

Financial performance

Sales review

In 2017, revenues from the Steel segment climbed by 40.9% to US\$7,743 million, compared with US\$5,497 million a year earlier. The segment's revenues were affected by rising steel sales prices, primarily for semi-finished, construction and railway products.

Revenues from external sales of semi-finished products grew by 48.9% due to a 46.5% uptick in average prices. Most of the incremental revenues came from higher prices for billets and slabs and increased export volumes of semi-finished products.

Revenues from sales of construction products to third parties surged by 21.8% due to an upswing of 31.1% in average prices. This was partly offset by a 9.3% reduction in sales volumes, primarily on the Russian market, which was affected by heightened competition.

Revenues from external sales of railway products rose due to a 34.8% increase in prices, which was supported by market upside and growth of 13.0% 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.

External revenues from flat-rolled products jumped by 93.2%, driven by surges of 47.6% in average prices and 45.6% 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 edged down from 49.7% in 2016 to 48.4% in 2017, mainly due to a shift in sales to Europe and the CIS.

Steel segment revenues from sales of iron ore products climbed by 23.9%. This was due to an upswing of 54.3% in average prices and a drop of 30.4% in sales volumes, which stemmed

from the deconsolidation of Evraz Sukha Balka in June 2017. In 2017, around 66.5% of EVRAZ' iron ore consumption in steelmaking came from the Group's own operations, compared with 68.4% a year earlier.

Steel segment revenues from sales of vanadium products surged by 81.1% due to increases of 71.8% in average prices and 9.3% in sales volumes, despite the deconsolidation of Strategic Minerals Corporation following its disposal in April 2017. The positive price trend was in line with global benchmarks, which were driven by stronger demand influenced by changes to China's environmental policy and a scarcity of production facilities.

➔ GEOGRAPHIC BREAKDOWN OF EXTERNAL STEEL PRODUCT SALES, US\$ million

	2017	2016	Change, %
Russia	3,012	2,222	35.6
Asia	1,492	1,001	49.1
Europe	701	438	60.0
CIS	528	384	37.5
Africa, America and rest of the world	486	424	14.6
Total	6,219	4,469	39.2

➔ STEEL SEGMENT REVENUES BY PRODUCTS

	2017		2016		Change, %
	US\$ million	% of total segment revenues	US\$ million	% of total segment revenues	
Steel products, external sales	6,219	80.3	4,469	81.3	39.2
— Semi-finished products ¹	2,523	32.6	1,694	30.8	48.9
— Construction products ²	2,171	28.0	1,783	32.4	21.8
— Railway products ³	863	11.1	584	10.6	47.8
— Flat-rolled products ⁴	313	4.0	162	2.9	93.2
— Other steel products ⁵	349	4.6	246	4.6	41.9
Steel products, inter-segment sales	284	3.7	184	3.3	54.3
— Including sales to Steel, North America	270	3.5	176	3.2	53.4
Iron ore products	192	2.5	155	2.8	23.9
Vanadium products	545	7.0	301	5.5	81.1
Other revenues	503	6.5	388	7.1	29.6
Total	7,743	100.0	5,497	100.0	40.9

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

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

³Includes rail, wheels, tyres and other railway products

⁴Includes commodity plate and other flat-rolled products

⁵Includes rounds, grinding balls, mine uprights and strips

Steel segment cost of revenues

In 2017, the Steel segment's cost of revenues increased by 42.5% year-on-year. The main reasons for the growth were:

- The cost of raw materials rose by 59.3%, primarily due to an increase in prices for all key raw materials, (particularly for coking coal, iron ore and scrap) and the stronger rouble. This was accompanied by higher production volumes at EVRAZ ZSMK versus 2016, when planned capital repairs to blast furnaces were performed. The growth in raw material costs was partially offset by cost-cutting initiatives, which reduced consumption.
- Costs for auxiliary materials grew by 6.4% in the view of the rouble strengthening impact on costs, as well as higher prices for electrodes. This was partially offset by a reduction of US\$12 million in costs following the disposal of Evraz Sukha Balka in June 2017 and Strategic Minerals Corporation in April 2017.
- Higher service costs were mainly driven by the appreciation of the Russian currency.
- Transportation costs increased by 29.4%, primarily due to the stronger rouble and higher export sales volumes of steel products.

- Staff costs increased by 16.2%, largely because of the effect that rouble strengthening had on costs, accompanied by wage inflation at Russian sites. This was partially offset by a reduction of US\$14 million in costs following the disposal of Evraz Sukha Balka and Strategic Minerals Corporation.
- Depreciation and depletion costs increased by 13.1%, primarily due to the rouble's appreciation.
- Energy costs were higher due to the stronger rouble and increased tariffs in local currencies.
- Other costs increased, primarily due to changes in goods for resale and semi-finished products.

Steel segment gross profit

The Steel segment's gross profit surged by 36.3% year-on-year, driven primarily by higher steel and vanadium prices. This was partially offset by a rise in prices for purchased raw materials and the effect that rouble strengthening had on costs.

→ STEEL SEGMENT COST OF REVENUES

	2017		2016		Change, %
	US\$ million	% of segment revenues	US\$ million	% of segment revenues	
Cost of revenues	5,795	74.8	4,068	74.0	42.5
Raw materials	2,756	35.6	1,730	31.5	59.3
— Iron ore	485	6.3	292	5.3	66.1
— Coking coal	1,356	17.5	830	15.1	63.4
— Scrap	466	6.0	277	5.0	68.2
— Other raw materials	449	5.8	331	6.1	35.6
Auxiliary materials	334	4.3	314	5.7	6.4
Services	269	3.5	221	4.0	21.7
Transportation	449	5.8	347	6.3	29.4
Staff costs	530	6.8	456	8.3	16.2
Depreciation	241	3.1	213	3.9	13.1
Energy	474	6.1	395	7.2	20.0
Other ¹	742	9.6	392	7.1	89.3

¹Includes 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.