FINANCIAL REVIEW

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Statement of operations

The Group's consolidated revenues decreased by 32.9% to US$8,767 million compared to US$13,061million in 2014 primarily as a result of falling prices and depressed demand in 2015. However, we managed to cushion the effect of market challenging conditions by implementing the cost-efficiency programme and market initiatives, consequently EBITDA margin is just 1.6 percentage points lower than in 2014 (16.4% in 2015 compared to 18.0% in 2014).

Consolidated EBITDA decreased by 38.9% to US$1,438 million compared to US$2,355 million in 2014.

In 2015, revenues from the Steel segment (including inter-segment) decreased and amounted to 68.3% of the Group total. The decrease was mainly attributable to lower revenues from sales of steel products, which declined by 36.8% year-on-year, largely due to a drop in average selling prices (down 31.6%), in line with global benchmarks. Revenues from the sales of steel products was also impacted by changes in the Group's sales volumes which declined from 13.5 million tonnes in 2014 to 12.8 million tonnes in 2015, due to deconsolidation of EVRAZ Highveld Steel and Vanadium (less 0.4 million tonnes) and worsening conditions in key markets.

Revenues from the Steel, North America segment fell by 28.2% year-on-year. Revenues from the sales of steel products dropped by 29.1%, driven by declining prices (down 12.2%), lower sales volumes (down 14.8%) and changes in the product mix (down 2.1%). The key drivers of these were, in turn, significant reductions in EVRAZ North America's seamless pipe and oil country tubular goods (OCTG) sales, resulting from the slump in oil prices, subdued demand for flat products and price decrease for rod and bar products.

Revenues from the Coal segment fell due to lower sales prices and volumes. In 2015, production was impacted by both planned work (the scheduled longwall moves at Yuzhkuzbassugol) and unplanned events (such as the suspension of operations at Raspadskaya's MUK-96 mine due to market conditions).

In 2015, the Steel segment's EBITDA declined amid depressed demand in Russia and generally negative steel price trends globally, partly offset by lower expenses in US dollar terms due to rouble depreciation. Lower prices of iron ore, coking coal and scrap, the deconsolidation of EVRAZ Highveld Steel and Vanadium and the disposal of EVRAZ Vitkovice Steel all positively affected the segment's results.

The Steel, North America segment's EBITDA was impacted by lower sales volumes stemming from a downturn in the OCTG and flat product markets.

The Coal segment's EBITDA decreased slightly year-on-year, as Yuzhkuzbassugol implemented an efficiency improvement programme and optimised assets and coal product sales prices decreased, this was offset by the positive impact of rouble devaluation on cost base.

Eliminations line in the table below reflects the unrealised profits or losses which relate to the inventories on the balance sheet of Steel, North America segment produced by Steel segment.

In the present environment free cash flow generation and further deleveraging remain key priorities.

Revenues, US$ million

Segment	2015	2014	Change	Change, %
Steel	5,987	9,519	(3,532)	(37.1)%
Steel, North America	2,270	3,160	(890)	(28.2)%
Coal	1,068	1,318	(250)	(19.0)%
Other operations	433	648	(215)	(33.2)%
Eliminations	(991)	(1,584)	593	(37.4)%
TOTAL	**8,767**	**13,061**	**(4,294)**	**(32.9)%**

Revenue by region, US$ million

Region	2015	2014	Change	Change, %
Russia	3,104	5,279	(2,175)	(41.2)%
Americas	2,566	3,529	(963)	(27.3)%
Asia	1,354	1,954	(600)	(30.7)%
CIS (excl. Russia)	664	926	(262)	(28.3)%
Europe	815	916	(101)	(11.0)%
Africa and the rest of the world	264	457	(193)	(42.2)%
TOTAL	**8,767**	**13,061**	**(4,294)**	**(32.9)%**

EBITDA[1], US$ million

Segment	2015	2014	Change	Change, %
Steel	1,081	1,933	(852)	(44.1)%
Steel, North America	55	280	(225)	(80.4)%
Coal	351	376	(25)	(6.6)%
Other operations	14	37	(23)	(62.2)%
Unallocated	(130)	(220)	90	(40.9)%
Eliminations	67	(51)	118	n/a
TOTAL	**1,438**	**2,355**	**(917)**	**(38.9)%**

[1] In 2015, management changed the definition of segment expense and EBITDA to make these indicators more comparable with Russian steel peers. Segment expense and EBITDA have now been adjusted to not include social and social infrastructure maintenance expenses. As a result, the Group restated EBITDA for both financial reporting and management accounts purposes for the years ended 31 December 2014 and 2013.

