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PRESENTATION

Per Hillström - *SSAB AB (publ) - Head of IR*

Ladies and gentlemen, welcome to this presentation on the second quarter for the SSAB report. Especially, welcome also to who are listening on the webcast. I'm Per Hillström of the Investor Relations team. And with us today here, we have our President and CEO, Martin Lindqvist; and also our CFO, Håkan Folin.

And the agenda, Martin will start here. We're talking about the market and the demand trends and also performance by division. Håkan, as usual, will cover the financials and then Martin comes back with a few comments on the outlook. And then we'll open for questions, both from the floor here in Stockholm and also from the phone lines.

So by that, please, Martin, take the stage.

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

Thank you, Per, and good morning this hot summer day in Stockholm, and that's why I'm not using my jacket.

We'll start with this picture. This is, as we know, Swedish Steel Prize 2018. Swedish Steel Prize for us is, I would say, the most important customer that we have yearly, and this was the 19th Swedish Steel Prize we have in end of May this year. We use that as an opportunity to meet customers and inspire them to use high-strength steel and showing them examples of what we can do with high-strength steels.

We had, this year, more than 600 customers from all over the world. We had customers from New Zealand, from Argentina, from other parts of South America, North America, Europe, Asia, Russia and so on. And they spent a couple of days with us here in Sweden. They visit the mills. They meet sales people. They meet our technical specialists, and we help them to develop their application. This is a very good example of the customer development project or a participant in Swedish Steel Prize. This is a new chassis for a dumper trailer. They have -- we have, together with the customer, developed a new design with Z-formed beam instead of traditional beams. And we have, with the new design and with advanced high-strength steels, been able to reduce the weight of the chassis with 30%. And that gives, of course, a possibility for greater payload. It gives more on road stability. It gives also significant reduction in fuel consumption and tire consumption. And if you, as in this case, on top of that chassis, puts -- develop U-box shaped dumper body, you can reduce the weight of the whole trailer with more than 30%. And that, of course, gives also extra payload and a lot of less fuel consumption. So this is one example, and this is also good description how we work with customers when we help them to develop their applications into more modern design and more modern materials.

Jumping into the second quarter then, and I would say, demand-wise, the second quarter was decent. If we start with U.S., we experienced strong demand from both end-users and distributors. At the end of the second quarter, the inventories in the -- among the distributors were on low levels. Spot plate prices were fairly stable or increased somewhat during the second quarter after fairly rapid increase during the first quarter, and I will come back to that when I talk about the outlook. But typically, what you see in SSAB's P&L then is a lag. So we see a price increase. And then due to contract length and lead times, you should see this gradually coming in. You saw a part of it in Q2, and you will see the rest of it coming in the P&L in Q3.

If you look at Europe, good demand in all segments, low imports, inventories in balance and spot prices slightly down during the quarter. And if you look at the segments that are important for us, and this is Q2 but it is also looking into Q3, I would say construction and service center, healthy demand. If you look at the other segments, I would say strong demand, Heavy Transport, Automotive, Construction Machinery, Material Handling and Energy. Strong demand in Q2. Strong demand expected going into Q3 as well.

We take a look at the figures. We had an EBIT of SEK 1.63 billion, up SEK 425 million compared to Q2 2017. We had higher prices. We had higher shipments on the total level, but we also had higher costs for raw materials. And we also were hit by -- somewhat by a fire in the transformer in Hämeenlinna that affected the result with minus SEK 50 million. Very good or decent operating cash flow, and we continued to reduce the net gearing.

If we look into the divisions, Special Steels, strong demand in all segments, and I would say all markets, maybe with the exception on Middle East. But apart from that, strong demand continued.

We had an EBIT of SEK 522 million, up SEK 160 million compared to Q2 2017. Higher prices and volumes somewhat mitigated by higher prices of raw material.

We continue to develop our Hardox Wearparts network, and at the end of the second quarter, we had 411 appointed Hardox Wearparts members. And at the end of Q4 2017, we're at 360. So we are well in line to meet the target of 500 Hardox Wearparts at the end of 2020.

Europe, good demand continued during the quarter. EBIT, SEK 907 million, somewhat lower or SEK 150 million lower compared to Q2 '17, we had higher prices mitigated by higher raw material costs. We had the transformer fire in Hämeenlinna, and we had somewhat lower shipments. But compared to Q1, quarter-over-quarter, the results increased with SEK 250 million.

Americas, demand continued, strong demand. Spot plate prices on a high level. EBIT was up SEK 326 million compared to Q2 2017. Higher prices and volumes. We had a maintenance outage in Mobile during the second -- partly during the second quarter 2017, which was not the case this year. Higher cost of raw material. And as said, here, we see a lag of spot prices turning into contract prices and turning into prices in the P&L. Shipments were up. We had some bottlenecks in the U.S. transport sector that affected us during the second quarter, and we also preproduced some Q&T to be shipped to Canada and Mexico in advance of the tariffs between Mexico and Canada and U.S. starting 1st of July.

Tibnor, stable demand with the seasonal uptick and slightly better result compared to Q2 last year, and that is due to better margins. So no dramatics here either, a fairly decent and stable quarter.

Ruukki Construction, seasonally good demand. Underlying demand in Russia still very weak, continued on a low level. Sales were up compared to Q2 2017. And if we look at the different business units, I would say that Residential Roofing and Building Components were quite okay, were performing quite good. On the other hand, Building Systems during Q2 were not performing that good, and we knew that in advance because the order book was quite thin into -- going into Q2, and it looks stronger going into Q3.

We have also, early this week, signed an agreement to divest Ruukki Construction Russia. The closing is expected to be within 3 months, so that means that we will leave Ruukki Construction or the construction business in Russia totally during this year.

With that, Håkan, some financials.

Håkan Folin - *SSAB AB (publ) - Executive VP & CFO*

Thank you, Martin, and good morning to those of you in the room and also on the line. I will, as usual, guide you through some more details on the financials, and hopefully, be able to clarify some of the questions you might have.

If I start with an overview, and here, we actually reused the headline we had last year, which was improvement year-on-year continued. And when you look at sales EBITDA, EBITDA margin and also EBITDA per tonne, they all improved, and this was actually the best quarter we've had since the merger of SSAB and Ruukki in 2014. The only area where we did not have the best result for the 2.5 years you can see on this chart is on shipments, where we were slightly higher than Q1, but actually slightly lower than where we were in Q2 2016.

