Financial review

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Statement of operations

In its full-year financial results for 2019, EVRAZ reported a decrease of 7.3% year-on-year in consolidated revenues, which totalled US$11,905 million compared with US$12,836 million in 2018. The reduction mainly resulted from a drop in the sales prices for vanadium and coal products amid less favourable market trends.

EVRAZ consolidated EBITDA amounted to US$2,601 million in the period, compared with US$3,777 million in 2018, bringing the EBITDA margin down from 29.4% to 21.8%. The decline is primarily attributable to lower vanadium and coal product sales prices, as well as higher expenses for raw materials (mainly increased iron ore prices).

Free cash flow declined by 24.9% year-on-year and amounted to US$1,456 million. The decline was attributable to lower EBITDA and higher capital expenditures in 2019 compared to 2018.

The Steel segment's revenues (including inter-segment) dropped by 8.3% year-on-year to US$8,143 million, or 61.9% of the Group's total before elimination. This was mainly attributable to lower revenues from the sale of vanadium products, which declined by 43.8% year-on-year, 45.1% revenue fall resulted from lower vanadium prices. Steel product sales edged up by 0.9% year-on-year due to higher sales prices for railway products, albeit partly offset by lower prices for construction, flat-rolled and other steel products.

The Steel, North America segment's revenues decreased by 3.2% year-on-year. Prices went down by 5.6%, partially offset by a 2.4% uptick in sales volumes. The key drivers were weaker demand across product segments, particularly for construction and flat-rolled products, amid reduced demand for concrete reinforcing bar caused by inclement weather in the beginning of 2019 and softer market demand as customers managed inventory levels.

The Coal segment's revenues fell by 13.5% year-on-year, driven largely by lower sales prices for coal concentrate to third parties, which were down 13.6% due to lower market demand from Russia, CIS and European countries.

In 2019, the Steel segment's EBITDA dropped amid lower steel and vanadium prices, as well as higher expenses due to increased prices for raw and auxiliary materials, including iron ore, scrap and refractories. This was partly offset by lower coking coal prices.

The Steel, North America segment's EBITDA rose, driven mainly by the decline of Section 232 duties on sales to the US, which were included in 2018 expenses. EBITDA remains at low levels due to the weak OCTG market and tariffs on slab consumed by Portland operations in North America.

The Coal segment's EBITDA decreased year-on-year, mainly due to sales prices trending lower in line with global benchmarks.

Eliminations mostly reflect the change in 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.

Revenues, US$ million

Segment	2019	2018	Change	Change, %
Steel	8,143	8,879	(736)	(8.3)
Steel, North America	2,500	2,583	(83)	(3.2)
Coal	2,021	2,337	(316)	(13.5)
Other operations	483	472	11	2.3
Eliminations	(1,242)	(1,435)	193	(13.4)
Total	**11,905**	**12,836**	**(931)**	**(7.3)**

Revenues by region, US$ million

Region	2019	2018	Change	Change, %
Russia	4,373	4,564	(191)	(4.2)
Americas	2,709	3,009	(300)	(10.0)
Asia	2,893	2,716	177	6.5
Europe	956	1,426	(470)	(33.0)
CIS (excl. Russia)	865	936	(71)	(7.6)
Africa and the rest of the world	109	185	(76)	(41.1)
Total	**11,905**	**12,836**	**(931)**	**(7.3)**

EBITDA, US$ million

Segment	2019	2018	Change	Change, %
Steel	1,795	2,672	(877)	(32.8)
Steel, North America	38	14	24	n/a
Coal	843	1,218	(375)	(30.8)
Other operations	18	17	1	5.9
Unallocated	(141)	(135)	(6)	4.4
Eliminations	48	(9)	57	n/a
Total	**2,601**	**3,777**	**(1,176)**	**(31.1)**

For the definition of EBITDA, please refer to page 251 of the Annual Report 2019

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

Effect of Group's cost-cutting initiatives in 2019, US$ million

Improving yields and raw material costs, including	**113**
Improving yields and raw material costs of Urals and Siberia divisions	69
Various improvements at coal washing plants and mines	32
Improving yields and raw material costs of North American assets and vanadium operations	12
Increasing productivity and cost effectiveness	**167**
Others	**4**
Total	**284**

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

	2019	2018	Change	Change, %
Steel segment				
Revenues	8,143	8,879	(736)	(8.3)
Cost of revenues	(5,836)	(5,613)	(223)	4.0
Gross profit	**2,307**	**3,266**	**(959)**	**(29.4)**
Steel, North America segment				
Revenues	2,500	2,583	(83)	(3.2)
Cost of revenues	(2,204)	(2,215)	11	(0.5)
Gross profit	**296**	**368**	**(72)**	**(19.6)**
Coal segment				
Revenues	2,021	2,337	(316)	(13.5)
Cost of revenues	(1,046)	(1,042)	(4)	0.4
Gross profit	**975**	**1,295**	**(320)**	**(24.7)**
Other operations – gross profit	116	15	101	n/a
Unallocated – gross profit	(4)	(8)	4	50.0
Eliminations – gross profit	(58)	(111)	53	47.7
Total	**3,632**	**4,825**	**(1,193)**	**(24.7)**

