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PRESENTATION

Per Hillström - *SSAB AB - Head of IR*

Okay. Welcome to this Q2 result presentation from SSAB. Special welcome also to you listening in on the webcast and on the telephone conference. I'm Per Hillström on the SSAB Investor Relations team. And we will have presentations today by our President and CEO, Martin Lindqvist; and also by our CFO, Håkan Folin, and there will be also opportunities to ask questions here after the presentations.

But let's start right away. I invite Martin to the stage. Please, Martin.

Martin Lindqvist - *SSAB AB - CEO, President and Director*

Thank you, Per, and good morning. I think this report is fairly undramatic, so I will spend some time and talk about. There are some pluses and minuses, and I will try to cover that during the presentation of the divisions. But I would say overall, pretty much in line with what we expected to see with some pluses and minuses.

If we start to look at the prices and start in Europe, and this is spot prices, they were trending downwards during Q2, and that price drop has now stopped at the end of Q2, beginning of Q3, and, if anything, we can see the trajectory being a positive going into –- or slightly positive going into Q3. When we looked at Europe we saw good demand overall. We saw some higher imports. The inventory is somewhat high. And, as I said, the spot price is decreasing during the quarter.

In U.S., and these are plate prices, the prices were more stable and continued to be fairly stable even though there were some minor price increases announced. A big question mark in U.S. is, of course, what will happen with Section 232. And to be honest, of course, I don't have a clue, but that will be, of course, important not only for us being the biggest plate producer in U.S. but for U.S. steel industry.

If you look at key figures on group level, we had an EBIT of SEK 1.2 billion, SEK 0.5 billion better compared to Q1 and SEK 600 million better than Q2 last year. We had a decent operating cash flow, even though we were building working capital during the quarter, and Håkan will come back to that. And we ended up with a net gearing of 30%, which happens to be in line with our financial target. But I've said many times, the most important target is the net debt reduction of SEK 10 billion, and we are, as I see it, well on our way to deliver on that target.

If you look at the divisions, I think in Special Steel demand good, continue to grow. I think the volumes, the shipments of more than 300,000 tonnes in the quarter was very strong. We did not see the full effect in the P&L of those volumes. Because we had some production issues, we were standing still in the steel mill in Oxelösund for 2 weeks during the second quarter due to a breakdown, and we also had to produce products in U.S. for the European markets. So we had higher logistic costs. We had to ship volumes produced in Mobile to European customers, which we usually don't do, and that is, of course, a by-effect of the breakdown we had in Oxelösund during the first quarter, but I think we have taken –- that is now behind us to a large extent, but that was influencing the profitability in Special Steels during the second quarter.

Europe, strong demand, I would say, and continued good demand from automotive, and I will come back to that in my last page. I think in EBIT of just north of SEK 1 billion is quite okay and an EBITDA margin of 16.5% is also quite strong in an industry like ours. We saw higher prices, better mix, but we also saw the effects both here in Oxelösund of higher material costs.

Americas, the big thing during Q2 was the maintenance outage, the planned maintenance outage in Mobile. They were also suffering from being forced or being forced to produce for Special Steels. So they had somewhat lower delivery volumes or shipments because they were producing Q&T that is sold by Special Steels. And that's the reason why we saw a lower volume, the main reason.

Tibnor, I think fairly in line with expectation and a reflection of the Nordic market with an EBITDA of SEK 88 million and an EBITDA margin of just above 4%. We saw somewhat lower margins during Q2 compared to Q1, but that was expected.

And in Ruukki Construction, we saw seasonally higher demand, and we saw growth in building components. Building components and roofing are the 2 most important business units for SSAB, taking a lot of the color-coated steel we produce. We saw lower margins in Ruukki Construction because they had higher input costs. The material they were buying for the production was -- the prices were increased during the second quarter, and they were not fully able to compensate during the second quarter for that to their customer. So we saw a margin squeeze during the second quarter, but all-in-all according to plan and following the long-term plan we have for Ruukki Construction.

So that, Håkan, with that short introduction we open up for more detailed figures.

Håkan Folin - *SSAB AB - CFO, Head of Global Business Services and EVP*

Thank you, Martin. Good morning and welcome, everyone. I will, as Martin said, go through some more details on the figures, also the bridges on how the result has developed, some more information on our balance sheet and our net debt, and then also the raw material situation.

Starting then with a slide that I'm fairly happy to show, some of our key figures on sales, shipments and EBITDA. And we see here that many of these have actually developed in a good direction and Q2 is actually the strongest quarter during this comparison period.

