

Financial performance

Sales review

The segment's revenues from steel product sales increased significantly as a result of improved prices and volumes, by 18.7% and 12.7%, respectively. This was mainly attributable to a greater demand on the tubular market, mostly for OCTG and small-diameter line pipe, as well as stronger sales volumes for seamless pipe.

Railway product revenues surged by 33.2%, driven by a 17.1% increase in volumes, accompanied by a 16.1% increase in average selling prices. The demand for rails improved after Class I railroads finished destocking.

Revenues from flat-rolled products increased due to an upswing in prices of 19.3%, which was partially offset by a decline in sales volumes of 4.5%.

Revenues from tubular product sales grew by 48.8% year-on-year due to increases of 40.3% in volumes and 8.5% in prices. The growth in sales volumes was driven by improved demand for OCTG

amid a recovery in drilling activities that was led by rising oil prices. The reduced demand for large-diameter line pipe products, which was caused by the slow pace of project approvals, partially offset the growth in revenues from tubular products.

Steel, NA segment cost of revenues

In 2017, the Steel, North America segment's cost of revenues rose by 33.2% year-on-year. The main drivers were:

- Raw material costs increased by 65.0%, primarily because of higher scrap prices, accompanied by increased consumption of other raw materials due to higher sales of tubular products driven by the market recovery in the reporting period.
- Costs of semi-finished products grew by 61.2% due to higher prices for purchased semi-finished products and increased sales volumes of steel products.

- Auxiliary material costs increased by 42.3%, as production volumes of crude steel and finished products were higher year-on-year.
- Service costs went up 14.8%, as sales volumes increased year-on-year.
- Energy costs grew due to higher rates and greater sales volumes of steel products.
- Other costs were down for the reporting period, primarily due to changes in work in progress and finished goods and allowances for inventories.

Steel, NA segment gross profit

The Steel, North America segment's gross profit totalled US\$208 million for 2017, down from US\$221 million a year earlier. While the decline was primarily caused by higher prices for scrap and purchased semi-finished products, it was partially offset by an increase in revenues due to improved market conditions.

STEEL, NORTH AMERICA SEGMENT REVENUES BY PRODUCT

	2017		2016		Change, %
	US\$ million	% of total segment revenues	US\$ million	% of total segment revenues	
Steel products	1,774	95.2	1,350	92.2	31.4
— Semi-finished products	4	0.2	0	0.0	n/a
— Construction products ¹	159	8.5	158	10.8	0.6
— Railway products ²	309	16.6	232	15.8	33.2
— Flat-rolled products ³	427	22.9	372	25.4	14.8
— Tubular products ⁴	875	47.0	588	40.2	48.8
Other revenues ⁵	90	4.8	114	7.8	(21.1)
Total	1,864	100.0	1,464	100.0	27.3

¹Includes beams, rebar and structural tubing

²Includes rails and wheels

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

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

⁵Includes scrap and services

STEEL, NORTH AMERICA SEGMENT COST OF REVENUES

	2017		2016		Change, %
	US\$ million	% of segment revenues	US\$ million	% of segment revenues	
Cost of revenues	1,656	88.8	1,243	84.9	33.2
Raw materials	645	34.6	391	26.7	65.0
Semi-finished products	303	16.3	188	12.8	61.2
Auxiliary materials	148	7.9	104	7.1	42.3
Services	124	6.7	108	7.4	14.8
Staff costs	254	13.6	195	13.3	30.3
Depreciation	95	5.1	97	6.6	(2.1)
Energy	111	6.0	85	5.8	30.6
Other ⁶	(24)	(1.4)	75	5.2	n/a

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