

Steel segment

EVRAZ sales volumes

In 2015, EVRAZ Steel segment external steel product sales volumes fell by 2.7% year-on-year, although different product groups exhibited different dynamics. Sales volumes of semi-finished steel products to 3rd parties increased by 18.2% year-on-year mainly due to reduced internal slab consumption of North American operations and lower demand for finished steel products. Construction products sales volumes fell by 10.8% year-on-year due to weak demand in the local Russian and Ukrainian markets. Sales volumes of railway products, including rails and wheels, dropped by 24% overall. External sales volumes of flat-rolled products dropped by 51.5% in 2015, mostly following the deconsolidation of EVRAZ Vitkovice Steel and EVRAZ Highveld Steel and Vanadium. Another factor was lower sales of third-party producers' flat-rolled goods by EVRAZ Metall Inprom, amid reduced demand.

EVRAZ sales volumes of key finished products in Russia declined in 2015. Russian rebar sales fell by 20% year-on-year due to the slowdown in construction and lower mortgage issuance. Beam sales dropped by 24% year-on-year and angles and channel sales by 18% due to lower domestic infrastructure investment. The most significant decline was in wheel sales, which slumped by 35% due to extremely low railcar production. While Russian Railways bought 3% fewer rails from EVRAZ in 2015, volumes were in line with the contracts. At the same time, sales of grinding balls rose by 17% amid new mining projects in Russia.

Sales volumes of Steel segment, kt

	2015	2014	Change,%
Steel products, external sales	12,227	12,566	(2.7)%
Semi-finished products	5,600	4,737	18.2%
Construction products	4,583	5,140	(10.8)%
Railway products	1,007	1,325	(24.0)%
Flat-rolled products	383	789	(51.5)%
Other steel products	654	575	13.7%
Steel products, intersegment sales	560	954	(41.3)%
TOTAL STEEL PRODUCTS	12,787	13,520	(5.4)%
Vanadium products (tonnes of pure vanadium)	18,074	20,806	(13.1)%
Vanadium in slag	4,082	3,220	26.8%
Vanadium in alloys and chemicals	13,992	17,586	(20.4)%
Iron ore products	4,421	4,542	(2.7)%
Pellets	1,388	1,288	7.8%
Other iron ore products	3,033	3,254	(6.8)%

Despite the slowdown of domestic shipments during 2015, EVRAZ was able to preserve its leading positions in key high-value-added product segments. Its share of the domestic rebar market was stable at 16%. Market shares for beams, structural shapes (channels and angles) and wheels showed slight decline and were 64%, 48% and 28% respectively. Grinding balls market share increased to 68%. EVRAZ remained the leader in rail production with 97% market share for the year.

EVRAZ Caspian Steel ramped up production during the year reaching rebar sales of 0.3 million tonnes in 2015. It sold these predominantly in Kazakhstan and neighbouring Central Asian countries.

Despite the turbulence in the Ukrainian market, EVRAZ DMZ Petrovskogo kept steel products' sales stable at 0.9 million tonnes and increased export shipments in 2015.

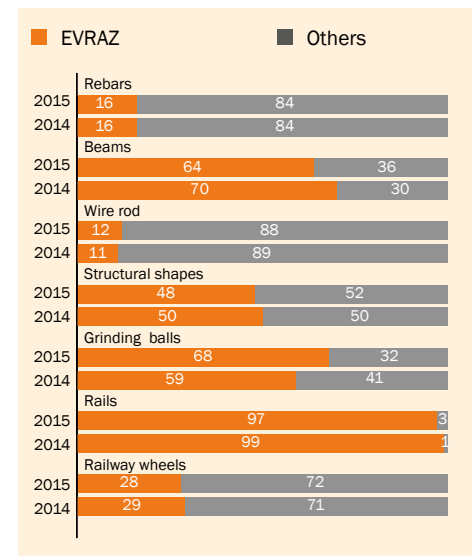
EVRAZ vanadium product sales volumes fell by 13.1%, from 20.8 thousand tonnes of pure vanadium in 2014 to 18.1 thousand tonnes in 2015.

EVRAZ sold 1.4 million tonnes of iron ore pellets to 3rd parties in the year, up 7.8% from 2014, due to an increase in domestic orders. Other iron ore product external volumes dropped by 6.8% year-on-year due to weak demand in Ukraine and deconsolidation of Highveld.

