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Presentation

Speaker

Okay. Good morning ladies and gentlemen, both here in Stockholm and on the lines. Welcome to the results – Q2 Results Briefing. We'll run this through as we normally do. So our CEO, Martin Lindqvist, will start and go through the general market situation and the Q2, and then CFO Håkan Folin will go through the financials. And then we'll end with the outlook for the Q3 again with Martin. And of course, after the presentation we are happy to answer all the questions you might have. So let's get started. We are almost late to start. So, Martin, please.

Martin Lindqvist

Thank you. I need to try to find something to fit the slides with. So when I was standing here three months ago, we announced a financing package consisting of three parts: rights issue of SEK 5 billion; further net debt reduction of another 5 billion until the end of the 2017 consisting of the sales of non-core assets, and also the underwriting[?] free cash flow; and then at the third part, a comprehensive refinancing package.

It has been a very busy quarter. The rights issue was oversubscribed and it's successfully completed during the quarter. We have done the refinancing, and Håkan will come back to that. And that is, of course, something we always work with trying to extend maturities and so on. And Håkan will spend some time on that during his part of the presentation. And we are also, today, feeling very confident that we will be able to, until the end of 2017, reduce the net debt with another SEK 5 billion.

Now, we would also like to take this opportunity to thank all people involved in this process: the banks, the capital markets, and of course, last but not the least, the shareholders and the owners. They have shown a great confidence in SSAB's journey towards industry leading profitability by participating in this rights issue, a journey that takes time during interesting times and volatile times. And we see cycles, shorter cycles, and some would call it micro-cycles. And I would like to spend a minute on that before I dive into the second quarter.

This is a simple picture but I think it shows what is affecting the steel industry and, of course, then SSAB demand, capacity and trade. And there is, of course, expectations, short to mid-term, that demand globally for steel will decrease. And the reason for that is, of course, decreasing demand in China. On the other hand, the expectations for demand on our whole markets – Nordic, Europe, North America – we expect to see moderate growth going forward. For Special Steel, we expect to see further demand growth for our Special Steel products, and we see opportunities in some emerging markets for SSAB products. But overall, the expectation is decreasing demand.

Capacity, another important factor. There is no doubt that there is a global overcapacity, and I would say a substantial global overcapacity, mainly centred in Asia and China, and less so, I would say, in Europe. And I think in Europe, the steel industry has partly dealt with it by idling capacity and closing capacity. And as you all know, there are on-going discussions for further consolidation in Europe, and that could, of course, be helpful.

The big part – or one other important part is, of course, trade and trade flows. And as you know, when we talked about this when we met six months ago, some countries have chosen to deal with their overcapacity by subsidised export. And that has led to trade barriers, discussions regarding trade barriers, implement the trade barriers, investigations regarding trade barriers, not only in Europe and US but also in other places in the world. And that, of course, as we have talked about before, runs the risk of regionalising steel markets.

Trade barriers will not solve the problem. It could give some short-term relief. But – and it could also give some incentive for some countries to really start to deal with their overcapacity, but it will not solve the problem.

Micro-cycles: I think we experience micro-cycle both in Q4 and in Q2, and these are spot prices. After releasing Q1 report and meeting the capital market and the owners for a couple of days, I went out to visit customers. I went down to Italy in the beginning of May, and on the way down I was reading reports about spot prices in Europe increasing. And my plan was later that afternoon, during the weekly meeting, talked to Per, Head of Special Steel, and Olavi Huhtala, the Head of SSAB Europe, once again, reminding them of the importance of all increasing prices.

I met a couple of customers. I had lunch and a meeting with one of the biggest customers we have down in Italy, that's Monday. And he told me that last Friday you, SSAB, announced a price increase of €120 per tonne for Q3. I felt really happy, only for the price increase, but also that we were so quick to do that. And two or three years ago, it would have taken probably a quarter to come through with a price increase, and this time we reacted in a matter of weeks or a couple of weeks. My conclusion was, and still is that, that with these micro-cycle it's so important to be quick, flexible and agile. And I think, as I say, there is a much better opportunity today with the production system, with the flexibility, with the lead times, delivery performance, market coverage, to be much quicker than we used to be as the old SSAB or the old [inaudible].

And that, I think, leads me into the market situation in Q2 and what we saw. And this was what we were expecting to see for Q2: apparent demand, better than in Q1; lower imports into Europe versus Q1, and versus end of last year; steel service centres starting to buy volumes in line with what they sold, [inaudible] no destocking but no restocking either; steel prices increasing spot prices in Europe and in North America, however, from very, very low levels. And that summed up to a result of almost 670 million on EBIT level, 850 million better than Q1, and that was of course because of higher shipments and prices, as we expected, positive synergy impact, and better capacity utilisation.

We also managed to generate a fairly strong operating cash flow and Håkan will come back to that, over 1.2 billion, and we closed the synergy programme. But we did not only close the synergy programme, we actually finalised the integration of SSAB and Rautaruukki during the second quarter. It has been a tough and interesting journey. And as you know, we have been combining the two toughest competitors, at least on the Nordic market, but also globally when it comes to a lot of Special Steel products.

We generated synergies of SEK 475 million during the second quarter, and the run rate at the end of the period was actually 2.043 billion in hard cost synergies. And that should be compared to the original plan of 1 billion within three years. We are also well on our way to deliver on the total cost-saving target of 2.8 billion in full run rate at the end of 2016. And when it comes to the plan of reducing the manning and the company with 2,400 employees, we are currently running slightly ahead of plan.

If we look into the divisions: Special Steels, decent growth in volumes compared to one year ago. One contributing factor is the business unit within Special Steels [inaudible] services or services. One year ago, we had 164 Hardox Wearpart members globally. At the end of Q2, we had 220 Hardox Wearparts centres globally. That is an important part of our strategy and we will continue to focus to grow that network. The plan is to double that network within the coming three years.

Europe, we saw also result improvements, higher volumes and higher prices and lower cost due to synergies. And the lion's part of these synergies and this combination lies, of course, within SSAB Europe, as you all know.

