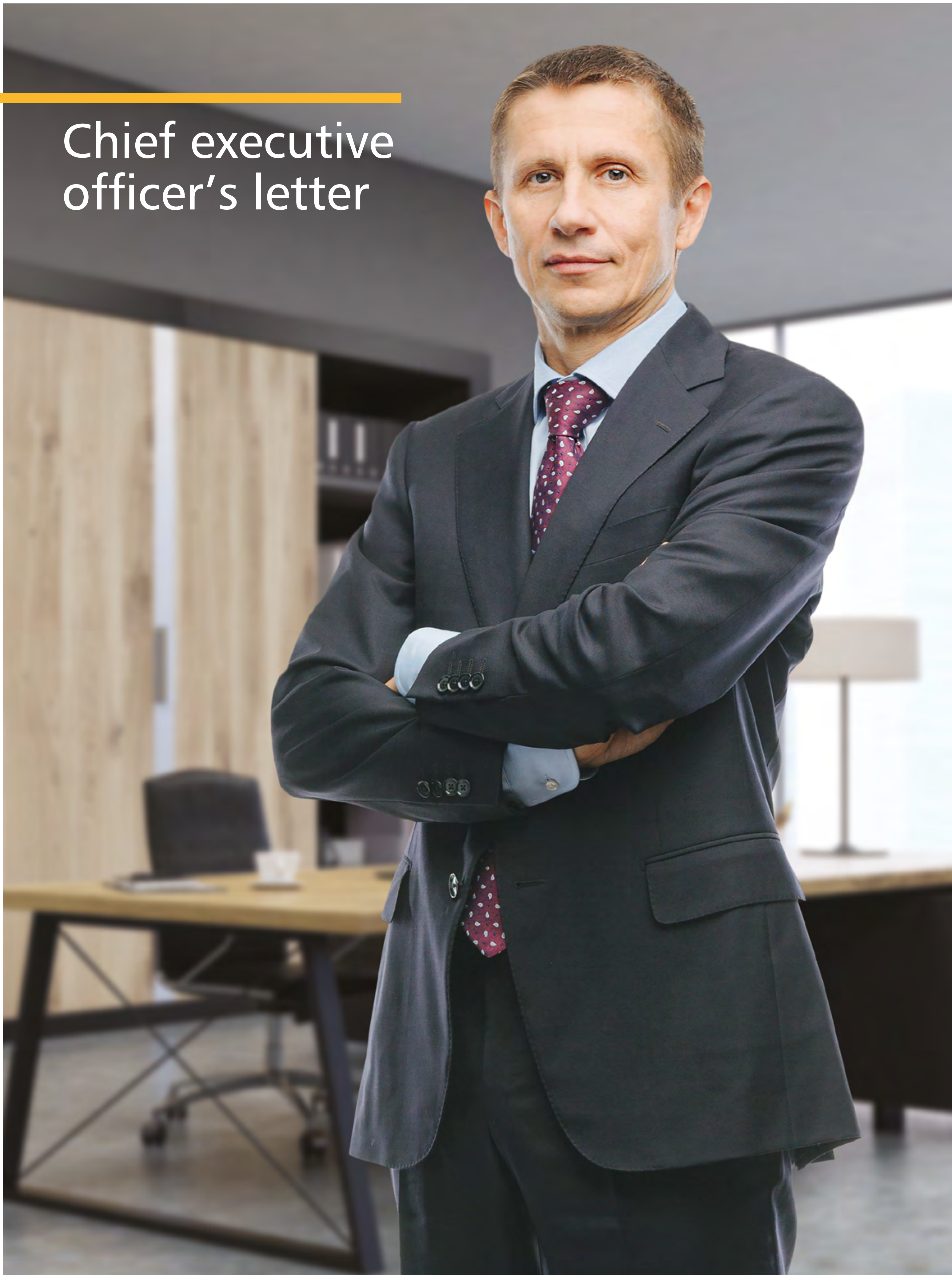
Chief executive officer's letter



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Dear shareholder,

Last year was a turning point for both EVRAZ and global steel and raw material markets. The Group navigated a challenging period due to its clear strategic vision, bringing it to a new stage of sustainable and robust long-term development.

