CHIEF EXECUTIVE OFFICER'S LETTER

Dear shareholder,

The year 2015 was challenging year both for the global steel industry and for EVRAZ. The first half of the year was positively impacted by the Russian rouble devaluation, which significantly lowered the Group's costs and improved profitability. By the end of the year, however, lower prices of steel and bulk commodity products had negatively impacted EVRAZ results.

Alongside the negative global dynamics, the key markets of Russia and North America faced specific regional issues. Stagnation in the Russian economy led to a fall in domestic steel consumption in the construction and infrastructure segments of 14% year-on-year. The North American market was affected by low oil and gas activity and high steel imports. The market for coking coal was mainly driven by a decline in Chinese imports, and prices dropped by 21% year-on-year.

In response to the difficult environment, EVRAZ introduced a programme of countermeasures, delivering continuous revenue and cost improvements. In 2015, they contributed an additional US$374 million to EBITDA, which together with working capital and investment discipline resulted in a strong year end free cash flow. The Group also sought to acknowledge the ongoing support of both its equity and credit investors, conducting a share buyback of US$339 million and reducing net debt by US$465 million in 2015.

Strategy: focus on competitive advantages

In 2015, EVRAZ maintained a strong focus on its competitive advantages to meet the challenges of the current market, extending its leadership in infrastructure steel products worldwide and in the Russian coking coal market.

Leader in infrastructure steel products

The Group's work to develop high-value-added steel products in Russia and North America is of great importance for enhancing its favourable positions in key market segments.

In 2015, EVRAZ's railway product business sold 545 thousand tonnes of special-purpose premium rails to Russian Railways and exported 150 thousand tonnes of rails and wheels, including to CIS countries. The Group obtained the necessary quality certification and developed its customer base in new destinations, such as Brazil, Turkey, Malaysia, Vietnam, Cuba, Peru, Slovenia and the Czech Republic.

Expanding its international presence in another segment, EVRAZ exported 806 thousand tonnes of construction steel products from its Russian mills in 2015, up by 80 thousand tonnes from 2014. The Group supplying the markets of United States, United Kingdom, United Arab Emirates, Hong Kong and Taiwan as well as multiple other overseas destinations with beams, rebar and wire rod.

Due to the strong oil and gas transmission market in the US and Canada and established client relationships there, EVRAZ increased sales of large-diameter pipes (LDP) by 6% in 2015.

Altogether, customer focus initiatives contributed US$53 million to the Group's EBITDA in 2015.

Strong position in coking coal market

As the largest producer of coking coal in Russia, EVRAZ considers this part of its business to be an important separate value stream, one that brings product diversification and a strong client base in Russia and abroad.

In 2015, EVRAZ sold 10 million tonnes of coking coal domestically, half of which were external sales mostly covered by long-term contracts. Its share in of the market for fat grades was c.43% for the year.

In 2015, the Group increased coking coal sales to the premium markets of Japan, South Korea, Europe and Ukraine during the year to 2.7 million tonnes.

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Vertically integrated low-cost operations

US$ 321 million
of cost savings

Having low-cost operations is crucial for EVRAZ, especially in a period of declining steel and raw material prices. During 2015, the Group implemented a strong pipeline of initiatives to improve its cost position in key segments.

EVRAZ achieved US$321 million of cost savings in 2015, as per management accounts adjusted to eliminate macroeconomic affects (such as exchange-rate fluctuations and inflation) and once-off expenditures (such as employee severance payments and other discontinuation costs), reaching the initially stated target. The main contributors were improvements in raw material consumption yields and in productivity, the energy efficiency programme, maintenance procedures, general and administrative expenses, and asset optimisation.

Delivering the focus on key assets EVRAZ sold its non-core structural tubing business in Portland, the US, for US$51 million.

During the year, EVRAZ completed two investment projects that improved its long-term cost competitiveness. The billet caster at ZSMK was rebuilt (total CAPEX of US$50 million) and the upgraded equipment was recommissioned in the fourth quarter. The project aimed to increase the capacity of the facility's continuous casting machine from 1.2 million tonnes to 2.2 million tonnes to partly replace the billet volumes produced at the blooming mill and then processed into long steel products or exported. Lower yields and conversion consumables of new equipment improved billet cash costs, supporting profitability of exports. Overall, the Group's semi-finished products cash costs[1] were US$195 per tonne for 2015, allowing all exports to be sold profitably.

EVRAZ also completed the transformation of the Sheregesh iron ore mine (total CAPEX of US$72 million), under way since 2014. By increasing the run-of-mine capacity from 2.2 million tonnes to 4.8 million tonnes and applying new underground mining technologies, the project reduced iron ore cash costs at the mine by 49%. In 2015, the Group's iron ore products cash costs[1] were US$30 per tonne, lower than the domestic market price of US$44 per tonne, proving the efficiency of its vertically integrated business model.

Operating results

Despite the market downturn, EVRAZ was able to maintain full utilisation capacity in 2015 due to its low cost positions across the industry. The Group also maintained its premium product portfolio, helping to mitigate margin deterioration.

Crude steel production volumes at the Group's mills in Russia and Ukraine were lower by 3% overall, mainly because of planned downtime due to investment projects. Product

[1] *FCA basis*

US$ 799 million

Free cash flow

portfolio improvements and the increase of international exposure helped EVRAZ reach the production target of 694 thousand tonnes of rails at the new mill at ZSMK. The Group is committed to reaching full capacity in 2016 by increasing rail volumes by a further 100 thousand tonnes.

Steel production at the North American operations declined by 9.4% year-on-year, mainly due to planned outages at steelmaking facilities and moderate demand, although key product results were strong. LDP production volumes were 0.4 million tonnes while rails volumes were 0.5 million tonnes.

In 2015, coking coal production volumes at operating mines were relatively stable at 20.9 million tonnes, while the care and maintenance of the MUK-96 mine was off-set by an increase in volumes at the Raspadskaya mine.

Financial performance

Despite the market conditions, the Group's cost-efficiency programme and market initiatives helped to achieve an EBITDA margin of 16.4% in 2015, just 1.6 percentage points lower than in 2014. Total EBITDA was US$1,438 million, 38.9% lower than US$2,355 million in 2014. The Group incurred a net loss in 2015 of $719 million, 43.7% lower than the loss of US$1,278 million in 2014.

EVRAZ was able to show strong net cash flows from operating activities which contracted only by 17% from US$1,957 in 2014 to US$1,622 in 2015, US$329 of which is attributed to changes in net working capital.

During the year total capital expenditures of EVRAZ were US$428 million, 35% lower than US$654 million in 2014 mainly due to the completion of major capital-intensive projects and Russian rouble devaluation.

Free cash flow totalled US$799 million in 2015, allowing EVRAZ to make a share buyback offer and reduce net debt. As of 31 December 2015, the Group's net debt was US$5,349 million,compared to US$5,814 million a year earlier.

Outlook

As the world moves into 2016, the fundamentals of the steel and bulk commodities industries remain poor. Given the current environment, EVRAZ will remain focused on cost efficiency and product development to support its financial stability and optimise its positioning to enable it to capitalise on any recovery in wider market conditions.

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