On EBITDA level, we had an EBITDA of 2.6, clearly the highest EBITDA, and also margin-wise, EBITDA of 13.4%. And from a per tonne delivered steel, we were actually as high as SEK 1,400 per tonne.

So where did this improvement come from then? If we start looking and we compare Q2 this year compared to Q2 last year, we had an improvement from SEK 1,205 million up to SEK 1,630 million, so SEK 425 million, clearly driven by a lot higher prices. And here, prices also include the mix impacts from more Automotive in Europe and more Special Steel products. And we saw higher prices in all 3 steel divisions, many impact coming from Americas, but also Europe and Special Steel.

Volumes, slightly higher than Q2 last year and this was Americas and the Special Steel, actually slightly lower in SSAB Europe. But then we had quite a large negative impact, SEK 855 million from variable COGS, and this is almost exclusively raw material cost. And it's the large items, iron ore, coking coal scrap, but it's also alloys, or at the higher level, refractories, electrodes. So all in all, that has a negative impact of SEK 850 million.

Then we also had higher fixed cost compared to last year, SEK 195 million, and this is partly due to when we are running a more complex mix, producing more special steel product, more galvanizers, et cetera. We are using more of the downstream lines, and that drives a bit higher fixed costs. And on top of that, we have salary inflation, et cetera, compared to 1 year ago.

What we have not done and what we are -- have a very strong internal focus on is not to increase the number of permanent FTEs. We have that on a stable level, and if we need now to take in some extra resources, we manage that with temporary employees.

We had a positive impact from FX, SEK 195 million compared to last year. It's given -- it's due to that we have a much weaker Swedish krona now. So when we sell in, especially in euro, but also partly in U.S. dollar, and then we collect that back, we get the higher result in Swedish krona.

But all in all, it's an improvement of SEK 425 million, and it's very much coming from that we get the margin improvement given that we have better price increases than the variable COGS increases, which is partly driven by that we have a better mix as well.

If we then compare Q2 to Q1 and look what happened to the previous quarter, then we have an improvement from SEK 916 million up to SEK 1,630 million, so SEK 740 million. Also here, we have a large portion coming from price. And here, Americas is the main contributor, but also Special Steel and Europe we see higher prices.

Volume-wise, it's SEK 225 million. Ruukki Construction contributing with a seasonally much stronger volumes in Q2. Also, as I said, Europe had stronger volumes while we actually had somewhat lower volumes in both Americas and in Special Steel.

Variable COGS slightly negative, SEK 285 million. It's raw material again. And I would say, it's especially the iron ore prices where spot prices increased during Q1, and we get the P&L impact of that during the second quarter.

And we also have a negative impact of fixed cost, SEK 195 million, which is partly temporary when we are hiring more summer temps in order to fill in during the vacation period in Sweden and Finland. We will -- as usual, in Q3, we will see lower fixed cost given the seasonality that we have. Then we had a negative FX compared to Q1 of around SEK 70 million, a large portion of that sits in SSAB Special Steel.

Other here on the positive side with close to SEK 90 million is mainly underabsorption. We did have some production issues in Q1, we had them in -- especially in Oxelösund in the blast furnace, partly in Borlänge in where we had lack of slabs. So when we're running now in Q2 at the high utilization level, we get the positive [underabsorption] effect. But all in all, an improvement of a bit more than SEK 700 million in Q2 versus Q1, coming both from volumes, but also coming from better margins.

If we then turn to the cash flow instead, we had the continued positive operating cash flow in Q2. The operating cash flow was a bit more than SEK 1.3 billion, which is better than Q2 last year, where we had a bit more than SEK 1 billion. It's also better than Q1 this year, where we had SEK 761 million. However, given that we did pay dividend during the quarter, we actually had slightly negative net cash flow in the quarter.

And if we then take a more detailed look, how -- where -- what are the different components of the cash flow for this quarter, well, we start with the EBITDA of close to SEK 2.6 billion then we had a negative change in working capital of SEK 800 million. That's obviously not what we are not aiming for. On the other hand, we had an increase in sales of around 11% in this quarter. So when we look at working capital in relation to sales, we actually see that, that continues moving downwards.

On the CapEx side, we have maintenance CapEx of SEK 417 million. And if we add that with a strategic CapEx of SEK 90 million, that's a bit more than SEK 500 million, which is fairly much in line with the full year rate that we have said that we will be around SEK 2 billion in total CapEx for the full year.

So operating cash flow, SEK 1.3 billion. We have financial items a bit more than SEK 200 million. We paid cash taxes of SEK 100 million. We talked about strategic CapEx already, so that gives us -- before dividend, we have a net cash flow of around or close to SEK 1 billion. But then after dividend, we get to somewhat negative net cash flow.

If we stay on the cash flow side and we take a more longer-term look, and here we have the operating cash flow rolling 12 months since Q1 2014, we have now basically established ourselves at a level of between SEK 6 billion and SEK 7 billion operating cash flow rolling 12 months. You saw what it was Q1 and Q2, which means that we do expect that we will continue to generate stronger operating cash flow in Q3 and Q4 in order to stay on this level.

Why do we believe we can do that? Well, we have a potential to further improve our profitability. We are well invested, especially strategically where we said that we have the necessary equipment in place to reach the 2020 targets. We are focusing on, and we are seeing an improvement in working capital over sales ratio, and that's -- we have seen that clearly during the last 1.5 years, but we think that we have more to do there. Given that we have lower net debt and also improved rating, we will see or we're already seeing lower interest cost. And then finally, we should have a tax rate of around 20%. So adding all those factors up, we are fairly confident that we will continue to generate strong cash flow going forward as well.

If we then move over to the balance sheet and especially on the loan side and look at the maturity profile and our net debt, we actually see a few changes since last quarter. If we start with net debt, well, that actually increased somewhat given that we had slightly negative net cash flow and then we also have some FX impact. But we are at the net debt now of SEK 11.9 billion. If we look at the net gearing instead, that actually decreased somewhat in the quarter from 21% to 20%. And if you compare with 1 year ago, then we were at 30%, so that's continuously moving downwards.

