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SSAB.ST - Q3 2016 SSAB AB Earnings Call

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PRESENTATION

Taina Kyllonen - *SSAB AB - Head of Corporate Communications*

Ladies and gentlemen, good morning, and welcome to our Q3 result briefing. My name is Taina Kyllonen, and I'm the Head of Corporate Communications.

And today, before we start with the presentation, I have the pleasure of introducing to you our new Head of IR, Per Hillstrom. Per will start working now in a week's time, on Monday, on November 7.

Per Hillstrom - *SSAB AB - Head of IR*

Yes. And it feels good to be here, and good to get to know the Company and the industry. I'm really looking forward to it; also, connect with you here in the -- all the steel specialists in their financial markets. So, looking forward to that. As you said, start here first week in November, November 7, will be my first [day].

Taina Kyllonen - *SSAB AB - Head of Corporate Communications*

And I'm really pleased to have my IR team complete now, with Per, and Lisa, [my SO]; they will both at your service.



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Okay, but then, let's go to the agenda of today. We will -- Martin will start and go through with the market situation, as usual, and talk about the Q3 result through the divisions; and then, Hakan will run through the financials; and then, Martin will conclude with the outlook; and then, we are ready to take all the questions you have.

So, Martin, please.

Martin Lindqvist - SSAB AB - President and CEO

Thank you. And good morning. Thank you for joining us here today, when we release the third-quarter report.

It has been an interesting quarter, in that it has been an interesting continuation on our journey. And I think the completion of the synergy program, and also the rights issue, has put a fairly good foundation for SSAB on our journey towards industry-leading profitability.

And speaking about journeys, I've been travelling quite a lot during the third quarter. I had the opportunity to visit all our mills, travel together with the sales organization. And I must say, I met a lot of senior managers, managers, and employees, and I'm very pleased with the energy level and the excitement that I meet in the organization.

I also met a lot of customers. I've been meeting customers in North America, in Europe. And they are very pleased with the corporation, with SSAB; and they're also, they have a positive view on the market, midterm. I think that is also a good foundation for our continued journey.

And if we start with the market, I think this picture showed really what happened in Q3. Quite a difference between our two home markets.

If we start with North America, and this is Plate, North America, we saw weak demand; we saw continued high imports; pressure on prices; we saw spot prices moving down during the third quarter; and we saw steel service centers destocking.

At the end of the quarter, we saw fairly decent or low inventories at the steel service centers, and in the supply chain. But still, definitely challenging quarter.

And, as you see, at the end of the quarter the spot prices were more or less back on the same level as the trough beginning of this year.

If we take Europe, on the other hand, it was as slightly different market during Q3. We saw stable demand; we saw low imports; inventories in balance; a dip in spot prices in the beginning, and then spot prices increasing.

And you see now that spot prices, compared to the beginning of this year, is 30% to 40% up on the European market. And this is measured as hot rolled coil spot prices, Northern Europe.

If you look into Q3 then, for SSAB, we had an EBIT of SEK707 million, which is SEK115 million better compared to Q2 2016. And what we saw during the quarter was higher contract prices; continued cost reductions; lower shipments, and mainly due to seasonality; and then, of course, the maintenance outages.

We had also a fairly good cash flow during the quarter. We had an operating cash flow of SEK926 million, despite that we were building inventories in front of the outage in Oxelosund. [Some have] said that, that was also quite okay.

And if you look at the KPIs, we had lower sales, or sales than Q2, and sales in line or slightly lower than Q3 last year.

We managed to get an EBITDA margin on Group level of 12%. And the EBITDA per tonne delivered steel, was north of SEK1,000 per tonne, which is couple of quarters ago since we saw those kind of figures.

If you look at the different divisions, and start with special steel, the EBIT was up SEK177 million compared to the second quarter.

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We had higher prices and lower costs, and we had lower volumes, due to seasonality. And we had an EBIT margin in special steels, during the second -- third quarter, of 15.2%, and an EBITDA margin of close to 20%.

In Europe, we had lower shipments, due to seasonality, compared to Q2, and we also had lower capacity utilization. But we also here saw the effects of lower variable and fixed costs, and the effect of higher prices.

And the EBITDA margin in Europe was 13% during the quarter, which is also quite good.

Americas, as I said, demand for heavy plate was weak; spot prices declined; steel service centers were destocking during the quarter.

The lower result compared to Q2 depends, of course, on lower volumes, costs of the maintenance outage, lower capacity utilization. But we had higher contract prices.

As you saw in my first picture, spot prices went up in Q2, and then down in Q3. So when we were taking orders for Q3 we took it on a higher level than we are doing for Q4.

If you look at Ruukki Construction, well, we see, of course, a seasonally better demand in Q3, so I think, in all fairness, you should compare the operating profit Q3 2016 with Q3 2015.

We had slightly higher volumes, but here we see the effects of the restructuring of Ruukki Construction.

We managed to have an EBITDA for Ruukki Construction just north of 10% during the quarter.

Tibnor is a reflection of the Nordic markets. We had a slightly better operating result than in Q2. We saw better margins. We saw lower fixed costs, due to the synergy programs. But we also saw seasonally lower volumes.

So I would say, all in all, decent quarter. Americas not performing; on the other hand, pretty strong in special steels. And I think this shows the potential in that business division.

When we run production in a stable way, we have okay prices, okay volumes, so [during] Q3 the result will always be pretty good.

Hakan?

Hakan Folin - SSAB AB - CFO

Thank you. Good morning, everyone. And thank you, once, again, for taking the time and coming here, and also listening on the webcast.

I will cover the changes in the result year over year, quarter over quarter; some more data from the cash flow; spend some time on the balance sheet and the net debt; and then, a little bit more time than usual on the raw materials side, given there has been some quite big changes during the quarter.

Starting then with the result development, and looking at Q3 versus Q2, all in all, it's actually not a big difference. We had SEK668 million in Q2, SEK707 million now in Q3, so it's a SEK40 million difference between the quarters. But on the other hand, the components are varying quite a lot.

Starting on the price side, we had a positive impact in the result of higher prices, SEK460 million, the largest impact coming from SSAB Europe; but also, special steels and Americas impacting positively.