Revenues, cost of sales and gross profit of segments, US$ million

	2015	2014	Change, %
Steel segment			
Revenues	5,987	9,519	(37.1)%
Cost of sales	(4,527)	(6,940)	(34.8)%
Gross profit	1,460	2,579	(43.4)%
Steel, North America segment			
Revenues	2,270	3,160	(28.2)%
Cost of sales	(1,980)	(2,623)	(24.5)%
Gross profit	290	537	(46.0)%
Coal segment			
Revenues	1,068	1,318	(19.0)%
Cost of sales	(749)	(1,040)	(28.0)%
Gross profit	319	278	14.7%
Other operations – gross profit	111	129	(14.0)%
Unallocated – gross profit	5	7	(28.6)%
Eliminations – gross profit	(13)	(203)	(93.6)%
TOTAL	**2,172**	**3,327**	**(34.7)%**

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

Effect of Group's cost-cutting initiatives in 2015, US$ million

Cost-cutting initiatives and productivity improvements, including	**169**
Improving yields and raw material costs of steel assets	68
Improving yields and raw material costs of mining assets	39
Productivity improvement	35
Energy efficiency and optimisation of maintenance costs	21
Other cost optimisations	6
Optimisation of asset portfolio	**76**
Highveld deconsolidation	39
EVRAZ North America: shutdown of Claymont	19
EVRAZ ZSMK portfolio asset optimisation: shutdown of coke battery no. 2 and disposal of non-core assets	11
Production suspension and disposal of high-cost and inefficient assets at Raspadskaya and Evrazruda	6
Evrazruda: shutdown of high-cost and inefficient asset	1
Reduction of general and administrative (G&A) costs and non-G&A headcount	**76**
TOTAL	**321**

Selling and distribution expenses decreased by 21.2% in 2015 mostly due to the rouble weakening and lower third party sales volumes. This was accompanied by the impact of deconsolidation of Highveld Steel and Vanadium Limited following the loss of control.

General and administrative expenses declined by 36.2% in 2015. This reflected the reduced staff costs following headcount optimisation at EVRAZ North America, the Russian steel mills and coal companies, and the weakening of the rouble and hryvnia.

Impairment losses during the reporting period included the write-off of goodwill at subsidiaries in the US and Canada totalling US$251 million, impairment of the cash-generating units of EVRAZ Palini e Bertoli by US$37 million and EVRAZ Yuzhny Stan by US$30 million, and a US$77 million loss relating to one of Raspadskaya's coal fields that was damaged by fire.

Foreign exchange losses arose as a result of the devaluation of the rouble, hryvnia, tenge and Canadian dollar. The subsidiaries in respective countries have US dollar-denominated debts, such as bonds and bank loans. In addition, there are some intra-group debts between subsidiaries with different functional currencies and, consequently, gains/(losses) of one subsidiary recognised in the Statement of Operations are not offset by the exchange differences of another subsidiary with a different functional currency.

Interest expenses incurred by the Group decreased due to a reduction of gross debt. The interest expense for bank loans, bonds and notes amounted to US$430 million in 2015 and US$503 million in 2014. It was also impacted by a decrease in the interest expense of rouble bonds due to the rouble weakening.

Gain on disposals classified as held for sale in 2015 amounted to US$21 million. The amount includes US$20 million of a gain recognized in relation to disposal of assets of Portland Structural Tubing. In 2014 gain on disposal classified as held for sale amounted to US$136 million, including US$90 million in relation to disposal of EVRAZ Vitkovice Steel and US$25 million from disposal of iron ore mine and heat and power plant located in the Krasnoyarsk and Kemerovo regions of Russia.

