been completed. As a result of these actions, which are fully described in the results announcement as well as a number of scheduled drawings and repayments of bank indebtedness, our total debt decreased by US$ 1,260m to US$ 6,906m as at 31 December 2014, while our net debt decreased by US$ 721m to US$ 5,814m as at 31 December 2014 compared to US$ 6,534m as at 31 December 2013.

Our interest expense accrued in respect of loans, bonds and notes was US$ 503m last year compared to US$ 617m for 2013. A very important metric here, our Net Debt/EBITDA ratio stood at 2.5x at the end of last year compared to 3.6x as at 31 December 2013. As at 31 December 2014, we were in full compliance with our financial governance in respect of the level of the total debt and of net leverage. Net Debt/EBITDA was supposed not to exceed 6.5x. As I mentioned, we were 2.5x on Net Debt/EBITDA as at the end of the last year.

Now please turn to slide 14. Our cash on 31 December 2014 amounted to US$ 1,086m, and our short-term loans and current portion of long-term loans mainly represented by maturing capital market instruments adjusted for hedging exposure under cross-currency swaps related to rouble-denominated bonds stood at US$ 1,040m. Our debt currency composition is split 97% and 3% for US$ and EUR, accordingly; cash currency composition is 87% and 10% for US$ and Russian rouble, accordingly, with 3% taken by other currencies. US$ 500m of 2016 debt repayments have been renegotiated with Gazprombank to extend maturity to 2018 and 2019. The extension is not shown on the graph, but is included into the 2016 number.

Going to the next slide, 15, I would like to elaborate on CAPEX and our key projects. In 2014, we continued to reduce our total CAPEX to US$ 654 mn compared to US$ 902 mn in 2013 as a result of a comprehensive review of the Company's investment programme, as well as the decreases in expenses in US$ terms at Russian and Ukrainian subsidiaries due to the local currencies devaluation in 2014. The majority of 2014 CAPEX was directed towards maintenance spending. In 2014, we commenced sales of 100-meter long rails from EVRAZ ZSMK and EVRAZ Caspian Steel (formally the Vostochny rolling mill), started commercial operations. The Yerunakovskaya VIII coal mine reached planned mining volumes, and our PCI project and EVRAZ ZSMK became fully operational at all blast furnaces. We completed stage 1 of Sheregesh iron ore mine output enhancement project, and we continued to develop Mezhegey coal deposit. Also, we commenced the execution phase for the continuous casting machines reconstruction project at EVRAZ ZSMK.

Now I would like to have a brief discussion about our segment performance. Please turn to slide 17. Our Steel segment includes steel making and iron ore mining operations in Russia, Ukraine, Kazakhstan and South Africa, our trading companies in EVRAZ's global vanadium business. The Steel segment revenues decreased by 12% largely as a result of lower revenue from the sales of steel products. Crude steel output at EVRAZ's Russian steel mills was largely unchanged in 2014, compared to 2013, reaching 11.8 mt. The growth in revenues from external sales of semi-finished products was due to higher sales volumes, which reflected the changes in Group product mix.

In 2014, consumption of rebars in Russia increased by 5% to almost 8.9 mt. Rouble prices demonstrated a 3–4% growth compared to 2013, mainly due to the rouble devaluation. EVRAZ's sales of rebars in Russia were up by 4% y-o-y. In January 2015, EVRAZ delivered the first batch of 100-meter long head-hardened R65 rail produced by EVRAZ ZSMK to the Moscow Metro. It is first ever use of a 100-meter long rail in an underground transit system internationally.

Please also have a look at slide 18 on the sales mix of our external steel sales.

Moving to slide 19, I would like to say a few words on iron ore. 2014 was a turning point for the whole iron ore industry with oversupply and, as a result, prices dropping by 30%. We had prepared for these developments and began to restructure our iron ore business back in 2013. As a result, we entered today's low price environment with a comfortable cash cost of US$ 47/t of iron ore concentrate. The average cash cost of slabs decreased to US$ 266/t in 2014 from US$ 348/t in 2013.