As Martin was mentioning, for Americas, spot prices are actually down in Q3, 25% almost. But for us, the realized prices are higher, given the contract structure we have. But when we go into Q4 we will see that negative impact hitting our Americas business in Q4.

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Volumes, we have a negative impact of SEK660 million. Within Europe and special steel, I would say that this is a seasonal effect. Within Americas, it's both partly seasonal, but it's also due to steel service center destocking; and also, a fairly weak end-user demand during the quarter.

No major change on variable COGS.

On fixed costs, we see, Q3 versus Q2, a very positive development of SEK380 million. Here, I think it's important to point out that around SEK300 million of those SEK300 million (sic - see slide 12, "SEK380 million") is coming during Q3 because we are dissolving vacation reserves. So that's a typical Q3 effect, which we did not have in Q4 -- sorry, we do not have in Q2, and we will not have in Q4, either.

No major change on FX.

Then other, minus SEK126 million, very much driven by underabsorption, which we have as part of other, where we had outage in Montpellier, and also outage in the Swedish side of SSAB Europe.

So, all in all, no big change in the result, but positively impacted by prices and cost, negatively by volume and underabsorption.

If we look at Q3 versus Q3, it's a bit of a different picture. We had a result of close to minus SEK200 million last year, and now then SEK700 million, so, all in all, a positive impact of SEK900 million.

On the price side, it's the only one that's red here, so negative SEK100 million. It's not a huge change. But one should remember, it's been a real rollercoaster. If we were here on Q3 last year we had realized prices significantly down in Q4, significantly down again in Q1, then climbing up in Q2 and Q3, and now we're back roughly at the same level as where we were one year ago.

Volumes, it's no big change, profit-wise, Q3 over Q3. Here, Americas is the one that is dragging down the volumes, while, actually, Europe and special steel have clearly better volumes this quarter than one year ago.

But then we see the big positive impact coming from the cost side, both variable costs and fixed costs: in total, SEK520 million. It is partly raw material, between SEK250 million and SEK300 million. But it's also a big improvement coming from the synergy program, the Ruukki Construction savings program, and all other cost-efficiency actions we are driving across the Company. So it's clearly now this within the result.

We also have a big positive item on FX compared to last year. This quarter we haven't had any dramatic change, but last year we had a big negative hit in Brazil, a one-time hit. And when comparing quarters, we then get a positive impact.

Finally, on other here, also here it's the underabsorption that's playing a big role. Last year, we were not running the Lulea blast furnace during the whole third quarter, when we had the relining, and this year we've been running it, and that's a large portion of this SEK193 million.

So, all in all, a big improvement from minus SEK200 million up to plus SEK700 million, and a large portion of that coming from improved cost position.

Moving on to cash flow, Martin mentioned we had a decent operating cash flow at SEK900 million plus; and also, net cash of over SEK600 million. And that was despite a negative working capital build up of SEK500 million, which we expect that we will reverse now during Q4.

And the reason for the cash flow was, of course, the profit before depreciation and amortization; and also, that we've been keeping CapEx on a fairly low level also in the third quarter.

And if we look at where we are year to date in terms of CapEx, we have spent a little bit more than SEK900 million after three quarters, which means that we will stay below the SEK1.5 billion that we have set as a highest-possible frame for 2016.



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Moving into the debt situation, with the increase in net debt, and also the gearing, during the quarter, gearing is now at 35%, so we're getting close to the financial target of 30%, down 2 percentage points from Q2; and down from 55% at the end of Q3 last year, which is, of course, to a large extent, driven by the rights issue we made.

Net debt was down around SEK250 million, and we're now at SEK18.2 billion. And if you look at net debt, you can see this is the lowest level we've been since 2013. The reason for the jump here is when we acquired Rautaruukki, although we did it with shares, we took over their net debt as well. But we're the lowest level since then.

And if you take the gearing now at 35%, it's actually the lowest level where we've been since we acquired IPSCO, in 2007.

And we are on our way of reducing the net debt by SEK10 billion.

When we announced the refinancing package after Q1 we said we were going to do three things, we were going to do a rights issue of around SEK5 billion; we were going to move maturities out in time, and that we have done, and we've done the rights issue; and thirdly, we said we were going to reduce net debt by another SEK5 billion, so, in total, SEK10 billion net debt reduction, and we're going to do that before end of 2017.

So far, we are at SEK6.2 billion. The rights issue gave SEK4.9 billion net. During Q2 and Q3, we have had a positive net cash flow of SEK1.3 billion. So, so far, at SEK6.2 billion, which obviously means we have SEK3.8 billion left during the coming five quarters to reach SEK10 billion target, and we will reach the SEK10 billion target.

One thing to point out here is that this we have calculated with the net cash flow we have generated so far. Then, in the net debt itself, we have both in dollars and in euro, so it might go up and down, depending on how the currencies fluctuate.

But we are committed we will deliver this SEK10 billion; and then, if that becomes SEK10.5 billion on a net debt, or SEK9.5 billion depending on the currencies, well, that remains to be seen.

We are focusing a lot of moving maturities out in time; from 2016, 2017, 2018 out to 2019, 2020, and onwards.

And during the quarter, we have decreased the loans maturity in the coming three years from SEK8.7 billion down to SEK6.8 billion. And we will continue work with this.

If we look at commercial paper, we used to have more than SEK3 billion in commercial paper at the end of Q1; we are now lower than SEK1 billion. And that's not because we're not able to access the market, but it's because after we did the rights issue we had a large amount of cash on the balance sheet and we've been mitigating that by lowering the amount of commercial papers.

Finally on the debt side, a look at our duration of the portfolio, and also our interest rate. We are now here at 5.2 years. One year ago, it was 4.8 years. But if you look over this five-year historic period, well, slightly above five is actually the highest level we have been.

Then, if you look at the interest rate, it's been going up a bit the last few quarters, and there are a number of factors impacting this. I'll point out two of them. One is that the underlying US dollar LIBOR rate has been moving upwards, and, as said, we have quite a lot of loans in dollars.

And the other one is that we have decreased the commercial papers quite a lot, where we paid extremely low interest rate; and then, that's taken out of the equation, the average will be slightly higher. But I would say still we are at 3.3%, which I believe is fairly competitive.