Starting with sales, which is by far the highest [done] during '15, '16, and so far '17 at SEK 17.1 billion. The increase compared to Q1 is very much driven by higher prices. Shipments were actually in line with Q1 and a bit lower than Q2 last year. The main reason for that is the outage that we had in Mobile, which it was in the end of Q1, beginning of Q2, and that means that loss in shipment is mainly in the second quarter this year.

EBITDA margin then, clearly the highest, and especially EBITDA at over SEK 2 billion definitely the highest we have had so far. EBITDA margin is also 1 of our financial targets where we want to have industry-leading profitability comparing our EBITDA margin with our peers, and therefore we're very happy now to see that we are above 12% and even close to 13% overall EBITDA margin.

And with shipments on the same level, EBITDA increasing well, obviously the result is that we will have -- that we do have a clearly higher EBITDA per tonne as well during this quarter at above SEK 1,200. So all-in-all, these KPIs are moving in the right direction, but, as Martin started introducing,

there are some pluses and minuses, some things doing really well, but on the other hand we had some production issues in Special Steels. We also had the maintenance outage in Mobile in America. So we feel that there's still more things that we can continue to develop.

If we then move into the EBIT bridges and we start with looking year-over-year, so Q2 this year versus Q2 last year, we see an improvement then from close to SEK 600 million to SEK 1,200, so SEK 600 million better. And we see a very dramatic increase here on the prices, SEK 1.9 billion. Price is also including mix improvements here. This is to a very large extent driven by Europe, but also in Americas we see higher prices year-over-year.

Slightly lower volumes, as said before, mainly in Americas, also partly a bit lower in Europe. And then the higher prices is to some extent an offset by increased variable COGS almost exclusively being higher raw material prices. I'll come back and show you that later.

Fixed cost on the same level, FX slightly positive given a weaker Swedish krona, other slightly higher that's mainly better capacity utilization. But all-in-all, when you compare Q2 last year to Q2 this year, it's very much about us being able to have a better margin, which is partly driven by the market, but it's also partly driven by significantly improved mix.

If we look sequentially instead, the delta is a little bit smaller. It's SEK 500 million from SEK 700 million up to SEK 1,200 million. Price plays a big portion here as well, with SEK 800 million. This is basically evenly split between SSAB Europe and SSAB Americas. And even though steel shipments in total were actually on the same level, we do have a positive volume impact and that's –- 1 reason is that it's also Ruukki Construction in there, which is seasonally low in Q1 and clearly on a high level in Q2. It's also because within the volumes Special Steel had an increase in Q2 versus Q1 with 10%. And given the profitability on this product, that also translates into positive volume impact here.

Higher variable COGS, very much the raw material side again. It's also somewhat the outage done in Mobile.

Higher fixed cost; that's something we keep a very close eye on. There are a few reasons why they are higher now in Q2. One is the increased activity in Ruukki Construction where Q1 is seasonally low and Q2 is higher. Second reason is that within SSAB Europe, although shipments were a bit lower, production were higher, and especially in the downstream lines like in the tubular factories, cut-to-length lines, galvanizing, et cetera, we are seeing a higher production level and somewhat high fixed cost.

The third reason is that during Q2 in the Nordic operation we do take in the summer workers and we start training them, so they can replace the normal workers when they go on vacation during the summer period, and that also has an impact on Q2. But that's usually what we see every year.

Somewhat positive impact from FX coming also from weaker Swedish krona and then Other here we see a quite big increase quarter-over-quarter, and that's mainly because in Other there we have capacity utilization. And as we had the breakdown, the large breakdown in Special Steel in Q1 and we don't have that in Q2 we have a clearly better capacity utilization now in Q2. And all-in-all, that translates into an improvement of SEK 500 million quarter-over-quarter.

On the cash flow side, Martin was into this a bit before, operating cash flow SEK 1.1 billion, net cash flow of SEK 600 million. And then we had compared to last year clearly better earnings, but to a large extent offset then by this increase in working capital. And that increase is coming both from increased activity level and also increased prices. So we have inventories are up SEK 800 million, very much driven by higher raw material prices. We have accounts receivable are up SEK 500 million, also driven then by the higher sales. We have higher prices. And that's somewhat mitigated by accounts payable, which are up SEK 400 million.

So I would say it's fairly much expected given the market development, although as we have said before, now this is a very strong focus area for us and we expect here in the rest of the year to see a more positive development on the working capital side.

If we then move into the balance sheet and the net debt situation, we have seen a positive development over the last few quarters in the last year, and we have both net debt and net gearing have decreased quite a lot. Our net gearing is now at 30%, which is in line with our financial target. Our net debt is down below SEK 16 billion at SEK 15.7 billion, and that's actually the lowest since the merger with Ruukki, and it's not too far away from actually where we were before that merger. So we're clearly seeing that both gearing and net debt is moving downwards. And given then

the target we have, we'll continue reducing our net debt with SEK 10 billion, we know that also for the rest of '17 we will see lower net debt and a lower gearing.