We have increased our duration of the loan portfolio up to 6.2 years. It was 5.5 at the end of Q1. And what we have done is that we have repaid quite a lot of what we have outstanding in 2018, that's close to 0 now. We have also moved -- we used to have a lot more in '19, we have also moved part of the '19 maturities and renegotiated those and moved those out in time, so we don't have as big of a bar in '19 and that has led to an improvement on the duration time. We will continue during the rest of the year this year to look into what we can do in order to further move the '19 maturities out in time as well.

If we look at the structure of the debt portfolio, well, it's quite simple, it's around 1/3 bank loans, it's around 2/3 Capital Market debt. That has actually been fairly stable. The only difference is that we used to have a fairly decent portion of commercial papers, and those are actually 0 right now. The reason is that, as we have been generating cash, we have used the cash to repay whatever has been maturing and commercial paper maturing first. Well, then we have basically totally reduced those.

What we also did during the quarter is that we have signed a new RCF, revolving credit facilities, with our bank group, that is EUR 600 million and maturity is 5 years. We used to have 2 RCFs. We have now canceled the 2. We have then actually put only one out now. And given then our improved rating and are improved balance sheet, this new RCF naturally then will come with better terms than what we had before.

Finally from me on the raw material side. For iron ore and coking coal, the purchase prices were fairly stable during Q2. For pellets, they were 2% higher in Swedish krona, but actually a minus 5 in U.S. dollar. For coking coal, they were flat in Swedish krona and minus 6% in U.S. dollars. So no big drama on the purchase price side.

For iron ore, it's actually been -- on the spot market, it have been unusually stable during Q2 and actually so far into Q3 as well at slightly below USD 65 per tonne. What we have also done in the quarter is that we have signed a new agreement with LKAB, so -- from April 1 this year up until end of March next year, and the structure is similar to what we've had before, so -- which basically mean that it will follow the spot market prices over time.

If we move to the U.S. then and look at scrap. Scrap prices stabilized in Q2. When you can see that it's been rather volatile over time, but actually in Q2, it was fairly stable. Our purchase prices were slightly higher than in Q1, 7%. And when we look at what has happened so far in Q2 -- sorry, Q3, now that we are roughly 1 month into that, they are fairly stable and is somewhat actually slightly down on the scrap side in [the U.S.].

Okay, outlook.

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

Thank you, Håkan. So looking into Q3 then. I think we have a fairly decent outlook for Q3 and a stable outlook. We expect the demand for heavy plate in North America to remain strong.

In Europe, we expect the underlying demand to continue on a good level. We expect the usual seasonal slowdown in Europe. And for high-strength steels, we expect the demand for Q3 to be -- continue to be very strong. Within Europe, normal seasonal slowdown.

When we talk about prices, realized prices for a SSAB Americas in Special Steels will be higher in Q3. And in the SSAB Europe, they will be fairly stable compared to the second quarter. So no big changes moving into the Q3 and onwards.

The biggest event or the most important event during the second quarter was the groundbreaking ceremony of our HYBRIT project, and HYBRIT is a new way of producing steel without any carbon dioxide emissions. We have a joint venture together with 2 partners, LKAB and Vattenfall, and we have decided to invest SEK 1.4 billion in the pilot plant up in Luleå for this. We have, as part of the financing, got SEK 528 million from the Swedish Energy Agency in financial support, and we are now building -- starting to build this pilot plant. It will be up and running 2020, and then we will start to do trials. And then we are planning to build a demonstration plant, which is really a full-scale production plant. And the reason why we do this during the prestudy and everything we have learned, we are getting more and more convinced that this is actually possible to produce the steel without any carbon dioxide emissions. So the only emissions that will come out of this process is pure water. And if we are successful with this, we will be able to take away 10% of the Swedish carbon dioxide emissions and more than 10% of the Finnish carbon dioxide emissions, but

we will also be able to sit on a lot of valuable IP for completely new way of producing steel. So that was, according to me at least and according to SSAB, the most important event during the second quarter. So from now up until 2020, we will be constructing -- doing construction on this plant, and it will be up and running 2020.

So to sum it up, during Q2, strong demand continued in most markets in most segments. And when we look into Q3, we have a fairly solid market expectation. We saw a good growth in our strategic areas, and we are well on our way to meet the 2020 targets. We saw increased earnings or earnings growth. We saw the HYBRIT project having the groundbreaking ceremony. And when we look into Q3, we see solid demand and a solid outlook with the usual seasonal slowdown that we typically see every year in Europe. And we will also -- what we are having right now, the normal seasonal outage or summer outage in our European business.

So Per, with that, I guess we open up for questions

QUESTIONS AND ANSWERS

Per Hillström - *SSAB AB (publ) - Head of IR*

Yes. Thank you, Martin and Håkan, and we start here with any questions from the floor in Stockholm. And please state your name and your company. And also if you have one -- more than one question, please state them one at a time, so it's easier for the gentlemen to answer. We have a question right here in the -- from the floor.

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

It's Johannes Grunselius, Handelsbanken. I have a couple of questions. On the price side, you're guiding us for higher prices for Special Steel and also U.S. plate. Could you give us perhaps a little more color on that one? And I also know that you have this few months lag on the price in the U.S. Are we seeing the sort of higher price level in the third quarter book? Or should we more wait for the fourth quarter there?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

I think you should see most of it during the third quarter. There is always a lag, and I said it's due to a contract structure, but it's also due to lead times. So I mean, you will see the majority of it during Q3.

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

Yes. And should we then expect more of a meaningful uplift in prices of Special Steel in the third quarter? It's usually more stable than others, yes, the commodity steel stuff. So could you help us there?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

Sorry, for Special Steel also?

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

Yes, since you are clearly indicating higher prices for Special Steel, would that be a meaningful uplift [than we saw]...

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

Well, we continue to improve the margins in Special Steel, and that we will do in Q3 as well. We saw that Q2 compared to Q1, we will see that in Q3 as well.

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

Yes. And then it was interesting to see you are short on the cash flows, the 12-month rolling and you seem very confident in the cash flows going forward. And one of the components is higher profitability -- or potential for higher profitability. Are you then thinking about company-specific improvements? Or is it more related to the new sort of market terms compared to a few quarters ago?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

I would say both. And also why we are so positive when it comes to cash flow is that, first of all, improved profitability, as you mentioned, but also we still see that we have more things to do when it comes to net operating working capital. So we should be able -- as we have said now for a couple of quarters, we should be able -- or you should expect us to continue to generate decent cash flows.