America has also result improvements. Higher volumes, higher prices compared to Q1, but net by higher scrap cost as well, but higher margins. And at the end of Q2, the spot margins, sport prices on this graph, was not normal but more normalised than they were in the beginning of the year.

Ruukki Construction, where we typically always see a seasonal uptick. But what I think is strong in this report is that we have the same volumes compared to one year ago. But the profitability or the profit is more than 60 million better than one year ago. And the reason for that is mainly it's not only the ongoing restructuring programme. And as you know, the target is to reduce the costs – and this is part of the 2.8 billion but not part of the synergy – to reduce the cost on a yearly basis with €25 million. And all of those actions are taken, and we will see the effects of that in the coming quarter. So we'll continue to see effects of that in the coming quarter.

With that, Håkan?

Håkan Folin

Thank you. Good morning, everyone.

I will give some more details on the figures. I will also show the change in operating profit between the quarters and spend a little bit more time than usual on the debt situation given there are quite big changes after the rights issue and the refinancing. And then finally also a few words about the maintenance outage which we have changed a little bit compared to previous plan.

So starting with talking about sales, shipments and profitability. We have in Q2 now – we had lower sales than we had in Q2 one year ago. This was driven by lower prices. Prices impacted negatively, with six percentage points, and total sales was down five. On the other hand, we had higher shipments compared to Q2 last year, 5% higher shipments. And actually, if you look at this time series from 2014 up until today, this quarter was the quarter where we had the highest combined shipments for the group.

Looking at EBITDA, in EBITDA margin, on the – down to the left here, we have an EBITDA in the quarter of 1.6 billion, and we had an EBITDA margin of 11%. And actually, as with shipments, the 11% margin is also the highest we have had since the beginning of 2014.

If we then finally look at EBITDA per tonne delivered steel, it was a little bit above 800 million – sorry, SEK 800 per tonne, clearly up than compared to previous quarters, but actually slightly lower than we had in Q1 2015 where we had a little bit lower profitability but actually lower volumes, and then per tonne slightly better.

And I will now move in to and describe what happened with the profitability from the different quarters. Starting then with the change between Q2 and Q1, in Q1 we had a loss of minus 190 million compared then to the EBIT in this quarter of 668, so an improvement of around 850 million. Two main factor contributing, one being prices, 480 million, and that's being seen in Europe and also in Americas, but not in Special Steel. And as we have said before, both when prices go up and down, Special Steel prices are more flat, and we see the main impact, therefore, coming from Europe and America.

Then we have volume, also improved in Q2 versus Q1, coming from all three steel divisions. We have slightly negative cost, both variable cost and fixed cost. Variable cost is driven by increased scrap cost in the US, slightly increased iron ore as well. And the fixed cost is to a large extent seasonal; we are taking in more temporary workers during Q2 which will then work during the summer time. We also had somewhat higher maintenance cost in Q2 than in Q1. On the other hand, part of this cost, we actually had positive impacts from higher synergies in Q2 than in Q1. We had 150 million more synergies in Q2 than in Q1.

Then we have some positive effects from FX, with the weaker Swedish Krona in the end of the quarter after the Brexit. And then in [inaudible] of around 100 million, we have under-absorption impacting positively. We were running the mills[?] at the higher rate in the second quarter than in the first quarter.

So all in all an improvement of 850 million where you could say a billion is coming from price and volume, and volume then including better capacity utilisation slightly than negative impact from cost.

If we instead compare Q2 this year with Q2 last year, it's actually quite a different picture you see here. The improvement was a bit lower, from 301 to 668, so 370 million or something. But actually, we had a drop in prices impacting EBIT with almost 1 billion, or 950 million, compared in Q2 last year than to Q2 this year. And this was seen at mainly in Americas and Europe, and to clearly a much, much less extent in Special Steels.

We have volumes impacting positively, 220 million, fairly even split between three steel divisions. And then comes the big impact here, it's the costs side: both variable cost, with 900 million; but also fixed cost, with 230 million.

And in the variable cost we had the raw material definitely impacting positively, but we also have that we are running the mills with a better yield, and we have the synergies, and the savings programme from Ruukki Construction impacting positively. And the synergies then being part of both the variable and fixed cost comparing Q2 this year to last year is 350 million in positive EBIT impact.

The other items here, FX and other, are fairly negligible in terms here. But all in all, an improvement of 370 million despite then losing 1 billion on price, but taking that back with slightly better volume and especially much better cost situation.

If we then move in to the cash flow, we had an operating cash flow of 1.2 billion. We had a net cash flow down here at the bottom of 659 million, that's down before the proceeds from the rights issue, which is in line with Q2 last year, but clearly better than in Q1. And we have this positive cash flow despite having a small negative change in working capitals where we actually built accounts receivable during the quarter given the increased both volumes and prices; we built around 750 million in accounts receivable. But despite that, we managed to keep the change in working capital almost on a zero level.

If we look at the first half here, we have a net positive cash flow of around 400 million. And we talked a lot about CapEx before; we have maintenance CapEx and [inaudible] CapEx. Adding that up, it's around 650 million after the first six months, which

means we are well aligned with what we set as a level for the full-year of 1.5 billion. CapEx will be higher in the second half given that we have actually major maintenance outage in all of the three steel mills, but we will keep to the 1.5 billion that we have said.

As Martin talked about, we have completed the rights issue. It was oversubscribed and we received net proceeds of 4.9 billion, increasing our equity. We have also done the comprehensive refinancing in terms of prolonging debt maturities, prolonging bank guarantees, and also we set the new large credit facility in place of €495 million.

We also then had the target to, by the end of 2017, reduce net debt by another 5 billion and doing than then through selling non-core assets and our own cash flow generation. And if we combine all these, all these actions we are taking, we will have a net gearing below the long-term target of 30%, and we have also moved larger maturities out in times – will have removed the maturity risks basically for the coming three years. And I will spend a little bit more time than usual in going through the different slides on the debt situation.