And coming back to that target then that Martin also mentioned in the beginning of SEK 10 billion in debt reduction from the end of Q1 last year to the end of 2017. Given the net cash flow we had of SEK 600 million, we have now achieved SEK 8.3 billion up to this target. We have another SEK 1.7 billion to go during the coming 2 quarters. And, as Martin said, we are very committed to and also we are sure that we will achieve this SEK 10 billion target.

On the maturity profile, we have seen some changes during the last quarter. We now only have SEK 5.4 billion in the rest of '17 and '18. That's down SEK 600 million compared to where it was at the end of Q1. And partly that's because we did a bond issue. We did it in the end of Q1 but it became effective in Q2 where we bought back some bonds in '17 and '19, so those bonds have decreased and then we released a new bond maturing in '22. So that has helped us reducing our maturities.

We do have cash in our account of SEK 3.7 billion. We know, as said on the previous slide, we will continue to generate cash flow during the rest of the year, so we have the luxury now to choose if we want to refinance this or if we want to start reducing also the gross debt further.

What we also saw during this quarter was a good increase in our duration. We went from 4.9 years up to 5.2 years in duration, partly then due to this bond issue that we discussed and also some other activities. We did see a slight increase in the interest rate from 3.19% up to 3.27%, very much driven by increased underlying interest rates.

Moving on onto raw material, overall over the last few quarters we have seen clearly higher raw material prices. Actually for us in our purchase Q2 was not so dramatic. We saw coking coal in Q2 was 9% higher than in Q1. We saw iron ore was basically flat in Q2 versus Q1. So last quarter no big drama for us, but if you instead compare Q2 this year where we were in Q2 last year you can actually see that coking coal prices has more than doubled and iron ore are up around 50%. So it's been a huge increase in raw material prices. However then, as we saw on the EBIT bridges, compensated by higher sales prices for us.

For the U.S. business, the scrap is our main input. There it has actually not been as dramatic as for coking coal or iron ore. In the quarter itself, spot market prices went down slightly, and if we go back and compare with 1 year ago, well, they are up 19%, which is obviously quite a lot, but comparing to iron ore and coking coal it's actually fairly low volatility on scrap.

Martin on the outlook.

Martin Lindqvist - *SSAB AB - CEO, President and Director*

Thank you. So looking into the next quarter then, if we start with America, we expect demand for heavy plate to be relatively stable with some seasonal slowdown as we see every year. In Europe also we expect demand to continue to be good with also some seasonal slowdown as you see every year in July and August. High-strength steels continue to develop positively, and this we see in the order books. And overall, volumes seasonally somewhat lower compared to Q2 and relatively stable prices for Q2 as well. And then we will have this year the planned maintenance outage in the Nordic region during the third quarter. We had it last year in the fourth quarter in Oxelösund, but we will take the maintenance outages in the third quarter, which we typically do. So this is not any dramatic –- this is not dramatic either, this is fairly stable.

My last picture, during the Capital Markets Day we presented 5 targets for growth in SSAB, to grow Special Steels to 1.35 million tonne until the end of 2020, to grow automotive premium to 750k tonne until 2020; to develop SSAB Services with more than 500 Hardox Wearparts until 2020; enhance the premium mix and have a market share in North America of 30%.

We started with the first one during the third quarter. As said, we reached 304,000 tonnes of shipments in Special Steels. We feel that we are well on our way to reach this target. Automotive premium, Q2 was up 22% compared to Q2 last year. And when we closed the book for June we had 315 Hardox Wearpart members in the network. The share of premium products also moving according to plan, and we had a market share in North

America of around 30%. So so far so good, but we feel very confident that we are able to deliver on these targets until 2020. And as I said, we are well in line or above the target so far, even though there are couple of quarters left until we close the books for 2020.

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

QUESTIONS AND ANSWERS

Per Hillström - *SSAB AB - Head of IR*

And please, we can start here on the floor in Stockholm and please state your name and company, and also if you have several questions just post them one at a time so it will really make it easier on the stage. So start with Olof there.

Olof Grenmark

Olof Grenmark, ABG Sundal Collier. Actually I have 3 questions, but I guess I will have to come back then. Well, the first and most important question maybe is, Martin, that you talked about, if anything, steel price is moving north, you pointed at the chart. At the same time you're talking about unchanged prices, unchanged realized prices in the third quarter. How should we understand that?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

Well, I was talking at the first picture about spot prices and when we give the prognosis for Q3 that is contract prices, our prices what we will invoice our customers. And then we feel that the prices for Q3 will be fairly stable.

Olof Grenmark

Fair enough.