Slide 20 speaks about the Coal segment. Our Coal segment includes coal mining and enrichment as well as operations of the Nakhodka Sea Port used to a significant extent for shipping our coal products to the Asian markets. In 2014, EVRAZ's coal companies Yuzhkuzbassugol and Raspadskaya mined 21 mt of raw coking coal and produced 12 mt of coking coal concentrate. The increase in production of 11% during the year was due to a significant production growth at the Raspadskaya coal company, which added 31% y-o-y. The increase followed the successful ramp up of the Raspadskaya mine and stable production at the Yuzhkuzbassugol coal company despite the closure of its Abashevskaya mine this year.

Please turn now to page 21 for Steel, North America segment. Steel, North America is a segment which includes production of steel and steel products in the US and Canada. Revenues of the Steel, North America segment increased by 4% to US$ 3,160m compared to US$ 3,036m a year before, driven by higher sales volumes, particularly of tubular and railway products. Production of tubular products increased by 14% y-o-y driven by strong market demand for small-diameter pipes for most of the year, positive market trends for large-diameter pipes and operational improvements implemented at North American tubular facilities. The outlook for steel demand in North America for 2015 remains positive with robust demand growth across most sectors.

Next section of our presentation is dedicated to the market outlook for 2015. Slide 23 outlines main market developments in Russia and globally. Our main points here are: first, we expect global steel demand to continue to grow. Second, steel pricing will remain volatile and largely driven by existing underutilization of production capacity in selected markets and, specifically, competition from the Chinese steel producers in the international steel markets, as China's economic growth slows down. Third, Russian steel consumption is expected to weaken in 2015, but will be mostly offset by higher exports. Forth, growing competition on the Russian market will result in an increased import substitution and domestic premia compression. Fifth, in 2015, coke production in Russia is expected to decrease by 2–3% which will result in higher competition in the Russian coal market. Quality grade coal will be in great demand and the oversupply of soft coal grade is expected to be maintained.

Now switching to slide 24. There we have outlined the main market developments in the USA and Canada for 2015. Overall, steel demand there will be driven by the continuous economic recovery in the US and increasing demand from selected economic sectors, such as automotive, construction, and energy. OCTG pipe demand will face severe headwinds in 2015 resulting from lower oil prices and higher inventory levels at the distributors' level. Hence, we expect utilization of our OCTG mills in the US and Canada to be significantly lower than in 2014. We expect to run our steel making capacities at full utilization rate. We remain very positive about our rail and large-diameter pipe businesses in North America.

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. As a reminder, if you wish to ask a question, please press "*1" on your telephone 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 Seth Rosenfeld. Please ask your question.

Seth Rosenfeld: Good afternoon, gentlemen. Seth Rosenfeld, at Jefferies. First, congrats on the strong set of results at the end of the year. I have two separate questions today. First, looking at your Russian operating cost base and second, looking at the US demand outlook. First, you obviously reported a very strong improvement in operating costs in 2H. Can you help us understand and quantify, how much of that improvement was self-help and cost-cutting driven, first was really rouble and then hryvnia FX tail winds. You talked of US$ 420m of self-help cost cutting and we are just trying to fill the gap between that and the US$ 1.8 billion in reduction in cost of sales. And separately, in the US you noted a pretty cautious outlook on the OCTG demand but a positive outlook on line pipe demand. That puzzle on the line pipe seems to run counter to what we see at major peers. Can you walk us through your level of confidence on that and, perhaps, how much of your annual capacity is already locked in through contracts. Thank you very much.

