Review of operations by segment

Steel segment

Sales review | The Steel segment's revenues fell, mainly due to lower revenues from sales of steel products as well at to deconsolidation of EVRAZ Highveld Steel and Vanadium. The main drivers were lower average selling prices (down 31.6%) lower sales volumes (down 5.2%).

Revenues from external sales of semi-finished products fell by 20.9% due to lower average prices (down 39.1%), partly offset by greater sales volumes (up 18.2%). External sales of billets, slabs and other steel products increased year-on-year, mainly due to demand for certain finished products, particularly those used in construction, in the CIS. Export sales of semi-finished products to non-CIS countries grew strongly as these markets replaced weak domestic demand for finished steel goods due to the economic downturn.

Steel segment revenues by products

	2015		2014		Change, %
	US$ million	% of total segment revenue	US$ million	% of total segment revenue	
Steel products, external sales	**4,852**	**81.0%**	**7,510**	**78.9%**	**(35.4)%**
Semi-finished products[1]	1,867	31.2%	2,359	24.8%	(20.9)%
Construction products[2]	1,999	33.4%	3,286	34.5%	(39.2)%
Railway products[3]	550	9.2%	1,022	10.7%	(46.2)%
Flat-rolled products[4]	179	3.0%	487	5.1%	(63.2)%
Other steel products[5]	257	4.3%	356	3.7%	(27.8)%
Steel products, inter-segment sales	**238**	**4.0%**	**543**	**5.7%**	**(56.2)%**
Including sales to Steel, North America	232	3.9%	531	5.6%	(56.3)%
Iron ore products	**167**	**2.8%**	**278**	**2.9%**	**(39.9)%**
Vanadium products	**305**	**5.1%**	**484**	**5.1%**	**(37.0)%**
Other revenues	**425**	**7.1%**	**704**	**7.4%**	**(39.6)%**
TOTAL	**5,987**	100.0%	**9,519**	100.0%	**(37.1)%**

[1]Includes billets, slabs, pig iron, pipe blanks and other semi-finished products
[2]Includes rebars, 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

Geographic breakdown of external steel product sales, US$ million

	2015	2014	Change,%
Russia	2,342	4,088	(42.7)%
Asia	1,047	1,621	(35.4)%
Europe	578	523	10.5%
CIS	437	671	(34.9)%
Africa, America and RoW	448	607	(26.2)%
TOTAL	**4,852**	**7,510**	**(35.4)%**

Revenue from the sale of construction products to third parties dropped, mostly due to lower average prices (down 28.4%) and weaker demand in Russia as well as deconsolidation of EVRAZ Highveld Steel and Vanadium. Given the latter, domestic prices did not increase to reflect the rouble's steep fall in 2015.

Revenues from external sales of railway products decreased due to changes in average prices (down 22.2%). Sales volumes of railway products in 2015 also fell due to lower demand in the CIS, caused by a decline in new railway infrastructure construction and maintenance projects and a slump in demand from railcar producers and repair shops. Sales to Russian Railways, however, remained flat year-on-year reaching 632 thousand tonnes.

External revenues from flat-rolled products dropped. This was mostly due to lower sales volumes (down 51.5%) and average prices (down 11.7%) following the deconsolidation of EVRAZ Vitkovice Steel and EVRAZ Highveld Steel and Vanadium as well as lower sales of third-party producers' flat-rolled goods by EVRAZ Metall Inprom amid reduced demand.

Revenues from external sales of steel products to Russia decreased by 42.7% year-on-year, mainly due to lower prices, while sales volumes fell by 15.8%. The share of Russia in external sales of steel products also declined, from 54.4% in 2014 to 48.3% in 2015, as shifting sales from the domestic to export markets helped to stabilise production volumes and increased profitability amid the weaker rouble.

Steel segment revenues from sales of iron ore products fell by 39.9%. This was due to lower iron ore prices (down 37.2%) and sales volumes (down 2.7%) resulting from the deconsolidation of EVRAZ Highveld Steel and Vanadium. Prices for iron ore products generally declined in 2015, in line with global benchmarks.