Per Hillström - *SSAB AB - Head of IR*

Please, Olof, we can continue if you have another.

Olof Grenmark

Okay. Then it's regarding Oxelösund and the stoppage there. Can you in any way help out giving numbers to us, what the result effect was from that stoppage?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

I don't have the exact numbers but, of course, we should have seen, I would say that, all-in-all with shipments and everything maybe SEK 100 million or a bit more than SEK 100 million EBIT.

Håkan Folin - *SSAB AB - CFO, Head of Global Business Services and EVP*

But then you mean not just the stoppage, but you're also talking about that increased freight cost ––

Martin Lindqvist - *SSAB AB - CEO, President and Director*

Increased freight cost.

Håkan Folin - *SSAB AB - CFO, Head of Global Business Services and EVP*

–– and not producing at optimal production…

Martin Lindqvist - *SSAB AB - CEO, President and Director*

So we could have been –– I mean, it could have been -- had a better result in Oxelösund or in Special Steel.

Olof Grenmark

So a negative effect on the EBIT line of roughly SEK 100 million. Was that the answer please?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

Yes, if you take your freight cost and their breakdown into account.

Olof Grenmark

Thank you. May I take the third one?

Per Hillström - *SSAB AB - Head of IR*

Please.

Olof Grenmark

Thanks. Regarding volumes and steel shipments, they were very strong year-on-year in Special Steels and, of course, that's encouraging. Then on the other hand they're actually down year-on-year in Europe and Americas. How should we understand this in a strong steel market and what should we expect for the remainder of the year in Europe and Americas?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

Overall, you should not expect volumes in Europe to increase. You should expect that mix to increase. So we are not aiming for increased volumes in SSAB. We're, as we had talked about before, aiming for improving the mix, which will be -- give a positive effect. In Americas, we were, as said, producing a lot in QL5 and QL6 and partly for the European market. And that, of course -- I mean, we sell all the Q&T products we sell within Special Steels, even though they are formerly produced in assets in U.S. or within SSAB Europe. So that was one reason for the volumes being a little lower than they could have been. But the biggest change was, of course, the outage in Mobile.

Per Hillström - *SSAB AB - Head of IR*

Yes, we have another question in the front, there.

Unidentified Analyst

I am [Roger Smith]. I am a private investor. Given the 2020 targets, are you anywhere near the production ceilings for any one product?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

No.

Unidentified Analyst

That's a simple answer.

Martin Lindqvist - *SSAB AB - CEO, President and Director*

Yes, clear and simple answer.

Per Hillström - *SSAB AB - Head of IR*

Do we have any further questions from the floor? Okay. Then we might open up for the telephone lines, so if I ask the operator please to give the instructions there.

Operator

(Operator Instructions) We have a question from Ioannis Masvoulas from RBC.

Ioannis Masvoulas - *RBC Capital Markets, LLC, Research Division - Associate*

Two questions from my side. First on SSAB Europe, profitability significantly exceeded market expectations for second quarter in a row. EBITDA per tonne I guess was up 16% quarter-over-quarter. But if I look back at your February guidance, I think you were a bit more cautious on the sequential margin development. So can you indicate if the profitability improvement is attributed exclusively on the better mix and cost performance, or if they're also reflection of expanded steel spread during the quarter? And I'll leave it there for the first question. Thank you.

Martin Lindqvist - *SSAB AB - CEO, President and Director*

It's a combination of a lot of things. We have seen margin expansion, but we have also been running production in a stable way, and we have also seen positive effects of the program we run within continuous improvement. So it's a lot of different factors, but I agree, I mean the profitability in Europe was quite good in Q2 as well.

Ioannis Masvoulas - *RBC Capital Markets, LLC, Research Division - Associate*

If you could be a bit more specific, is there an element of steel spread expansion or is it just your own performance on better mix and…

Martin Lindqvist - *SSAB AB - CEO, President and Director*

As Håkan showed the waterfall, we have had margin expansion during the second quarter. So steel prices went up more than -- our contract prices went up more than the input costs.

Ioannis Masvoulas - *RBC Capital Markets, LLC, Research Division - Associate*

And the second question on the net debt reduction target, you've only got SEK 1.7 billion left in the second half, which looks conservative and easily achievable given profitability and your expectation for a net working capital release. Why don't you take the opportunity here and upgrade that guidance or is there any concern around the second half?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

No, not really. But the promise we gave in conjunction with the rights issue was SEK 10 billion, and what we say today is that we feel very confident that we will deliver on that promise. We haven't said that we need to deliver exactly SEK 10 billion, but at least SEK 10 billion.