Pavel Tatyanin: This is Pavel. Thank you for your questions. It will be extremely difficult to unblend the overall cost contraction between the actual exchange rates effects and the actual cost-cutting measures. We are presenting to you on page 10 the individual elements of our cost-cutting programme, which are based on the fixed exchange rate to eliminate the exchange difference. And our cost cutting for ongoing operations, we believe, at the fixed exchange rate, we see US$ 245m. Optimisation of assets portfolio where we sold obsolete or high-cost or shut down high-cost mines or facilities brought us US$ 100m in additional savings and again at the fixed exchange rate. Debottlenecking production at Raspadskaya and improving the yield at the two facilities in North America added another US$ 75m. And coming back to your second question on the US demand outlook, indeed, we expect significant headwinds on the OCTG side of things. Clearly, we are in the middle of the spring break now, in Canada, in particular, when the drilling activity usually stops. Coming out of this spring break, it is going to be really important to see how much of real contraction in the OCTG demand we are going to have. So for us it is a little premature to get estimates of the contraction. But we hear people saying the overall capital budgets are cut between 25% and 35% y-o-y. How much of that is going to be really there for us and how much is going to be absorbed by competitors – that is something we will still see coming out of this spring break. The positive outlook that we have towards the line pipe and basically transmission pipe demand is based on the fact that, first of all, we are the largest producer of large diameter pipes in North America. Most of the new projects that are now being finalised or confirmed are gas projects where the overall price development has not been negative at all. Moreover, even for oil-focused transmission pipeline projects a lot of high-cost or higher cost world producers now with the oil price contraction get increasingly attracted by transmission pipeline as means of transportation because that reduces their costs and now, being extremely cost sensitive to cost-cutting, they remain extremely enthusiastic about putting their oil through the system instead of shipping it by rail. A lot of Canadian oil is still shipped by rail. And the last bit on that side of things is that a lot of Canadian oil is still sold in the United States and to get access to the American market Canadians are required to offer significant discounts to benchmark oil prices. So, for Canada it is absolutely imminent that they will be building the new pipelines to eliminate these multi-billion dollar discounts. And to close with that, yesterday we, together with the large diameter pipe customer, Enbridge, opened the construction of the new spiral mill operation in Canada in Regina, Saskatchewan, which we plan to complete in the next two years. And we believe that the presence of Enbridge there and the robustness of their expectations as far as this pipe will be coming out of this mill is yet another evidence that the demand growth for large diameter pipes will continue. Our Regina's facility is booked for the rest of the year. Our Camrose facility which produces single seam pipes is booked to a very significant extent and we are extremely selective in choosing our products. And our Portland spiral mill has a significantly high level of load contracted out now. Please note that this mill was idle in the middle of 2009 and we reopened it late last year. Reopening the line for us means that we are confident in the demand. Thank you.

Seth Rosenfeld: Just two seconds to go back to your explanation on the operating cost side. Thanks again for walking through the drivers of that US$ 420m. But the differential between that and the fall of US$ 1.8bn of reduction in costs and revenues. Can we just say that the majority of that differential, the US$ 1.4bn, is really FX-driven at the end of the day?

Alexander Frolov: As I said, I think it would not be correct, you should also take into consideration the raw materials price decline, primarily, iron ore, because we are buying some iron ore from the market. As Pavel correctly said, it is quite difficult to unwind this and give it a breakdown. But we can do it offline if you wish.

Seth Rosenfeld: Ok, thank you very much for your help.

Operator: Thank you. And your next question comes from Neri Tollardo. Please ask your question.

Neri Tollardo: Thank you for the presentation. One quick question on your tender offer, if you could run us through the rationale for the tender offer – how come you decided to return cash to the shareholders that way and not through dividends like you usually do?

Pavel Tatyanin: This is Pavel, let me tackle that one. The Board reviewed the strong operating and financial results for 2014 and the current trading. The board members also reviewed and discussed the outlook for the rest of 2015 and on the back of strength and liquidity and on the back of significantly reduced Net Debt/EBIDTA leverage which, just to point this out, came down from 3.6x at the start of the year to 2.5x at the end of the year; they all concluded that it's the right time for us to return capital to investors. A significant factor in this decision-making was the agreement we reached with Gazprombank which implies the US$ 500m loan repayment that would be otherwise originally due in Q4 2016 is now extended into 2018 and 2019. So, that added comfort to the forecast liquidity and cash generation capability. As far as choosing this instrument versus some other instruments, we reviewed various options and the Board concluded that returning capital through a buyback offer would be the most beneficial and attractive.

