Financial review

Statement of operations

In its full-year financial results for 2017, EVRAZ reported an increase of 40.4% year-on-year in consolidated revenues, which were US$10,827 million compared with US$7,713 million in 2016. This performance was driven partially by higher volumes but mostly by an upswing in prices for steel and coal products amid more favourable market trends.

In 2017 EBITDA increased significantly mainly driven by improved market conditions in steel and coal markets as well as efficiency initiatives. In 2017 EBITDA reached US$2,624 million, up 70.2% from US$1,542 million in 2016, boosting the EBITDA margin from 20.0% to 24.2% and increasing free cash flow to US$1,322 million.

The Steel segment's revenues (including inter-segment) increased by 40.9% year-on-year to US$7,743 million, or 63.0% of the Group's total before elimination. The growth was mainly attributable to higher revenues from sales of steel products, which rose by 39.8% year-on-year, largely due to an upturn in average sales prices of 38.6% that was underpinned by favourable market conditions. Steel product sales volumes remained strong in 2017 (+1.2% y-o-y).

The Steel, North America segment's revenues grew by 27.3% year-on-year. Prices rose by 18.7% and volumes climbed by 12.7%, boosting the segment's revenues from sales of steel products by 31.4%. The key drivers of this growth were an improved demand for oil country tubular goods (OCTG) following a recovery in oil prices and a stronger demand for railway products.

The Coal segment's revenues surged by 67.5% year-on-year, supported largely by higher sales prices, which grew by 62.9% amid an upward trend in global benchmarks. Volumes rose by 4.6% due to the stable demand and the improved productivity at mines.

The Steel segment's EBITDA improved, reflecting higher steel and vanadium prices and the effects of cost-cutting initiatives implemented in 2017. This was partially offset by an increase in expenses in US dollar terms as a result of the the rouble's strengthening impact on costs, as well as by rising prices for raw materials such as coal, iron ore and scrap.

The Steel, North America segment's EBITDA increased year-on-year, supported by greater revenues from sales of tubular, railway and flat-rolled products as well as higher expenses in prior year connected with suspension of production. This was partly offset by higher prices for scrap and purchased semi-finished products.

The Coal segment's EBITDA increased year-on-year largely driven by higher sales prices in line with global benchmarks.

Eliminations mostly reflect unrealised profits or losses that relate to the inventories produced by the Steel segment on the Steel, North America segment's balance sheet, and coal inventories produced by the Coal segment on the Steel segment's balance sheet.

In 2017 EBITDA increased significantly mainly driven by improved market conditions in steel and coal markets as well as efficiency initiatives.

Nikolay Ivanov
Chief Financial Officer

REVENUES, US$ million

Segment	2017	2016	Change	Change, %
Steel	7,743	5,497	2,246	40.9
Steel, North America	1,864	1,464	400	27.3
Coal	2,214	1,322	892	67.5
Other operations	462	363	99	27.3
Eliminations	(1,456)	(933)	(523)	56.0
Total	**10,827**	**7,713**	**3,114**	**40.4**

REVENUES BY REGION, US$ million

Segment	2017	2016	Change	Change, %
Russia	4,255	3,080	1,175	38.1
Americas	2,201	1,722	479	27.8
Asia	2,162	1,372	790	57.6
CIS (excl. Russia)	812	630	182	28.9
Europe	1,128	640	488	76.3
Africa and rest of the world	269	269	–	–
Total	**10,827**	**7,713**	**3,114**	**40.4**

EBITDA, US$ million

Segment	2017	2016	Change	Change, %
Steel	1,483	1,004	479	47.7
Steel, North America	58	28	30	107.1
Coal	1,226	644	582	90.4
Other operations	21	17	4	23.5
Unallocated	(131)	(109)	(22)	20.2
Eliminations	(33)	(42)	9	(21.4)
Total	**2,624**	**1,542**	**1,082**	**70.2**

For more information on the definition of EBITDA, please see page 267.