Naturally, given the rights issue, our net debt decreased and also our gearing went down. Our gearing went from 53% at the end of Q1 down to 37%, and the net debt decreased by 4.8 billion to 18.4. The reason why net debt does not increase more than 4.8 when we had the rights issue proceeds to 4.9 and we have the positive net cash flow around 700 million, is because we have – part of our net debt is in foreign currencies, especially US dollar and euro, and we have that in order to have an equity hedge for the equity we have in dollar for the IPSCO acquisition and euro for the Ruukki acquisition. And that means that the gearing is not impacted if the currency goes up and down. But both equity and also net debt might differ a bit depending on the currency development.

Usually on these slides, when we show the maturities, we only show them for one quarter. But given that there's been so much change now during the quarters, I show with both at the end of Q1 and also at the end of Q2. And as you can see, there is quite a large difference. The thing that is not so different is the cash and back-up facilities which was around 11, 11.5, and now it's close to 12 billion. So the total bar is the same, but it's quite a large difference because we have a lot more cash now following the rights issue, but we have less credit facilities. We put the new €495 million facility in place but we have closed two other ones, so the share of cash is larger than it has been previously. But the total is slightly higher then, at close to 12 billion.

What also changed a lot is the maturities in the coming three years. Where we used to have close to 16 billion maturing 2016 to 2018, but now we actually have less than 9 billion in the coming three years. We have also reduced the commercial papers with approximately 1.5 billion during the quarter. So even though we've seen significant improvement for the coming three years, we are constantly working on extending further the maturities, especially 2017 and 2018, and try to move them out in time to 2020 or beyond.

Given the refinancing, we have a longer duration on our debt portfolio. You can see out here, we now are at 5.2 years. We were at 4.4 after Q1. So we have increased almost one year during the quarter. And actually if you look back in time, 5.2 is the highest we have been since the beginning of 2012. And given then the short term volatility we are seeing, it's comfortable for us to have a duration that is as far out in terms as more than five years.

The average interest rate, which is this line here, it has increased slightly. It's now at 2.8 versus 2.7 before. And the reason for the increase is that when we are prolonging loans then you usually get the slightly higher interest, and also we have taken down the commercial papers which are clearly below the average interest rate. On the other hand, we are still below 3% in average interest rate.

Coming now to the maintenance outage that we are planning for in 2016, the estimated cost for the coming two quarters is around 500 million. That is in line with what we have said before; no major change there. But what we have done is we reshuffled the timing a little bit. So for SSAB Europe, even that we expect the apparent demand to continue be fairly good during the third quarter, and fourth quarter still being a bit more uncertain, we have moved part of the outages out in time. And in the US, the other way around, where we see that Q3 will be clearly seasonally weaker. We had planned to have the outage at the beginning of Q4, we're moving it up in time a little bit to have it at the end of Q3 instead.

And as Martin talked about in the beginning with the micro-cycles, it is extremely important for us to not be too fixed with our plans but actually be able to adjust them according to how the apparent demand is moving; even if underlying demand is not moving that much, we see, clearly, apparent demand moving much more quicker.

And I think here we have shown that we are more agile and faster than we've been before by being able to change this outages in order to better match the overall demand today.

Martin Lindqvist
Thank you and that was, of course, one of the important parts of combining the two companies, to become much more flexible and use this call it redundant production system in a smarter way.

Some words then before we open up for questions regarding the outflow, in North America we expect plate demand to be somewhat lower, mainly due to seasonal slowdown. In Europe, we expect to see also a seasonally weaker Q3, which we always do both in US and in Europe. High strength steels demand being relatively unchanged compared to Q2, and overall then, lower shipments compared to Q2 and Q3, but at higher price levels.

And if we look at this chart, I showed it last time, this is our journey that we have embarked. I think that the combination of Ruukki and the synergies, taking the books, [inaudible] Ruukki merger, the total cost reduction of 2.8 billion, well on its way. The manning reduction with 2,400 employees until the end of this year, currently ahead of plan. Cash flow generation and strengthening the balance sheet, one important part: done, the rights issue. Extension of the debt maturities, even though that is always an on-going work, a big part of it, as Håkan presented, done. Product mix improvement on-going. The development of this service and after-market business. The volumes and the market shares we are taking within [inaudible] with our new products, the coal[?] 1400 and the coal[?] 1700, on-going and partly done, and we have a strong belief, and I am convinced, that this will lead us to industry leading profitability with an EBITDA margin above the industry peers, and a net gearing below the long-term target of 30%. That will also give us the opportunity to resume a dividend pay-out of 50% of the net profits. That my friends, was our short presentation, and now we open up for questions and good advice, as always.

Q&A

Speaker
Let's start with the questions from the audience here in Stockholm, so Julian[?], please.

Julian
Thanks very much. Good morning everyone. Much congratulations on your early delivery of synergies and top up on the targets. Can I just start by focusing on your Q3 guidance that pricing will be up? Could you first give us some details on how you see bookings in the different regions? What sort of lead time do you have for your orders now?

Martin Lindqvist
It differs between regions, it differs between divisions. We have not been explicit about exactly how the order book looks, and the order intake, but as we said, we expect stable underlying demand, and we also expect to see, and we will see, seasonality as we always do in both Europe and in North America. We will on the other hand see also seasonality in Ruukki construction in Q3. But altogether, I would say that's fairly stable underlying demand. And then when it comes to apparent consumption, it will be dependent on the preliminary ruling end of September or beginning of October of the plate case in the US, which is obviously pretty important for us, and some other measurements regarding that in Europe. Like I said, in US, imports are still on a high level. In Europe they have come down compared to end of last year and beginning of this year.

Julian
I was thinking more about the guidance of pricing will be up for Q3 versus Q2. And the reason I asked about orders was to understand how sure you are that pricing will be up.

Martin Lindqvist
Prices have gone up during Q2, and the structure we have, I would guess that we have something like 35% or 30%, 35% or between 30% and 40% being more spot contract and the rest being on contracts. And the majority of the rest, call it 65% or so, is quarterly contracts. So there is definitely a lag effect.