Neri Tollardo: Ok, if I can just have another question, not dividend-related? I know you probably cannot give too much guidance about your 1H results, but how would you say that your current profitability of your steel-making business compares now to what we saw in 2H of this year, considering the weakening of the rouble but also the quite steep fall in steel prices?

Alexander Frolov: That is Alexander Frolov. I think that you correctly mentioned the main two trends which would make an impact on profitability. My own judgement would be that Q1 was slightly better than 2H. Regarding Q2 2015, we still have to see how the market would develop. Because you correctly said that prices are falling. Let us say, there was some improvement over the last week, but again, we still have quite some time ahead of us to judge.

Neri Tollardo: Right, thank you very much.

Operator: Thank you. And your next question comes from Edward Faritov. Please ask your question.

Edward Faritov: Thank you. I will actually follow up on both previous questions – on the buyback and on the cost, because, to be honest, in the press release you said that the 2015 outlook improved, and that was one of the main reasons for the returning of the cash. But you also said right now that the market in 2015 will be very difficult, so you must be expecting dramatically better costs. Could you just specify where they are in roubles, maybe it will be easier for all of us, specifically for ore and coal concentrate and maybe for semis? And then I will continue with the buyback related question, please. Thank you.

Pavel Tatyanin: This is Pavel. Let me tackle that. I guess what we were saying in the press release – and it's exactly what we're repeating here – is that the Board reviewed the cash flow projection for the rest of the year, which is a combination of EBITDA performance, which the Board expects to be reasonably good in 2015, reduced CAPEX – we spent US$ 654m in 2014. This year we do not provide the full guidance, but we will be marginally under that number, we expect. So, overall we believe that from the cash flow generation capability the outlook was satisfactory and providing comfort to our Board to conclude on the buyback. As far as the costs are concerned, if you look at the page which shows the blended Russian steel costs for the semis…

Alexander Frolov: I believe it is page 66.

Pavel Tatyanin: Yes. That is blended costs for 2014 which actually includes higher numbers for the first half of the year which we reported on the back of the 6-month numbers, and a significantly lower number for the end of the year. We do have a combination of headwinds and tailwinds. Clearly, as far as tailwinds are concerned, that's the devaluation, and a lot of the cost improvements that we achieved as a result of, among other things, cheaper ruble and cheaper hryvnia are still intact, but at the same time there is 20% to 25% of our cost which are directly or indirectly linked to the dollar, which means that there is very little ability for us to compress that one. I do not think we can give you the right number now because we would reserve that for the later announcements, but that is a significantly lower number than in 2014, on the semis side of things.

Edward Faritov: Thank you for that. And to finish off with the buyback, can you confirm a couple of things? One: will the main shareholders participate in that? And two: could you explain why the 8% limit on acceptance per shareholder?

Alexander Frolov: Let me take this question. I think as far as we understand (and we had preliminary discussion on that), the main shareholders are going to take part in the buyback. Regarding limitation, we have considered that and we think that it is the most simple and predictable structure for the Company, because lifting this limitation would add some uncertainties on potential outcomes of the buyback which we wanted to avoid.

Pavel Tatyanin: And commenting on the exact math, the buyback was announced to return up to US$ 375m dollars, and the price was set at US$ 3.10, which represents a 10% premium to a 5-day average prior to the announcement. So, the math is basically dividing 375 by 3.10, and that gives the maximum amount of shares that we are authorised to buy back, which means that basically every shareholder can participate in this buyback pro rata his/her holding, but there is a limitation which doesn't allow the shareholder to put more shares than this prorated volume to the Company.

Edward Faritov: And if you are left with more cash after every willing shareholder participated, it means somebody may get more that the 8% allocation? Is that right?

Pavel Tatyanin: No. The 8% allocation is an absolute maximum. If somebody decides not to tender the shares or to tender the shares only in part of the eligible volume, these shares will remain untackled, and the overall amount for the buyback will be duly reduced, which means that the cash will stay with the Company for other corporate purposes.