EVRAZ benefited from an upswing on the global markets, as well as from ongoing strategic initiatives on cost-cutting and product development. These factors helped to generate strong EBITDA of US$2,624 million in 2017. The Group's business model also attained a fundamentally new level of sustainability as the net debt/EBITDA ratio reached 1.5x.

Safety is EVRAZ' overriding priority. In 2017, the Group's lost-time injury frequency ratio fell to 1.90, from 2.36 in 2016, mainly following the improvements made and procedures adopted in recent years. Environmental protection is also an important part of our long-term sustainable development, and we implemented several projects to reduce our ecological footprint in 2017.

EVRAZ believes that expanding and diversifying its product portfolio is the foundation of robust development. To strengthen our positions, we have set ambitious targets in all core segments.

In the Steel segment, we are aiming to improve our product mix by increasing the share of finished products and to spur domestic demand by promoting steel construction. In the Coal segment, we are striving to expand volumes and reach full self-sufficiency in all coking coal grades by developing new projects, especially in the low- and mid-volatility coal grades. In the Steel, North America segment, the target is to strengthen our leadership positions in energy pipe and rail markets in North America by developing the product mix. In 2017, total sales volumes rose by 1.2% in the Steel, 4.6% in the Coal and 12.7% in the Steel, North America segments.

The Group plans to continue improving its cost base via a combination of 'top-down' and 'bottom-up' approaches to generating initiatives. Our 'employee-sourced' approach alone has identified a standalone potential annual effect of US$144 million, facilitated by EVRAZ Business System transformations. We expect to generate an even greater effect, as EVRAZ Business System transformations are implemented in 100% of our production shops. Overall in 2017, we delivered an EBITDA effect of US$267 million from our customer-focus and cost-cutting initiatives. We believe that these improvement processes are vital for our long-term competitiveness.

The Group's CAPEX strategy continues to concentrate on prudent investments. In 2017, our capital expenditures totalled US$603 million, of which US$236 million went on development projects and US$367 million on maintenance.

More than 50% of our development CAPEX was spent on constructing the blast furnace no.7 at EVRAZ NTMK and around 25% went towards various projects at EVRAZ North America. In 2018, we expect CAPEX to be around US$650 million, which we believe will provide sufficient resources for the strategic investments currently under consideration.

See more

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EVRAZ has disposed of several non-core and less efficient assets, such as EVRAZ NMTP, Evraz Sukha Balka and Evraz Yuzhkoks in 2017, with the aim of focusing the business model and making it more consistent.

The Group delivered strong financial results and met its deleveraging targets in 2017. This allowed us to disburse US$429.6 million in interim dividends. EVRAZ also received a 'BB' credit rating from S&P in 2017. Combined with the reduction in total debt, this should positively influence interest payments going forward.

Looking ahead, EVRAZ' goal is to maintain healthy net leverage and keep net debt in the range of US$3–4 billion. Doing so would enable us to hold leading positions in terms of total returns to shareholders and to resume regular dividends going forward.

Steel segment

The Steel segment remains the core of EVRAZ' business model, allowing it to maintain top positions in the global rail and regional construction steel markets. In 2017, the segment's EBITDA reached US$1,483 million, driven by the strong business model, favourable markets, synergies with the Coal division, and ongoing programme to improve efficiency.

One of the Steel segment's key strategic priorities is increasing the share of finished steel products. In 2017, we introduced successful initiatives to stimulate the demand for hot-rolled beams by substituting welded products, as well as promoting the use of steel in construction. This helped to boost the demand for H-beams by 6% in Russia.