Julian
Okay.

Håkan Folin
We'll have a little bit more –

Julian
Thanks.

Håkan Folin
– order books, longer term contract in Europe versus America, where America is a bit more on the spot side than Europe.

Julian
Very good. Will you be able to arm wave to say whether Q3 to Q2 price momentum would be, say, similar to – from Q2 to Q1? Your price increase sequentially, would it be similar for next quarter to this quarter?

Håkan Folin
I would say it won't be less, no.

Julian
Great. And then lastly for me, on the trade cases – and thank you for summarising those on slide 29 of the presentation – I understand from trade press that [inaudible] asked the US authorities to delay a preliminary assessment of the multi-country plate trade case from July to September. Do you have any information on that? What's your view on how that very important case will pan out?

Martin Lindqvist
What we know right now, what we expect is to have a preliminary ruling end of Q3, beginning of Q4 and that's what we know. I mean, it's a process I would say outside our control.

Julian
Okay. In Europe, something which isn't on your slide, I think in February, there was a multiproduct case taken out against China which included heavy plate. Is that an investigation which could end up affecting SSAB's plate markers in any way, or is heavy plates not something you're involved with in Europe to the same extent as in the States?

Martin Lindqvist
Of course we are not involved in this to the same extent, but we have a market for ordinary heavy plate in the Nordic region but outside the Nordic region and outside [inaudible] I would say it's not any big volumes at all. So it's mainly – for the European production system it is on the Nordic market, and it's heavy plate mainly produced in [inaudible].

Julian
And do you have any feeling as to whether the European Commission is going to be more sturdy in its activities that it has been in the past?

Martin Lindqvist
If you ask about the feeling, I would say probably/hopefully, but I see some signs that they are taking this a bit more seriously now than they have done previously. But as always, with politicians, you never know.

Julian
And then finally, do you have any feeling for when that particular trade case will be given a preliminary assessment by the European Commission?

Martin Lindqvist
No.

Julian
Thank you very much.

Speaker
Okay, and the next question, yes, please?

Robert Redin
Yeah, hi. This Robert from Carnegie. A question on that guidance for Q3. So seasonally weaker volumes overall, but in Special Steels you guide for unchanged demand, and I think historically there's been sort of the same type of seasonality Q on Q with Special Steel, so I'm wondering are there any sort of end segments reaccelerating or recovering, or is it a phasing of the maintenance stops, or if you could elaborate?

Martin Lindqvist
We have as we did last year, we are planning to take the maintenance stop [inaudible] Q4 and this year as well, and I would say that there are some ups and downs in segments. Some segments are moving slightly better and some segments are going down, but overall we expect the demand to be – in Q3 be fairly unchanged.

Robert Redin
All right. That sounds very bullish. An on Julian's question, just a follow-up on the pricing. You talked about it not being less Q on Q in Q3; was that a comment for Europe or for the group overall?

Håkan Folin
I'd say especially for Europe where you have – as we said before, you have a larger share of contracts where you get the delay effect than you have for Americas.

Robert Redin
Of course. All right, thanks.

Speaker
Okay, the next one, please?

Johannes Grunselius
It's Johannes Grunselius from Handelsbanken. Could you give us some comments on your thoughts on the plate prices here in the US going into the third quarter, because it's obvious that there is a positive lagging effect coming, but if you look at the spot prices, there is a little bit of a down tick over the last few weeks? What do you see there, please?

Martin Lindqvist
Well, that's exactly what we see on the spot prices. And as I said, it will be the preliminary ruling on the plate case will be important for that market. And today, plate prices, spot prices for plates are in line with the street prices which is very seldom the case. So structurally they are too low.

Johannes Grunselius
Then a question on scrap prices in the US. What was in your books in the second quarter? Did you take the full negative effect on higher scrap prices there, or were there also lagging effects which was then positive on the cost side there?

Håkan Folin
The lagging effect for scrap was fairly short, so there is some definitely, but it's usually around one month lagging effect. So yes, you can say there was a little bit of the lagging effect which you'll also see a little bit in Q3, but fairly limited.

Johannes Grunselius
Then I was also wondering about how you viewed CapEx? I think you had a guidance in Q1 of 1.5 this year. That still valid and what do you see beyond that? And if you can help us with how we should see tax cost in the coming quarters, please?

Martin Lindqvist
I mean, if we start with CapEx, we will be in line with our own guidance, 1.5 billion as Håkan pointed out, and we are at roughly 600 million so far. It will be a bit more in the second quarter, but definitely when – in the second half. But definitely when we sum up the full year, we will be in line with the guidance.

We have said that over time for the coming year, we are approximately at the level of 2 billion, that is what we need, plus minus something. Then I think the tax.

Håkan Folin
In terms of tax we have – you know, in Sweden and also in Finland tax rate is around 20%. Then it matters a lot where we are earning or losing money, and that's why we get quite big hits between quarters. But on average, I would calculate around 20%.

Johannes Grunselius
I was thinking that there might be some, you know, tax shield or something like that because of the weak historical quarterly losses, right? But we shouldn't see any sort of benefits from that going forward?

Håkan Folin
We have that to some extent, yes, 20 or slightly below that.

Johannes Grunselius
Okay.

Speaker
The next question. Okay, let's take questions from the audience on the line. Operator, please.

Operator
Thank you. So we remind all participants first that if you wish to ask a question, please press 01 on your telephone keypad. So the first question is coming from the line of Olof Grenmark from ABG. Please go ahead.

Olof Grenmark
Yes, good morning. Just coming back to the stoppages and the outages, to clarify, should we expect the same figure, 500 million, for the full year? And if you could somehow clarify what difference will be between the quarter now in the third quarter compared to your previous guidance? That would be helpful, thanks.