Ioannis Masvoulas - *RBC Capital Markets, LLC, Research Division - Associate*

Okay. And if I can push you a bit on that. Do you think you can deliver the SEK 1.7 billion without any working capital release?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

We think that we can deliver SEK 1.7 billion, yes. Including profitability and working capital release.

Operator

We have a question from Alain Gabriel from Morgan Stanley.

Alain Gabriel - *Morgan Stanley, Research Division - Equity Analyst*

Just 2 questions, if I may. I'll start with the first one. On your SSAB Americas, are you able to quantify the cost impact of the stoppage, not the profit but just the cost? That's my first question.

Martin Lindqvist - *SSAB AB - CEO, President and Director*

We have that in the report.

Håkan Folin - *SSAB AB - CFO, Head of Global Business Services and EVP*

Yes, SEK 230 million.

Alain Gabriel - *Morgan Stanley, Research Division - Equity Analyst*

Is that just the cost excluding the profit impact of the stoppage?

Håkan Folin - *SSAB AB - CFO, Head of Global Business Services and EVP*

Yes, it's direct cost and also the under-absorption impact, but it's not including mix -- sorry, margin, loss margin.

Alain Gabriel - *Morgan Stanley, Research Division - Equity Analyst*

And my second question. My second question is on your outlook guidance for Q3. You mentioned prices stable. You also mentioned volumes. What about the cost of goods sold? If I can refer you to the waterfall chart in Slide 14, do you expect more margin or spread expansion between prices and costs or is it otherwise?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

We don't give any guidance on that. We only give guidance on price and volumes.

Operator

We have a question from Luc Pez from Exane BNP Paribas.

Luc Pez - *Exane BNP Paribas, Research Division - Stock Analyst*

Two questions. So I'll start with the first one. You're guidining on your Q3 on relatively stable realized price, could you maybe elaborate a bit more because when I look at spot prices these have clearly come down whether you look at Europe, U.S., and we haven't seen that in your Q2 realized prices. So would you expect these to have some impact in your Q3? And therefore, could you explain if maybe the guidance is attributable to better mix conditions?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

No, what we talk about is our contract prices or selling prices, and that, of course, includes also mix and everything else. So contract price of a contract price, so to say, we expect them to be relatively stable, and we have some visibility into Q3. So that is not just a wild guess.

Luc Pez - *Exane BNP Paribas, Research Division - Stock Analyst*

So your comment is related to the average price for the whole company or just to these contract prices?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

No. The average price for the whole company.

Håkan Folin - *SSAB AB - CFO, Head of Global Business Services and EVP*

But then there is somewhat of a difference between different geographies as well. When you say spot prices are down, I would assume that you're mainly referring to Europe. And if you take the division SSAB Europe, yes, there we will most likely see slightly lower prices. On the other hand, if you take the other divisions, we might not have seen the full impact of price increases yet during the second quarter. So when we say overall stable prices, it is, as Martin said, for the whole company, but then there might be differences between the divisions and also between geographies.

Luc Pez - *Exane BNP Paribas, Research Division - Stock Analyst*

And second question's related to CapEx. You seem to be running currently much below what was guided for the full year. Are you sticking to the CapEx guidance for the full year and therefore shall we expect some catch-up over H2 and -- sorry.

Martin Lindqvist - *SSAB AB - CEO, President and Director*

We haven't changed the guidance for the full year.

Håkan Folin - *SSAB AB - CFO, Head of Global Business Services and EVP*

And when we have the maintenance outage now in Q3 in SSAB Europe and SSAB Special Steels and also in Europe in, partly in Q4, that's also a time when we will do some of the planned CapEx projects. So now we are sticking to the full year forecast. What I said when we had the Capital Markets Day was that we're saying SEK 2 billion for this year and also for the coming years, and it might be plus or minus a few hundred millions, and it's more likely this year that it will be slightly below SEK 2 billion given the focus we have on this SEK 10 billion debt reduction and maybe next year or the year ahead it might be a bit above SEK 2 billion. But for this year, SEK 2 billion is still our guidance.

Operator

We have a question from Carsten Riek from UBS.

Carsten Riek - *UBS Investment Bank, Research Division - Executive Director, Head of European Steel Research, and Equity Analyst, European Steel Research*

Also 2 questions from my side. First one on the guidance, have you seen already the peak in your raw material costs because I know that you actually lag a little bit there from the spot prices, and we still have seen some increases in the second quarter. So do you expect some increases in the raw material costs also to come across in the third one? And then my -- I'll leave it like that for the first question.

