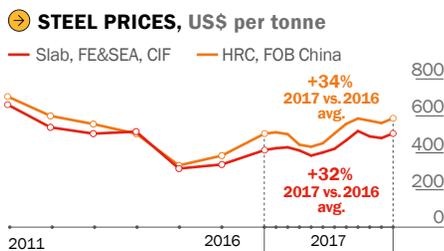


Market Overview

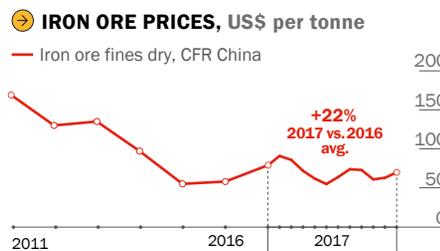
Global picture

In 2017, the positive trends seen in prices for steel and raw materials were supported by the ongoing supply optimisation, mainly in China, and by growing demand for steel and raw materials globally.

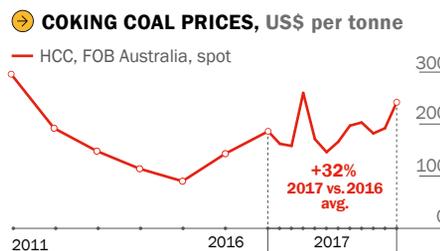


In 2017, steel prices surged by 32% year-on-year to an average of US\$446 per tonne, based on Slab CIF FE&SEA contracts. Prices peaked at US\$430 per tonne in March, gradually retreated to a bottom of US\$402 per tonne in June, and then quickly recovered to a new high of US\$518 per tonne in September. Such substantial growth was mainly driven by Chinese steel capacity optimisations and strong domestic demand. It was also supported by positive consumption trends in other global steel consumption markets, such as Europe, North America and Asia, which were up by an average of 3% during the year.

Steel sector optimisation in China presumed steel capacity cuts of 40 million tonnes in 2017, continuing the trend that the local government launched a year ago. Additional substantial capacity cuts of 120 million tonnes were related to shutdowns of induction furnaces, shipments from which were not previously reported in the official statistics. Meanwhile, Chinese steel demand continued to recover, with 730 million tonnes consumed during 2017, up 5% year-on-year due to strong property sales and stable infrastructure spending. Consequently, net Chinese steel export volumes fell by 29% to 71.7 million tonnes and the capacity utilisation rate surged by 6 percentage points to 76.9%. Chinese ecological regulations and shutdowns of inefficient production facilities have also elevated prices for products related to the steel industry, such as electrodes and refractory materials.

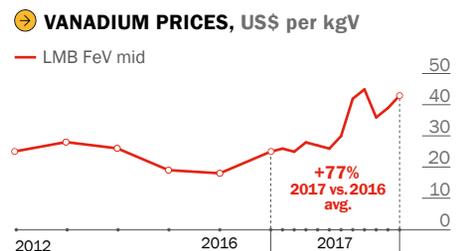


For the iron ore market, 2017 has been a period of high volatility. The 62% Fe CFR China price surged twice during the year, reaching US\$91 per tonne in February and US\$74 per tonne in August, pushing the average price up 22% year-on-year to US\$71 per tonne. Local price peaks were driven by a sharp increase in iron ore demand after closures of induction furnaces in China and by overall positive consumption sentiment. The peaks were also supported by delays in launching investment projects caused by suppliers' value-over-volume strategy. Booming profitability at steel mills, where margins on billet reached US\$177 per tonne in August, has supported demand for high-grade and direct charge iron ore, leading to a 5% climb in China's iron ore imports. A similar trend was seen in the seaborne pellet market, where the BF pellet premium reached US\$45 per tonne in Q3 2017.



The positive trend on the coking coal market continued in 2017, leading to an average price of US\$189 per tonne for hard coking coal spot FOB Australia contracts, up 32% year-on-year. In H1 2017, the hard coking coal price peaked

at US\$260 per tonne in April then dipped back to US\$146 per tonne in June. During H2 2017, prices remained within the borders of US\$160–250 per tonne. The latter was due to supply disruptions caused by the ongoing optimisation programme in China's domestic steam and coking coal industry that started in 2016 with an aim to close 4,300 small and inefficient mines, in addition to a ban on new coal mine approvals. Another coal supply disruptor was bad weather conditions, including Cyclone Debbie, which curtailed 13 million tonnes of Australian coking coal shipments, or about 3% of global shipments last year. Supply disruptions were partially substituted by higher-cost shipments from North America and other non-traditional suppliers. Additionally, Chinese imports grew 20% year-on-year to 71 million tonnes in 2017. As a result, a market balance squeeze was seen among major coal grades, especially premium ones.



