

FINANCIAL PERFORMANCE

Sales review

In 2018, revenues from the Steel segment climbed by 14.7% to US\$8,879 million, compared with US\$7,743 million a year earlier. The segment's revenues were affected by rising sales prices for vanadium products and steel, primarily for finished products, which was partly offset by lower sales volumes of vanadium products and steel.

Revenues from sales of construction products to third parties grew by 5.0%: a 6.4% increase was attributed to surges in average prices which was partly offset by a 1.4% reduction in sales volumes amid a slowdown of construction work in Russia.

Revenues from external sales of railway products rose due to a 6.9% increase in prices, which was supported by market upside growth of 4.9% in sales volumes. Greater sales of railway products during the reporting period were attributable to higher demand for wheels as the Russian market entered a new cycle in railcar production and due to signing a new five-year contract with Russian Railways.

External revenues from flat-rolled products jumped by 32.6%, driven by surges of 11.9% in average prices and 20.7% in sales volumes amid an improving market situation. This was in line with global market trends and the increased production volumes at EVRAZ Palini e Bertoli.

The share of sales to the Russian market grew from 48.4% in 2017 to 49.5% in 2018, mainly due to a shift from sales to Europe and the CIS.

Steel segment revenues from sales of iron ore products rose by 32.3%. This was due to a 26.3% increase in sales price, accompanied by 6.0% rise in sales volumes. In 2018, around 70.2% of EVRAZ iron ore consumption

in steelmaking came from the Group's own operations, compared with 66.5% a year earlier.

Steel segment revenues from sales of vanadium products surged by 111.4%. A 124.6% was attributed to an upswing in sales prices, which was partly offset by a 13.2% decrease in sales volumes. Reduction in sales volumes was caused by a low-base effect from higher oxide availability in 2017 due to the conversion of slag stocks at third parties; production downtime due to the launch of blast furnace No. 7 at EVRAZ NTMK and maintenance at EVRAZ Vanady-Tula; and the fact that no Nitrovan sales from EVRAZ Vametco were being included in the 2018 reporting following its deconsolidation in May 2017.

Geographic breakdown of external steel product sales, US\$ million

	2018	2017	Change, %
Russia	3,258	3,012	8.2
Asia	1,810	1,492	21.3
Europe	653	701	(6.8)
CIS	482	528	(8.7)
Africa, America and rest of the world	377	486	(22.4)
Total	6,580	6,219	5.8

Steel segment revenues by products

	2018		2017		Change, %
	US\$ million	% of total segment revenues	US\$ million	% of total segment revenues	
Steel products, external sales	6,580	74.1	6,219	80.3	5.8
Semi-finished products ¹	2,521	28.4	2,523	32.6	(0.1)
Construction products ²	2,280	25.7	2,171	28.0	5.0
Railway products ³	965	10.9	863	11.1	11.8
Flat-rolled products ⁴	415	4.7	313	4.0	32.6
Other steel products ⁵	399	4.4	349	4.6	14.3
Steel products, inter-segment sales	334	3.8	284	3.7	17.6
Including sales to Steel, North America	321	3.6	270	3.5	18.9
Iron ore products	254	2.9	192	2.5	32.3
Vanadium products	1,152	13.0	545	7.0	111.4
Other revenues	559	6.3	503	6.5	11.1
Total	8,879	100.0	7,743	100.0	14.7

¹ Includes billets, slabs, pig iron, pipe blanks and other semi-finished products

² Includes rebar, wire rods, wire, beams, channels and angles

³ Includes rail, wheels, tyres and other railway products

⁴ Includes commodity plate and other flat-rolled products

⁵ Includes rounds, grinding balls, mine uprights and strips

Cost of revenues

In 2018, the Steel segment's cost of revenues decreased by 3.1% year-on-year. The main reasons for the reduction were:

- The cost of raw materials fell by 9.5%, mainly due to reduced costs of iron ore (down 24.0%), coking coal (down 10.8%) and other raw materials (down 10.5%) following to the disposal of EVRAZ DMZ in March 2018 and Yuzhkoks in December 2017, as well as the effect of the weaker rouble. This was partly offset by higher cost of scrap (up 10.3%) due to higher prices;
- Transportation costs dropped by 8.9%, primarily due to the rouble's depreciation, and the disposal of EVRAZ Sukha Balka in June 2017;
- Staff costs were down 7.4%, largely because of the effect that rouble weakness had on costs and due to the disposal of EVRAZ DMZ;

- Depreciation and depletion costs decreased by 7.9%, primarily due to rouble's depreciation;
- Energy costs were lower due to the weaker rouble and disposal of EVRAZ DMZ;
- Other costs increased, primarily due to changes in goods for resale and semi-finished products.

Gross profit

The Steel segment's gross profit surged by 67.7% year-on-year, driven primarily by higher vanadium and steel prices, accompanied by the effect that rouble weakening had on costs. This was partly offset by a rise in prices for purchased raw materials (particularly for scrap).

Steel segment cost of revenues

	2018		2017		Change, %
	US\$ million	% of segment revenues	US\$ million	% of segment revenues	
Cost of revenues	5,613	63.2	5,795	74.8	(3.1)
Raw materials	2,494	28.1	2,756	35.6	(9.5)
Iron ore	369	4.2	485	6.3	(24.0)
Coking coal	1,209	13.6	1,356	17.5	(10.8)
Scrap	514	5.8	466	6.0	10.3
Other raw materials	402	4.5	449	5.8	(10.4)
Auxiliary materials	343	3.9	334	4.3	2.7
Services	284	3.2	269	3.5	5.6
Transportation	409	4.6	449	5.8	(8.9)
Staff costs	491	5.5	530	6.8	(7.4)
Depreciation	222	2.5	241	3.1	(7.9)
Energy	429	4.8	474	6.1	(9.5)
Other ⁶	941	10.6	742	9.6	26.8

⁶ Includes goods for resale, changes in work in progress and finished goods, taxes in cost of revenues, semi-finished products, allowance for inventory and inter-segment unrealised profit.