Moving then into the raw material, and, of course, the big item is the coking coal development. Coking coal prices during Q3 really spiked and took off in a way I don't believe anyone had foreseen. And this one ends here at the end of Q3, but, actually, even after Q3 we have seen additional increases on the coking coal side.



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For us, this is the purchase price for us, not the consumption price, but the purchase price for us during Q3 was 25% higher in US dollar versus Q2, and 34% higher in SEK.

The main impact of this coking coal increases will come from Q1 and onwards. But we will already in Q4 start seeing the impact of the higher coking coal in our P&L, especially for the special steel division.

For Europe, we have -- we build up winter stocks up in Lulea and up in Raahe, because the big boats cannot go there when there is ice, so there, it will come more in Q1. But for special steel, we will start seeing it already in Q4.

On iron ore, well, it hasn't been very dramatic. It's slightly up versus Q2, but not at all in the magnitude of how we see coking coal develop.

Then, for scrap, which is obviously what we use in our US operation the scrap price has been going down during the quarter; they're down 17% in the end of the quarter versus the beginning. They're still actually slightly higher than what they were one year ago.

But I think this is quite interesting because iron ore being flat, scrap slightly moving down, and coking coal then going like this, it means for us, a scrap-based plate producer in the US, we will definitely, compared to the integrated players, have a competitive advantage.

Finally from my side, a look at the maintenance outage that we have had in 2016, and still plan to have.

In Q3, we had a direct cost of SEK280 million, main one coming from SSAB Americas, where we had a big outage in Montpelier. We also had an outage on the Swedish side of SSAB Europe.

During Q4 then, we will have, or are right now having, an outage in Oxelosund for special steel, with an expected direct cost impact of SEK130 million. And we will also have outages on the Finish side of SSAB Europe, in Raahe and Hameenlinna.

All in all, the direct cost will be lower in Q4 than Q3; but this is not including the under-absorption cost, and especially not the lost margin on the volumes we will not ship.

And during Q3, given how weak the market actually was in Americas, we didn't lose very much volumes, and we didn't lose very much margin, due to the outage.

On the other hand, when we have an outage now in Q4, and especially for special steel, where we have the highest margin, when we lose some volume there it will obviously also then impact the profitability of special steel.

Back to you.

Martin Lindqvist - SSAB AB - President and CEO

Thank you, Hakan. So, zooming in then on Q4, when we look at this, we expect demand for heavy plate in North America to be relatively weak for Q4, as well. We see lower stocks in the supply chains. We expect not further destocking.

Realized prices are expected to be lower in Q4 compared to Q3, due to the lag effect, and I showed you the spot price movements.

In Europe, we expect demand to be relatively unchanged. And, of course, with the seasonal slowdown at the end of the fourth quarter, which we typically see second half of December, we expect also prices in Europe to be relatively stable.

Demand for high-strength steel is also fairly unchanged, so stable underlying demand for special steels into Q4.



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And overall, we expect shipments to be in line with Q3. But I also write in the report this will, of course, be impacted about the price sentiment in the market. If customers expect prices to go down in Q1, apparent demand in December will be lower; and if they expect prices to go up in Q1, we will see the opposite effect. And that's important to remember.

So, with that, dear friends, I think we open up for questions.

QUESTIONS AND ANSWERS

Taina Kyllonen - SSAB AB - Head of Corporate Communications

Yes, let's start from the audience here in Stockholm. And if you have many questions, please let's take them one by one, so (multiple speakers) Martin and Hakan's job.

Christian Kopfer - Nordea Markets - Analyst

Thank you very much for the presentation. Christian Kopfer, Nordea. Just a few questions from my side. Firstly, you touch upon the price outlook for Q4, seeing it's stable. Still a bit surprised to see that outlook, considering the underlying trend of raw materials. Could you maybe touch a little bit more upon that, even though you said that it was dependent on the rather slower season going into the end of the year?

Martin Lindqvist - SSAB AB - President and CEO

No, but when we look at it, and, of course, you can read about prices moving as well in steel business briefing, and other publications, but a rough estimate is that we see fairly stable prices in Europe.

Christian Kopfer - Nordea Markets - Analyst

Right. And also, Hakan, you talked about the interest rate trend. Should we expect that trend to flatten out next couple of quarters, or do you see it continuing up from here?

Hakan Folin - SSAB AB - CFO

No, you should expect it to flatten out. That obviously depends on -- especially on the US dollar LIBOR rate. But I think there is actually a commercial paper, which we had done, which has impacted -- will not be as large as it's been. So, yes.

Christian Kopfer - Nordea Markets - Analyst

Thanks. And finally from me, we have obviously seen the Swedish crown weakening quite a lot versus the euro. You didn't see much of that in Q3, right? That effect is still to be seen?

Hakan Folin - SSAB AB - CFO

We've seen it partly on the prices. So prices, when we sell in euro and then translate back in SEK, we're seeing that partly, but it's not, as you saw on the bridge, compared to Q2, a huge result impact.



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Christian Kopfer - *Nordea Markets - Analyst*

Okay. Thank you very much.

Johannes Grunselius - *Handelsbanken Capital Markets - Analyst*

Johannes Grunselius, Handelsbanken. Can you elaborate a bit on the mix? How was the mix in the third quarter? We have been hearing from you, and obviously other players, that automotive is a very strong segment, and how do you see that going into the fourth quarter, and next year?

Martin Lindqvist - *SSAB AB - President and CEO*

I think we had decent demand, still fairly stable demand from automotive, underlying demand, I would say. And then, as we have talked about before, we are now introducing, or we are in the middle of -- or we have been introducing this year a couple of new products for safety details in automotive, and that has helped us to grow our market share within automotive. So we have had a better growth in automotive than the underlying growth, so to say, due to that.

That is extremely high strength (inaudible) [steel] that we have been pushing into the market, or introducing to the market during this year. So we've had a good development within automotive.

Johannes Grunselius - *Handelsbanken Capital Markets - Analyst*

And if you can give some color on the strong results on specialty. Is it anything to do with the mix, prices? Or is it more efficiency? Or what do you think?

Martin Lindqvist - *SSAB AB - President and CEO*

I would say it's efficiency and production stability. And I say internally I get surprised every time when I see the negative effects of production not running stable, and I get surprised every time when I see that we run it on stable levels. And I would not say that we have been running it on fantastic levels, but we have been running, usually, in third quarter, the production in a decent way, and in a stable way. And then you see the effect.