Edward Faritov: Thank you. I apologise, maybe you have answered that, but why do you think that this was the most transparent way to distribute cash? The previous person asked this question, but in the light of your answer, when you said that it would be the most transparent way – wouldn't it be the case if you just did the dividend? Or was there a limit on paying the dividend?

Alexander Frolov: Again, as we previously announced in our dividend policy, we said that we would not pay if our Debt/EBITDA ratio is above 3. Now it's below 3, so, technically speaking, we could pay whatever year-end or special dividends, but for some reasons (and there is a number of reasons, one of them is timing) we decided that the buyback would be better for us because it could be closed within a relatively short period of time and this would narrow the window for share price volatility which was one of the considerations.

Edward Faritov: Alright, I will not hold the line any more. Thank you very much.

Pavel Tatyanin: Thank you.

Operator: Thank you. And your next question comes from Ksenia Mishankina. Please ask your question.

Ksenia Mishankina: Hi! Thank for the presentation. Could you please provide CAPEX guidance for 2016 or any indications? And also, do you plan to repay or refinance your 2015 debt maturities? Thank you.

Pavel Tatyanin: This is Pavel. I do not think we are able to give you any guidance for 2016 as far as capital expenditure is concerned, because our financial planning is done on a yearly basis. We have our budget for 2015, but we do not have our budget for 2016 as yet. I pass the floor to Alexander.

Alexander Frolov: I would just add that we do not expect any material increase or we do not see any major CAPEX spending during 2016. We do not have better precision at the moment.

Pavel Tatyanin: To add to that, I think that in reference to our 2014 numbers (and I think that gives you a reasonably good proxy for 2015 and 2016 in that sense) our overall spend was slightly over US$ 650m, of which only US$ 211m were spent on investment projects, the rest was maintenance CAPEX, so we believe that we have spent a significant amount of capital on upgrading our facilities in the last 3–4 years. A lot of our projects are now in their commissioning or just post commissioning phase, to name a few: there is a coal mine Yerunakovskaya VIII which was commissioned not so long ago, there is a new mill in Kazakhstan – Vostochny (we call it now EVRAZ Caspian Steel) which was commissioned not so long ago, we have a PCI facility at ZSMK, we are developing a mine in Tyva – Mezhegeyugol. Most of the projects are very well funded, they are now in the completion or post completion phase, and it is time for all these investments to start paying off.

As far as the debt repayments are concerned, as at the end of last year, our overall 2015 repayments stood at about US$ 1bn, of which US$ 250m were a combination of revolvers at various of our facilities which by nature are short-term, but they have been there for a very, very long while and we don't expect them to actually be called off or pooled, therefore we expect them to stay on our balance sheet as at end of 2015. Out of the remaining US$ 750m basically these are three major bullets: one was the US$ 120m – the remaining part of the rouble bond that was coming due in March – fully repaid, closed, done; US$ 130m remaining Eurobond coming due in Q4 of the year – that's the Eurobond that we materially bought back at the end of 2014; the remaining piece to restate is US$ 130m, and then there is a bullet of US$ 500m (again, Q4 of this year) – the rouble bonds.

As far as cash on hand that we have, we have enough cash on hand to service all these payments without new refinancings, and even assuming zero free cash flow generation for the rest of the year. And that was one of the other reasons why the Board concluded, by the way, that it's time to return capital, because we believe that our short-term maturities are well resolved.

Just to add to that, on 2016 we had approximately US$ 1.3bn of maturities of which we had two bullet repayments – a US$ 700 bond in May and a US$ 500m Gazprombank loan coming due in Q4 2016. And, to my earlier point, the Gazprombank loan is now moved to 2018 and 2019, so out of the 2016 repayments we have only US$ 800m coming due.

What I said does not mean that we will not seek refinancings. We will be sensitive to capital markets and new loans refinancings, but we remain extremely sensitive to the price. Therefore, having cash on hand sufficient to cover short-term maturities even with no refinancings occurring is a very comfortable position for the company to be in.