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

Yes. And then perhaps if you can help us -- you're highlighting lower fixed cost in the third quarter, which we have also saw clearly last quarter. Is it right that this lower fixed cost level would be sort of SEK 300 million or something like that?

Håkan Folin - *SSAB AB (publ) - Executive VP & CFO*

I think that's the...

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

Yes, that's the usual vacation reserve. The way it works in the Nordic region, you build up the vacation reserve. And then when people go on vacation, you use that reserve to pay the salaries. So that's a good assumption.

Per Hillström - *SSAB AB (publ) - Head of IR*

Yes, did we have any more questions here in Stockholm? Yes?

Unidentified Analyst

[Rutger Smith], [AB Collision]. I know this question is a bit pretty mature. But concerning the HYBRIT project, do we already, at this stage, have an opinion of how much expense here the method will be than the conventional production methods?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

Yes. We have a view today, and then that was part of the prestudy. And that view surprised me a bit because our -- my guess would have been that -- the difference would have been strong, bigger. So with current electricity prices and current emission prices, which is 0 more or less, the difference is between 20% and 30%. So with the idea of -- or the belief that the prices for emitting or costs for emitting carbon dioxide will increase over time. The gap is surprisingly low. But currently, with the current conditions, 20% to 30%.

Per Hillström - *SSAB AB (publ) - Head of IR*

Yes, did we have any further questions here? I think -- then I please ask the operator to give the instructions for the phone lines, please.

Operator

(Operator Instructions) And the first of the dozen is over the line of Tom Zhang at Crédit Suisse.

Tom Zhang - *Crédit Suisse AG, Research Division - Research Analyst*

I've got 3, if that's okay. The first one, I realized we're only very early into Q3, but could you maybe help quantify where you think earnings could go given you are expecting a better result in Americas with higher volumes and realized pricing, but also seasonally weaker in Europe? You've got additional maintenance costs coming in. Which dynamic do you see winning? And maybe if you put some numbers behind that.

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

No, but we don't specify the outlook more than you should expect higher prices in U.S. and Special Steels and then the seasonal slowdown in Europe. So I mean, except on top of what we have said, we are not specifying.

Tom Zhang - *Crédit Suisse AG, Research Division - Research Analyst*

Okay, fair enough. And in the -- second question, in the U.S., you're pointing to positive end-market demand. I think we've heard similar commentary from some of your customers. But spot plate pricing has been more or less flat, maybe up a bit through the last quarter. Do you think there's a potential for further hikes, further upside to that?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

It remains to be seen. What we see is that spot prices and margins, spot margins, spot prices of plate compared to spot prices on raw materials on a high level. So margins are on a high level and even higher than the average. The average over time has been around 500 in the last year. So it has been below 400. So it is on a high level. Where the market price and the spot price will move in U.S., I don't have a clear view on that. But right now, it's on a stable and high level.

Tom Zhang - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And very quickly just on the last one on S232. You mentioned you were looking for product-specific exemptions, and I saw the [TOC] gave some exemptions for product from Sweden, but didn't give any specifics. Could you just give an update on that? And overall, whether you think 232 has been a net positive or negative for SSAB?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

To start with, I mean the 232 has a positive effect for SSAB. I mean import has come down in U.S. and I mean, we produce slightly more than 90% of what we sell in North America. We produce locally. So we are the biggest plate producer in the U.S. So in that aspect, of course, it is positive. On the other hand, having said that, I think the best is, of course, if you could have the combination of free and fair trade. But so far, we have seen that import has come down even more. And as said, spot demand has increased together with that as spot prices have increased. So in that aspect,

short term, it is positive for SSAB. Where it will turn out, how it will turn out long term, it's impossible to say, of course. But for the time being, positive.

Tom Zhang - *Crédit Suisse AG, Research Division - Research Analyst*

And with product-specific exemptions, no news flow just yet? Or...

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

We have together with our customers, or our customers have asked for product exemptions. A big part of the steel we export from Finland and mainly Sweden are unique products, so -- that are not being produced in U.S. So we are -- we have -- or they have applied for product exemptions. There has been a lot of applications for product exemptions, so I guess it's in the pipeline, and we haven't really heard anything yet.

Operator

We are now over to the line of Seth Rosenfeld at Jefferies.

Seth R. Rosenfeld - *Jefferies LLC, Research Division - Equity Analyst*

I have 2 questions today. First on raw material and second on U.S. plate margin, please. On the raw material side, you commented earlier, obviously there's a negative P&L drag in Q2 following the big increase in purchase prices from the first quarter. With the Q2 purchase price roughly stable, should we expect P&L cost base similarly flat into the third quarter? Or is there some residual cost pressure following the Q1 purchases that which you keep in mind? And secondly, on the plate side, please, in the U.S. My understanding is that you perhaps recently secured a large contract for an Energy pipeline with another European [trans plant] in the U.S. When you consider a contract sale in Energy side as opposed to spot sales what's the net impact on margin? And should we consider this to be margin accretive or somewhat dilutive versus the very robust spot trends?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

I can take the second question first and then Håkan can take the first question. But I mean, of course, we try to look into or optimize profitability, so we are not taking a strong market. We are not taking any contracts, big contracts, if we can earn more on selling in other segments or to other customers. We try to optimize all the time, the profitability, short term and long term. So that's the answer to that question.

Håkan Folin - *SSAB AB (publ) - Executive VP & CFO*

I'll take the first question then. For iron ore, we typically have roughly 1 quarter lag, slightly below that. So yes, in 15, stable in Q2. On the P&L side, you should expect no major change in Q3 then, yes. For coking coal, it's a bit longer lag, but also there it's more actually what you saw partly in Q1 and partly in Q2 if you make some type of mix of that. That's what you will see in the P&L in Q3. And then if we take the last big one then on scrap side, that usually turns a lot faster, it takes roughly 1 month. So -- but on the other hand, you saw that the whole Q2 was fairly stable, so no. As what we see right now at least, no big change in Q3 on the scrap side in the [U. S.A.] there in the P&L.