Håkan Folin
500 is for the coming two quarters, Olaf. And the difference – actually it's not big difference because in terms of what we said before, since we moved Europe from Q3 to Q4, and America the other way, there's actually not that huge change in terms of the difference between the quarters. It's more actually the change between divisions. 500 is for the coming two quarters.

Olof Grenmark
Okay, thanks. That's all for me.

Operator
Thank you very much. The next question is from Carsten Riek from UBS. Please go ahead.

Carsten Riek
Thank you very much. Two to three questions from my side. First one, Martin, you brushed over Europe quite quickly even though that was your major swing sector. Could we dive a little bit into the cost savings? Because that was the position which surprised me most. How much of the cost savings were actually out of the synergy programme, and how much due to lower raw materials? The second question on the same subject, Europe, is the cash flow generation. I was quite surprised about the good operating cash flow despite –

Martin Lindqvist
My memory is not that good. Can we take it one by one?

Carsten Riek
Okay, then we stop at the first one.

Martin Lindqvist
Okay. Thank you very much for that. No, but as Håkan pointed out, I mean, the synergies in total for the second quarter was 475 million compared to when we combined the two companies. And the majority of that is of course within SSAB Europe where we see most of the effects. And then compared to the second quarter last year, I think it was, what did you say? 300.

Håkan Folin
350 million.

Martin Lindqvist
350 more in synergies, so that is, I mean, if you compare it sequentially, Q2 or Q2, and the rest is other costs like variable costs and [inaudible] and so on. So that is the answer to that question.

Carsten Riek
Okay. Thank you.

Martin Lindqvist
And the reason for maybe not spending too much time on Europe and the market in Europe is that it developed pretty much or fully in line with our expectations.

Carsten Riek
Okay. On the European business again, on the free cash flow, or, let's say – let's step back, on the operating cash flow, it was very, very strong despite having an increase in steel prices, higher shipments, etc., etc. So for me, naturally I would have expected a cash outflow here because of higher net working capital needs, especially in the inventory. But inventories remained stable. How did you manage that?

Martin Lindqvist
This is also due to the combination – and maybe we were underestimating when we presented this combination, the positive effects of doing that, but it's also – it's a complex system. And when you combine these systems, and you get – you specialise sites, you get down – or get up the sequence length, you get up the yield performance in the mills, that gives that kind of effect.

And I think that also – given that were building so much accounts receivable, I think it was very positive that we managed to keep the total working capital unchanged. But we have said before that we have had that before and we still think there is more possibilities, and that is also partly why we are confident that we will, in the combination of selling non-core assets and generating free cash flow, be able to reduce the net debt with another 5 billion in the coming 1.5 year.

Carsten Riek
Okay, thank you. The last question is on America. Håkan mentioned a less certain outlook in the third quarter and seasonality in the US business. I'm a bit puzzled here because in the last three years, three times, we have seen actually an increase in shipment and production from the second to the third quarter, so I'm not really sure what he mentioned here by seasonality. It should be actually stronger, not weaker, or at least stable. Thank you.

Martin Lindqvist
No, but we typically see seasonality – underlying seasonality in the third quarter as well in US. And this now spot prices, if you look at spot prices for plate in North America, they are, I mean not pointing straight down, but flattening out, and pointing

downwards. So as I said, I think we will see seasonality this time, and we will see it may be slightly increase by uncertainty in prices, but that also will be very dependent at the end of the preliminary ruling in the plate case, how it will play out.

Carsten Riek
Okay, so the seasonality is more related to pricing rather than volumes.

Martin Lindqvist
I would say both, and we typically see that seasonality in the third quarter in North America as well.

Carsten Riek
Maybe I have the wrong numbers, but I would like to see that, because I don't have it in my database.

Martin Lindqvist
Okay. We will come back to you with that.

Carsten Riek
Yes. Thank you.

Operator
Thank you, sir. The next question is from Bastian Synagowitz from Deutsche Bank, please go ahead.

Bastian Synagowitz
Yes, good morning all, and thanks for taking my questions. My first question is on your margins and also on the third quarter outlook. You said that almost half of your margin improvement in the second over the first quarter has been driven by volumes, and now breaking this down, this would be €25 for only 8% higher volumes, which is really quite a lot. Firstly, is this really all volumes, or has there been a product mix component in there as well? And secondly, as we should get the major part of the actual price increases in the third quarter, could you give us a bit of colour on whether we can expect higher prices to overcompensate the negative impact from maintenance charges and lower volumes? In other words, shouldn't the third quarter be better in absolute terms as the price index[?] should be quite meaningful as you already mentioned?

Let me stop here before taking my last two questions.

Håkan Folin
Good. Your first question was on the volume and the impact, and if I understood you correctly, Bastian, you thought that the volume impact was rather large.

Bastian Synagowitz
Correct. Basically say roughly SEK 500 to SEK 1 million of earnings improvement came from volumes. Now, breaking this down on a per tonne basis and converting it to euros, that's €25, and your volumes have been rising 8%, so €25 per tonne margin improvement on an 8% volume improvement is a very strong operational leverage, and hence my question, was there a product mix component in there as well?

Håkan Folin
But I think you used the word operation leverage, and I think that's where it's coming from; it's not the big product mix improvement, but when you get the extra tonnage out of the systems, you actually get a good contribution margin for these extra tonnes. So no, it's not, I would say it's a product mix improvement; it is mainly in terms of volumes, actually.

And on your second question in terms of pricing, as we said before, you know, we will see more price improvements from Europe. As Martin pointed out, plate prices already start to move down in Americas and we are less contractual base there. And then for the outages, what we guide for is the direct associated cost with the outages. On top of that, you also get an under-absorption cost. And then I think that can help you to do the math yourself, Bastian, and I will not give you the answer on the absolute terms.

Bastian Synagowitz
Okay, okay. Fair enough. I think you could possibly provide a bit more colour on it at some point. I mean you just mentioned, you have not been surprised by your strong European number at all it seems, and so I think a little bit more colour here would be quite helpful.