So it is cost efficiency, and it is stability. And that is something we are working, with with continuous improvement, to lift the levels day by day, week by week, year by year.

Johannes Grunselius - *Handelsbanken Capital Markets - Analyst*

And then my final question here, and that's a follow up on Christian's question, on the relative stable prices in Europe. At the same time, coal is moving up now; and you say that will be seen in the fourth quarter. But should we see that as there will be a slight negative push on the conversion margin for you now in the fourth quarter? Or could you give some color on that?

Martin Lindqvist - *SSAB AB - President and CEO*

Well, we are not setting the price in Europe. Overall, for spot prices in Europe -- we are setting prices on the most advanced steel products globally, and we are part of setting the price, so the leader, when it comes to heavy plate in North America. But in Europe, we are one among many players, so we are not setting the price momentum. This is our outlook, as we speak.

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Olof Grenmark - ABG Sundal Collier - Analyst

Olof Grenmark, ABG Sundal Collier. Three questions, if I may: first one on steel prices, the second on net debt, and the third on the outages, the maintenance stops.

Regarding steel prices, you guide for a flat or stable steel prices in Europe, at the same time as we should see a negative in America, due to the lag effect. Isn't there a lag effect in Europe, as well? Shouldn't we see a positive effect then?

Martin Lindqvist - SSAB AB - President and CEO

What we guide for is roughly stable prices in Europe.

Olof Grenmark - ABG Sundal Collier - Analyst

So it's more on the positive side then if you say roughly?

Martin Lindqvist - SSAB AB - President and CEO

I say roughly stable prices.

Olof Grenmark - ABG Sundal Collier - Analyst

Fair enough. Then, regarding the net debt, you said that there could be a dollar effect there given the large change in the SEK/US dollar ratio, could you please allude on that one again?

Hakan Folin - SSAB AB - CFO

What I mean is that we're committed to this SEK10 billion that we talked about when we released the refinancing package after Q1. But we have a portion of our debt in dollar, and we have a portion of it in euro, and what we want, we want to make sure that we focus on what we can impact, which is to deliver net cash flow, basically, in one way or another by reducing working capital, generating profit, etc.

And then, if the dollar or euro strengthens or weakens versus SEK that does have an impact on the total size of the net debt. So it might mean that we are able to generate SEK11 billion by ourselves, but the development of the SEK has made the loans become SEK500 million higher and then we only then reach SEK10.5 billion, instead of the SEK11 billion that we've actually generated.

Olof Grenmark - ABG Sundal Collier - Analyst

So can you give us the dollar ratio in US dollars over the net debt?

Hakan Folin - SSAB AB - CFO

No, what we -- I don't have it off the top of my head. I can definitely get to that, but not from the top of my head. What we are comparing with is when we released the Q1 result, when said this was the target that we're going to achieve.

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Martin Lindqvist - SSAB AB - President and CEO

But you have to be clear, there is no doubt that we will deliver the SEK10 billion.

Olof Grenmark - ABG Sundal Collier - Analyst

Okay, that's clear. Thanks. Thirdly, regarding outages, is it correct that you did not have any effect at all last year in the fourth quarter?

Hakan Folin - SSAB AB - CFO

No, we had -- special steel also had an outage in the fourth quarter last year.

Olof Grenmark - ABG Sundal Collier - Analyst

How large was that one roughly?

Hakan Folin - SSAB AB - CFO

Approximately same as we will see this year; it's the same type of outage.

Olof Grenmark - ABG Sundal Collier - Analyst

Thanks. That's all.

Ola Sodermark - Swedbank Markets - Analyst

Ola Sodermark, Swedbank. Just to go back to raw materials and coal prices that are spiking right now, you said you are building inventories to Raahe and Lulea. Are you down-weighted for winter, or are you still building inventories?

Hakan Folin - SSAB AB - CFO

We have bought everything we need for the winter.

Ola Sodermark - Swedbank Markets - Analyst

So, it could be a competitive advantage then?

Hakan Folin - SSAB AB - CFO

Well, I would say, maybe during Q4 for Europe we might have a small advantage there; not for special steel, because, I said there, we don't build inventory. But for Europe, it will come a little bit later, the increase.

Taina Kyllonen - SSAB AB - Head of Corporate Communications

Are there more questions here? Okay, let's take the questions from the lines. Operator, please.

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Operator

(Operator Instructions). Alain Gabriel, Morgan Stanley.

Alain Gabriel - Morgan Stanley - Analyst

Just two questions from my end. Firstly, do you mind commenting what you're seeing in the physical market in Europe in terms of the strip demand? Some of your competitors have announced price hikes up to EUR500 per tonne. Is the physical market tight enough to justify those prices in SEK beyond Q4?

And the second question is on the CapEx. Have you underinvested in 2016, which means that your CapEx will go up in 2017? And would you be able to quantify? Thank you.

Martin Lindqvist - SSAB AB - President and CEO

But I am not sure that I really understood the first question. I haven't seen price increases, what did you say, EUR500 per tonne?

Alain Gabriel - Morgan Stanley - Analyst

Yes, that's the [strip] prices.

Martin Lindqvist - SSAB AB - President and CEO

Okay, I haven't seen those figures. I can't comment on it. But, as I said, we are not setting the prices on the European market. We are, in that aspect, fairly small, and a follower. So if prices are moving up on the European market, you will see the same effects for SSAB.

Your second question, no, I don't think we have underinvested at all. I think we have, due to this combination with Ruukki, we said, already from the start, that we will see lower CapEx needs, we call it CapEx avoidance; and we gave a figure, and I think that figure is maybe slightly higher than we said from the beginning. So it's an effect of that as well.

And we have said that this level is, of course, not sustainable. But for the coming years, I would say that we would be at or around SEK2 billion in R&C or maintenance CapEx needs.

So this year is a bit lower, but I'm not feeling at all that we are under investing.

Alain Gabriel - Morgan Stanley - Analyst

Thank you.

Operator

Ioannis Masvoulas, RBC.