Håkan Folin - *SSAB AB - CFO, Head of Global Business Services and EVP*

If you look at-- if we take the 3 different parts, you saw scrap, spot price for scrap was slightly down, so there that will not have an increase next quarter, that will have peaked. Iron ore, what we've bought in Q2 was fairly flat compared to Q1, so that will -- even though there's a lag, it was fairly unchanged. But then for coking coal we have seen both it's a longer lag before that hits the P&L and also we have seen increases there, quite big ones, both in Q1 and Q2. So for coking coal you will see an increase in the P&L in Q3. So all-in-all, you can say that, yes, for the iron ore based production or for the blast furnaces there will be somewhat of a raw material -- slightly raw material increase in Q3.

Carsten Riek - *UBS Investment Bank, Research Division - Executive Director, Head of European Steel Research, and Equity Analyst, European Steel Research*

Okay, perfect. So together with the volume reduction, which is seasonally, I would expect that actually sequentially the third quarter will be somewhat below the second quarter with regard to EBITDA.

Håkan Folin - *SSAB AB - CFO, Head of Global Business Services and EVP*

Well, that's your conclusion, yes.

Carsten Riek - *UBS Investment Bank, Research Division - Executive Director, Head of European Steel Research, and Equity Analyst, European Steel Research*

The second question I have, it's rather on the net working capital. We have seen recently that raw material prices actually moved up again. Could that impact your fourth quarter with regard to inventories? Because it gets back to one of the -- my competitors' question, whether net working capital release will be part of the equation or not, we might actually see some increase in net working capital towards the fourth quarter, not because you're not trying to do the same as you do every year to reduce inventories in the fourth quarter, but simply because raw material prices are higher. Is that part of your equation when you actually guide for the relatively cautious SEK 10 billion reduction or at least SEK 10 billion reduction in net debt?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

That's part of the equation.

Operator

We have a question from James Gurry from Credit Suisse.

James Gurry - *Crédit Suisse AG, Research Division - Research Analyst*

Congratulation on a decent quarter, especially the EBIT margin in -- EBITDA margin in Europe. Just thinking about potentially what might happen next week with Section 232. Obviously in your presentations imports are about 23% of the heavy plate market in the U.S. Depending on what is announced specifically, how should we react in terms of if it comes out as a quota system or if it's just a penalty system that they announced there in the U.S. if anything pertaining to heavy plate? Because it's probably more likely that, yes, it relates to HRC and standard products rather than what you produce. So what are you expecting in terms of your product suite there in the U.S.?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

To be honest, we don't know. And let's take that question when we have seen the announcement. And I don't know if the announcement will come next week or not, but let's wait with that question until we have seen what they decide to do.

James Gurry - *Crédit Suisse AG, Research Division - Research Analyst*

Surely you guys are being broadly spoken to by interested regulatory bodies there in the U.S. to ask you what potential production upside you've got, what more investment you could do in general and your plants in the U.S. Would that be a good assumption?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

That we have been the spoken to and that would be a good assumption, yes. To be honest, I don't know what this will -- what will come out of this. So, I mean, it will be pure speculations and that's not worth anything. So I don't know. I'll wait with that question until we know.

James Gurry - *Crédit Suisse AG, Research Division - Research Analyst*

Can we expect to hear anything from you guys if something is announced that relates to your products?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

At least next time we meet.

Operator

We have a question from Christian Kopfer from Nordea.

Christian Kopfer - *Nordea Markets, Research Division - Senior Analyst of Metals, Mining & Oil and Sector Coordinator*

Looking at Americas, we have seen the producers, including you, have been successful in establishing price increases. And it also looks that demand is developing pretty solidly over there. So why are you seeing volumes staying at pretty much, say, quite low levels? I mean, you have previously been able to deliver some 500,000 tonnes per quarter and now you're on 450,000 tonnes.

Martin Lindqvist - *SSAB AB - CEO, President and Director*

Now, 2 reasons, as mentioned, the outage in Q2, of course, and then that we have been producing more in QL5 and QL6. And that takes volumes from standard plate to cover up for the European demand and to cover up for the breakdown in the Oxelösund during the first quarter and the fourth and first quarter. That's the reason, those 2.

Christian Kopfer - *Nordea Markets, Research Division - Senior Analyst of Metals, Mining & Oil and Sector Coordinator*

So, Martin, do you expect deliveries in Americas to come up to around 500,000 tonnes per quarter again in the next few quarters or?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

We have that production capacity.

Christian Kopfer - *Nordea Markets, Research Division - Senior Analyst of Metals, Mining & Oil and Sector Coordinator*

Yes. But do you expect you to increase shipments as well?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

That's a very interesting question, but I mean we could have –- if we wouldn't have had the outage and also the production for Special Steels we could have produced and sold more in Americas during Q2, yes.

Operator

We have a question from Oskar Lindstrom from Danske Bank.