Capital investment in the Steel segment totalled US$358 million for the period. We finalised the construction works for US$196 million project to build the blast furnace no. 7 at EVRAZ NTMK. This will allow us to conduct capital repairs on the blast furnace no. 6 without reducing pig iron production. We are also finalising EVRAZ NTMK's new 134 ktpa grinding ball mill, which we began building in 2016 and expect to launch in mid-2018.

Looking forward, we are considering projects to increase the share of finished steel in our portfolio, support iron ore mining volumes and maintain our current facilities to minimise risks. Next year, we are targeting 4.8 million tonnes of finished steel products output at our Russian plants, mostly in line with last years' figures.

The segment's strong financial performance in 2017 was also spurred by a 77% year-on-year surge in vanadium prices. With annual sales volumes of 15,672 mtV of finished vanadium products and a global market share of c.20%, our vanadium business generated additional US$200 million in revenues from ferrovanadium and chemicals last year.

Coal segment

The Coal segment is EVRAZ' fastest-growing business. In 2017, coking coal production rose by 4.7% year-on-year to 23.3 million tonnes, securing the Group's leading positions on the Russian and global coking coal markets. The segment's EBITDA nearly doubled last year to US$1,226 million.

These positive results were underpinned by favourable market conditions amid a shortage of seaborne coking coal supplies. Prices climbed by 56% to an annual average of US$101 per tonne on an FCA basis.

In addition to the supportive external environment, the Group's strategic decisions also facilitated such a strong performance. This includes the launch of a new premium low-volatile coking coal open pit at Raspadskaya-Koksovaya mine with a capacity of more that 1 million tonnes per year. This increased the level of vertical integration in the Steel and Coal segments, bringing our self-sufficiency in coal to 50% in 2017. In addition, the Coal segment launched several efficiency improvement projects at Raspadskaya, aimed at improving the washing yield.

In 2018, EVRAZ aims to strengthen the Coal segment's positions by increasing mining volumes at existing operations to more than 24 million tonnes and considering brownfield or greenfield expansion options, as well as by seeking prudent domestic acquisitions.

The coking coal concentrate rouble cash cost is expected to improve by 2% next year.

The Group remains committed to improving safe working conditions at all the Coal segment's mines to minimise the probability of an accident occurring.

Steel, North America segment

In 2017, EVRAZ North America delivered a better financial performance year-on-year, driven by the investment projects that it has implemented, as well as the recovery of oil prices and drilling activity in the US and Canada. The segment generated positive EBITDA of US$58 million, up 107% year-on-year.

This performance was supported by a rebound in the OCTG market, which drove sales volumes to 333 kt and a market share of 28% in Western Canada.

Other enhancements related to the North American rail market, where the Group sold 366 kt of rails and increased its market share to 34%.

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Last year, EVRAZ North America finalised two large investment projects in Regina, Canada, which helped to gain new capabilities to produce new products aimed at growing segments of large-diameter pipe market. These projects are already generating additional demand from clients and we can fully leverage this product development in 2018. We are also initiating two new investment projects in the US and Canada aimed at improving our OCTG product mix and strengthen cost position: heat treat capacities at the Red Deer ERW mill and threading at the Pueblo seamless pipe mill. We currently estimate total CAPEX for these projects at US$50 million.

In 2018, we forecast rolled steel production in North America to exceed 2 million tonnes, up c.10% year-on-year.

Outlook for 2018

Regarding 2018, we expect demand to grow further on both the Russian and North American steel markets, with prices stabilising at relatively high levels.

After reaching our net debt target in 2017, we have approved a new dividend policy for the benefit of our shareholders. This policy is based upon a level of regular dividends, with the potential for additional distributions if the long term growth prospects of the business and our commitment to invest in our operations and maintain a strong capital base permit.

As we progress in 2018, we remain committed to our vision and believe that our pipeline of investment projects and operational efforts, combined with favourable market conditions will enable us to generate strong financial results and benefit all our stakeholders.

Alexander Frolov
Chief Executive Officer