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Ioannis Masvoulas - RBC Capital Markets - Analyst

Just a first question on coking coal. Could you possibly provide some indication on the realized cost increase during Q3, quarter over quarter, because I think you only provided the average purchase price for the quarter, and maybe a split between quarterly and monthly price purchases for coking coal? That would be the first question.

Hakan Folin - SSAB AB - CFO

Basically, in Q3 there was no impact of the rise in coking coal. As we showed on the purchase price, we had an impact; but on the P&L impact, it was virtually zero, so that is still to come.

On the second question, on the contract structure, we have decided, actually, that for competitive reasons we don't want to give out a split of monthly and quarterly contract.

Ioannis Masvoulas - RBC Capital Markets - Analyst

That makes sense. And then the second, again, going back to the wording around divestments, it looks a bit more cautious than last quarter. How -- what's the chance that you can actually deliver your deleveraging target without relying at all on divestments?

Martin Lindqvist - SSAB AB - President and CEO

Good; a good chance. But we have not changed our mind. What we see is that, exactly as you point out, we have a very good chance to deliver that with or without investment. So that will be a strategic decision.

And we have not changed our mind. We are a steel company, and our steel operation is the core business we run, and we will always have that as a core business. And then we have other parts of -- one big part and some other small parts that are not core, and they are always up for discussion. So no changes there.

We are even more confident about the SEK10 billion after another quarter, with or without any divestments.

Ioannis Masvoulas - RBC Capital Markets - Analyst

Okay. Thank you. And maybe just a last question on the US business. Some of your peers have been cautious on scrap price in the short term. Could you elaborate whether you see potential for further destocking in the next couple of months and as scrap prices start recovering, maybe from early Q1 2017, you then see some positive trends in terms of restocking? Could that be a potential scenario that play out?

Martin Lindqvist - SSAB AB - President and CEO

What typically happens during the winter season in US is that scrap, due to more expensive collection, goes up, and the supply of scrap goes down a bit, so, typically, you see a seasonality in scrap costs. But apart from that, I don't foresee any big movements in scrap.

But that is something you typically see over the winter season in US, and especially in Mid West, I would say; not so much in the Mobile area, where we have one the mills.

Ioannis Masvoulas - RBC Capital Markets - Analyst

That's clear. Thank you very much.



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Operator

Carsten Riek, UBS.

Carsten Riek - UBS - Analyst

Four questions from my side. First one: when, and to what extent, will you actually see the positive from the recently announced European anti-dumping measures against China in HRC and plates?

I'm rather interested in the magnitude, because they were quite steep, anti-dumping duties, especially on plates. That's the first one.

Martin Lindqvist - SSAB AB - President and CEO

We will see that gradually then, if everything works as it usually does.

As you know, the plate market has been the most depressed market in Europe, and the anti-dumping margins were between, if I recall correctly, 65% to 73%, or something like that, so one fair guess would be that we will not see much Chinese plate on the European market during 2017.

Carsten Riek - UBS - Analyst

Okay. Good. The second question is rather around special steel, which surprised quite a bit. Could you give a bit more color on why the costs improved in special steel that much, on a per tonne perspective, despite lower volumes quarter on quarter?

Martin Lindqvist - SSAB AB - President and CEO

Quarter on quarter, it's important to remember the system we have, at least up here in the Nordic region, with release of, what did you call it, the --?

Hakan Folin - SSAB AB - CFO

Dissolving vacation reserves.

Martin Lindqvist - SSAB AB - President and CEO

The dissolving vacation reserve, that is one part, of course, on the cost.

But on top of the synergy program, which we have now finalized, and finalized at SEK2.43 billion, we have other cost programs running. And we have said that we will structurally reduce the cost base in total, until the end of this year, of SEK2.8 billion, and that target will also be met.

And one part of this is a program in special steel that we call SEK1,000 per tonne, and that program is also now giving effect.

And then, the second and important part is that we have been running production not in a perfect way, but in a better way than before. And we have focused a lot on that. And that has also been part of the restructuring of the Company, with specializing line and so on, and get the productivity and yield.

And in this kind of industry, when you have decent yield levels and decent productivity levels you see big effect, so positive effects of that.

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It's a combination of a lot of things. I wouldn't say that the volumes were fantastic, or prices fantastic, or not even production fantastic; but I would say on decent levels. And then you see the potential in this business. And I think the performance in Q3 was quite good in special steel.

Carsten Riek - UBS - Analyst

Okay. Thank you. The third question is on your EBIT bridge, page 12. You show us there SEK126 million in others, and part of it are the maintenance outages; but on another slide there are SEK280 million mentioned for the outages. How do I bridge the SEK280 million to the SEK126 million on slide 12, because there must be quite a bit of offsetting factors?

Hakan Folin - SSAB AB - CFO

In the other, it's actually mainly the under absorption, while the cost for the outages are part of either variable costs or of the fixed costs.

Carsten Riek - UBS - Analyst

Okay. Because you mentioned before that in other mainly the outages were in there, so I got a bit confused.

Hakan Folin - SSAB AB - CFO

Yes, maybe I was a bit unclear then. What I meant was that the under-absorption effect we get from having the outages.

Carsten Riek - UBS - Analyst

Okay. The last one is with regard to the FX effects on net debt. Is it actually fair to exclude them? Because you clearly see a positive impact on your operating cash flow from the FX rate too because of translation, etc., saying you wouldn't reach that because of the FX impact, because of the net debt, on the net debt, would be just one part of the equation. Should that not be rather neutral?

Martin Lindqvist - SSAB AB - President and CEO

We are not saying that we will not reach it; what we are saying is that we will reach it, period. And then, we are trying to explain what has happened so far.

Carsten Riek - UBS - Analyst

But you would agree, you can't only look at the net debt and the FX impact, but you also need to actually look at the positive impact from FX which it has on the operating effect?

Martin Lindqvist - SSAB AB - President and CEO

I agree: net debt is net debt regardless of FX, and this was a way of trying to show how it has looked so far.

Carsten Riek - UBS - Analyst

Okay. Good. Then, I understood it. Thank you very much.



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Operator

Seth Rosenfeld, Jefferies.

Seth Rosenfeld - Jefferies - Analyst

I'd like to dig in a bit on your performance in the Americas. On the margin outlook, if I look at metal spread for US Plate versus just scrap inputs it looks like spot spreads have fallen by \$90 per tonne at present, in October, versus the Q3 average.