Oskar Lindstrom - *Danske Bank Markets Equity Research - Research Analyst*

A couple of questions. First regarding Americas. You mentioned that the steel service centers are in a wait-and-see mode with fairly low inventory levels. I mean, if you see demand in Americas, in North America continuing at the current sort of level, which is your guidance, does that mean --

what does that mean for sort of inventory restocking? And to what extent do you believe that they're looking forward to a sort of tariff or quota decisions by the U.S. government?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

I don't know, but what we saw during Q2 was a wait-and-see mode. And as you've said, I mean the inventories in the steel service centers are not extremely high. I would say, they're rather, if anything, maybe on the low side. And I guess a lot of actors on the North American or the U.S. steel market is waiting to see what comes out of the Section 232, but yes. I don't know exactly how they will behave in Q3. I think that will be dependent on what comes out from the Section 232.

Oskar Lindstrom - *Danske Bank Markets Equity Research - Research Analyst*

But it's the 232 issue rather than any sort of market uncertainty, which has been behind the wait-and-see mode?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

I don't have a clear answer on that either, but when we look at other customers, direct customers, we have not seen the same pattern. So my guess wouldn't be that it was necessarily low demand.

Oskar Lindstrom - *Danske Bank Markets Equity Research - Research Analyst*

Okay. And second question is, I mean, we now have pretty good markets. You're operating at, well, fairly full capacity, and your balance sheet is quickly strengthening. I mean, are you anywhere near starting up your idled blast furnaces or and/or investing in new capacity?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

No.

Oskar Lindstrom - *Danske Bank Markets Equity Research - Research Analyst*

And why not?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

I think, as I said, I mean Europe, we are running at good capacity levels. We have a strong focus on shifting the mix. I think that is more profitable for the company than increasing volumes. When it comes to Special Steels, we have been, to be honest, maybe investing a bit too much too early in capacities. We have capacity enough to meet the target of 1.35 million tonnes. So I wouldn't say that we have any huge bottlenecks. We have some things that we're working on, small bottlenecks, but we attack that with continuous improvements and we have seen productivity in those bottlenecks moving up in a very good way the last 6 to 9 months. So we're not planning any major capacity investments and we are not planning any major, I mean except for Special Steel obviously, capacity increases. So it's more of a mix shift that I see going forward.

Oskar Lindstrom - *Danske Bank Markets Equity Research - Research Analyst*

And a final question from my side. Any residual, any impacts from the Mobile stop in H2?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

No, no.

Håkan Folin - *SSAB AB - CFO, Head of Global Business Services and EVP*

No.

Oskar Lindstrom - *Danske Bank Markets Equity Research - Research Analyst*

So I mean you didn't make any upgrades or sort of changes? It was just a standard maintenance stop, which is now --?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

On the margin, I mean, of course, the equipment you install during maintenance outage and especially in U.S. are more modern and more productive. So on the margin, I mean, it should be better, yes, but nothing big.

Operator

(Operator Instructions) We have a question from Kevin Hellegård from Goldman Sachs.

Kevin Hellegård Nielsen - *Goldman Sachs Group Inc., Research Division - Analyst*

Most of my questions have already been answered, but could you maybe give some quick comments about current lead times in Europe and the U.S. both for HRC, plate, and also for your Special Steels?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

But I think fairly stable for HRC and I think for Special Steels we see good demand and an improving demand. We see some segments improving that we have not seen much activity from in recent years. We see yellow goods improving somewhat, we see in mining improving somewhat, and so on. So I would say stable and then on Special Steels I would say some slight improvements.

Kevin Hellegård Nielsen - *Goldman Sachs Group Inc., Research Division - Analyst*

Where would you say lead times are versus sort of normal levels? Are there longer or shorter at the moment or normal?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

I would say a bit longer, but that is also due to the effects of the breakdown we had in Q1. We lost I think in Q1, 70,000 tonnes of production volumes that we could have sold. So we are still having longer lead times to normal.

Operator

We have a question from Johannes Grunselius from Handelsbanken.

Johannes Grunselius - *Handelsbanken Capital Markets AB, Research Division - Research Analyst*

It's Johannes Grunselius, Handelsbanken. I have a question regarding the volume outlook, because you're talking more on the group here. Could you say something about what kind of volumes we should expect for specialty steel in the third quarter?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

We will have the maintenance outage in Oxelösund and that will, of course, affect, but we say that the underlying demand is still moving in the right direction, but we will have, as always, a seasonal slowdown in July and August in Europe and then the normal pattern with the maintenance outage.

Johannes Grunselius - *Handelsbanken Capital Markets AB, Research Division - Research Analyst*

And when you have that you will fill up maybe those partly lost volume with volumes in America so that will also spill over to U.S. Was that what you meant with on another question that was discussed before?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

In Q2 we had to produce volumes in U.S. or in Mobile for the European market, which we typically don't do. We produce the European volumes in Europe and the U.S. volumes to a large extent in U.S., and then we ship some products that are not –– we are not capable of producing, especially very thin plate and very thick plate, we ship from Nordic system to the U.S. market.

