

FINANCIAL REVIEW

Management have concluded that the demerger of the coal business had become highly probable within one year and that Raspadskaya Group met all criteria to be classified as a disposal held for distribution to owners, as discussed in more detail in Note 2 and Note 13 of the EVRAZ consolidated financial statements, as at 31 December 2021. Consequently, in accordance with the requirements of IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, it was accounted for as discontinued operations in the consolidated financial statements.

During 2021 the Coal business was an integral part of the Group and was managed on this basis. Due to this the analysis presented below is based on the data disclosed in the Note 3 “Segment information” of the Consolidated financial statements and follow the same logic as in all previous years.

The reconciliation of these results with the amounts presented in the consolidated statement of operations is provided in Note 13. It is limited to the presentation of the results of the coal business as discontinued operations.



Nikolay Ivanov
Chief Financial Officer

STATEMENT OF OPERATIONS

In 2021, EVRAZ' total segment revenues climbed by 45.2% YoY to US\$14,159 million, compared with US\$9,754 million in 2020. The increase was caused primarily by higher sales prices for semi-finished and construction products, as well as greater volumes for vanadium products. This increase was also attributable to higher average realised prices and third party sales for coal.

The Group's total segment EBITDA amounted to US\$5,015 million during the period, compared with US\$2,212 million in 2020, boosting the EBITDA margin from 22.7% to 35.4%. The increase in EBITDA was primarily attributable to higher steel, vanadium and coal product sales prices.

Total segment revenues and total segment EBITDA include the contribution of discontinued operations. Revenues and EBITDA from continuing operations are US\$13,486 million (2020: US\$9,452 million) and US\$3,692 million (2020: US\$1,830 million) respectively.

Free cash flow soared by 121.3% YoY to US\$2,257 million due to better operating results.

In 2021, the Steel segment's revenues (including intersegment sales) rose by 46.2% YoY to US\$10,188 million, which constitutes 66.3% of the Group's total before eliminations. The increase was mainly attributable to higher revenues from steel and vanadium products, which climbed by 45.5% and 47.6% YoY, respectively. This was primarily because average sales prices advanced by 50.4% for steel products and by 38.8% for vanadium. The effect of higher prices on the Steel segment revenues were partly offset by lower sales volumes, which edged down from 12.3 million tonnes in 2020 to 11.6 million tonnes in 2021 following planned decrease in production volumes at Russian mills.

In 2021, revenues from the Steel, North America segment rose by 30.6% YoY to US\$2,324 million, driven by a 33.6%

increase in sales prices. The latter was offset by a 3.0% reduction in sales volumes, primarily in the semi-finished and tubular products, but compensated by improvements in sales of flat-rolled products.

The Coal segment's revenues increased by 55.8% YoY to US\$2,321 million, mainly driven by an increase of 68.8% in coal product sales prices and a decrease of 13.0% in sales volumes of coking coal products.

In 2021, higher prices for semi-finished, construction and vanadium products almost doubled the Steel segment's EBITDA, despite an increase in cost of sales.

The Steel, North America segment's EBITDA increased because of higher revenues from sales of flat-rolled, construction and railway products.

The Coal segment's EBITDA rose YoY, due to higher average realised prices.

Total segment revenues, US\$ million

| SEGMENT | 2021 | 2020 | CHANGE | CHANGE, % |
|----------------------|---------------|--------------|--------------|-------------|
| Steel | 10,188 | 6,969 | 3,219 | 46.2 |
| Steel, North America | 2,324 | 1,779 | 545 | 30.6 |
| Coal | 2,321 | 1,490 | 831 | 55.8 |
| Other operations | 535 | 410 | 125 | 30.5 |
| Eliminations | (1,209) | (894) | (315) | 35.2 |
| TOTAL | 14,159 | 9,754 | 4,405 | 45.2 |

Total segment revenues by region, US\$ million

| REGION | 2021 | 2020 | CHANGE | CHANGE, % |
|------------------------------|---------------|--------------|--------------|-------------|
| Russia | 5,521 | 3,722 | 1,799 | 48.3 |
| Asia | 3,684 | 2,949 | 735 | 24.9 |
| Americas | 3,016 | 1,915 | 1,101 | 57.5 |
| Europe | 946 | 461 | 485 | n/a |
| CIS (excl. Russia) | 934 | 584 | 350 | 59.9 |
| Africa and rest of the world | 58 | 123 | (65) | (52.8) |
| TOTAL | 14,159 | 9,754 | 4,405 | 45.2 |