In 2017, the LMB FeV price surged to US\$33 per kgV, up 77% from US\$18.5 per kgV in 2016. This was spurred primarily by the ban on vanadium slag imports in China and the closure of small producers in few provinces due to environmental checks. Another demand driver was China's announcement to revise rebar standards, which could introduce higher vanadium content for rebar products. These changes positively influenced global demand for the commodity and the supply response was limited due to the scarcity of vanadium production facilities.

TRENDS IN EVRAZ' CORE MARKETS

Steel

Russian construction steel markets recovered by 5% from the low levels of 2015-2016 due to favourable macroeconomic conditions, such as the 1.5% GDP growth and 21% rebound in oil prices. Another driver was substantial government expenditures on construction, including the ongoing modernisation of public transport systems (for example, US\$3.1 billion was spent to develop Moscow's metro and suburban train systems), as well as infrastructure and residential construction programmes.

Coal

Russian coking coal demand remained stable with concentrate consumption levels at 38 million tonnes, essentially flat year-on-year. The high-vol grades segment continued to be profitable, as the depletion of several large mines in Russia compensated for increased competition among these grades. Export shipments continued to grow due to favourable market conditions, rising by 3% year-on-year to 22 million tonnes.

Steel, North America

In 2017, US steel demand rebounded by 6.7% year-on-year to 97 million tonnes due to positive trends in the manufacturing, machinery and energy industries. About 50% of the increase in apparent steel consumption has been captured by finished steel imports, which were up 3.2 million tonnes. The remaining half of the increased domestic demand has been met by higher domestic shipments.

Long-term prospects

Global urbanisation

Urbanisation in developing countries, as well as continued development of advanced economies, remains the largest demand driver for steel and other commodities.

According to United Nations data, an estimated 55% of the world's population lived in urban settlements in 2017. By 2030, urban areas are projected to house 60% of people globally. This rise will require significant investments in housing and infrastructure construction, which will lead to an increase in steel demand.

As a clear example, increasing urbanisation in China over the last 15 years has led to an upturn in steel consumption per capita from around 100 kilogrammes per capita in the beginning of 2000, to some 543 kilogrammes per capita in 2017, compared with 388 kilogrammes per capita in developed countries. Apart from organic growth, in cooperation with other countries, China can also add about 150 million tonnes to global steel demand by implementing its "belt and road" initiative, a long-term plan to develop infrastructure and rebuild ancient land and sea trading routes from China to Europe. Another country with strong steel demand growth potential is India, which in recent years has delivered steady economic growth and had steel consumption of only c. 65 kilogrammes per capita in 2015.

Russian construction industry to regain growth

Russia's construction industry is expected to grow at an annual average rate of 1.8%, reaching US\$301 billion in 2021 due to the ongoing modernisation of public

infrastructure, government construction programmes, and residential construction growth.

Russia has extremely high potential in terms of steel usage intensity in construction, as less than 10% of its buildings are constructed using steel frames, compared with more than 70% in developed countries such as the UK and US. During the last two years, EVRAZ has been working to promote beam demand in Russia by collaborating with project institutions, as well as improving product availability to clients.

The ongoing modernisation of public infrastructure will be a key source of support for growth in construction activity. Under the railway development strategy for 2030, the government plans to lay 20,000 kilometres of track at a cost of US\$62.5 billion. Other projects envisage building 78 new metro stations and 160 kilometres of new track, and renovating dilapidated airport infrastructure through an investment of US\$3.4 billion by 2020.

Russia's construction industry has tremendous potential due to the current low level of residential property per capita and the extremely low mortgage activity when compared with developed countries. Russia has only 20-25 square metres of housing per capita, compared with 44 square metres per capita in the UK and 70 square metres per capita in the US. The government's focus on the development of affordable housing for middle- and low-income groups is expected to drive market growth. Moscow's renovation programme entails spending roughly US\$58 billion on residential housing construction in the next five years. Additionally,

declining lending interest rates will contribute even more to residential construction growth across the country.

North America

The upgrade of and significant investments into US and Canadian infrastructure will support demand for steel products in the region.

The American Society of Civil Engineers says that the US needs massive investments in all essential infrastructure, from bridges and airports to dams and railways. The government's current investment programme views US infrastructure as an opportunity for accelerated economic growth, targeting spending US\$1 trillion on new investments by private institutions over 10 years. That programme will provide transportation, water, telecommunications and energy infrastructure needed to enable new economic development in the country.

Infrastructure construction is very steel-intensive, which should support the demand for major steel products for several years, especially in structural steel, rails, tubes and plates.