Ksenia Mishankina: Thank you very much.

Operator: Thank you and your next question comes from Barry Ehrlich. Please ask your question.

Barry Ehrlich: Yes, hello. I have three questions, on different topics if I may. Some of the cost efficiency programmes presumably were implemented during or maybe towards the end of the year. So the whole effect was not evidenced in 2014. What is your estimate of the impact of the 2014 programmes on 2015 costs? Also, what contraction in Russian construction steel demand do you expect in 2015 and what range of scenarios do you have for that? And then, finally, is it the Board's and management's intention that this buy-back is the only pay-out for the year, or if cash flows and available financing are there towards the end of the year, would you consider another pay-out? Thanks.

Alexander Frolov: This is Alexander Frolov and I will start with your last question. I think we do not exclude additional pay-outs, even though we do not guarantee them. We just say that our main target remains debt reduction and if, let's say, the business would generate substantial cash and the dynamics of our debt reduction would be satisfactory, then probably the Board would be willing to consider further distributions, but again, to repeat, there is no commitment on our side to do that. Talking about Russian steel demand, first of all I have to say that there are various segments that EVRAZ is dealing with as a supplier and our main customer in Russia is Russian Railways and there we have a five-year contract and our volumes are specified in this contract and we don't expect any major deviation from the volumes there. At the same time, speaking about materials for construction like rebars or profiles, the consumption of those materials is greatly dependent on seasonality, so we are now at that part of the year when it is quite difficult to say what will happen through the entire year, because normally the market starts to pick up significantly sometime in April–May and we have to see to what extent it happens this year. Overall, of course, we are considering various scenarios and in general we expect that construction market consumption will be lower than it was last year. Our scenarios are varying somewhere between 10% and 20% decline and I think we feel comfortable about both cases because we have good flexibility to divert steel not consumed by the Russian market to export markets, in the form of either semi-finished or rolled products. On cost cutting, I think Pavel could take your question.

Pavel Tatyanin: As far as the new targets are concerned, I guess it is a combination of two things. First of all, we clearly are working here in the environment of continuous improvement on whatever results we have achieved, you know, it's never enough and we want to continue our focus on cost-cutting and we still have to devise our targets by divisions, we are discussing them now and as soon as they are finalised we will give the market the necessary guidance. And if you recall our 6M presentation, we announced under the same methodology that overall US$ 193m of cost-cutting improvements were achieved in the course of the first half of the year. For the full year, we are reporting US$ 420m, so I guess with this difference you can make your math on how much of that will translate into 2015. Again, the complication, of course, is the devaluation effect on the rouble- and hryvnia-denominated costs but as I mentioned in my earlier statement, unfortunately, it's very difficult to unblend the devaluation effects in the real cost cutting from the cost reduction programmes' overall effect of about US$ 1,500m that we showed.

Barry Ehrlich: OK, thank you.

Operator: Thank you and your next question comes from Egor Fedorov. Please ask your question.

Egor Fedorov: Hello, gentlemen. Thank you for your taking up my question. Actually, I have several questions. First of all, could you provide your view of the coal assets, I mean, how do you expect to develop Raspadskaya. Were there any considerations to dispose of this asset or not, can you just provide us some details on the current relations with Raspadskaya, because I heard at the call with Raspadskaya that they said EVRAZ usually supports Raspadskaya with liquidity during stress times. Are you going to support Raspadskaya with liquidity if the situation worsens?

Alexander Frolov: Is it all on your side? Then, if I could answer. Speaking about Raspadskaya, first of all I have to repeat that during 2H 2014, we achieved, let's say, revamping of Raspadskaya mine as such, so we came back working with four long-walls, for the first time since the tragic accident in 2010. So now, this mine is running more-or-less full speed. Another asset which is part of Raspadskaya is an open-pit mine, so both of these assets have very low cost base and I think that with an optionality to export their products to international markets and with the current exchange rate Raspadskaya is a well-performing asset and we do not expect that it would have any need for liquidity. And we also do not plan any disposal of this asset because we believe it is a world-class asset.

