FINANCIAL PERFORMANCE

Sales review

In 2019, revenues from the Steel segment dropped by 8.3% to US$8,143 million, compared with US$8,879 million a year earlier. The segment's revenues were impacted by a sharp reduction in sales prices for vanadium products, as well as a slight dip in construction and flat-rolled sales prices, which was partly offset by higher sales prices for railway products.

Revenues from sales of construction products to third parties fell by 5.0%: a 7.8% decrease was attributed to a reduction in average prices, which was partly offset by a 2.8% increase due to higher sales volumes amid active construction in Russia and CIS.

Revenues from external sales of railway products rose due to an 18.8% increase in prices, which was supported by sales volume growth of 3.6%. A key driver of higher railway product prices and sales volumes during the reporting period was greater demand for rails and wheels on the Russian market and better demand for rails in Asian and African markets, albeit partly offset by lower rail export volumes to the US market.

External revenues from flat-rolled products fell by 7.0%. A 7.7% decrease was attributed to a drop in average prices, which was partly offset by a 0.8% increase due to sales volumes amid lower market demand.

The share of sales to the Russian market grew from 49.5% in 2018 to 50.6% in 2019, mainly due to a decline of sales to Europe and Africa, America and the rest of the world.

Steel segment revenues from sales of iron ore products dropped by 25.2%. This was due to a 20.6% decrease in sales prices, as well as 4.6% sales volumes reduction, primarily as a result of higher internal consumption of pellets in 2019 by EVRAZ NTMK after the launch of blast furnace No. 7 in Q2 2018 and by EVRAZ ZSMK amid higher pig iron production. In 2019, around 66.6% of EVRAZ iron ore consumption in steelmaking came from the Group's own operations, compared with 70.2% a year earlier.

Steel segment revenues from sales of vanadium products dropped by 43.8%, primarily due to a 45.1% downturn in sales prices in line with market trends. Ferrovanadium prices dropped along with the London Metal Bulletin and Ryan's Notes quotations, while vanadium slag prices fell along with vanadium pentoxide (V_2O_5) quotations. Prices for oxides plunged by 67% (more than the average quotations), as the majority of sales took place in H2 2019, when quotations were lower than the average for the full year.

Geographic breakdown of external steel product sales, US$ million

	2019	2018	Change,%
Russia	3,358	3,258	3.1
Asia	2,028	1,810	12.0
Europe	492	653	(24.7)
CIS	565	482	17.2
Africa, America and rest of the world	195	377	(48.3)
Total	**6,638**	**6,580**	**0.9**

Steel segment revenues by products

	2019		2018		
	US$ million	% of total segment revenues	US$ million	% of total segment revenues	Change,%
Steel products, external sales	**6,638**	**81.5**	**6,580**	**74.1**	**0.9**
Semi-finished products[1]	2,528	31.0	2,521	28.4	0.3
Construction products[2]	2,166	26.6	2,280	25.7	(5.0)
Railway products[3]	1,181	14.5	965	10.9	22.4
Flat-rolled products[4]	386	4.7	415	4.7	(7.0)
Other steel products[5]	377	4.7	399	4.4	(5.5)
Steel products, inter-segment sales	**168**	**2.1**	**334**	**3.8**	**(49.7)**
Including sales to Steel, North America	154	1.9	321	3.6	(52.0)
Iron ore products	**190**	**2.3**	**254**	**2.9**	**(25.2)**
Vanadium products	**648**	**8.0**	**1,152**	**13.0**	**(43.8)**
Other revenues	**499**	**6.1**	**559**	**6.3**	**(10.7)**
Total	**8,143**	**100.0**	**8,879**	**100.0**	**(8.3)**

1. Includes billets, slabs, pig iron, pipe blanks and other semi-finished products.
2. Includes rebar, wire rods, wire, beams, channels and angles.
3. Includes rails, wheels, tyres and other railway products.
4. Includes commodity plate and other flat-rolled products.
5. Includes rounds, grinding balls, mine uprights and strips.

Steel segment cost of revenues

In 2019, the Steel segment's cost of revenues increased by 4.0% year-on-year. The main reasons for the increase were:

- The cost of raw materials rose by 3.3%, mainly due to higher costs of iron ore (up 46.3%) due to price increases, higher pig iron production volumes and a greater share of more expensive pellets, which was partly offset by lower use of purchased iron ore.
- Scrap costs climbed by 5.5% due to higher steel production volumes and higher prices for scrap, which was partly offset by lower use of scrap and increased use of pig iron.
- 10.5% reduction in coking coal costs resulted from improvements in the coal structure (a smaller share of the more expensive coal concentrate) and lower prices.
- Costs for auxiliary materials grew by 6.7%, mainly due to higher refractories price and volumes of consumption amid increase of EVRAZ NTMK's coke and blast-furnace shops production.
- Transportation costs climbed by 11.7%, primarily due to increase in average railway tariffs and increased rail transportation amid higher primary and secondary concentrate production at EVRAZ ZSMK.
- Other costs were up 5.4%, largely because of a decrease of the work in progress balance compared with 2018 amid lower steel prices and scrap stock.

Steel segment gross profit

The Steel segment's gross profit declined by 29.4% year-on-year, to US$2,307 million, primarily due to lower vanadium and steel prices.

Steel segment cost of revenues

	2019		2018		
	US$ million	% of segment revenue	US$ million	% of segment revenue	Change,%
Cost of revenues	**5,836**	**71.7**	**5,613**	**63.2**	**4.0**
Raw materials	2,577	31.6	2,494	28.1	3.3
Iron ore	540	6.6	369	4.2	46.3
Coking coal	1,082	13.3	1,209	13.6	(10.5)
Scrap	542	6.7	514	5.8	5.5
Other raw materials	413	5.0	402	4.5	3.0
Auxiliary materials	366	4.5	343	3.9	6.7
Services	277	3.4	284	3.2	(2.5)
Transportation	457	5.6	409	4.6	11.7
Staff costs	501	6.2	491	5.5	2.0
Depreciation	227	2.8	222	2.5	2.3
Energy	439	5.4	429	4.8	2.3
Other[1]	992	12.2	941	10.6	5.4

[1] Includes goods for resale, changes in work in progress and finished goods, taxes in cost of revenues, semi-finished products, allowance for inventory and intersegment unrealised profit.