Steel segment revenues from sales of vanadium products declined by 37.0% due to lower sales prices (down 19.2%) and sales volumes (down 13.1%). This stemmed from the deconsolidation of EVRAZ Highveld Steel and Vanadium, while average selling prices mirrored the downward trends in the global steel market.

Steel segment cost of revenue | The Steel segment's cost of revenue decreased by 34.8% year-on-year in 2015. The main reasons for the decline were as follows:

- The cost of raw materials fell by 32.3% mainly due to decline in prices, lower iron ore and scrap consumption as a result of changes in the mix of raw material consumption, steel production decreases and a reduction in volumes of iron ore purchased from third parties, as own production volumes increased.
- The decline in raw material costs is also attributable to deconsolidation of EVRAZ Highveld Steel and Vanadium, and cost-cutting initiatives, which reduced consumption.
- Auxiliary material costs decreased by 26.3%, primarily due to the rouble's weakness and deconsolidation of EVRAZ Highveld Steel and Vanadium (down US$45 million), partly offset by higher prices in local currencies and an increase in consumption of refractories, mainly for repairs at EVRAZ NTMK.
- Lower service costs were driven by the weakness of the rouble and hryvnia, as well as the deconsolidation of EVRAZ Highveld Steel and Vanadium (down US$105 million).
- Transportation costs decreased by 17.9%, primary due to the rouble's weakness.

- Staff costs fell by 39.7%, largely due to the rouble and hryvnia weakness and headcount optimisation. Additional contributor was the deconsolidation of EVRAZ Highveld Steel and Vanadium partly offset by wage inflation at Russian sites.
- Depreciation and depletion costs dropped, driven mainly by local currency depreciation and the deconsolidation of EVRAZ Highveld Steel and Vanadium (down US$13 million).
- Lower energy costs were driven by the rouble and hryvnia devaluation; reduced consumption of electricity and natural gas due to asset optimisations and lower production volumes at Russian steelmaking sites; the use of pulverised coal injection (PCI) technology at ZSMK, which was commissioned in Q2 2014; an increase in own generation at ZabSib Heat and Power plant. Lower energy costs were partially offset by an increase in tariffs in local currencies.
- Other costs decreased, primarily due to changes in goods for resale costs (down US$227 million) and lower consumption of semi-finished products mainly due to disposal of EVRAZ Vitkovice Steel (down US$51 million).

Steel segment gross profit | The Steel segment's gross profit decreased by 43.4% year-on-year, driven primarily by lower revenues from sales of steel products.

Steel segment cost of revenue

	2015		2014		Change, %
	US$ million	% of total segment revenue	US$ million	% of total segment revenue	
Cost of revenue	**4,527**	**75.6%**	**6,940**	**72.9%**	**(34.8)%**
Raw materials	1,783	29.8%	2,633	27.7%	(32.3)%
Iron ore	349	5.8%	702	7.4%	(50.3)%
Coking coal	749	12.5%	892	9.4%	(16.0)%
Scrap	295	4.9%	495	5.2%	(40.4)%
Other raw materials	390	6.6%	544	5.7%	(28.3)%
Auxiliary materials	342	5.7%	464	4.9%	(26.3)%
Services	278	4.6%	500	5.3%	(44.4)%
Transportation	384	6.4%	468	4.9%	(17.9)%
Staff costs	573	9.6%	950	10.0%	(39.7)%
Depreciation	229	3.8%	337	3.5%	(32.0)%
Energy	454	7.6%	823	8.6%	(44.8)%
Other[1]	484	8.1%	765	8.0%	(36.7)%

[1] *Includes goods for resale, taxes in cost of revenue.*

Steel, North America segment

Revenue from steel product sales decreased due to lower sales prices (down 14.2%) and the impact of changes in sales volumes (down 14.9%).

Revenues from tubular product sales decreased by 32.2%, primarily due to lower sales volumes (down 22.3%) and price change (down 9.9%). The drop in sales volumes was driven by weaker demand for OCTG and small-diameter line pipe, caused by a slowdown in drilling activities due to the slump in oil prices. Sales of large-diameter pipes (LDP) remained strong due to demand from midstream infrastructure companies.