The following table details the effect of the Group's cost-cutting initiatives.

EFFECT OF GROUP'S COST-CUTTING INITIATIVES IN 2017, US$ million

Improving yields and raw material costs, including	**104**
Improving yields and raw material costs of Urals and Siberia divisions	61
Various improvements at coal beneficiating plants and mines	30
Improving yields and raw material costs of North American assets and vanadium operations	13
Increasing productivity and cost effectiveness	**37**
Others, including	**22**
Reduction of general and administrative (G&A) costs and non-G&A headcount	16
Optimisation of asset portfolio	6
Total	**163**

REVENUES, COST OF REVENUE AND GROSS PROFIT BY SEGMENTS, US$ million

	2017	2016	Change, %
Steel segment			
Revenues	7,743	5,497	40.9
Cost of revenue	(5,795)	(4,068)	42.5
Gross profit	1,948	1,429	36.3
Steel, North America segment			
Revenues	1,864	1,464	27.3
Cost of revenue	(1,656)	(1,243)	33.2
Gross profit	208	221	(5.9)
Coal segment			
Revenues	2,214	1,322	67.5
Cost of revenue	(973)	(701)	38.8
Gross profit	1,241	621	99.8
Other operations – gross profit	104	85	22.4
Unallocated – gross profit	(8)	(7)	14.3
Eliminations – gross profit	(151)	(157)	(3.8)
Total	**3,342**	**2,192**	**52.5**

In 2017, selling and distribution expenses increased by 15.1%, mostly due to the stronger rouble and higher sales volumes. General and administrative expenses rose by 15.1%, primarily because of the effect that the rouble appreciation had on costs.

Foreign exchange losses amounting to US$54 million mainly related to intra-group loans denominated in roubles payable by Evraz Group S.A. to the Russian subsidiaries.

The appreciation of the Russian rouble against the US dollar in 2017 led to exchange losses recognised in income statement of non-Russian subsidiaries, which are not offset with the exchange gains recognised in equity of the Russian subsidiaries.

Interest expenses incurred by the Group decreased, mainly due to the reduction in total debt and the efforts undertaken to refinance existing facilities during the reporting period.

The interest expense for bank loans, bonds and notes dropped to US$394 million in 2017, compared with US$439 million a year earlier.

Losses on financial assets and liabilities amounted to US$57 million and were mostly related to premiums on early repurchases of bonds denominated in US dollars.

The net loss of US$360 million on disposal groups classified as held for sale was caused mostly by a reclassification to the statement of operations of accumulated losses on translation of the net assets of the sold subsidiaries into presentation currency (US dollars) in the amount of US$741 million. Subsidiaries with net assets of US$134 million were sold for consideration of US$515 million net of transaction costs.

For the reporting period, the Group had an income tax expense of US$396 million, compared with US$96 million a year earlier. The change reflects the Group's better operating results and income tax on the sale transaction of Evraz Nakhodka Trade Sea Port in the amount of US$60 million.

GROSS PROFIT, EXPENSES AND RESULTS, US$ million

Item	2017	2016	Change	Change, %
Gross profit	**3,342**	**2,192**	**1,150**	**52.5**
Selling and distribution costs	(717)	(623)	(94)	15.1
General and administrative expenses	(540)	(469)	(71)	15.1
Impairment of assets	12	(465)	477	n/a
Foreign exchange gains/(losses), net	(54)	(48)	(6)	12.5
Other operating income and expenses, net	(57)	(124)	67	(54.0)
Profit from operations	**1,986**	**463**	**1,523**	**n/a**
Interest expense, net	(423)	(471)	48	(10.2)
Share of profits/(losses) of joint ventures and associates	11	(23)	34	n/a
Loss on financial assets and liabilities, net	(57)	(9)	(48)	n/a
Loss on disposal groups classified as held for sale, net	(360)	–	(360)	n/a
Other non-operating losses, net	(2)	(52)	50	(96.2)
Profit/(loss) before tax	**1,155**	**(92)**	**1,247**	**n/a**
Income tax benefit/(expense)	(396)	(96)	(300)	n/a
Net profit/(loss)	**759**	**(188)**	**947**	**n/a**