Gross profit, expenses and results, US$ million

	2019	2018	Change	Change,%
Gross profit	**3,632**	**4,825**	**(1,193)**	**(24.7)**
Selling and distribution costs	(966)	(1,013)	47	(4.6)
General and administrative expenses	(611)	(546)	(65)	11.9
Impairment of non-financial assets	(442)	(30)	(412)	n/a
Foreign exchange gains/(losses), net	(341)	361	(702)	n/a
Other operating income and expenses, net	(55)	(69)	14	(20.3)
Profit from operations	**1,217**	**3,528**	**(2,311)**	**(65.5)**
Interest expense, net	(328)	(341)	13	(3.8)
Share of profits/(losses) of joint ventures and associates	9	9	-	-
Impairment of non-current financial assets	(56)	-	(56)	n/a
Gain/(loss) on financial assets and liabilities, net	17	13	4	30.8
Gain/(loss) on disposal groups classified as held for sale, net	29	(10)	39	n/a
Other non-operating losses, net	14	2	12	n/a
Profit before tax	**902**	**3,201**	**(2,299)**	**(71.8)**
Income tax expense	(537)	(731)	194	(26.5)
Net profit	**365**	**2,470**	**(2,105)**	**(85.2)**

In 2019, selling and distribution expenses fell by 4.6%, mostly due to the removal of tariffs imposed on steel exports to US customers of EVRAZ North America in 2018, albeit partly offset by increased freight costs and port charges. General and administrative expenses climbed by 11.9% due to implementation of projects for productivity increase (EVRAZ Business System - Transformation, SAP implementation, legal and IT) and consulting services for these projects, a headcount increase which was driven by the above mentioned projects accompanied by wage indexation. This was partly offset by the effect that depreciation of the average rouble exchange rate had on costs.

In 2019, EVRAZ recognised a US$442 million impairment loss. As a result of impairment testing at the level of cash-generating units, EVRAZ recognised an impairment of goodwill of US$300 million attributable to large diameter pipes cash generating unit in the Steel, North America segment. The impairment was caused by a change to a more conservative fair value model of valuation in recognition of an increase in current market volatility. EVRAZ also decided during 2019 to postpone the reopening of the MUK-96 coal mine, a subsidiary of Raspadskaya and, as a result, fully impaired the mining assets of this mine. Additionally, EVRAZ wrote off certain functionally obsolete property, plant and equipment in 2019.

Foreign exchange losses amounted to US$341 million and were primarily related to intra-group loans denominated in roubles payable by EVRAZ plc and Evraz Group S.A., US dollar functional currency companies, to the Russian subsidiaries that have rouble as a functional currency.

The year end appreciation of the Russian rouble against the US dollar led to exchange losses recognised in the income statements of non-Russian subsidiaries, which were not offset by exchange gains recognised in the income statements of Russian subsidiaries.

Net interest expense incurred by the Group fell to US$328 million in 2019, compared with US$341 million in 2018. This was mainly due to the management's efforts to refinance existing indebtedness at more favourable terms during the reporting period.

In the first half of 2019 EVRAZ recognised a partial impairment loss US$56 million in relation to non-current financial assets of steel-rolling mill located in Yartsevo, a town in Smolensk region of Russia.

A net gain on disposal groups classified as held for sale in the amount of US$29 million arose on the disposal of three subsidiaries and the non-current assets of a Yartsevo rolling mill which were held for sale. The total consideration amounted to US$110 million, while net assets disposed of were US$38 million. In addition, US$42 million of cumulative exchange losses were recycled from other comprehensive income in equity to the consolidated statement of operations on disposal of foreign operations and transaction costs amounted to US$1 million. For more details please read Note 12 of the financial statements **at page 198**.

During the reporting period, the Group had a current income tax expense of US$540 million, compared with US$679 million in 2018. This expense included taxes withheld on dividends distributed within the Group, which were US$178 million in 2019 and US$53 million in 2018. The decrease in the current income tax expense reflects the lower operating results as compared with the previous year.