Railway product revenues declined by 15.2%, driven by a 11.9% drop in average prices, in line with the general price trend in the US steel market. The lower volume related to operational issues in Q3 2015, while demand from railway customers was stable.

Revenues from sales of construction products decreased by 35.9%, primarily due to lower sales volumes (down 21.6%), sales price (down 14.3%). The fall in sales volumes was attributable to the disposal of a structural tubing facility in Portland in March 2015. Prices for construction products were under pressure from high import volumes in North America.

Revenues from flat-rolled products fell, mainly due to lower prices (down 21.6%) and sales volumes (down 7.6%) caused by higher imports.

Steel, North America segment revenues by product

	2015		2014		Change, %
	US$ million	% of total segment revenue	US$ million	% of total segment revenue	
Steel products	**2,106**	**92.7%**	**2,968**	**93.9%**	**(29.1)%**
Construction products[1]	216	9.5%	337	10.7%	(35.9)%
Railway products[2]	435	19.2%	513	16.2%	(15.2)%
Flat-rolled products[3]	438	19.3%	619	19.6%	(29.2)%
Tubular products[4]	1,016	44.7%	1,499	47.4%	(32.2)%
Other revenues[5]	**165**	**7.3%**	**192**	**6.1%**	**(14.1)%**
TOTAL	**2,270**	**100.0%**	**3,160**	**100.0%**	**(28.2)%**

[1]*Includes beams, rebars and structural tubing*

[2]*Includes rails and wheels*

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

[4]*Includes large-diameter line pipes, ERW pipes and casing, seamless pipes, casing and tubing.*

[5]*Includes scrap and services*

Steel, North America segment cost of revenue | Cost of revenue decreased by 24.5% year-on-year in 2015. The main drivers were as follows:

- Raw material costs decreased by 32.2%, primarily due to lower consumption of raw materials (scrap, coke, ferroalloys and other). The main reasons for this were lower volumes of crude steel and finished products, such as OCTG, flat and wire rod, cost-cutting initiatives that reduced consumption, and declining raw material prices.
- Costs of semi-finished products fell by 39.9%, amid prices for slab purchased and lower production volumes of tubular products.
- Auxiliary materials dropped by 19.8%, as a cost-cutting plan was implemented and production volumes of crude steel and finished products dropped compared with 2014.
- Service costs declined by 5.3%, as production volumes in 2015 fell year-on-year.
- Energy costs fell, driven by decreased production volumes, a decline in energy consumption, and lower tariffs for energy and natural gas.

Steel, North America segment gross profit | Gross profit totalled US$290 million in 2015, down from US$537 million in 2014. The decline was due to lower sales revenues amid the downturn on the OCTG and flat product markets.

Steel, North America segment cost of revenue

	2015		2014		Change, %
	US$ million	% of total segment revenue	US$ million	% of total segment revenue	
Cost of revenue	**1,980**	**87.2%**	**2,623**	**83.0%**	**(24.5)%**
Raw materials	643	28.3%	962	30.4%	(33.2)%
Semi-finished products	354	15.6%	589	18.6%	(39.9)%
Auxiliary materials	162	7.1%	202	6.4%	(19.8)%
Services	160	7.0%	169	5.3%	(5.3)%
Staff costs	265	11.7%	301	9.5%	(12.0)%
Depreciation	107	4.7%	114	3.6%	(6.1)%
Energy	106	4.7%	154	4.9%	(31.2)%
Other[6]	183	8.1%	132	4.3%	(38.6)%

[6] *Includes primarily goods for resale, certain taxes and allowances for inventories, transportation*

Coal segment

Overall revenues decreased amid a reduction in sales prices, reflecting decreased global demand and greater output in other coal-exporting countries. Sales volumes also decreased, as the Group mined less raw coal in accordance with the annual schedule of longwall moves. Non-core steam coal production was suspended in 2014. Decommissioning of the only remaining steam coal mine among EVRAZ's Russian coal assets started.