Losses on financial assets and liabilities amounted to US$48 million and included, among other things, US$459 million of realised losses and US$439 million of unrealised gains on changes in the fair value of derivatives – cross-currency swaps for rouble-denominated bonds. Also the losses include US$15 million of loss on extinguishment of debts which predominantly is a premium of repurchase of US Dollar denominated bonds and US$11 million of impairment relating to the decline in quotations of available-for-sale financial assets (shares of Delong Holdings Limited, a flat steel producer headquartered in Beijing, China).

Loss of control over EVRAZ Highveld Steel and Vanadium starting 14 April 2015 resulted in recognition of a loss on disposal of a subsidiary in the amount of $167 million, including $142 million of translation loss recycled to the statement of operations. Please, refer to the Note 4 of Financial statements (page 187) for further details.

In the reporting period, the Group's income tax expense fell to US$12 million compared to US$194 million expense in 2014 as a result of the decline in operating results.

Gross profit, expenses and results, US$ million

Item	2015	2014	Change	Change, %
Gross profit	**2,172**	**3,327**	**(1,155)**	**(34.7)%**
Selling and distribution costs	(795)	(1,009)	214	(21.2)%
General and administrative expenses	(474)	(743)	269	(36.2)%
Impairment of assets	(441)	(540)	99	(18.3)%
Foreign exchange gains/(losses), net	(367)	(1,005)	638	(63.5)%
Other operating income and expenses, net	(119)	(131)	12	(9.2)%
Loss from operations	**(24)**	**(101)**	**77**	**(76.2)%**
Interest expense, net	(466)	(546)	80	(14.7)%
Gain/(loss) on financial assets and liabilities, net	(48)	(583)	535	(91.8)%
Gain on disposals classified as held for sale, net	21	136	(115)	(84.6)%
Loss of control over a subsidiary	(167)	-	(167)	n/a
Other non-operating gains/(losses), net	(23)	10	(33)	n/a
Loss before tax	**(707)**	**(1,084)**	**377**	**(34.8)%**
Income tax benefit/(expense)	(12)	(194)	182	(93.8)%
Net loss	**(719)**	**(1,278)**	**559**	**(43.7)%**

Cash flow, US$ million

Item	2015	2014	Change	Change, %
Cash flows from operating activities before change in working capital	1,293	1,976	(683)	(35)%
Changes in working capital	329	(19)	348	n/a
Net cash flows from operating activities	**1,622**	**1,957**	**(335)**	**(17)%**
Short-term deposits at banks, including interest	4	8	(4)	(50)%
Purchases of property, plant and equipment and intangible assets	(423)	(612)	189	(31)%
Purchase of subsidiaries, net of cash acquired	–	(102)	102	n/a
Proceeds from sale of disposal classified as held for sale, net of transaction costs	44	311	(267)	(86)%
Other investing activities	16	6	10	167%
Net cash flows used in investing activities	**(359)**	**(389)**	**30**	**(8)%**
Net cash flows used in financing activities	**(962)**	**(1,811)**	**849**	**(47)%**
Effect of foreign-exchange rate changes on cash and cash equivalents	(12)	(282)	270	(96)%
Net increase/(decrease) in cash and cash equivalents	**289**	**(525)**	**814**	**n/a**

Net cash flows from operating activities fell by 17% from US$1,957 in 2014 to US$1,622 in 2015, US$329 were attributed to the release in net working capital. Free cash flow for the period was US$799 million.

Calculation of free cash flow, US$ million

Item	2015	2014	Change
EBITDA	1,438	2,355	(917)
EBITDA excluding non-cash items	**1,420**	**2,363**	**(943)**
Changes in working capital	329	(19)	348
Income tax accrued	(99)	(357)	258
Social and social infrastructure maintenance expenses	(28)	(30)	2
Net cash flows from operating activities	**1,622**	**1,957**	**(335)**
Interest and similar payments	(452)	(493)	41
Capital expenditures, including recorded in financing activities	(428)	(654)	226
Purchases of subsidiaries (net of cash acquired) and interests in associates/joint ventures	–	(131)	131
Proceeds from sale of disposal classified as held for sale, net of transaction costs	44	311	(267)
Other cash flows from investing activities	16	35	(19)
Equity transactions	(3)	(13)	10
FREE CASH FLOW	**799**	**1,012**	**(213)**

→ For the definition of free cash flow, please refer to page 254.