Cash flow, US$ million

	2019	2018	Change	Change,%
Cash flows from operating activities before changes in working capital	2,057	3,063	(1,006)	(32.8)
Changes in working capital	373	(430)	803	n/a
Net cash flows from operating activities	**2,430**	**2,633**	**(203)**	**(7.7)**
Short-term deposits at banks, including interest	7	11	(4)	(36.4)
Purchases of property, plant and equipment and intangible assets	(762)	(521)	(241)	46.3
Proceeds from sale of disposal groups classified as held for sale, net of transaction costs	44	52	(8)	(15.4)
Other investing activities	46	80	(34)	(42.5)
Net cash flows used in investing activities	**(665)**	**(378)**	**(287)**	**75.9**
Net cash flows used in financing activities	**(1,415)**	**(2,606)**	**1,191**	**(45.7)**
including dividends paid	(1,086)	(1,556)	470	(30.2)
Effect of foreign exchange rate changes on cash and cash equivalents	6	(48)	54	n/a
Net increase/(decrease) in cash and cash equivalents	**356**	**(399)**	**755**	**n/a**

Calculation of free cash flow, US$ million

	2019	2018	Change	Change,%
EBITDA	2,601	3,777	(1,176)	(31.1)
EBITDA excluding non-cash items	**2,615**	**3,773**	**(1,158)**	**(30.7)**
Changes in working capital	373	(430)	803	n/a
Income tax accrued	(532)	(683)	151	(22.1)
Social and social infrastructure maintenance expenses	(26)	(27)	1	(3.7)
Net cash flows from operating activities	**2,430**	**2,633**	**(203)**	**(7.7)**
Interest and similar payments	(302)	(298)	(4)	1.3
Capital expenditures, including recorded in financing activities	(762)	(527)	(235)	44.6
Proceeds from sale of disposal groups classified as held for sale, net of transaction costs	44	52	(8)	(15.4)
Other cash flows from investing activities	46	80	(34)	(42.5)
Free cash flow	**1,456**	**1,940**	**(484)**	**(24.9)**

In 2019, net cash flows from operating activities decreased by 7.7% year-on-year. Free cash flow for the period was US$1,456 million.

Increase of interest and similar payments by 1.3% is mainly driven by premium on early repurchase of bonds in 2019, partly offset by decrease of interest paid on loans year-on-year.

For the definition of free cash flow, please refer to page 251 of the Annual Report 2019.

CAPEX and key projects

In 2019, EVRAZ capital expenditure increased to US$762 million, compared with US$527 million a year earlier. Capital expenditures for 2019 in millions of US dollars can be summarised as follows.

Financing and liquidity

EVRAZ began 2019 with total debt of US$4,638 million. By the end of the year, the Group had completed several transactions to extend its maturity profile and build up a liquidity cushion in view of coming maturities through 2021.

In March, EVRAZ completed an issuer substitution, a capital markets transaction intended to substitute EVRAZ plc in place of Evraz Group S.A. as the issuer of the outstanding Eurobonds in accordance with their terms. Upon substitution, three major international rating agencies assigned EVRAZ plc and its notes credit ratings in line with those of Evraz Group S.A. prior to the transaction.

In April, EVRAZ plc issued a US$700 million Eurobond due in 2024 with a semi-annual coupon of 5.25%. The proceeds were used to fund the tender offer for the Eurobonds due in 2020 that was completed in April and the make whole call for the residual outstanding balance of these notes that was completed in May. As a result of these transactions, EVRAZ effectively shifted 2020 maturities to 2024.

In April, EVRAZ repaid US$50 million in loans from Sberbank due in 2019.

In June, the Group repaid RUB15,000 million of 12.95% rouble bonds due in 2019 and respective cross-currency swaps, which economically hedged the Group's exposure to currency risk.

Capital expenditures in 2019, US$ million

DEVELOPMENT PROJECTS	
Steel segment	
Tashtagol iron ore mine upgrade at EVRAZ ZSMK mining site The project aim is to increase annual ore production of Tashtakolsky deposit with partial switch to sublevel caving using mobile equipment	21
Sobstvenno-Kachkanarsky deposit greenfield project The project aim is to maintain raw ore production	2
Integrated flat casting and rolling facility at EVRAZ ZSMK The project aim is to improve the profitability of EVRAZ product portfolio by replacing semi-finished products with hot-rolled sheets and coils	0.6
Rail and beam mill modernisation at EVRAZ NTMK The project aim is to increase production of beams and of sheet piles	0.5
Steel, North America segment	
Long rail mill at EVRAZ Pueblo The project aim is to replace the existing rail facility and meet customers' interest in long rail	19
Electric arc furnace (EAF) repowering at EVRAZ Regina The project aim is to increase EVRAZ Regina's prime coil and plate production and reduce electrode consumption	15
Heat treatment at EVRAZ Red Deer The project aim is to develop heat treatment capability to access a higher margin market	6
Seamless threading at EVRAZ Pueblo The project aim is to in-source seamless threading and coupling process from third-party providers to improve cost competitiveness	2
Coal segment	
Access and development of reserves in the Uskovskaya mine's seam No. 48 The project aim is to prepare the reserves in seam No. 48 for mining	30
Access and development of reserves in the Esaulskaya mine's seam No. 29a The project aim is to relocate mining operations from seam No. 26 to seam No. 29a	10
Other development projects	75
MAINTENANCE PROJECTS	
Steel segment	
Blast furnace No. 6 major overhaul at EVRAZ NTMK	74
Converter No.4 technical performance improvement at EVRAZ ZSMK	6
Steel, North America segment	
Steel reheat furnace at EVRAZ Regina	4
Other maintenance projects	497
Total	**762**