Then maybe over to my second question, which is on the maintenance in [inaudible] you just mentioned, it feels like this is not included in the table for planned outages. Does that mean that there are no direct cost, but there will be a volume loss? So any colour here would be great. And then lastly, on consolidation, of course, it's been a topic which has been discussed a lot, and on the last call you said very clearly that you are not at all involved in any further consolidation talks. Since Q1 obviously the whole situation in Europe has probably gained a bit of dynamic and some articles also mentioned your company. Could you just briefly confirm that you still have no plans whatsoever to get involved?

Thank you.

Håkan Folin
I'll start with the outage, Bastian. It is included at the cost of 130 million for Special Steel during the fourth quarter.

Bastian Synagowitz
Okay, I just felt that you mentioned that there will be also third quarter impact in Specialty Steels from the outage, but maybe I caught that wrongly.

Håkan Folin
Okay, well maybe we said it wrongly, but no, it's for the fourth quarter.

Bastian Synagowitz
Fourth quarter, okay. Good.

Martin Lindqvist
And then to your last question, we have just finalised the integration with Ruukki and are quite happy with escrow process. So then I read probably the same reports and papers as you do, and I'm keeping my fingers crossed that we will see further consolidation but we are a very small steel company, we are not the consolidated; we are number 46 or so in the global steel world, so you should not expect us to fix the problem of structural overcapacity.

Bastian Synagowitz
I'm not referring to you being an active consolidator, but of course, you could theoretically also just get involved in the way by combining assets and maybe extracting synergies this way, rather than actually putting money on the table and actively consolidating.

Martin Lindqvist
I don't know what to answer to that, but as I said we have just finalised the combination with Ruukki and taking our part of the work, so to say. And that is what we are doing. Now, we are focusing on our journey towards the industry leading profitability around this and new company as good as possible. That's my and our 100% focus.

Bastian Synagowitz
Okay, okay. That's clear. Thanks so much for taking my questions.

Operator
Thank you, sir. Next question is from Oskar Lindstrom from Danske Bank. Please go ahead.

Oskar Lindstrom
Hi, good morning. I have three questions for you. Maybe we can take them – we'll take the first one and then I can – it's regarding H2 2016 now, year on year, you gave us the maintenance profile for H2, but how does that look year on year? Flat?

Up? You know, what's the deviation? And likewise, in terms of non-recurring items and the impact of the Lulea realigning last year? Maybe if you could summarise that.

Håkan Folin
In terms of the maintenance outage, if we take the Nordic operations, if we take the full half year, it's basically the same as last year. The differences here is that in Americas we have a large maintenance outage in Montpellier now during the second half of the year. We did not have a similar large outage last year. That's the difference for the Americas division.

Martin Lindqvist
And then of course with the big difference of not realigning the blast furnace up in [inaudible] this year.

Håkan Folin
And in terms of EBIT impact of the not realigning the blast furnace, it will obviously be positive if you compare for SSAB Europe, which was negatively impacted by the realigning, they will have a positive impact in the third quarter, especially compared to last year. You have a slightly opposite effect in Special Steels where we last year were running most blast furnaces up until beginning of October, and this year we are only running with one blast furnace [inaudible] so you get a little bit more under-absorption within Special Steel.

Oskar Lindstrom
Could you perhaps give some indication of the size of the positive impact on Europe and the size of the positive year on year impact on Special Steels?

Håkan Folin
If I have the figures correctly in my head, I think we said in total the realigning costed us 225-250 million last year. And then the negative impact is a bit higher than that for Europe, and then you're compensating a bit for Special Steel.

Oskar Lindstrom
And all of these in Q3 or how much was – ?

Håkan Folin
No, that was spread out actually; for Special Steel, they were running both blast furnaces from the beginning of the year last year up until October, while for Europe then we stopped the blast furnace on 1st June, and we got it up in operation again in the beginning of – or it was in the middle of September.

Oskar Lindstrom
Okay, so maybe 50/50 between those two quarters roughly?

Håkan Folin
Or even more I would say. The main part of the negative impact on Q3.

Oskar Lindstrom
Okay. Thank you. My second question, you also had the Brazil non-recurring item last year, right, in Q3? Is that correct?

Håkan Folin
Yes.

Oskar Lindstrom
Yes. My second question is around kind of, now that you have better volumes, and we've talked a little bit about the prices, is there also going to be a mix change during H2 compared to H1 or year on year, actually, due to the stronger volumes or for any other reason for that matter?

Håkan Folin
I would say, we talked about it on the last page in terms of the roadmap where we are constantly working on improving our mix. And if you take SSAB Europe where we have the automotive business, and that has developed quite well over the last year or so, I would say yes, you would have a somewhat better mix, second half of last – sorry, of this year, compared to last year. But I wouldn't say it's dramatic.

Oskar Lindstrom
And similar in terms of you being able to plan production better when volumes are higher, or when you're more, sort of, able to plan your order book better.

Håkan Folin
Yes, correct.

Oskar Lindstrom
And my final question, there were some questions about you participating in M&A before. You do have some non-core assets which you've talked about earlier, but in my opinion, or my understanding, signalled that you're not – you know, you're in no hurry to divest those, and perhaps you felt that they were, you know, not in good enough shape, or at their normal sort of good enough performance level to be candidates to divest. Do you feel that the construction business is now running better or you know, is at its full potential or ready to be divested?

Martin Lindqvist
We feel that it's running better and you clearly can see that in the figures. And I said during the presentation, we have the target to reduce the cost base in Ruukki construction with €25 million on a yearly basis. And we have done the majority of all the actions, so we will see that. You saw that in the second quarter and we will see that in the coming quarter as well.

So yes, the business is clearly running better, and you are completely right, we felt that this is not the core of SSAB, but we felt that we could run this business in a better way that it has previously been done. And we see some effects of that in Q2.

Oskar Lindstrom
Beyond the sort of year on year impact of these cost savings for the remaining quarters, we shouldn't sort of – you've done what you planned to do with it in terms of improving earnings.

Martin Lindqvist
To a large extent, yes.