Total segment EBITDA¹, US\$ million

| SEGMENT | 2021 | 2020 | CHANGE | CHANGE, % |
|----------------------|--------------|--------------|--------------|------------|
| Steel | 3,609 | 1,930 | 1,679 | 86.9 |
| Steel, North America | 321 | (28) | 349 | n/a |
| Coal | 1,292 | 400 | 892 | n/a |
| Other operations | 19 | 15 | 4 | 26.6 |
| Unallocated | (146) | (126) | (20) | 15.9 |
| Eliminations | (80) | 21 | (101) | n/a |
| TOTAL | 5,015 | 2,212 | 2,803 | n/a |

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

Effect of Group's cost-cutting initiatives in 2021, US\$ million

| | |
|---|------------|
| Increasing productivity and cost effectiveness | 224 |
| Improving auxiliary materials and service costs | 71 |
| Procurement efficiency | 34 |
| Other | 6 |
| TOTAL | 335 |

1. For the definition of EBITDA, please refer to page 290

Revenues, cost of sales and gross profit by segment, US\$ million

| | 2021 | 2020 | CHANGE | CHANGE, % |
|--|--------------|--------------|--------------|-------------|
| <i>Steel segment</i> | | | | |
| Revenues | 10,188 | 6,969 | 3,219 | 46.2 |
| Cost of sales | (6,070) | (4,596) | (1,474) | 32.1 |
| Gross profit | 4,118 | 2,373 | 1,745 | 73.5 |
| <i>Steel, North America segment</i> | | | | |
| Revenues | 2,324 | 1,779 | 545 | 30.6 |
| Cost of sales | (1,835) | (1,604) | (231) | (14.4) |
| Gross profit | 489 | 175 | 314 | n/a |
| <i>Coal segment</i> | | | | |
| Revenues | 2,321 | 1,490 | 831 | 55.8 |
| Cost of sales | (919) | (1,027) | 108 | (10.5) |
| Gross profit | 1,402 | 463 | 939 | n/a |
| Other operations – gross profit | 206 | 115 | 91 | 79.1 |
| Unallocated – gross profit | (12) | (8) | (4) | 50.0 |
| Eliminations – gross profit | (183) | (76) | (107) | n/a |
| TOTAL | 6,020 | 3,042 | 2,978 | 97.9 |

Total segment gross profit, expenses and results, US\$ million

| | 2021 | 2020 | CHANGE | CHANGE, % |
|--|--------------|--------------|--------------|-------------|
| Gross profit | 6,020 | 3,042 | 2,978 | 97.9 |
| Selling and distribution costs | (907) | (840) | (67) | 8.0 |
| General and administrative expenses | (617) | (552) | (65) | 11.8 |
| Impairment of non-financial assets | (30) | (310) | 280 | (90.3) |
| Foreign-exchange gains/(losses), net | 34 | 408 | (374) | (91.7) |
| Social and social infrastructure maintenance expenses | (35) | (31) | (4) | 12.9 |
| Gains/(losses) on disposal of property, plant and equipment, net | (8) | (3) | (5) | n/a |
| Other operating income and expenses, net | (44) | (43) | (1) | 2.3 |
| Profit from operations | 4,413 | 1,671 | 2,742 | n/a |
| Interest expense, net | (227) | (322) | 95 | (29.5) |
| Share of profit/(losses) of joint ventures and associates | 14 | 2 | 12 | n/a |
| Gain/(loss) on financial assets and liabilities, net | (21) | (71) | 50 | (70.4) |
| Gain/(loss) on disposal groups classified as held for sale, net | 2 | 1 | 1 | 100.0 |
| Other non-operating gains/(losses), net | 3 | 14 | (11) | (78.6) |
| Profit before tax | 4,184 | 1,295 | 2,889 | n/a |
| Income tax expense | (1,077) | (437) | (640) | n/a |
| NET PROFIT | 3,107 | 858 | 2,249 | n/a |

In 2021, selling and distribution expenses rose by 8.0% amid increased freight transportation costs related to higher shipment volumes and freight rates. General and administrative expenses climbed by 11.8%, mostly because of the implementation of projects aimed

at increasing productivity (EVRAZ Business System transformation, legal and IT) and consulting services for these projects. This was partly offset by the effect that depreciation of the average ruble exchange rate had on costs.