Egor Fedorov: OK, thank you very much and a follow-up question on Raspadskaya. You provided a loan to Raspadskaya, which matures in 2016. Are you going to roll-over this loan to Raspadskaya?

Alexander Frolov: Again, most likely there would be no need for that, because their cash generating ability this year is going to be quite healthy.

Egor Fedorov: All right, and could you provide a breakdown of your operating expenses and CAPEX expenditure in terms of foreign currency breakdown, I mean rouble, no-rouble, US dollars, Euros?

Pavel Tatyanin: As for a high-level FX breakdown, I do not think I will be able to provide you with details by currency but I guess as far as roubles are concerned, operating expenses directly linked to the US dollar would be about 25% and as far as CAPEX is concerned, it is between 18% and 21%, depending on the division.

Egor Fedorov: OK, great. Well, you get 84% of your revenue from Russia. Can you just tell us how much revenue is linked to US dollar and how can you drive it?

Pavel Tatyanin: I guess fundamentally, we view our business as being a US dollar-denominated business. Unfortunately, the International Financial Reporting Standards do not allow us to use one currency to report for all of the sites, so basically, our Russian mills prepare their financial statements in Russian roubles. Hence this strange translation difference and FX loss that we post in our consolidated numbers. So, as soon as all our accounts are compiled in their respective national currencies, they are then for translation purposes only translated into US dollars. However, fundamentally, we believe our business is a US dollar business on the revenue side of things. We believe that directly or indirectly most of our products, if not all of the products that we sell, have their pricing and revenue linked to the US dollar. There may be some lagging effect – it make take a month or maybe a quarter to adjust even the domestic pricing to its dollar equivalent in international markets, but fundamentally, the business as a US dollar currency business. Therefore, we believe that from the revenue perspective we are perfectly hedged against our dollar expenditures as well as our dollar debt. If you refer to our relevant press statement, you will see that about 90%+ of our debt is US dollar-denominated debt and we feel quite strong about it.

Egor Fedorov: All right, and what about your contract with Russian Railways? Are prices in this contract linked to US dollars or not?

Alexander Frolov: The price is linked to the price of scrap and scrap price as Pavel mentioned earlier is fundamentally a US dollar price, so from that point I think we have a good hedging.

Egor Fedorov: OK, thank you very much for your answers.

Alexander Frolov: Thank you.

Pavel Tatyanin: Thank you.

Operator: Thank you and your next question comes from Sergey Donskoy. Please ask your question.

Sergey Donskoy: Thanks a lot. I have three questions, if I may. First, could you provide an estimate of your transportation costs for slabs and billets FOB and maybe, for comparison, what are the transportation costs that you incur selling, say, rebar in the European part of Russia. That is the first question. Second, one follow-up on CAPEX. Your guidance strikes me as quite cautious indeed, given that, as you said, a big chunk of your investment portfolio is basically in the final stages of completion or over and there was a quite significant rouble devaluation with the bulk of your CAPEX denominated in the Russian currency. So, I think I would expect some more substantial decrease in 2015 CAPEX than you seem to indicate. Could you provide some comment here, just what optionality you have in terms of CAPEX, in terms of increasing CAPEX in some areas, and why your view is relatively cautious. And, lastly, on dividends. You said that debt repayment remains your priority. Could you maybe specify what is the long-term comfort level in terms of whatever leverage metric you prefer that you want to achieve and over what period of time, so that we could understand what would be a satisfactory progress in your view. Thank you.

Alexander Frolov: I would start with your last question. I would probably answer in a different way. I think the progress we made in 2014, which was 11% debt reduction per year, is in my view a satisfactory progress. And if we continue with the same speed, for me it would be a good result. Speaking about CAPEX, again, you correctly said that we have some of our CAPEX fixed in roubles, but I would also like to draw your attention to the part of our statement earlier, given for this conference call, about the new projects that we are trying to implement in Canada, which are linked to our large diameter pipe business. This is, of course, US dollar-denominated spending, so that is why going forward we would rather prefer to be more cautious than less cautious. Answering you first question, about railway transportation costs, I think that nowadays, to transport to the Far East and to transport from Siberia to the Central part of Russia the cost in dollars would be at the level of US$ 50+.

