

## FINANCIAL PERFORMANCE

### Sales review

The segment's overall revenues decreased due to falling sales prices as global market trends remained weak. This was driven by soft demand for coal and declining prices amid over supply.

A reduction in revenues from inter-segment sales of coal products was primarily caused by a 15.1% drop in prices, albeit partly offset by a 9.2% rise in sales volumes. Coking coal sales rose by 3.3% due to higher sales of the K grade to EVRAZ ZSMK, driven by the switch to a new mining method (longwall) for this grade. Coal concentrate volumes grew by 9.0% due to greater sales of the OS, K and KS grades to EVRAZ NTMK, driven by the policy of coal self-sufficiency. The latter was partly offset by a 16.5% drop in prices in line with global trends.

Revenues from external sales of coal products fell by 16.9% due to a drop in prices, mostly attributable to lower demand for coal concentrate in Russia, CIS and European countries amid reduced steel production.

In 2019, the Coal segment's sales to the Steel segment amounted to US\$730 million (36.1%

of total sales), compared with US\$776 million (33.2%) a year earlier.

During the reporting period, roughly 74.1% of EVRAZ coking coal consumption in steelmaking came from the Group's own operations, compared with 68.8% in 2018.

### Coal segment cost of revenues

The main drivers of the year-on-year increase in the Coal segment's cost of revenues were as follows:

- The consumption of auxiliary materials rose by 16.9% due to increased purchases amid higher coal production at Raspadskaya.
- Costs for services dropped by 24.8% due to a reclassification of transportation costs related to overburden removal at the Raspadsky open pit to transportation costs in 2019. Such costs were separated from other transportation costs accounting for the use of economic analysis.
- Transportation costs grew by 10.0% in the reporting period, primarily due to the reclassification of overburden removal at the Raspadsky open pit costs from services

to transportation, as well as the organisation and maintenance of temporary sites for warehousing and storing coal at Raspadskaya.

- Staff costs climbed by 15.5%, mainly due to headcount growth driven by higher production volumes and wage indexation.
- Depreciation and depletion costs rose, primarily due to higher production volumes at Raspadskaya, Uskovskaya, Alardinskaya, Erunakovskaya and Osinnikovskaya mines and increase of capital expenditure at Osinnikovskaya and Raspadskaya mines started from Q4 2018, as well as the effect of the rouble depreciation.
- Other costs decreased in the reporting period, mainly due to lower use of in-house raw materials and goods for resale amid weak coal consumption, soft demand and pricing.

### Coal segment gross profit

In 2019, the Coal segment's gross profit was US\$975 million, down from US\$1,295 million a year earlier, primarily due to lower sales prices.

### Coal segment revenues by product

|                            | 2019         |                            | 2018         |                            | Change, %     |
|----------------------------|--------------|----------------------------|--------------|----------------------------|---------------|
|                            | US\$ million | % of total segment revenue | US\$ million | % of total segment revenue |               |
| <b>External sales</b>      |              |                            |              |                            |               |
| <b>Coal products</b>       | <b>1,251</b> | <b>61.9</b>                | <b>1,506</b> | <b>64.4</b>                | <b>(16.9)</b> |
| Coking coal                | 148          | 7.3                        | 145          | 6.2                        | 2.1           |
| Coal concentrate           | 1,103        | 54.6                       | 1,358        | 58.1                       | (18.8)        |
| Steam coal                 | -            | -                          | 3            | 0.1                        | n/a           |
| <b>Inter-segment sales</b> |              |                            |              |                            |               |
| <b>Coal products</b>       | <b>730</b>   | <b>36.1</b>                | <b>776</b>   | <b>33.2</b>                | <b>(5.9)</b>  |
| Coking coal                | 124          | 6.1                        | 120          | 5.1                        | 3.3           |
| Coal concentrate           | 606          | 30.0                       | 656          | 28.1                       | (7.6)         |
| <b>Other revenues</b>      | <b>40</b>    | <b>2.0</b>                 | <b>55</b>    | <b>2.4</b>                 | <b>(27.3)</b> |
| <b>Total</b>               | <b>2,021</b> | <b>100.0</b>               | <b>2,337</b> | <b>100.0</b>               | <b>(13.5)</b> |

### Coal segment cost of revenues

|                         | 2019         |                      | 2018         |                      | Change, %  |
|-------------------------|--------------|----------------------|--------------|----------------------|------------|
|                         | US\$ million | % of segment revenue | US\$ million | % of segment revenue |            |
| <b>Cost of revenues</b> | <b>1,046</b> | <b>51.8</b>          | <b>1,042</b> | <b>44.6</b>          | <b>0.4</b> |
| Auxiliary materials     | 159          | 7.9                  | 136          | 5.8                  | 16.9       |
| Services                | 97           | 4.8                  | 129          | 5.5                  | (24.8)     |
| Transportation          | 351          | 17.4                 | 319          | 13.6                 | 10.0       |
| Staff costs             | 223          | 11.0                 | 193          | 8.3                  | 15.5       |
| Depreciation/depletion  | 171          | 8.5                  | 155          | 6.6                  | 10.3       |
| Energy                  | 51           | 2.5                  | 49           | 2.1                  | 4.1        |
| Other <sup>1</sup>      | (6)          | (0.3)                | 61           | 2.7                  | n/a        |

<sup>1</sup> Primarily includes goods for resale, certain taxes, changes in work in progress and finished goods, allowance for inventory, raw materials and inter-segment unrealised profit.