CASH FLOW, US$ million

Item	2017	2016	Change	Change, %
Cash flows from operating activities before changes in working capital	2,111	1,343	768	57.2
Changes in working capital	(154)	160	(314)	n/a
Net cash flows from operating activities	**1,957**	**1,503**	**454**	**30.2**
Short-term deposits at banks, including interest	7	4	3	75.0
Purchases of property, plant and equipment and intangible assets	(595)	(382)	(213)	55.8
Proceeds from sale of disposal groups classified as held for sale, net of transaction costs	412	27	385	n/a
Other investing activities	9	11	(2)	(18.2)
Net cash flows used in investing activities	**(167)**	**(340)**	**173**	**(50.9)**
Net cash flows used in financing activities	**(1,479)**	**(1,369)**	**(110)**	**(8.0)**
Effect of foreign exchange rate changes on cash and cash equivalents	(2)	(10)	8	(80.0)
Net increase/(decrease) in cash and cash equivalents	**309**	**(216)**	**525**	**n/a**

CALCULATION OF FREE CASH FLOW, US$ million

Item	2017	2016	Change	Change, %
EBITDA	2,624	1,542	1,082	70.2
EBITDA excluding non-cash items	**2,627**	**1,549**	**1,078**	**69.6**
Changes in working capital	(154)	160	(314)	n/a
Income tax accrued	(485)	(183)	(302)	n/a
Social and social infrastructure maintenance expenses	(31)	(23)	(8)	34.8
Net cash flows from operating activities	**1,957**	**1,503**	**454**	**30.2**
Interest and similar payments	(453)	(454)	1	(0.2)
Capital expenditures, including recorded in financing activities and non-cash transactions	(603)	(428)	(175)	40.9
Proceeds from sale of disposal groups classified as held for sale, net of transaction costs	412	27	385	n/a
Other cash flows from investing activities	9	11	(2)	(18.2)
Free cash flow	**1,322**	**659**	**663**	**100.6**

In 2017, net cash flows from operating activities **increased by 30.2% year-on-year.** Free cash flow for the period was **US$1,322 million.**

For more information on the definition of free cash flow, please see page 267.

CAPEX and key projects

In 2017, EVRAZ' capital expenditure increased to US$603 million, compared with US$428 million a year earlier, due to significant expenses on major projects and the strengthening of the rouble exchange rate against the US dollar. EVRAZ NTMK continued to implement its two main construction projects during 2017, the blast furnace no. 7 and the new grinding ball mill, both of which are scheduled to be launched in Q1 2018. In 2017, the degasser was installed at EVRAZ Regina's steel mill. This was the last important module of the upgrade project, making it possible to achieve the project's full planned effect.

Capital expenditures (including those recognised in financing activities) for 2017 in millions of US dollars can be summarised as follows.

CAPITAL EXPENDITURES IN 2017, US$ million

Blast furnace no. 7 The construction of EVRAZ NTMK's blast furnace no. 7 has been in progress since Q3 2016. It is due to be launched in Q1 2018.	133
Steel mill upgrade The upgrade of EVRAZ Regina's steel mill has been in progress since Q2 2015. The aim is to improve steel quality, increase the capacity for casting by 110 kt and rolling by 250 kt, and result in a crown yield saving from 0.75% to 1.1%. The project was completed in 2017.	45
Grinding ball mill construction The construction of EVRAZ NTMK's new grinding ball mill has been in progress since Q2 2015. It is due to be completed in Q1 2018 and is expected to increase ball production to more than 300 kt by 2019.	8
Boiler modernisation The modernisation of EVRAZ ZSMK's boiler unit no. 9 has been in progress since Q3 2016. It was launched in Q4 2017, making it possible to achieve the project's planned effect.	7
Other development projects	43
Maintenance	**367**
Total	**603**