Sergey Donskoy: OK, so basically it is the same, whichever direction you are going to carry the rebar or billet.

Alexander Frolov: If it is at the similar distance, which is the case for transportation from Novokuznetsk to Nakhodka or from Novokuznetsk to Moscow, it will a similar cost, yes.

Sergey Donskoy: OK, thank you very much.

Operator: Thank you. Once again, if you wish to ask a question, it’s “*1” on your telephone and wait for your name to be announced. And your next question comes from Nikolay Sosnovskiy. Please ask your question.

Nikolay Sosnovskiy: Hello, thanks for the presentation; the majority of my questions have already been answered. I have one small follow-up on your costs of production. You mentioned the US$ 266 per tonne of slab cash costs last year, somewhat below US$ 240 this year. Could you please elaborate on your billet cash cost? Is it different for your Siberian plants?

Pavel Tatyanin: This is Pavel. It is not different at all. We have a significant amount of flexibility to switch between slab and billet, basically, we have excess casting capacity to allow us specifically to be flexible in choosing the shape of the product as such, depending on the market premia that exist for slab over billet or other way around. So, the cost for billet shall be viewed as very similar.

Nikolay Sosnovskiy: OK, thanks a lot.

Operator: Thank you and your next question comes from Dmitrij Tichonov, please ask your question

Dmitrij Tichonov: Hello, I have two quick questions. One is, What rouble-dollar exchange rate do you use for your budgeting for this year? And, second, if you could briefly comment on the 100-metre rails, I mean what is the benefit for EVRAZ in having such product and what is the benefit for customers in buying it.

Alexander Frolov: To start with your last question, if there is a benefit for the customer, then there is a benefit for EVRAZ, so these are connected things. And if we speak about our customer, the prime effect of using longer rails is better safety and also some cost reduction, because they will have to make less welding when they produce the rail grid.

Pavel Tatyanin: And I will take your first question. The exchange rate that we use in the budget, the simple number is 65 roubles per dollar.

Dmitrij Tichonov: All right, thank you very much, and again just a quick follow-up again on the rails. How do you actually transport them from your production site to your customer, which, I guess, is not a very easy task.

Alexander Frolov: It is actually not a very difficult task because the railroad has to transport 800-metre long grid in order to install it, or put it on the ground, so they can do that because this grid and rails as well can bend when they are transported.

Dmitrij Tichonov: All right, thank you very much.

Operator: Thank you. Once again, if you wish to ask a question, it’s “*1” on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the “#” key. And your next question comes from Mikael Butkov. Please ask your question.

Semyon Mironov: Hi, this is actually Semyon Mironov from Credit Suisse. I have a question regarding your future dividend stream because this time we have been nicely surprised with the buy-back idea. How would you recommend us thinking about your dividend stream going forward. Is it likely to be a combination of buy-backs and dividends as well, or otherwise, if you most likely stick to dividends in the future, what sort of pay-out you believe is the most reasonable. Thank you.

Alexander Frolov: I do not think we could give any guidance on either of your questions. I think that we would like to keep as much flexibility as we can just because, let’s say, even if all things were good last year we still think that steel markets remain quite volatile, so that’s why we would not like to commit ourselves to any kind of dividend pay-out. And the choice of instrument I think is probably less important for the shareholders. But again, just to repeat, our priority is debt but at the same time, if debt reduction goes well, then we would consider cash distribution to the shareholders from time to time, when appropriate.

Semyon Mironov: I see, thanks.

Operator: Thank you, there are no further questions at this time, please continue.

Pavel Tatyanin: To the extent that there are no further questions, we would like to thank you all for participating in this call, and we appreciate your interest in our business and our results. And we are looking forward to greeting you at our next call. Thank you and enjoy the rest of the week.

Alexander Frolov: Thank you very much.

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