In 2015, EVRAZ demonstrated flexibility in redirecting sales from the domestic to the export market, thereby maintaining production and helping to increase profitability. Steel product sales outside Russia and the CIS reached 5.8 million tonnes, up 13% year-on-year. EVRAZ significantly enhanced its sales to Europe, which reached 1.6 million tonnes, maintained stable shipments to Asia, which declined only by 5%, and increased sales to other global destinations by 15% to 1.2 million tonnes.

As part of EVRAZ commitment to its customers, the Group maintains a continuous focus on enhancing the export of premium products. In 2015, outside Russia and the CIS, EVRAZ sold 31 thousand tonnes of rails and wheels (up 59% from 2014), 191 thousand tonnes of beams (up 12%) and 170 thousand tonnes of rebar (up 277%).

EVRAZ market share in Russia by key products, volumes



Source: Metal Expert

Geographic breakdown of external steel product sales, kt

	2015	2014	Change, %
Russia	5,413	6,428	(15.8)%
Asia	3,020	3,182	(5.1)%
Europe	1,617	956	69.1%
CIS	987	965	2.3%
Africa, America and the rest of the world	1,190	1,035	15.0%
TOTAL	12,227	12,566	(2.7)%

Trends in the Russian steel market

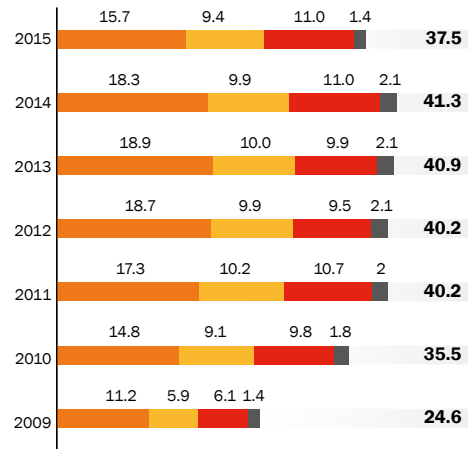
The Russian economy contracted by 3.7% in 2015, causing domestic steel consumption to decrease. Russia consumed 37.5 million tonnes of steel products in 2015, down 9.4% from 41.3 million tonnes in 2014. Demand fell by 14% for long steel, 6% for flat products and remained unchanged for tubular products. At the same time, the rouble devaluation decreased local steelmakers' costs and made them more competitive in international markets. This boosted export sales (28 million tonnes in 2015, up 6.6% from 2014) and helped overall production to remain mostly unchanged year-on-year.

During 2015, steel prices in Russia were generally lower year-on-year. The rebar price CPT Moscow averaged US\$352 per tonne, down 33% from US\$528 per tonne in 2014. Channels averaged US\$423 per tonne, down 27% from US\$579 per tonne in 2014. Prices of flat steel products were generally stronger than those of long products in 2015. Hot-rolled coil averaged US\$394 per tonne CPT Moscow, down 21% from US\$499 per tonne in 2014. Plates averaged US\$433 per tonne, down 16% from US\$516 per tonne in 2014.

EVRAZ does not anticipate substantial steel demand improvements in Russia in 2016. The situation will be driven by construction activity, fixed asset investment, oil prices and mortgage market dynamics.

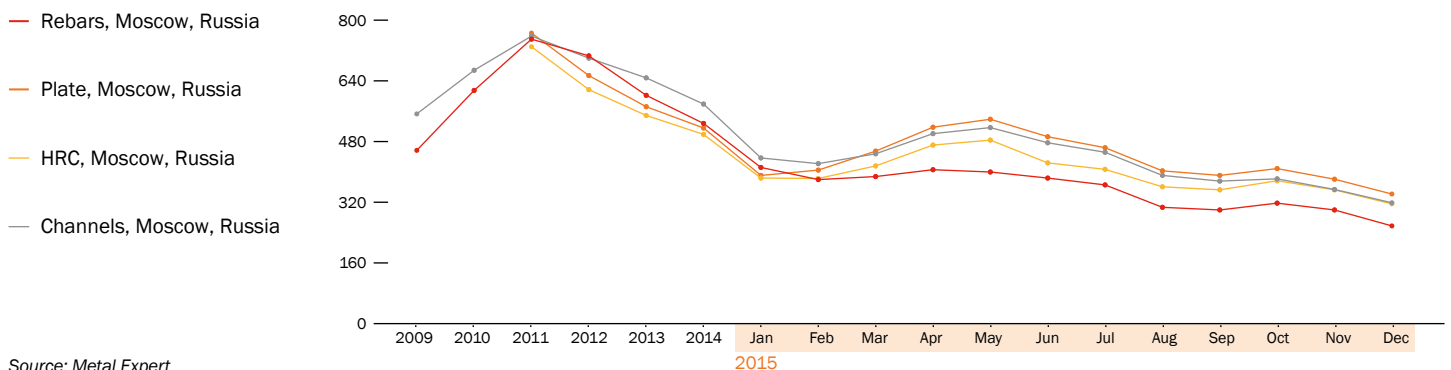
Russian steel consumption by product type, mt