Johannes Grunselius - *Handelsbanken Capital Markets AB, Research Division - Research Analyst*

Okay. But we won't see this in the third quarter?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

Not to the same extent, no.

Johannes Grunselius - *Handelsbanken Capital Markets AB, Research Division - Research Analyst*

Then I was also a bit curious on how we should see the mix, because as you highlighted in the call, you're much more focused on mix than volumes in SSAB Europe. How should we view mix here in the third quarter and are there also seasonal variations on the mix?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

Typically, there was some seasonality. I mean the third quarter is probably the strongest quarter typically for construction material as one example. So you will see some mix effects, but I will say, you should expect normal, call it, seasonality in Q3.

Johannes Grunselius - *Handelsbanken Capital Markets AB, Research Division - Research Analyst*

And I also have a question on how to view cost in the third quarter, because as I recall from last year, you showed unusual –– well, temporarily low cost in the third quarter due to wages and so forth, cost wages in the Nordics. Could you just remind us how we should view that for this year?

Håkan Folin - *SSAB AB - CFO, Head of Global Business Services and EVP*

We did that last year and we have done that also the years before. So, yes, you will see the same situation in Q3 this year as well, Johannes. If I remember the figure from last year, I think we had fixed cost was around SEK 300 million lower in Q3 than in Q2, which is very much then that we have a large workforce in the Nordic region and then we have the (inaudible) of vacation reserves in the third quarter. And, yes, you should see the same pattern. There's nothing different with this third quarter.

Johannes Grunselius - *Handelsbanken Capital Markets AB, Research Division - Research Analyst*

And then also on Oxelösund situation, you had some new disturbances in this quarter. What's the outlook for the third quarter and beyond that? I mean, should we see this as very unusual or is it –– or are these things that happen from quarter-to-quarter? Are you sort of –– were you very surprised to see this?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

Surprised over time, not disappointed, yes. I mean, the breakdown in Q1 was more or less never heard of before, but you have these type of disturbances in a process industry, and they are costly. I mean, as you know, we are geared to produce 24/7 all year around. So when we have a fire, like we had in the converters in Oxelösund, we stand still for 2 weeks and that is, of course, very costly, something we are not –– the only thing we know that it will sometime in the future most probably happen again, but it will not happen every quarter. So it's a fairly unusual, but it's painful when it happens. The good thing is that no one of our employees or anyone else got hurt during that breakdown and that is the most important thing.

Operator

We have a follow up question from James Gurry from Credit Suisse.

James Gurry - *Crédit Suisse AG, Research Division - Research Analyst*

I just had 2 specific questions, just in relation to non-core asset sales. I think it's quite specific in the commentary there. So the construction division, is this something that maybe you're saving for the next downturn and we should keep this out of our minds for the next 12 months or something like that? And just secondly, on your commentary around the U.S. mills in a wait-and-see mode, if you're expecting some sort of market intervention in the U.S. and higher prices in the months ahead, wouldn't these mills be stocking up or are we reading the situation incorrectly?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

To answer the first question then, we haven't changed our mind when it comes to non-core assets. The reason why I took it away from the quarterly report this time was to make it even clearer that we will meet the SEK 10 billion net debt reduction target regardless of selling non-core assets or not. So we haven't changed our mind yet and we will come back to that question if and when we do something. And then, sorry, your second question regarding U.S.

Håkan Folin - *SSAB AB - CFO, Head of Global Business Services and EVP*

U.S. service centers if they –– if we're expecting some kind of market intervention, should they be buying –– shouldn't they be buying now or stocking up?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

That's a fair question. One would assume so.

James Gurry - *Crédit Suisse AG, Research Division - Research Analyst*

They've not reached capacity or anything like that?

Martin Lindqvist - *SSAB AB - CEO, President and Director*

No.

Håkan Folin - *SSAB AB - CFO, Head of Global Business Services and EVP*

No.

James Gurry - *Crédit Suisse AG, Research Division - Research Analyst*

No.

Operator

There are no questions at this time. So I return the conference back to the speakers.

Per Hillström - *SSAB AB - Head of IR*

Okay, thank you. Do we have any final follow up from the floor? No? Okay. Thank you, gentlemen for this presentation.

Martin Lindqvist - *SSAB AB - CEO, President and Director*

Thank you very much.

Håkan Folin - *SSAB AB - CFO, Head of Global Business Services and EVP*

Thank you for coming.

Per Hillström - *SSAB AB - Head of IR*

And wish all to have a nice day. Thank you.