In your Q3 it looks like EBIT per tonne in dollar terms is only about \$20 per tonne. Can you walk us through what the impact you expect to see on your profitability going into Q4 and into Q1 as your quarterly contracts start to roll over, because on a spot basis it looks perhaps very challenged?

And on volumes in the US, I believe you had a 20% drop in shipments in Q3, Q-over-Q. I think you're roughly in line with what some of your peers have seen, like Nucor and Evraz, but that market-wide like MSCI data was much better than this. Can you walk us through what the key deltas are on the shipments; and, again, perhaps, where you see the demand outlook in US Plate?

And a third question on the (inaudible) outlook for US Plate. Your peer, Nucor, announced a \$30 price hike several weeks ago. From what I've seen, none of the other peers, yourselves included, have followed with another price hike, and there hasn't been a follow through in spot prices. Can you talk to this pricing dynamic in US? Thank you.

Martin Lindqvist - SSAB AB - President and CEO

Now I'm not sure I even remember the first question, but if you're talking -- no.

Hakan Folin - SSAB AB - CFO

Just regarding prices, spot prices grow on margin compression versus what we have seen, a margin compression.

Martin Lindqvist - SSAB AB - President and CEO

But we have, to a large extent, quarterly prices in the US. And as I tried to show at one of the first slides, spot prices went up in Q2, and we took gradually Q3 prices or contracts during Q2; and then, in Q3 spot prices started to decline, and gradually during Q3 we have taken orders for Q4.

So you clearly have a lag effect in our realized prices compared to spot prices: that's the reason why you see that.

Seth Rosenfeld - Jefferies - Analyst

Can you -- my question was more looking forward to Q4, the October prices, October spreads versus scrap have contracted considerably versus the Q3 average. Can you quantify what scale of impact you would expect in your Q4 realizations?

Martin Lindqvist - SSAB AB - President and CEO

No, we don't do that. The outlook we give for Q4 is the outlook I presented. And we expect that contract prices in Q4, due to that volatile spot pricing of heavy plate, will be lower than in Q3. That's the outlook we give for Q4. And for Q1, we are not giving any outlook, yet.



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Hakan Folin - SSAB AB - CFO

And on the MSCI data, you mention, you say you compare us with Nucor, and we came out roughly the same or slightly better on volumes. But if you compare with MSCI data, you must remember, that is what steel service centers are shipping out.

But what we've seen in this quarter is that steel service centers have, when prices were going down, been buying less than what they normally do; they've been destocking. Therefore, in total then, since steel service center represent 40% to 60% of our US business, if they are re-tracking and buying you will, of course, see that in our shipments compared to the MSCI data.

Seth Rosenfeld - Jefferies - Analyst

Thank you very much. And just a follow-up question on pricing. I know there was one price in the US from Nucor, I don't think it was followed by yourselves. Do you have any confidence in US prices finding a floor in the near term for plate?

Martin Lindqvist - SSAB AB - President and CEO

We don't comment on that.

Seth Rosenfeld - Jefferies - Analyst

Okay. Thank you very much.

Operator

Roger Bell, JPMorgan.

Roger Bell - JPMorgan - Analyst

I've got two broad questions. First of all, could you just provide -- within the SEK380 million reduction in fixed costs that's in your bridge on page 12, could you break that down by division?

And then also, it seems that the fixed cost reduction year on year is actually less than the fixed cost reduction that you're quoting quarter on quarter. Could you just explain why that is? I would have expected the year-on-year fixed cost reduction to be bigger.

And then, just touching back on the disposals, or divestment processes, is it still the case that you are just thinking of selling Ruukki Construction in different parts, i.e., some bits in one country, some bits in another country? Or could you look to sell it in one chunk? And perhaps, in light of the improved performance there, is there scope to just sell it in one go?

Martin Lindqvist - SSAB AB - President and CEO

If I start with the second question, I'll let Hakan take the first one then. As said, we have not changed our mind at all when it comes to what we are going to do with non-core assets. I will come back when, we have done something, to speculate and discuss externally what we are planning. And what we haven't done yet is not meaningful.

So we have not changed our mind. But what we clearly see, and what I said from the beginning, I think there was possibility to improve the performance in Ruukki Construction, and that's why we launched this quality restructuring program. And when I look at the figures of Ruukki



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Construction, they are gradually getting better and better, due to that, and they are approaching the level where they should be profit and operational-wise. That's my conclusion.

And then, I think we're in a better position to do whatever we want to do with that business when it's a well-run business, compared to when it wasn't.

Hakan Folin - SSAB AB - CFO

If take the fixed cost question, if we start with the year over year versus quarter over quarter, what I tried to explain, when you compare Q3 to Q2, is that a large portion of this SEK380 million is coming from a temporary effect in Q3, which is due to dissolving of vacation reserves. That's almost SEK300 million.

So if you want a more clean comparison Q3 versus Q2 is to take out those SEK300 million, and then you will be left with around SEK80 million. And then, if you compare year over year instead, you would see that the difference is, as you were expecting, larger year over year than quarter over quarter.

Martin Lindqvist - SSAB AB - President and CEO

But then you will have the effects of the outages and the fixed costs during Q3, so it's a bit more complicated.

Roger Bell - JPMorgan - Analyst

Okay.

Hakan Folin - SSAB AB - CFO

If you then ask about fixed cost by division, exactly then. We don't break that down exactly. But given that a large portion of the synergy program was within SSAB Group, you see a large impact there; the turnaround program in Ruukki Construction, you also see a large impact in Ruukki Construction. But actually, when we look at all five divisions we see a positive development when we compare Q3 this year compared to Q3 last year.

Roger Bell - JPMorgan - Analyst

Okay. Thanks very much.

Operator

Bastian Synagowitz, Deutsche Bank.

Bastian Synagowitz - Deutsche Bank - Analyst

I've got three questions left. And my first one is, again, following up on coal. You said already that you bought your winter needs for Europe and costs would, therefore, be stable in the fourth quarter. But I remember that you used to buy physical coal even until the end of the first quarter, to be really hedged throughout the entire winter in the past. Has this changed? Or does this mean that we will only see a 35% increase in coal cost until the end of Q1?



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And maybe you could also let us know whether you are hedged against depreciating US dollar for the raw materials?