Operator

We're now over to the line of Alain Gabriel of Morgan Stanley.

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

Sorry to go back to your guidance and the outlook comments you made. In the context of Slide #15 in your presentation, is that fair to assume that your positive comments on steel Americas and Special Steels imply an uplift or an offset of the negative developments that you would see due to seasonality in Europe in the context of that bridge, the profit bridge for Q3? That's one. And two, on the working capital, you have built up nearly SEK 1.6 billion in H1. Is it fair to assume that you will release most of it in the second half of the year on today's prices?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

If I take the second question first, then I mean we built up net operating working capital during the first half and that is to a large extent accounts receivable and to some extent inventories. And as said, I mean we focus a lot on net operating working capital over sales and to improve that ratio. And then typically, as Håkan pointed out, we release some working capital and have the strongest cash flow, operating cash flow during the second half of the year and that is what you should expect this year as well. So nothing different compared to previous years. And then the first question, if you please, could take that again.

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

And in light of your comments of positive spread development for the Americas and the Special Steels business, do you think this positive uplift in spreads will offset the negative developments in Europe because of the maintenance and because of the seasonal slowdown in the context of that bridge you showed in Slide 15?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

That's for you to calculate. I won't give you that answer. But we expect, as said, to see continued improvement in margins in North America and also in Europe. And then sorry to say, but you have to do the math yourself.

Operator

We are now over to the line of Cedar Ekblom at Bank of America Merrill Lynch.

Cedar Ekblom - *BofA Merrill Lynch, Research Division - Analyst*

I have a question on capital allocation, please. We've got double-digit free cash flow in 2017. You're guiding to continued improvement in your working capital sales ratio. And Håkan, you were talking about a view that operating cash flow should be relatively sustainable. You've also had the net debt reduction target achieved at the end of last year and the balance sheet is in a reasonably good position. How should we be thinking about the potential for increased shareholder returns, dividend, buybacks or can you even talk about any initiatives that you think you would pursue in terms of growth?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

I think our focus is to continue to strengthen the balance sheet and then, to be honest, it will be up to the owners in AGM to decide about the dividends and other measures. But we have an operational focus to increase cash flow and strengthen the balance sheet. So that's our focus. And I'm a bit conservative, so I would like to see the money on the check account before I start spending, so we will most probably come back to that question in the future.

Cedar Ekblom - *BofA Merrill Lynch, Research Division - Analyst*

Do you have a net debt target, either in absolute terms or as a ratio net debt-to-EBITDA?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

Yes, we have a net debt to -- net debt target of not normally above 35%, and we are, right now, within that target.

Cedar Ekblom - *BofA Merrill Lynch, Research Division - Analyst*

You don't have an absolute net debt number, so SEK 10 billion, SEK 6 billion or something.

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

No, no.

Cedar Ekblom - *BofA Merrill Lynch, Research Division - Analyst*

Okay. So net debt to equity of 35%.

Operator

Okay. We are now over to the line of [Iris] [indiscernible] at Macquarie.

Unidentified Analyst

Three questions on my side. The first one on SSAB Europe. You have guided higher realized pricing in Q3 despite somewhat lower spot prices. Is that due to a change in mix? Or due to lag effect?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

We have guided stable prices for Q3 compared to Q2.

Håkan Folin - *SSAB AB (publ) - Executive VP & CFO*

Higher prices for Americas and for Special Steels, but stable for Europe.

Unidentified Analyst

So what this -- the spot prices in Europe have come down over the past couple of months based on the chart you have on your presentation.

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

What we guide for is including mix and everything and then we say that prices will be fairly stable in Q3 compared to Q2.

Unidentified Analyst

So is there a mix change in Q3 versus Q2? Or is the mix relatively similar?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

There is a slight mix change but altogether, as said, stable prices.

Unidentified Analyst

Okay. And the second question on SSAB Americas, can you elaborate on the disruptions in Q2 in terms of production and shipment? What was the underlying cause and the resulting impact on volume and P&L? And also, will those persist in Q3?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

No. We had some problems with the U.S. transport system and that is fairly typical when the market is strong. And you have some problems to get railcars and transport but not any big issues I would say. That's things that usually happens in this kind of industry. And then we also preproduced Q&T to a larger extent and sent it to our own stocks during Q2 in Mexico and Canada because the tariffs between Canada and U.S. and Mexico and U.S. will be active from 1st of July, so we preproduced and sent to our own stocks in Mexico and Canada, but I wouldn't say any big impact.

Unidentified Analyst

Okay. But that's not reflected in the P&L, those volumes have not been sold yet have they?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

No, no, no.

Unidentified Analyst

And the last question then on the European safeguard measures. The quarters apply on a first come, first serve basis. Is there a risk here that the imports may surge in the coming months until we hit the quarter levels?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

Yes.

Unidentified Analyst

And do you think the European Commission may react before the 200-day consultation period?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

Very good question, but I don't have a view on that. I mean this could, of course, worst-case lead to some volatility until the quotas is filled up and then -- so prices will go out -- theoretically go down if you see a lot of import. And then the quotas are filled up and then prices will go up, so it could, worst-case, lead to volatility. But how they reason within the commission, to be honest, I don't know.

Unidentified Analyst

I see. And then, maybe the last question, if I may, just on M&A, if we look at your business, the Special Steels division relies on rolling capacity at SSAB Americas and Europe. And given that you're growing volume or you're planning to grow shipments further in special steel, so that would probably lead to a bottleneck in terms of how much more you can produce in special steel without sacrificing standard grade. So are you looking at some of the assets, some of the rolling mills that are up for sale in Europe closely? Or do you -- would you rather look at the organic growth opportunities here?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

We are not looking currently at any rolling mills. I mean we have the capacity to meet the 2020 target and then beyond that, I mean, there are different possibilities, of course, but we are not planning to buy rolling mill for the time being, no.

Unidentified Analyst

I see. So would you still look at the other opportunities across the board?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

We always look at all opportunities that presents themselves for obvious reasons. For us, it's a good quality business intelligence exercise to be aware of what happens and how competitors assets look, but we are not planning to buy any rolling mill.

Operator

We are now over to Robert Redin at Carnegie.

