Sales volumes review

EVRAZ' coking coal product sales climbed by 5% to 16.3 million tonnes in 2017, compared with 15.6 million tonnes in 2016, due to stable local and export demand, as well as higher production volumes at the Group's current mines and the launch of a new open-pit mine at the Raspadskaya-Koksovaya.

Intersegment coking coal product sales remained mostly unchanged at 5.8 million tonnes. Total external coking coal product sales rose by 6% year-on-year to 10.5 million tonnes, compared with 9.9 million tonnes in 2016, due to an expanded customer base and stable coal quality.

Coking coal product sales on Russia's domestic market fell by 2% to 9.7 million tonnes due to the launch of new mines in high-vol coal grades, with around 50% consumed by EVRAZ' steelmaking facilities.

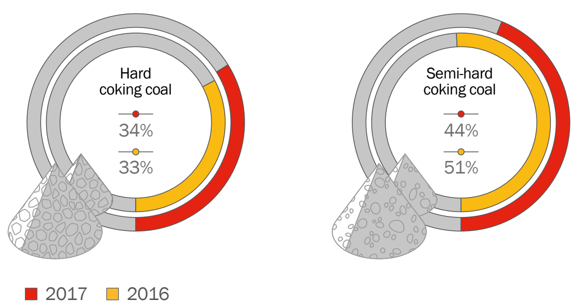
The Group's coal product export shipments increased by 15% to 6.6 million tonnes in 2017, compared with 5.8 million tonnes the year before. EVRAZ was able to increase sales to China from 0.4 million tonnes in 2016 to 1.2 million tonnes in 2017, while maintaining stable volumes in Ukraine, Europe, South Korea and Japan.

In 2017, EVRAZ retained its leading position on the domestic market with a 21% share across all coal grades.

COAL SEGMENT SALES VOLUMES, kt

	2017	2016	Change, %
Coal products, external sales	**10,499**	**9,867**	**6.4**
— Coking coal	2,302	1,569	46.7
— Coal concentrate	8,197	8,298	(1.2)
Coal products, inter-segment sales	**5,778**	**5,701**	**1.4**
— Coking coal	1,160	1,249	(7.1)
— Coal concentrate	4,618	4,452	3.7
Total, coal products	**16,277**	**15,568**	**4.6**

EVRAZ MARKET SHARE OF RUSSIA'S HIGH-VOL COKING COAL GRADES, %



In 2017, EVRAZ retained its leading position on the domestic market with a **21% share** across all coal grades.

Financial performance

Sales review

The segment's overall revenues increased sharply amid rising sales prices as global market trends remained favourable. This was driven by supply disruptions caused by the ongoing capacity optimisation programme in China and extreme weather conditions in Australia.

Sales volumes rose due to higher annual output at the Raspadskaya and the Raspadskaya-Koksovaya mines, as well as the launch of commercial production at Mezhegeyugol.

Revenues from internal sales of coal products grew, mainly because of a surge in prices of 78.4% and an uptick in volumes of 1.4%. This was in line with the upward trends seen among global benchmarks.

Revenues from external sales of coal products rose due to growth of 61.1% in prices and 6.4% in sales volumes, which was driven by stable, positive demand on the domestic and export markets and higher coal production volumes.

In 2017, the Coal segment's sales to the Steel segment amounted to US$830 million (37.5% of total sales), compared with US$483 million (36.5%) a year earlier.

During the reporting period, roughly 50.0% of EVRAZ' coking coal consumption in steelmaking came from the Group's own operations, compared with 47.5% in 2016.

COAL SEGMENT REVENUES BY PRODUCT

	2017		2016		
	US$ million	% of total segment revenues	US$ million	% of total segment revenues	Change, %
External sales					
Coal products	1,266	57.2	756	57.2	67.5
– Coking coal	174	7.9	66	5.0	163.6
– Coal concentrate	1,092	49.3	690	52.2	58.3
Inter-segment sales					
Coal products	811	36.6	451	34.1	79.8
– Coking coal	75	3.4	42	3.2	78.6
– Coal concentrate	736	33.2	409	30.9	80.0
Other revenues	137	6.2	115	8.7	19.1
Total	**2,214**	**100.0**	**1,322**	**100.0**	**67.5**

Coal segment cost of revenues

The main drivers of the year-on-year increase in the Coal segment's cost of revenues were as follows:

- The consumption of auxiliary materials rose by 55.0% amid an increase in mine openings and higher drilling meterage. This was accompanied by growth in prices for auxiliary materials and spare parts, as well as by the rouble's appreciation impact on costs. The increase in auxiliary materials costs was partially offset by the effect of cost-cutting initiatives.
- Costs for services climbed due to the stronger rouble, the rescheduled longwall repositioning at Yuzhkuzbassugol's mines, the growth of service costs to drill degassing holes and the increase in open-pit mining works at the Raspadskaya-Koksovaya mine.
- Transportation costs grew in the reporting period, primarily due to the higher share of exports in the sales mix, which had a negative impact on trading companies. This was accompanied by the appreciation of the rouble and an increase in tariffs for the supply of wagons.
- Staff costs were up because of rouble strengthening and wage inflation at Russian sites. This was partially offset by a reduction of US$7 million due to the disposal of Evraz Nakhodka Trade Sea Port.
- Depreciation and depletion costs rose, primarily due to the stronger Russian currency.
- The growth in energy costs was attributable to the impact of the stronger rouble on costs and higher electricity prices in local currencies.
- Other costs decreased in the reporting period, mainly due to changes in work in progress and finished goods. This was partially offset by higher taxes after the mineral tax rate was increased, as well as the effect of rouble strengthening.

Coal segment gross profit

The Coal segment's gross profit for 2017 amounted to US$1,241 million, up from US$621 million a year earlier, primarily due to higher sales prices.

COAL SEGMENT COST OF REVENUES

	2017		2016		
	US$ million	% of segment revenues	US$ million	% of segment revenues	Change, %
Cost of revenues	**973**	**43.9**	**701**	**53.0**	**38.8**
Auxiliary materials	124	5.6	80	6.1	55.0
Services	114	5.1	85	6.4	34.1
Transportation	259	11.7	136	10.3	90.4
Staff costs	198	8.9	164	12.4	20.7
Depreciation/depletion	162	7.3	134	10.1	20.9
Energy	49	2.2	37	2.8	32.4
Other[1]	67	3.1	65	4.9	3.1

[1]Primarily includes goods for resale, certain taxes, changes in work in progress and finished goods, allowance for inventory, raw materials and inter-segment unrealised profit.