In 2021, EVRAZ recognised a US\$30 million impairment loss mainly in relation to certain functionally obsolete items of property, plant and equipment.

Foreign exchange gains amounted to US\$34 million. They were mainly related to intragroup loans denominated in rubles and payable by Evraz Group S.A., whose functional currency is the US dollar, to the Russian subsidiaries, which have the ruble as their functional currency. The depreciation of the Russian ruble against the US dollar in 2021 led to foreign exchange gains being recognised on the income statements of non-Russian subsidiaries.

Net interest expense decreased to US\$227 million in 2021, compared with US\$322 million in 2020. This was mainly due to repayment of expensive debt and a lower indebtedness level during 2021. In the first quarter of 2021, the Group settled the 8.25% notes due 2021 (US\$735 million principal) and 12.6% ruble-denominated bonds due 2021 (US\$203 million principal at 31 December 2020). Later during 2021,

the full amount of the 6.75% notes due 2022 (US\$500 million principal) was repurchased early.

In the reporting period, the Group had an income tax expense of US\$1,077 million, compared with US\$437 million in 2020. The change mostly reflects the significant improvement in operating results.

Cash flow, US\$ million

| | 2021 | 2020 | CHANGE | CHANGE, % |
|---|----------------|----------------|---------------|-------------|
| Cash flows from operating activities before changes in working capital | 4,000 | 1,593 | 2,407 | 151.1 |
| Changes in working capital | (576) | 335 | (911) | n/a |
| Net cash flows from operating activities | 3,424 | 1,928 | 1,496 | 77.6 |
| Short-term deposits at banks, including interest | 4 | 4 | 0 | 0.0 |
| Purchases of property, plant and equipment and intangible assets | (910) | (647) | (263) | 40.6 |
| Proceeds from sale of disposal groups classified as held for sale, net of transaction costs | 2 | 11 | (9) | (81.8) |
| Other investing activities | (1) | 8 | (9) | n/a |
| Net cash flows used in investing activities | (905) | (624) | (281) | 45.0 |
| Net cash flows used in financing activities | (2,707) | (1,107) | (1600) | n/a |
| including dividends paid | (1,549) | (872) | (677) | 77.6 |
| Effect of foreign exchange rate changes on cash and cash equivalents | (12) | 7 | (19) | n/a |
| Net increase/(decrease) in cash and cash equivalents | (200) | 204 | (404) | n/a |

Calculation of free cash flow¹, US\$ million

| | 2021 | 2020 | CHANGE | CHANGE, % |
|---|--------------|--------------|--------------|-------------|
| EBITDA | 5,015 | 2,212 | 2,803 | n/a |
| EBITDA excluding non-cash items² | 5,042 | 2,203 | 2,839 | n/a |
| Changes in working capital | (576) | 335 | (911) | n/a |
| Income tax accrued | (1,007) | (579) | (428) | 73.9 |
| Social and social infrastructure maintenance expenses | (35) | (31) | (4) | 12.9 |
| Net cash flows from operating activities | 3,424 | 1,928 | 1,496 | 77.6 |
| Interest and similar payments | (248) | (269) | 21 | (7.8) |
| Capital expenditures, including recorded in financing activities and non-cash transactions | (920) | (657) | (263) | 40.0 |
| Proceeds from sale of disposal groups classified as held for sale, net of transaction costs | 2 | 11 | (9) | (81.8) |
| Other cash flows from investing activities | (1) | 7 | (8) | n/a |
| FREE CASH FLOW | 2,257 | 1,020 | 1,237 | n/a |

1. For the definition of free cash flow, please refer to page 253.

2. See Note 3 on pages 202 of the consolidated financial statement for additional information and reconciliation with IFRS financial statements. for additional information and reconciliation with IFRS financial statements.