Hakan Folin - SSAB AB - CFO

We have finalized the contracts, but I don't believe that we have received all the coking coal coming into the mills yet. But, as I said before, in Europe you will see a small impact during Q4, you will see more impact in special steel; and then, going into Q1, you will see even further impact in both special steel and within Europe.

Martin Lindqvist - SSAB AB - President and CEO

And it has not changed. What we do, both in Raahe and in Lulea, we need to bring in the coal before the ice comes, because then it's not possible to bring in those big ships, because they are not ice class. So we need to do that before the winter. There is no change in the pattern.

Bastian Synagowitz - Deutsche Bank - Analyst

Got it. And the price? Basically, the basis for the prices which you get on exactly those volumes which you bring in right now to be hedged for the ice period, is this the 35% you mentioned?

Hakan Folin - SSAB AB - CFO

No. That was what we bought, and then what was shipped during Q3. Then, we have also signed deals for Q4 which might not be shipped yet, or not shipped at least until the end of Q3.

Bastian Synagowitz - Deutsche Bank - Analyst

And those will be higher than the 35%?

Hakan Folin - SSAB AB - CFO

Yes, given how spot prices have developed.

Bastian Synagowitz - Deutsche Bank - Analyst

Can you just give us a rough indication how much more? Is it another 30%? Is it another 40%?

Hakan Folin - SSAB AB - CFO

I actually don't have that -- I don't know the details of that, actually.

Bastian Synagowitz - Deutsche Bank - Analyst

Okay. And the fixed component for the appreciating US dollar, is that hedged, or --?

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Hakan Folin - SSAB AB - CFO

We are hedging both coking coal and iron ore. So we hedge it basically in line with the contract structure we have.

For iron ore, we typically hedge it a quarter at a time, the US dollar; and for coking coal, since we have a mix of quarterly and monthly, we hedge it a little bit shorter. And then, we hedge the corresponding sales in euro, so we kind of try to look in the margin there in between.

So, yes, you can say it is hedged, but it is on the short-term basis. So, if you look at it one/two quarters ahead, it will basically even out.

Bastian Synagowitz - Deutsche Bank - Analyst

Got it. Okay. Very clear. And then, my second question is, again, on fixed costs.

You mentioned the SEK380 million temporary fixed cost reduction in the third quarter, which will reverse in the fourth. Does this mean that on top of the SEK200 million maintenance charges we will get a sequential headwind from fixed costs of SEK380 million, so we will really see the full SEK380 million of fixed cost reversal?

Hakan Folin - SSAB AB - CFO

But we also will have maintenance outage in Q4 as well, as you saw.

Bastian Synagowitz - Deutsche Bank - Analyst

Not exactly. So, basically, I understand you have SEK200 million of maintenance charges, but then on top of that will we see an additional cost push of SEK380 million; i.e., will the entire SEK380 million reverse in Q4?

Martin Lindqvist - SSAB AB - President and CEO

No, the SEK300 million, or up to SEK300 million, is the resolving of the vacation bookings, so not the full SEK380 million, no.

Bastian Synagowitz - Deutsche Bank - Analyst

So how much, roughly?

Hakan Folin - SSAB AB - CFO

I think --

Bastian Synagowitz - Deutsche Bank - Analyst

Because I think the vacation point sounds to me like it is almost like a one-off, if I'm not --?

Bastian Synagowitz - Deutsche Bank - Analyst

That you can say. Yes, you can say that is almost a one-off for Q3. And we typically have that every third quarter, we have the same situation with this. But, yes, you can see that as a one-off for Q3.

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Bastian Synagowitz - *Deutsche Bank - Analyst*

That means that fixed costs will reverse by at least SEK300 million, possibly, a little bit more?

Hakan Folin - *SSAB AB - CFO*

Yes, around this SEK300 million, yes, in Q4.

Bastian Synagowitz - *Deutsche Bank - Analyst*

Got it. Okay. And then, just lastly on your tax line, which was positive again, could you please give us some guidance here as to how this will develop going forward in the fourth quarter; maybe, also in the next year?

Hakan Folin - *SSAB AB - CFO*

I would say we had a positive tax this quarter. And it always depends on which countries we are earning the money, or not. But over time, of course, if we are actually -- and it is usually when we are close to the zero level, that's when we get the big swings in tax.

But, over time, if we earn more money our tax rate should be more in line with what it is overall in Sweden and Finland, where we have the biggest operations, and US. So around 20%, or so, is more of a long-term guidance.

Bastian Synagowitz - *Deutsche Bank - Analyst*

Okay. But then, that sounds like Q4, again, will be rather positive, [just for] negative on the tax line?

Hakan Folin - *SSAB AB - CFO*

Could be, yes.

Bastian Synagowitz - *Deutsche Bank - Analyst*

Okay. Very clear. Thanks so much.

Operator

Oskar Lindstrom, Danske Bank.

Oskar Lindstrom - *Danske Bank - Analyst*

Three questions. First one is you completed the synergy program back in at the end of Q2, but I seem to remember that you said you would be continuing with cost savings or personnel reductions until the end of this year. Does that mean that we should expect a somewhat increased rate of fixed costs reduction due to -- or variable cost reduction, going forward, as well?



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Hakan Folin - SSAB AB - CFO

Yes, what we have said is that all the actions are done in the synergy program. And then, on top of that, and that amounted to, as I said, the [SEK2,043 billion], or so. And then, the total restructure cost program is to reach at the end of this year, in full run rate, SEK2.8 billion.

And then, we have also said that we will take down manning with a bit more than the 15%, I think it is, with 2,400 people, or so, until the end of this year; and that will also -- and that target will also be met end of this year.

So we'll see effects in Q4. And you will see additional effects in the P&L, so to say, compared to the previous quarters, so previous year, also into 2017.

Oskar Lindstrom - Danske Bank - Analyst

All right. And then, the second question, I know you've touched on this already a little bit, is the Ruukki Construction, and how we've really seen some improving results there. Have you done all that you can do on your own to improve earnings there? Are you at the end of restructuring there, or are there more measures you're planning to take?

Martin Lindqvist - SSAB AB - President and CEO

You're never done with improvements, to start with. But I think we have taken most of the actions, yes, in that EUR25 million structural cost program. We haven't seen it all in the P&L, but all the actions are more or less taken, yes.