In 2015, prices in rouble terms increased year-on-year due to higher prices in Russia and a shift in shipments in favour of more expensive grades. However, due to the sharp rouble depreciation, when re-calculated in US dollars, prices in 2015 were lower than those in 2014.

Revenues from internal sales of coal products decreased due to lower average sales prices (down 12.7%) and sales volumes (down 8.0%). The decrease in coal consumption in 2015 compared with 2014 resulted from reduced coal consumption at EVRAZ ZSMK after the shutdown of two coke batteries and launch of the PCI plant.

Revenues from external sales of coal products decreased, mainly due to lower prices (down 16.3%) and sales volumes (down 3.4%).

In 2015, Coal segment sales to the Steel segment amounted to US$419 million and 39.2% of sales, compared with US$528 million and 40.1% in 2014.

During the reporting period, c.53% of EVRAZ's coking coal consumption in steelmaking came from the Group's own operations, compared with 54% in 2014.

The decline in Russian sales of coking coal products from 6.2mt in 2014 to 5.2mt in 2015 is mainly attributable to the decreased demand for coking coal from Russian steelmaking companies who have started to use more of their own captive coal supply. The decreased demand from Russian steelmakers is also driven by the decline in steel production volumes in Russia and introduction of PCI.

Coal segment revenues by product

	2015		2014		Change, %
	US$ million	% of total segment revenue	US$ million	% of total segment revenue	
External sales					
Coal products	601	56.2%	722	54.8%	(16.8)%
Coking coal	58	5.4%	78	5.9%	(25.6)%
Coal concentrate	543	50.8%	605	45.9%	(10.2)%
Steam coal	–	–	39	3.0%	(100.0)%
Inter-segment sales					
Coal products	391	36.6%	493	37.4%	(20.7)%
Coking coal	47	4.4%	85	6.4%	(44.7)%
Coal concentrate	344	32.2%	408	31.0%	(15.7)%
Other revenues	76	7.2%	103	7.8%	(26.2)%
TOTAL	**1,068**	**100%**	**1,318**	**100%**	**(19.0)%**

Coal segment cost of revenue | The main factors affecting the decrease in the segment's cost of revenues compared with 2014 were as follows:

- The cost of auxiliary materials and services decreased in 2015, primarily due to the rouble weakness (down US$10 million and US$25 million respectively), as well as the effect of asset optimisations and cost-cutting initiatives.
- Transportation costs declined due to lower sales volumes and transportation costs from Russian entities as a result of the rouble devaluation.
- Staff costs decreased due to the rouble weakness (down US$114 million).
- Depreciation and depletion costs decreased, mostly due to lower depreciation and depletion expenses at Yuzhkuzbassugol caused by the revision and detailing of future mining plans and lower depletion of mineral deposits (down US$17 million). This was also accompanied by a fall in depreciation in US dollar terms due to the rouble weakness (down US$89 million).
- Energy costs fell due to the effect of currency movements (down US$21 million), partly offset by higher electricity prices in local currencies (up US$8 million).
- Other costs increased, primarily due to changes in taxes, work-in-progress and stocks of finished goods and the effect of the rouble weakness.

Coal segment gross profit | The Coal segment's gross profit amounted to US$319 million in 2015, up from US$278 million in 2014. The gross profit margin rose, primarily due to the rouble depreciation's influence on costs, lower depreciation and depletion, and cost-cutting initiative.

Coal segment cost of revenue

	2015		2014		Change, %
	US$ million	% of total segment revenue	US$ million	% of total segment revenue	
Cost of revenue	**749**	**70.1%**	**1,040**	**78.9%**	**(28.0)%**
Auxiliary materials	106	9.9%	152	11.5%	(30.3)%
Services	74	6.9%	103	7.8%	(28.2)%
Transportation	146	13.7%	154	11.7%	(5.2)%
Staff costs	194	18.2%	305	23.1%	(36.4)%
Depreciation/Depletion	156	14.6%	259	19.7%	(39.8)%
Energy	38	3.5%	51	3.9%	(25.5)%
Other[1]	35	3.3%	16	1.2%	118.8%

[1]Includes primarily goods for resale and certain taxes, allowance for inventory and raw materials