Robert Redin - *Carnegie Investment Bank AB, Research Division - Research Analyst*

Yes, so a question on Americas. So basically, I mean the confusion -- the question is how much of the uptick do you think we've seen now in prices and also spreads in the Q2 result and how much is left to go? Would you like to comment on that? Otherwise, some more detailed questions.

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

No. But I mean when prices increases as they did in Q1 rapidly, we are not seeing the endpoint of that price increase in the P&L the coming quarter. There's a lag due to contract structures. There's a lag due to lead times and so on. So you should gradually see that. So I don't know exactly what approximation you should do, but I mean, somewhere in the middle or something, I don't know, but you should expect to see further improvement price-wise and margin-wise in Q3 compared to Q2.

Robert Redin - *Carnegie Investment Bank AB, Research Division - Research Analyst*

Yes, because I think prices -- spot prices moved up about 50% and you reported price is up 15% now in this quarter and in Q1 as well. So could there be a 20% more to go?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

No. But you should expect us to behave. On the North American plate market, even though we are the biggest producer by volume, we follow the prices. We follow the spot prices typically in our P&L with a certain lag. So you should expect us, over time, to behave with a lag as the spot market.

Robert Redin - *Carnegie Investment Bank AB, Research Division - Research Analyst*

All right. And could you say something about in the current market environment, have -- lead times have probably increased. Have your contract mix also shifted? Have you sold more to industrial customers on contracts?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

No, we have a fairly similar mix. It always differs month by month and quarter-by-quarter but no big changes in the mix. No dramatic changes in the mix, contract mix.

What we typically play with is, we are roughly at 50% of the volumes, around 50% of the volumes to Steel Service Centers and they are typically short-term contracts. And that varies over time between I would say 40% and 60%, apart from that, it's fairly stable.

Robert Redin - *Carnegie Investment Bank AB, Research Division - Research Analyst*

Okay, perfect. And you talked about this new credit facility being better priced, lower margins, will you comment how much lower?

Håkan Folin - *SSAB AB (publ) - Executive VP & CFO*

No. Sorry, Robert, actually not, but it's somewhat better than what we had before.

Operator

Our next question is over the line of Anssi Kiviniemi of SEB.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

Yes, it's Anssi from SEB. I have 3 ones. First, this is probably a follow-up. Looking at the situation in Americas and plate prices, when you go out and negotiate with customers right now on a contract basis for the coming quarters, how much lower is the contract price compared to the spot price? And has the spread kind of widened or is the spot price the price you negotiate in your contracts going forward?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

No, but I said with a certain lag, you should expect us to have -- to follow the spot prices. And with that lag you saw that last year, you seen the previous year, and you should expect to see that this year. So of course, we are not selling at any rebate over time compared to spot prices.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

Okay, great. Then a question on Special Steels. Looking at just the EBITDA margin, it reported lower compared to Americas and Europe. Is there kind of additional drivers for the margin other than price when we go into Q3 and Q4?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

I would say price is the biggest factor and then some other I mean cost production stability, and so on, but price is the main factor.

Håkan Folin - *SSAB AB (publ) - Executive VP & CFO*

We can add to that also Anssi, that in Q2, I showed you in the bridge on the group level that we had SEK 70 million in negative FX and most of that was actually in Special Steels so that would have helped the margin as well a bit.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

Okay, great. And then last one, a question on European safeguards. What is your initial take? Is this positive for you, for your end products mostly flat carbon steel in Europe or what is your initial take?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

The initial take is that most of our products are within that safeguard and then it remains to be seen. I mean, there are quotas and I mean the safeguards will kick in when the quotas are reached. So as I said earlier, this could potentially lead to some more volatility in the European market. I think it's fair that the European Commission takes some actions, but so far, we haven't suffered from any high import levels into Europe. So it will be -- remains to be seen and this is on top of the tariff that is already in place. So it's too early to say.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

Okay, but your view currently is that it doesn't initiate a large steel price rally in Europe or positive momentum in the European prices?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

I think it's too early to say. I don't have a clear view on that.

Operator

We now go to Carsten Riek at UBS.

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

Most of my questions have been answered. One, which I just try to get my head around -- it's on Americas. You had, last year, SEK 230 million negative impact on the maintenance outage. If I add that to last year's number of SEK 39 million EBIT, the gap between the current result and the last year's result is rather small. Just trying to reconcile those numbers as we have seen somewhere around SEK 1,000 per tonne increase in revenues

per tonne on the iron ore and coking coal side, not really any change year-over-year. So how does it come that we actually haven't seen a bigger jump in your Americas business? Have I overlooked something here?

Håkan Folin - *SSAB AB (publ) - Executive VP & CFO*

I'm not sure if I followed you 100%. You mentioned the iron ore and coking coal, but for Americas, there we have electric arc furnace, so we have scrap based in Americas.

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

It's scrap, yes, sorry. But even on the scrap prices, obviously they went up but still the gap is quite substantial because we only have roughly SEK 100 million more on that business. That seems to be underperforming compared to what we have seen revenue per tonne wise. So I'm still struggling here. You're absolutely right that's scrap, but I am just -- can't get my head around that the profitability hasn't been better there.

Håkan Folin - *SSAB AB (publ) - Executive VP & CFO*

I think we come back to what we discussed a little bit earlier with regards to this lag effect that yes, you definitely see more of this when you look at spot plate price and spot scrap being at a very strong level. But we will see a good improvement in our realized margin in Q3 as well. We have -- Martin mentioned the contract structure that we sit in, but also, given what we talked about as well, that the lead times are longer that means [our mill] -- the Q2 volumes that we sold were already filled up during -- fairly early during Q1. So in that sense, we will see further increase margins and better profitability in Americas in Q3.

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

Follow up on Americas. Given where we are with regards to the price premium against the global prices, how do actually your customers react on that, especially those which have a comparably high export share like John Deere or any of those? Are you currently in discussions with them? Are they pushing back on those prices? What do you hear?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

To be honest, I've been in U.S. fairly recently and met customers and our typical discussion is material availability.

Operator

We are now over to the line of Oskar Lindstrom at Danske Bank.

