



CEO LETTER



Dear stakeholder,

This is my inaugural letter as CEO of EVRAZ, which is an honour for someone who has been with the company for almost two decades. In my new role, I intend to ensure that EVRAZ strengthens its leading positions, while preserving its unique corporate DNA and keeping the business model sustainable in the rapidly changing external environment.

Aleksey Ivanov
Chief Executive Officer

Sustainability

We are in the steelmaking business – an important component for global infrastructure rebuild as people strive to improve the quality of their living in the years to come. Steel will play a significant role in the decarbonised circular economy. EVRAZ recognises the need to produce it in a better way for the environment. We continuously review every aspect of our business to identify where we could do better using the resources and engineering available today, while keeping a close eye on advances in technology. Moreover, we address how we can ensure shareholder returns, improve natural resource use and maintain close ties with our employees and communities where we operate, and other stakeholders.

In 2021, EVRAZ continued to improve its environmental footprint. Our Board of Directors approved a new set of targets for 2030 against 2019 baseline. The goals include to:

- Reduce greenhouse gas emissions (Scope 1 and 2) by 20% to 1.55¹ tCO₂e per tonne of crude steel produced.
- Cut atmospheric emissions from steel production by 33%.
- Zero wastewater discharges from steel production.
- Recycle 95% of general and metallurgical waste.

One of our overriding priorities is the safety of our employees and contractors. Last year was the second year of the global COVID-19 pandemic. EVRAZ is moving along the learning curve on protecting our employees in these turbulent times by adding new risk management practices, protocols and other measures to avoid business disruptions. Among our employees, the rate of vaccination, a vital tool in tackling coronavirus, is 74% of employees in Russia and over 50% of employees in North America. While paying attention to COVID-related risks, we also constantly review our regular ones to ensure the health and safety of our 71,591 team members around the world.

Regretfully, in 2021, we lost 6 employees and there were 2 fatalities among our contractors. We have thoroughly investigated the root causes of these tragedies and introduced corrective measures to mitigate future risks. We also provided the necessary support and assistance to the families affected.

Through focused efforts across the company, we reduced our lost-time injury frequency rate (LTIFR¹) to 1.21x in 2021, down from 1.35x in 2020.

Raspadskaya demerger

In the reporting period, we announced the demerger of Raspadskaya, our coal business, a process currently expected to complete in late March 2022. In our view, the demerger will establish a clear and focused equity story for both companies and provide greater flexibility to execute dedicated strategy for each. EVRAZ will continue its journey as a low-cost integrated steelmaker, adding finished goods and capacity to produce premium ones for infrastructure projects. Raspadskaya, in turn, will be able to seek business combinations that are more difficult to achieve in the current corporate structure.

Markets

Despite COVID-related restrictions, market conditions supported our operational and financial results in 2021. Both iron ore and coking coal prices spiked to new highs, quickly translating into stronger prices for semi-finished and finished steel products. Across the markets in which we operate, demand was healthy. In the reporting period, global steel demand rose by 3.1% year-on-year amid a recovery following the first year of pandemic and decarbonisation efforts, especially in China.

Whilst there have not been direct impacts on the Group to date, the Board continues to monitor the situation in Ukraine and the response of international governments.

LTIFR in 2021²

1.21x

1. Base year (2019) results were recalculated due to the updated values of global warming potentials from the IPCC's Fifth Assessment Report and Russia's new Scope 2 emission factors (see the page 64). In addition, the quality of primary data gathering in the Company has improved, which resulted in the decrease of base year GHG intensity to 1.94 tCO₂e/tcs vs. previously reported 1.97 tCO₂e/tcs. The goal (-20%) was recalculated accordingly and reduced to 1.55 tCO₂e/tcs vs previously indicated 1.58 tCO₂e/tcs.

2. Including contractors

Investments

Last year, we moved from conducting feasibility studies and design work to executing our key projects that will contribute to the company's strategy in the medium term. In Russia, three major initiatives will require management focus in the next few years. First, at EVRAZ ZSMK, we are working on a new integrated flat casting and rolling facility. We are now at engineering stage and are conducting preparation works for infrastructure. Once completed, the mill will produce around 2.5 million tonnes of finished steel products a year, contributing to the business model shift towards premium products. This is our crucial investment project that aims to increase the share of finished products to 77% in our sales portfolio. Once commissioned, which is due in 2026, it will add around US\$130 million to our EBITDA at an overall cost of US\$767 million. Second, as part of extending our value chain

in the vanadium business, we have started a vanadium processing plant construction with a design capacity of 8.6 mtpa of slag to reduce tolling practices. The facility is scheduled to become operational in 2024, adding c.US\$60 million to company EBITDA at a total cost of US\$228 million. Third, we are upgrading the rail mill at EVRAZ NTMK, an important project that will cater to domestic customers – and we have finished engineering works and conducting tenders with contractors. We also already have an offer from an equipment supplier and doing part of the necessary preparatory works. In North America, we are constructing a high-efficiency long product mill at Pueblo in Colorado, which will produce 100-metre rails using solar power. This will help to maintain our technical leadership and contribute to the shift to a higher value-added product mix. Due to become operational in 2023, the facility will add c. US\$70 million each year to our EBITDA at a total project cost of US\$726 million

In total, EVRAZ invested US\$403 million in development projects and US\$517 million in maintenance initiatives in 2021, in line with its strategic priorities and payback targets. Our long-term CAPEX programme will help us to maintain a diversified product portfolio in the niches where the company retains leading positions, as well as to remain at the lower end of the cost curve.

In parallel, we are actively looking for efficiencies in our daily operations that will contribute to our financial performance. Most of the projects aim to enhance customer experience, reduce costs and optimise the use of input materials. In the reporting period, such improvements generated US\$590 million, mainly in the steel segment. Another vital improvement pillar is digital transformation, which brought savings of US\$65 million from more than 170 projects last year.



Operational and financial results

In 2021, our crude steel production remained almost flat year on year and amounted to 13,569 kt. Total segment EBITDA reached US\$5,015 million. Total segment EBITDA includes that from continuing operations (US\$3,692 million) and discontinued operations (US\$1,323 million). This strong result is mainly attributed to higher sales prices of steel products, coal, and vanadium. The Steel segment's EBITDA increased by 87% to US\$3,609 million with the Coal segment generating US\$1,292 million and North America segment making US\$321 million.

EVRAZ reduced its net leverage and ended 2021 with net debt/EBITDA of 0.5x (net debt of US\$2,667 million).

Overall, EVRAZ was able to generate strong free cash flow of US\$2,257 million (121% y-o-y), which made it possible to pay dividends of US\$1,549 million. EVRAZ total shareholder return (TSR) reached 48% in 2021.



Aleksey Ivanov
Chief Executive Officer



OUTLOOK FOR 2022

In 2022, we will press ahead with further improving our ESG performance and strengthening our culture of continuous operational improvement. I strongly believe in our long-term success given the commitment of our employees, who represent the forefront of the industry.