Oskar Lindstrom
All right. Well, thank you. Those were all my questions.

Operator
Thank you, sir. Next question is from James Gurry from Credit Suisse. Please go ahead.

James Gurry
All right, thanks for taking my question. Just in relation to the European market, how much do you think the volume improvement has been to overall improvement in demand, rather than taking away from less imports, or do you think one of your competitors in Europe has actually missed out on some volumes during that quarter?

And just in relation to that last topic just about Ruukki construction, the possible sale of that, with the debt programme that you announced earlier in the year, you sort of gave yourself a timeline of the end of next year to achieve – it was 30% gearing levels. Does that include the sale of Ruukki construction and the finalisation of that sale by that time?

Martin Lindqvist
I'll start with your first question if I remember it correctly. I would say that the underlying demand in Europe has been fairly stable; there has been swings in apparent demand. And as I said during the presentation as well, we have seen less import into Europe compared to the end of last year and beginning of this year. And that of course has an effect.

When it comes to – the second question was regarding Ruukki Construction. We said that we will reduce the net debt with another SEK5 billion up until end of next year and we still stick to that plan. I feel confident that we will deliver on that plan. And that includes also some potential sales of non-core assets. And as said before, we are a steel company that sale, ship and produce steel products and that is the core of the SSAB and that means that things that are slightly outside of that focus are regarded as, in that aspect, non-core assets. And we stick to the time plan and we stick to the plan to do the restructuring of Ruukki Construction, see that restructuring visible in the P&L and then deliver on the 5 billion in addition of net debt reduction.

James Gurry
Okay. Have you had any incoming queries about that business from interested parties?

Martin Lindqvist
That's a good question.

James Gurry
That's all I've got, yeah. Thanks.

Operator
Thank you. Next question is from Alessandro Abate[?] from [inaudible]. Please go ahead.

Alessandro Abate
Martin, congratulations on the great set of results, especially for the European side. I have three questions, if I may. The first one is related to the maintenance outage cost. Is it possible to have a kind of a sense of where these costs were going to head to in the coming years? The second one, if you can give a little bit more colour about the structural differences of the EU plate market, mostly in Europe, excluding the Nordic where you really have significant different position versus the US one. And the third one is related to the consolidation. I mean, taking a look at your company and the assets where you're operating, in the segment where you're operating in, the thing that consolidation in the US for your company provides can actually be stronger in terms of potential possibilities than actually these in the European space. Thank you.

Håkan Folin
Sorry, the first question was on maintenance outage. Was it – you wanted guidance for the coming years, is that correct?

Alessandro Abate
Exactly, yes, thank you.

Håkan Folin
Yeah, I think in general, you can say that for the Nordic business we typically run the maintenance outage one per year, then the timing is a little bit different. We have had them for Special Steels in Q3, now we have them in Q4. For Europe, typically they are in Q3, now we move part of them to Q4. So I would say for the Special Steels in Europe, you can calculate with roughly the same cost going forward as you have this year, and that we have in the table on the – in the presentation. If you take America, then the two big sites we have the outages either with 18 or 24 months in between by each site.

So to make it simple, you can say on average we have one large maintenance outage in US every year and that's also what we have this year than in Montpellier. We will have a large one the next year in mobile[?]. To make it fairly simple then, you can say that you can use roughly the same maintenance outage cost that we have this year also for the coming years.

Martin Lindqvist
If we take your question, Alessandro, about the European plates market, I'm not an expert on that one because we are mainly for standard plates active in the Nordic region, and that is of course a bit slightly different compared to the rest of Europe and it's a

bit smaller in some ways, not protected, but not influenced as much as on importance on the – as the other markets. So we are – I would just guess if I gave you a breakdown of the European plate market, so I think I'll skip that.

And then when it comes to your questions or your comments about further consolidation in US, I know that you have – we have discussed that – some ideas about that. And I mean we – in North America, it's a whole market for us and we are the biggest plate producer there. So I mean if someone wanted to do something there, I guess they would talk to us in some way.

Alessandro Abate
Martin, thank you very much. Have a great day.

Martin Lindqvist
Thank you.

Operator
Thank you, sir. Next question is from Luc Pez from Exane BNP. Please go ahead.

Luc Pez
Hi, gentlemen. A couple of follow-up questions. First of all on the working capital requirement, could you, let's say, guide us as to what you expect in terms of structural improvement as part of your synergies? And more specifically, looking at the coming quarter, whether we should expect some increase which is what I would expect as part of seasonality. That would be my first question. Thank you.

Martin Lindqvist
If I take it overall, I would say that we still see possibilities when it comes to working capital efficiency, when it comes to work in progress, finished stocks and so on. And that is due to a strong focus and the effects of combining these two companies. I mean we had practically Ruukki had one stock in a – in one place and we had another stock in the same place. So we are constantly working with that.

On the other hand, I mean we are increasing stock sales which is an important part of our global Special Steels business. But overall, I would say that we expect to continue to become more effective when it comes to working capital efficiency. And that of course will be affected also about sales volumes and prices that will build or reduce accounts receivable. But overall, I think we are expecting to see positive over time development when it comes to working capital efficiency. And we haven't done everything that is possible to do. That is my answer to that question.

Luc Pez
And with regards to the upcoming quarter working capital requirement, please?

Håkan Folin
Yeah, for the coming quarter, as we guided for, ship – even prices will be down but shipments will also be down both from a seasonally point of view but also because we are doing the outages. So in that sense, you know, we don't see that. I think you have said that you were expecting that we need to build working capital and I think that, in terms of accounts receivable, we should rather be able to free up some cash in the coming quarter.

Luc Pez
Okay. Thank you. Second question is related to comments you made. I would be sure – I would like to be sure I properly understood this. When you are talking about prices being up, I understood that you were expecting Q3 versus Q2 prices to be less up than Q2 versus Q1; is this correct?

Håkan Folin
No. Actually, we said for Europe, given that the spot prices we saw on the market were higher during Q2 than they were in Q1, we usually lag there, given the contractual structure. So for Europe, we would rather see a higher increase during Q3 compared to Q2.