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

Three questions from my side. First one just on pricing in Americas and how much we should expect for Q3 and maybe, well, for H2. Did you say that you believe you are maybe halfway into achieving the spot price increase?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

Just giving you an example. I did not really answer that question. I will not do that now either. But as I said, there is a lag effect. And as Håkan mentioned, most of what we sold in Q2 and was shown in the P&L were those contracts and those orders were taken early Q1, some of them late Q4, some of them a bit earlier -- later in Q1. But average, I would say early Q1. So that's what you saw in the P&L. So there is a lag effect and as I said, the lead times are quite extended now due to the strong demand. So I won't give you an exact figure and to be honest, I don't know it on the -- from the top of my head either, how exactly how much has been through in the P&L so far and what you should expect to see in Q3. But over time, you should expect us to see -- have the prices that is on the spot market because that's how the U.S. plate market works.

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

All right. My second question is about acquisition opportunities, and you are very clear that you're not planning to buy any rolling mills in Europe. However, I mean we have a couple of M&A processes going on in Continental Europe. Do you see any opportunities to -- or are you looking maybe to buy any assets that come out of those consolidations? And then following on also, in your sort of global Automotive strategy, do you feel that you need a presence or larger presence in China to be a global player in this? Or is it fine to sort of operate from a European base? And then finally, is this a good time to buy assets? Or do you believe it's better to wait? Yes.

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

Very good questions. And as I said, we are not planning to buy a rolling mill in Europe. But we always look at all opportunities for different obvious reasons. And I think at least from a business intelligence perspective, it's always interesting. How the future will look with assets globally, we need to come back to. But what we have said clearly is that the targets we have for 2020, we have all the assets and all the capabilities and capacity to reach those targets. And then you never know, but we did our big, call it, big acquisition or our part of the consolidation 2014 when we acquired Rautaruukki, and that is now an integrated part of SSAB and a part we are very, very happy with. So we are not the consolidator neither on a European level or on a global level. We are devoted to stay within our niches and if something would turn up in the future, we would definitely take a look, but that depends fully on what will turn up.

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

All right. Now the reason was because I feel that you're sort of progressing very quickly towards your main strategic target of volume growth in Special Steels. And I think there was a question earlier here today or this morning on this. Do you feel you need to build more capacity or add more assets to be able to continue to grow beyond your strategic goal?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

There is always possibilities of debottlenecking, and we have rolling capacity enough. It's more about capacity in quenching lines and so on. And we are debottlenecking, we are looking into -- I mean the world that doesn't stop -- or SSAB doesn't stop at 2020 so, of course, we have more long-term plans. And we have a fairly good view of what could be possible to do. But for the time being and up until we have reached the targets, we are not planning any big investment. So the focus is rather on strength -- continue to strengthen the balance sheet and to become a stronger and financially stronger company.

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

My final question is around production stability. You had some problems in Q1 and also logistics issues. Q2 seems to have been fairly stable with the exception of that fire in the Finnish mill. Q3, you've got some maintenance stops. I mean is there any risky stuff going on in Q3 that we need to be aware of?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

No, I don't really think so. But having said that, you never know. When you run a lot of sites and operations 24/7 all year round, there is always -- I mean Murphy's Law. There is always things happening. Sometimes we're a bit lucky and sometimes we're a bit unlucky, and we are also dependent on I mean the logistical system in Sweden and Finland and globally. I mean from time to time, you have lack of transport possibilities of trucks and railcars and barges and what have you. So I mean it's a complicated logistical set up. So I'm not expecting to see a quarter where everything runs as good at it potentially could do. So you will always have some minor disturbances and some smaller breakdowns and so on. But I would say that Q2 was fairly okay in that aspect, with the exception of the fire in Hämeenlinna transformer and that is things that unfortunately happens from time to time as well. And we are not seeing now any major risks with the logistical system or the production system in the Nordic sites or anywhere. I mean typically when you take down blast furnaces, you can have sometimes, especially when it's cold weather, problems to start them up. But we are not taking down any blast furnaces now in Q3. But that's typically the riskiest part, or the part -- or the maintenance work with the potential biggest risk.

Operator

We now go to the next line, which is Luc Pez at Exane.

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

A couple of follow-up questions on the SSAB Americas business. You're referring to -- to explain maybe the miss for Q2 on the production, which was not optimal. Some bottlenecks in the U.S. transport, and my feel is that [your] volumes were down Q2 versus Q1. It's particularly related to that. So would it be possible for you to quantify maybe a bit more what was the impact this volume wise or profitability wise that would be my first question. Second question, still on the U.S. market, how do you interpret the lack of spreads now between the plate and the HRC price in the U.S., which looks uncommon to me, is it sustainable? Second question. Third question with regards to M&A, Ruukki Construction Russia, which you are divesting, is it possible for you to quantify the kind of cash in you are expecting on this one, if material. And that will be it.

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

If we talk about the spread and start with the spread because in U.S. plate compared to hot-rolled coil or strip products, typically plate prices and plate margins are over time higher than strip margins. And we have seen -- the last couple of years, we have seen the opposite of that. We have seen plate margins and plate prices due to imports being lower. So they have been lower than they usually are and now we see a more normalized, call it, picture than when it comes to the difference between plate and strip. So where that will go in the future remains to be seen, but over time, plate prices has been higher than for hot-rolled coil so -- or strip prices and that is what we expect to continue to see as well then with some variations over quarters. Sorry to say, but I can't really remember your first question.

Håkan Folin - *SSAB AB (publ) - Executive VP & CFO*

The first question was on quantifying the volume in Americas and what you saw actually in Q2 was that we have slightly lower shipments in Americas than in Q1, where we had actually guided that we would have slightly higher shipment. So I think that's basically the delta instead of a few percentage points up, we had a few percentage points down. And as we said before, production not running optimally, some issues in the transportation sector and also then a bit of prefabrication for especially stock locations in Canada.

And then the third question was on construction Russia.

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

And the question was?

Håkan Folin - *SSAB AB (publ) - Executive VP & CFO*

If we could quantify I guess the divestiture, was that the question, Luc?

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

How much money did we [get in]?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

We -- this was a lossmaking business and we will have a loss on that sales of a bit more than I think EUR 10 million or just about EUR 10 million sales price compared to book value, including net operating working capital.

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

And is it a possible to have an idea of the book value?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

Sorry?

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

What will be the book value of this business?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

I don't have that on top of my head but it would -- it will be a loss of slightly more than EUR 10 million.