- Long products ■ Flat products
- Δ 2015/2014 -14% Δ 2015/2014 -6%
- Tubular products ■ Metalware
- Δ 2015/2014 0% Δ 2015/2014 -33%



Source: Metal Expert

Russian steel: prices, US\$/t



Source: Metal Expert

Trends in other steel segment markets

In 2015, instability in Ukraine led to lower demand in that market. Internal consumption declined by 19%, from 4.2 million tonnes in 2014 to 3.4 million tonnes. In addition, overall crude steel production fell by 15.6%, from 27.1 million tonnes in 2014 to 22.9 million tonnes. Steel exports fell by 16% to 17.5 million tonnes.

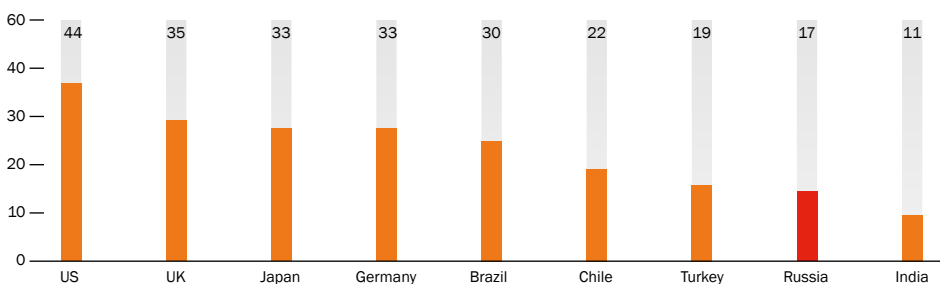
Kazakh steel consumption was relatively stable in 2015 at 2.8 million tonnes of steel products. Domestic companies produced 3.6 million tonnes of crude steel last year, down only 3% from 2014. Exports of steel products were 2.5 million tonnes, down 1% from 2014. Imports declined by 10% to 1.8 million tonnes.

As 90% of vanadium is consumed by the steel industry, slowing demand impacted the global market for the metal in 2015. Total consumption decreased by 4%, from 83 thousand mtV in 2014 to 80 thousand mtV. The average LMB ferrovanadium price was US\$18.6 per kgV in 2015, 27% lower than US\$25.5 per kgV in 2014.

Long-term prospects:

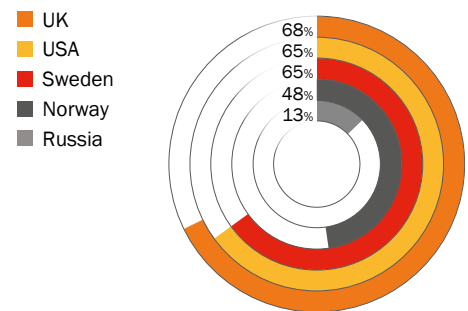
- ⊕ Russia currently has only 17 square metres of living space per person, compared with more than 30 square metres in the US, UK, Japan and Germany. This gap highlights the potential for an increase in residential construction, supporting domestic demand for long steel.
- ⊕ In non-residential construction, the potential for greater steel demand relates to the way buildings are constructed. While more than 65% of buildings have steel-frame constructions in developed countries, the figure is only 13% in Russia. Moving from concrete-based to steel-based construction could boost the market for structural and infrastructure steel segments.

Infrastructure: floor space – square metres per capita



Source: OECD, EIU

Share of buildings with steel frames, %



Source: Steel Construction Institute, Rosstat