On the other hand, what we said that for Americas, we have seen spot prices starting to trend downwards. We don't have as large share of contractual business in Americas and there – well, as Martin said a few times now, how the pricing situation develops during Q3 is very much dependent on the expected ruling on the import trade case.

Luc Pez
Okay. Clear. Thank you.

And my final question therefore would be related to the US market. I do understand that everybody has large hopes on the ruling by DoC in the coming September. What I am surprised about, however, is that when you look at imports coming into the US, they are now at nearly [inaudible] low, so one could argue with that it has already at least a volume impact in the US market, but inventories have been building up to quite high levels over the past two months and prices are starting to fall off[?]. Is there something happening on the [inaudible] side, even de-stocking or –

Håkan Folin
Okay, we see – we definitely see the seasonal slowdown and we see some segments are a little bit weaker than they were before like we had the – the heavy transport for example in the US is slowing down slightly. Construction machinery, also slowing down slightly with some of the large producers like John Deere and Caterpillar laying off people in North America. So I would say it's a bit uncertain where the US market is heading at the moment, yes.

Martin Lindqvist
With some others – we see some other segments like wind towers[?] continue to perform – perform in a good way and increasing, so it's a mixed picture now. As Håkan says, a bit uncertain.

Luc Pez
Thank you. Have a good day.

Operator
Thank you. Next question is from Christian Kopfer from Nordea. Please go ahead.

Christian Kopfer
Yeah, it's Chris Kopfer from Nordea. Just a few follow-ups for me. Firstly, just to clarify on the cost savings, I mean everything else remains equal, you expect to realise some 800 million furthering cost – call it cost savings from current levels, right?

Håkan Folin
Well, actually not 800 further. We are expecting that we will reach the 2.8 billion target by yearend, 2 billion of those are synergies but part of the other ones we have already realised, like we have realised part of realty construction saving programmes, we have realised which we talked about a few quarters ago this so called PCI investment in Raahe around SEK200 million cost improvement. So it's not additional 800 from where we stand today but we're saying that by the end of the year, we will have realised the 2.8.

Christian Kopfer
Alright. I'll come back with it. Can you just give me an indication how much it is still to be realised?

Håkan Folin
I'd say it's a few hundred million still to be realised.

Christian Kopfer
Alright. Okay, perfect. Thanks. And then finally from me, I was offline for a while so sorry if you already have discussed it, but if I look at the plate prices in Europe and in the US, they have come off at least in my screen, in the region of 5% to 10% here from [inaudible]. Would you say that's – is that – more of a, you know, seasonal slowdown, kind of the pattern or the other factors stand out?

Martin Lindqvist
I think it's a combination. The majority of it being a seasonal slowdown but, as I said many times now, it will be very dependent on import volumes and the expectations of the plate ruling in – of the outcome of the plate ruling in the US.

Christian Kopfer
Okay. Yeah, but you haven't seen – I mean you haven't seen import volumes coming up again in the US I guess.

Martin Lindqvist
No.

Christian Kopfer
Alright, okay. Alright, thank you very much.

Operator
Thank you, sir. Next question is from Roger Bell from JP Morgan. Please go ahead.

Roger Bell
Yes, good morning gentlemen. Thanks very much for taking my question. Just one question. Could you just go through the moving parts in the net debt movement in Q2 versus the end of Q1 figure? Because you say, you know, net debt's reduced by 4.8 billion, but if I just look at gross cash and gross debt. the overall movement there should have been more like 5.4. And then – and obviously the – if you take the rights issue proceeds and the operating cash flow it would suggest that – that you should be getting something like a 5.5 billion net debt reduction. So could you just explain what other sort of moving parts there are in that net debt reduction and maybe how they might look going forwards as well?

Håkan Folin
We have the 4.9 billion coming in from the rights issue and then we have a net cash flow of 650 or around 700 million. So in that sense, if you would add the rights issue proceeds and the net cash flow, yes you would get to that – it should rather be, you know, 5.5, 5.6. And the difference is that we have a lot to our foreign – or net debt in foreign currencies in US dollars and in euro. The reason for this is that we have it as an equity hedge, so since we have a large portion of equity in US dollar from the IPSCO acquisition and the euro from Ruukki acquisition so we don't want the net gearing to fluctuate between quarters depending on how their fix develops, but what does fluctuate between the quarter is the net debt.

So we actually – this quarter when the Swedish krona is getting weaker, the debt in foreign currencies is getting higher when translated back to Swedish krona, and that impact is around 700 million, and that is what's making the movement in that that they've only done 4.8 billion versus what it could have been with a flat currency of around 5.5. I hope that clarifies.

Roger Bell
Okay, so going forward we should just look out for movements in the krona and essentially sort of factor that in for, you know, for future periods.

Håkan Folin
Yeah, I would say net – I mean net cash flow should and will be the main driver on how the net debt develops, and then of course, yes, if the krona is becoming weaker or stronger that will have an impact on net debt as well. Correct.

Roger Bell
Thanks.

Operator
Thank you very much. We have no further question for the moment.

Speaker
Okay, thank you. Then there's one more question at least here. Julian, please.

Julian
Thank you for taking up my follow-up question. I just wanted to focus on your last slide, the roadmap towards industry leading profitability, where – or the industry leading profitability. You say that when you get to net gearing below 30% dividend payment of 50% resumed, and you're saying that you will reduce net debt by 5 billion by the end of 2017, which on my numbers anyway would get your net gearing below 30% by the end of 2017, which is encouraging for the yield outlook for 2018. What about between now and then?

Martin Lindqvist
That's a decision for the AM.

Julian
Okay, but does that also mean that you're expecting to have your industry leading profitability by 2018?

Martin Lindqvist
Yes.

Julian
Thank you.

Speaker
Any further questions in Stockholm? Okay then, we thank you and wish you to have a very nice day. Thanks.

Martin Lindqvist
Thank you very much.