

FINANCIAL PERFORMANCE

Sales review

The segment's revenues from the sale of steel products grew significantly due to rises of 22.6% in prices and 14.4% in volumes. This was mainly attributable to the improved productivity at the spiral mill and greater demand on the tubular market, mostly for line pipe and large-diameter pipe, as market demand continued to develop through 1H 2018 in support of oil price recovery and the recent approval of new pipelines in Canada and the US pipelines.

Construction products revenues increased by 55.3% due to an upswing in prices of 36.2% and sales volumes of 19.1% as a result of improved demand for concrete reinforcing bar and wire rod products produced at EVRAZ Pueblo and Section 232 tariffs. End use demand improved with increased spending in the energy, infrastructure and non-residential construction markets. The Section 232 tariffs implemented in mid-2018 led to fewer rebar and wire rod imports to the US market, further increasing demand for domestic producers.

Railway product revenues increased by 23.0%, driven by growth in volumes of 12.0%, 11.0% increase was attributed to surges in average prices.

Revenues from flat-rolled products climbed due to an uptick in prices of 28.9% and in sales volumes of 10.9% primarily at EVRAZ Portland. The increase was primarily related to commodity plate sales in the view of the improved demand for US-produced materials as a result of Section 232 tariffs introduction, which lowered imported tonnes, and greater demand from wind tower business.

Revenues from tubular product sales grew by 33.4% year-on-year due to increases of 9.9% in volumes and 23.5% in prices. This was driven by stronger sales of line pipe due to favourable market conditions and large-diameter pipe due to new orders achieved during 2017-18, as well as improved productivity at the spiral mill.

Cost of revenues

In 2018, the Steel, North America segment's cost of revenues surged by 33.8% year-on-year. The main drivers were:

- Cost of semi-finished products was up 87.8% due to higher prices for purchased materials, steel import duties and increased sales volumes of steel products;

- Auxiliary material costs climbed by 66.2%, driven by increased costs of electrodes and higher production volumes of crude steel and finished products;
- Service costs went up 57.3%, driven by greater volumes of coating, outside repair, finishing and other services, in line with the year-on-year rise in sales volumes;
- Raw material costs rose by 15.7%, primarily because of higher prices of scrap and ferroalloys, accompanied by greater consumption due to increased sales volumes of tubular products amid the market recovery seen in the reporting period;
- Other costs were down for the reporting period, primarily due to changes in work in progress and finished goods.

Gross profit

The Steel, North America segment's gross profit totalled US\$368 million for 2018, up from US\$208 million a year earlier. While the growth was primarily caused by an increase in revenues due to improving market conditions, it was partly offset by higher prices for purchased semi-finished products, auxiliary materials and scrap.

Steel, North America segment revenues by product

	2018		2017		Change, %
	US\$ million	% of total segment revenues	US\$ million	% of total segment revenues	
Steel products	2,430	94.1	1,774	95.2	37.0
Semi-finished products	39	1.5	4	0.2	n/a
Construction products ¹	247	9.6	159	8.5	55.3
Railway products ²	380	14.7	309	16.6	23.0
Flat-rolled products ³	597	23.1	427	22.9	39.8
Tubular products ⁴	1,167	45.2	875	47.0	33.4
Other revenues⁵	153	5.9	90	4.8	70.0
Total	2,583	100.0	1,864	100.0	38.6

Steel, North America segment cost of revenues

	2018		2017		Change, %
	US\$ million	% of segment revenues	US\$ million	% of segment revenues	
Cost of revenues	2,215	85.8	1,656	88.8	33.8
Raw materials	746	28.9	645	34.6	15.7
Semi-finished products	569	22.0	303	16.3	87.8
Auxiliary materials	246	9.5	148	7.9	66.2
Services	195	7.5	124	6.7	57.3
Staff costs	286	11.1	254	13.6	12.6
Depreciation	101	3.9	95	5.1	6.3
Energy	119	4.6	111	6.0	7.2
Other ⁶	(47)	(1.7)	(24)	(1.4)	100.0

¹ Includes beams, rebar and structural tubing

² Includes rails and wheels

³ Includes commodity plate, specialty plate and other flat-rolled products

⁴ Includes large-diameter line pipes, ERW pipes and casing, seamless pipes, casing and tubing, and other tubular products

⁵ Includes scrap and services

⁶ Primarily includes transportation, goods for resale, certain taxes, changes in work in progress and fixed goods, and allowances for inventories.