That's also why we now have appointed a new head of Ruukki Construction, since beginning of Q4, Sami Eronen. He is the person that has been running Ruukki Construction the last 1.5 years. He is ready, together with a team, with all the actions to take down costs.

Oskar Lindstrom - Danske Bank - Analyst

All right. Thank you. The third question is around your order book, or order books, for Q4 and 2017. Until how far in the future are they full? That's my third question.

Martin Lindqvist - SSAB AB - President and CEO

We typically, at this point of time, have very limited visibility into Q1. We have a decent feeling of how the order book looks for Q4.

But then I said, there is always also -- customers need to take out volumes at the end of Q4, as well, during Christmas and New Year, so there is always, of course, that was what I tried to explain, an uncertainty. But we have a fairly good grip on Q4.

Q1 is still -- we haven't finalized negotiation on prices for Q1. We have yearly contracts, half-year contracts, and then quarterly contracts, and they are not completely ready yet. So we -- the visibility into Q1 is, at this point of time, fairly limited.

Oskar Lindstrom - Danske Bank - Analyst

All right. And then, sorry, just finally, the weaker demand in the US, is that something where we should expect that to impact your -- I realize there's a price component to it, of course. But is it also a mix component for you, that your mix changes as demand weakens in the US?



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Martin Lindqvist - SSAB AB - President and CEO

Not really in US, because they are mainly, if not only, selling standard plate. The niche material we produce in the US is sold by special steel, so you shouldn't expect much of a mix change in, let's say, the Americas.

Oskar Lindstrom - Danske Bank - Analyst

And the similar question for your European business. You mentioned earlier here having launched new products for the automotive sector, and so on, are -- is there some sort of underlying mix change going on in your European business?

Martin Lindqvist - SSAB AB - President and CEO

There is always a seasonal mix effect for us. During fourth quarter and first quarter we typically sell less of color-coated material, so that mix effect. In that way, you can say we have a [thinner] mix when it comes to price. And that is always the case.

If the winter is mild in the Nordics, it can last for a longer time in Q4. And if we get a tough winter, there will be seasonally no consumption, or lower consumption, of color-coated material.

Oskar Lindstrom - Danske Bank - Analyst

All right. Thank you.

Martin Lindqvist - SSAB AB - President and CEO

But that's a yearly effect that we see every year. And it could be stronger in a tough winter, and less strong in a mild winter.

Oskar Lindstrom - Danske Bank - Analyst

Right. But no underlying structural changes in your product mix?

Martin Lindqvist - SSAB AB - President and CEO

If anything, over time we will have a better and better mix, due to automotive and due to other products. So the underlying over time mix effect will be positive, but then we have seasonal patterns like for color-coated material.

Oskar Lindstrom - Danske Bank - Analyst

All right. Thank you.

Operator

(Operator Instructions). Luc Pez, Exane.



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Luc Pez - Exane BNP Paribas - Analyst

Two follow ups, if I may. First of all, with regards to your guidance on the working capital requirement, could you explain how you managed to reduce it in Q4 while the raw material cost charge will rise; talking coking coal, in particular, but maybe iron ore as well? That would be my first question.

Secondly --

Martin Lindqvist - SSAB AB - President and CEO

Okay. But to answer that one then, what we did during Q3 we were building up slab inventories in front of the outage in Oxelosund. And so we will have the blast furnace standing still for a slightly longer time than the rolling mill, so we will eat up that slab inventory during Q4. And that's the reason for us being sure of working capital reduction.

Luc Pez - Exane BNP Paribas - Analyst

Okay, very clear. Thank you for the answer. And second question is with regards to European prices, as my feeling, I think I share with some of my colleagues, is that you have a more cautious tone than some of your peers.

Could you maybe be a bit more specific as to what is driving this rather cautious tone for steady prices? Is it because of your larger exposure to plates, meaning that plates are more under pressure at this stage, until the anti-dumping measures do benefit the market in Europe?

Martin Lindqvist - SSAB AB - President and CEO

First of all, we are not so exposed to standard plate in Europe. We are exposed, to some extent, to standard plate in the Nordic region. The big exposure of standard plate we have is in North America now.

But, as said, we are not setting the prices on European level. If prices move up in Europe, you should expect to see the same pattern in, as I say, cautious or not. But I like to see it also in the order book and in the P&L, and -- before I have a clear view.

Luc Pez - Exane BNP Paribas - Analyst

And, therefore, so far you're not seeing any pickup in order book that could justify any more optimism, I would say?

Martin Lindqvist - SSAB AB - President and CEO

Well, this is the view we have right now.

Luc Pez - Exane BNP Paribas - Analyst

Okay, understood. Thank you.

Operator

Bastian Synagowitz, Deutsche Bank.



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Bastian Synagowitz - *Deutsche Bank - Analyst*

I just actually wanted to follow up, in fact, briefly, on the outlook.

If we now take the effects of the maintenance charges and fixed costs as well and net them off it will be a SEK200 million sequential headwind in the fourth quarter, as a starting point. You basically say shipments will be stable, but prices will be down, while costs will be up; and at the same time, Ruukki Construction and Tibnor will probably lose a little bit on seasonality, and maybe also on prices.

If I sum all of this up, it looks like Q4 will be pretty tough, although I think a lot of these challenges are, admitted, probably just more temporary. Would you allow that you would drop to a loss on EBIT level again in the fourth quarter? Because it does sound like a fair amount of headwind. Thank you.

Hakan Folin - *SSAB AB - CFO*

We are not giving any result guidance, but we are pretty sure that we will see a better result in Q4 this year than last year.

Bastian Synagowitz - *Deutsche Bank - Analyst*

But would you rule out that you would be loss-making?

Hakan Folin - *SSAB AB - CFO*

As said, we are not giving any guidance on profit; we are trying to give guidance on volumes and prices.

Bastian Synagowitz - *Deutsche Bank - Analyst*

Okay. Thank you.

Operator

There appear to be no further questions, so I return the conference back to you.

Taina Kyllonen - *SSAB AB - Head of Corporate Communications*

Thank you. Any additional questions from the room? Okay. Then I thank you for joining us today, and wish you to have a nice Friday.



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