Operator

We're now over to the line of Bastian Synagowitz of Deutsche Bank.

Bastian Synagowitz - *Deutsche Bank AG, Research Division - Research Analyst*

So I just had 2 questions left on strategy. Now from the comment you made earlier, I read that there will be no announcement on any strategic investments in the very near term. What would be the time frame until when you will update us on any larger organic investments? Is this like a 2-year time frame or could it be as early as next year? And then secondly, just on the sale of Ruukki, we, obviously, made a bit of progress, are you now still actively working on selling the rest of the business as well? Or is this less of a priority for the time being given that there is just simply less pressure to sell at the moment and the business has started to run well?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

I give you a simple answer and not a very educating answer on both questions. Let's discuss that when we have something to communicate. I mean we are not planning anything right now in those areas. So let's come back to that and I can't give you an exact date when -- if and when.

Operator

We are now over to Antti Kansanen of DNB Markets.

Antti Kansanen - *DNB Markets, Research Division - Analyst*

Two questions for me left. It would on Special Steels and the guidance of higher prices going into Q3. Is this a function of sales mix or are you seeing like-for-like price increases in the different product groups that you are selling?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

It's price increases in the different product groups.

Antti Kansanen - *DNB Markets, Research Division - Analyst*

All right. And secondly, on the divisions profitability and especially compared to the SSAB Europe, which is more of a commodity steel producers. Are you happy where the special steel division stands at the moment? And relative to the SSAB Europe, what would be drivers for reaching higher margin in the divisions, please?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

No. I mean I'm never happy, so that's an easy answer. But I think there is a big potential in Special Steels, and I think it's about the margin expansion, it's about production stability, cost efficiency, net operating working capital. So we are not done with Special Steels, and as I see it, the potential is there and we will gradually grab that potential. So they should over time be making more money than the other steel divisions in margin wise.

Antti Kansanen - *DNB Markets, Research Division - Analyst*

Right. You had a bit of difficult year -- a year ago with the production problems and then you flagged a little bit that you been lagging behind on certain price increases as you struggled to deliver on time with customers. So has this situation completely normalized after the difficult 2017 or where do we stand in that development?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

I would say that it has normalized. We don't have excellent delivery performance. On the other hand, we have probably the best delivery performance in the market, but the steel industry is typically not very good at delivery performance. But we have a decent delivery performance I would say. But there's still, as said in Q3, more price increases or some price increases to come. So we will see better margins in Q3 compared to Q1 and Q2 and compared to a year ago.

Antti Kansanen - *DNB Markets, Research Division - Analyst*

Right. And then regarding the Q2 margin, you flagged that the FX was a little bit of a hit on the special steel side but what about from the variable costs from the raw material, was it materially different for Special Steels and in SSAB Europe, the impacts or...

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

I would say fairly the same.

Antti Kansanen - *DNB Markets, Research Division - Analyst*

Okay. And then could you again remind -- you said you have a new contract with LKAB on the iron ore side. Could you comment on the dynamics on the pellet premium in that contract?

Håkan Folin - *SSAB AB (publ) - Executive VP & CFO*

Well, dynamics overall is that it will follow the spot market over time. It's a monthly pricing structure but -- and then there are number of components for freight, et cetera, but it's based on spot pricing.

Operator

We are now over to the line of Cedar Ekblom at Bank of America Merrill Lynch.

Cedar Ekblom - *BofA Merrill Lynch, Research Division - Analyst*

I've got one follow-up question just in terms of being so reluctant on the specifics on capital allocation going forward. I mean right now, you're below target on net-debt-to-EBITDA -- net debt to equity and yet, there is no willingness to lower the target it seems or to introduce a new target on gearing and on the other side we don't have any commentary on potential increases in dividends or buybacks. On the growth point, you're saying you have the assets in place to deliver your 2020 targets. You don't have any intention to buy any rolling mills. This is a very solid quarter. You're very upbeat on the U.S. market. Europe, you're saying demand is solid, that you're well-placed and yet, we have shares down 5% or 6% today. So I'm just wondering if you have any commentary in terms of the communication for the outlook for the business more in a strategic view. Why the need to be so opaque when the operating conditions seem to be very well -- very good, your gearing is not high and yet you don't want to grow, you don't want to increase dividends, buybacks. It's just a bit frustrating.

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

I didn't say that we didn't want to increase dividends or anything. I said that that's ultimately a decision for the owners, of course. And what we do, we focus on operations and when it comes to the cash flow and cash flow generation. We want to grow, we want to continue to continue to develop the company and we want to reach the 2020 targets. And I'm convinced, as I said, when we presented them, that we will reach them. And what we typically do when we have reached targets, either if it's end of 2020 or before that, we present new targets and new possibilities. So we're not sitting on our hands and have no ideas for the future. We have good ideas for the future. And then I mean to start now to talk about what we should do with the strong balance sheet, I think it's too early. The balance sheet is stronger than a year ago and stronger than 2 years ago, and we still see a good potential in cash flow generation. So let's take that discussion when it's time to do it.

Cedar Ekblom - *BofA Merrill Lynch, Research Division - Analyst*

Okay. And how do we think about shares pulling back 5%, 6% today on the number that was solid, although, below expectations, when we are hearing about a U.S. market where the issue is not about customers pushing back on price but rather about material availability? I mean we -- you're positioning the business in terms of the U.S. market very well for the second half. Europe is stable and yet, we get shares down a lot. I mean, how do we think about that?

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

Isn't that a question I should be asking you, to be honest? I don't really know, I haven't looked at the share price during this presentation. But what we can say is what we see internally and what we see on the market. And we see a solid outlook for Q3. We don't expect any major catastrophes during Q3. So trying to give all of you a picture of what we see internally and what we see externally when we talk and communicate with customers to give you a flavor of what we see in the order book and the order intake and that's what we are doing.

Operator

That was the final question for today. So gentleman, can I please pass it back to you for any final comments.

Per Hillström - *SSAB AB (publ) - Head of IR*

Okay, thank you. Do we have any final follow up in Stockholm? No? Then we thank you for the attention. Thank you, gentleman, and we wish you a nice weekend.

Martin Lindqvist - *SSAB AB (publ) - President, CEO & Director*

Thank you.

Operator

This now conclude today's session. Thank you all very much for attending, and you can now disconnect.
