FREQUENTLY ASKED QUESTIONS

How would you summarise the development of EVRAZ vanadium business in 2018, as well as its fit into the Group's overall strategy and further growth?

The vanadium business' development was strongly affected by product prices, which surged from US$16 per kg FeV at the start of 2016 to peak at around US$120 per kg FeV in Q3 2018 amid a gradually increasing market deficit. On the one hand, the deficit has been driven by supply limitations, including the closure of EVRAZ Highveld in 2015 and the imposition of environmental restrictions in China, which together have reduced global vanadium production by 4 kmtV. While new capacity launches are expected to add roughly 25 kmtV to global supply, this will not happen until 2022, when major Australian projects will be finalised. On the other hand, demand for vanadium products could grow by some 5 kmtV (5-6% of global demand) due to China's new high-strength rebar standard, which was approved last year and raised the use of vanadium by 0.03 kgV per tonne for 200 million tonnes of rebar production. While vanadium prices settled at around US$70 per kg FeV by the end of 2018, this price level is still significantly higher than the historical average and prices are expected to remain somewhat elevated in the near future.

The positive market dynamics in 2018 led to a strong financial performance by the vanadium business in the reporting period. The Group believes that its vanadium assets will also be able to generate strong results on a longer-term horizon due to the structural competitive advantages of the business. The vanadium-rich iron ore mined at EVRAZ KGOK and the proprietary steelmaking technology used at EVRAZ NTMK combine for one of lowest vanadium production costs in the world.

In future, the Group plans to achieve a higher level of vertical integration in the vanadium business and increase vanadium recovery throughout the production chain, from iron ore processing to ferrovanadium production.

What were the main reasons for Russian economy growth issues in 2018 and for underperformance of steel demand, in particular?

In 2018, several factors negatively affected steel consumption in Russia. First, investment inflows into the Russian economy were lower than expected. Second, over the summer, when the football World Cup took place, construction work in major Russian cities was suspended.

However, despite the overall market stagnation, EVRAZ domestic steel product sales climbed by 3% to 4.2 million tonnes in 2018, driven by growing demand for several key products in the Group's portfolio. For example, railcar wheel consumption in Russia climbed by 29% due to the ongoing major replacement cycle, boosting EVRAZ sales by roughly 40 thousand tonnes. Another example is the beams market, where despite the decline in demand for this product in Russia, the Group's sales increased by around 40 thousand tonnes, driven by EVRAZ efforts to further improve availability, logistics and shipment terms.

What is the rationale behind the Group's new investments in Russian steel assets?

The key rationale behind EVRAZ new investment programme is the Group's aim to ensure profitability and achieve more stable long-term development of its major assets. One way to reach this goal is to increase sales on the domestic market, where demand is more robust, being protected from negative global economic trends (such as trade protectionism and tariffs). This will also provide significant savings on logistics. Another way to do this is to increase the share of high value-added products in EVRAZ portfolio, as they are expected to have higher and more stable margins in the long term.

The flat rolling and casting facility at EVRAZ ZSMK with the capacity of 2.5 million tonnes per annum will substitute slabs and billets that are currently exported. The spread for hot-rolled coil produced at this facility is expected to be around US$90 per tonne and should be less volatile in the long term. Similar changes will take place at EVRAZ NTMK, where the new rail and beam mill will help to replace semi-finished steel products for 230 thousand tonnes of beams and 50 thousand tonnes of sheet piles.

As a result, plants in Russia will be able to achieve a stronger and more stable financial performance.

What was the impact of the additional import tariffs, quotas and duties imposed by the United States and Canada on EVRAZ North America operations in 2018 and what effect is expected from them in 2019?

In 2018, EVRAZ North America operations faced tightening U.S. trade policy and increased trade barriers. Trade measures included tariffs on steel products imported into the United States (Section 232 tariffs), U.S. preliminary antidumping duties on imports of large diameter welded pipe from Canada, and retaliatory tariffs imposed by the government of Canada on steel imported from the United States.

While EVRAZ North America has worked to minimise tariff exposure, these policies have posed challenges and created increased costs in the segment's cross-border markets in the United States and Canada.

Tariffs on imported slab had a negative impact on EVRAZ Portland's flat steel operations. For tubular operations in Canada, trade actions presented challenges for cross border business with the United States. Although oil country tubular goods are primarily sold in Canada, large-diameter and small-diameter line pipe primarily produced in Canada had significant volumes sold into the United States. Likewise exports from Portland to Canada were reduced significantly due to retaliatory tariffs imposed by Canada. The Group has a more positive outlook for 2019 as its large diameter pipe order book for the year has more sales into the Canadian market.

What are the risks if the US impose sanctions on EVRAZ or its key shareholders?

EVRAZ considers the probability of sanctions on its business and shareholders to be quite low. However, the Group has undertaken several precautionary measures in terms of cash management, shareholder ownership structure and contract negotiations that should help to minimise the potential impact on EVRAZ business in case any sanctions are imposed.

What dividend payouts can EVRAZ shareholders expect in the future?

In 2018, the Group established a new dividend policy envisaging a minimum payout of US$300 million per annum. The total amount of dividends paid in 2018 reached US$1.6 billion, which is around five times higher than the minimum. In 2018, net debt was close to the desired level and the financial performance was strong, which led to a significant surge in the dividend payout.

Future dividend payouts will depend primarily on three parameters: debt, CAPEX targets and EBITDA level. In the medium term, EVRAZ will most likely use the majority of the cash generated in excess of the needs for the established CAPEX programme to pay dividends. However, the payout might be lower if the markets experience a significant price correction that substantially weakens the Group's EBITDA. In that case, EVRAZ will prioritise cash management efforts and will seek to keep its net debt/EBITDA ratio below 2.0. In a stress-case scenario, the Group might even consider a reduction in capital expenditures.

As ESG related matters is becoming increasingly important, does EVRAZ have any plans to enhance its disclosure of these aspects?

The Board and the Management acknowledge the increasing importance of ESG related matters and put a lot of efforts to enhance the EVRAZ work stream in these aspects. EVRAZ is constantly improving the corporate social responsibility section of its Annual report, which provides an overview of the Group's policies and performance in key areas, including human rights, health and safety, the environment, human capital management and community engagement, as well as an outline of how EVRAZ intends to further improve its performance in the years ahead. See pages 72–97 for details.

Moreover, EVRAZ intends to prepare and publish its first Sustainability Report in the first half of 2019 in order to increase the disclosure transparency.

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At EVRAZ, we take immense pride in our leading positions in construction steel and coking coal in Russia. Globally, we are first in rails and second in vanadium.