Transcription

Title: SSAB First Quarter Report 2016

Date: 22.04.2016

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Duration: 57:00

Presentation

Andreas Koch

Good morning everyone, and welcome to SSAB's Q1 results presentation. My name is Andreas Koch, Head of IR. The presenters for today are as usually our CEO, Martin Lindqvist and CFO Håkan Folin. The structure of the presentation today is slightly different. We'll start with the Q1 results in the first section, and in the second part we'll talk about the financial package that we announced today. And finally, we'll end with a Q&A and open up the floor for questions.

With that, Martin, would you like to start?

Martin Lindqvist

Thank you, Andreas. So many of us met here a quarter ago when we released the Q4 report. We had a lot of discussions regarding markets, costs, synergies and also financial situation of SSAB. And it's – how should I express it? It's no secret that it has become slightly more challenging to finance a steel company nowadays. And we're also clear that we had a target of reducing net debt and reducing our net gearing. And a lot of the questions that were asked was about the balance sheet and if it wasn't – some of you said, wasn't it time to present the financial package to reduce net debt then? If you recall and if I recall correctly, my answer to that was that SSAB is in a position where we will, regardless of market situation, continue to generate strong cash flows. But as we say in Swedish, I also put in a *brasklapp*: I said, 'You can never say never then'. That is at least my memory. And since then a lot of things has happened. We have done the Q1. It is more positive than Q4 was last year, and I will come back to that. We have seen quite an improvement, sequentially, during the first quarter. We have also, I would say – or we are, if not fully, but almost, done with the integration of SSAB and Ruukki into one company. It has meant a lot of changes in ways of working. We have closed sites, we have reduced manning, and so on. But we have also been able to over-achieve on the targets when it comes to synergies, but also been able to over-achieve when it comes to time plan.

I think today SSAB is a much stronger company than we were before this combination, and a lot of the job is already done. We also felt that we could have moved on as we did, but we also felt that proactively this was good timing to strengthen the balance sheet. And strengthening the balance sheet will allow us to fully concentrate on one of the most important missions and targets we have: industry-leading profitability. And strengthening the balance sheet is a package – I would say an attractive package, consisting of three parts. It is a rights issue, of SEK5 billion, where the big shareholders will take their part, and the rest is underwritten by a number of banks. The second part of that package is, I would say, a comprehensive re-financing package, where we extend maturities, where we get backup – sufficient long-term backup facilities. And the third part – and those two first parts will take away any potential refinancing issues for the coming three to five years.

The third part is a very clear action plan to reduce net debt with another SEK5 billion during the coming one and a half year, up until end of 2017. And when we have done that, we will be well in line, or actually well below, our balance sheet target of a net gearing of 30%. And then we are able to concentrate SSAB as a company and a full organisation to deliver on strategic objectives and reach industry-leading profitability.

With that I think we jump into quarter 1. Demand picked up, it says here. Well, the truth is that during Q1, apparent demand and real demand was on the same level. As you remember, or might recall, we discussed last quarter about customers being unwilling to place orders because they knew that prices were going down, so whatever they bought that day would probably, or most probably, be slightly cheaper the next day. But in Q1 we clearly saw apparent and real demand being on the same levels, and no further inventory reductions but no further – but not any inventory build-up either.

We saw prices start to move – spot prices – I would say mid-Q1. And that was of course fuelled by also increased raw material prices. We saw during Q1 continued high export from China, and we saw also during Q1 and the beginning of Q2 anti-dumping measures coming into place. And these are examples. And I've used then Europe and North America because they are our strong home markets where we have a good position on the markets. And the ones in bold are the ones affecting – mainly affecting SSAB. And the most important one – or one of the most important ones was the filing that was done a couple of weeks ago for heavy plate in North America. This will – everything else equal – regionalise steel markets and that will be beneficial for SSAB having strong positions on these home – on these markets.

If we look into the figures as said, steel, a loss on EBIT level, but quite a clear improvement over Q4. It was higher volumes and lower cost, and we now clearly see in the P&L that the synergy costs are coming through. We achieved SEK350 million during the

first quarter. We had a positive operating cash flow; it wasn't big. But what we said last time is that we will increase volumes and by that we will also increase accounts receivable. We increased accounts receivable with approximately SEK900 million, but we could compensate for that with structurally lower inventories. So I would say it's not a big figure, but given the momentum in Q1 and given the build-up of accounts receivable, I think it's quite okay.

Synergies: we are well on our way now. This is end of first quarter and we are moving on. We will reach the target of 1.8 mid-2016 and as said, all the actions are more or less done. So they are coming into place. We have increased the target of the overall savings – structural savings in the Group from 2.5 – that we talked – SEK2.5 billion that we talked about last time to SEK2.8 billion, and that will be delivered. And I will come back with a split up of that later. If we look into divisions, the big difference in special steel is volumes. They were up 27%. That means here we clearly see apparent and real demand on the same level. Very low apparent demand in Q4. If you look at Europe, it is volumes there as well, but it is also the effect. And here we see the majority of the synergies coming through. So it's volumes and costs.

In Europe it is volumes. Overall we had lower prices in Q1 compared to Q4, and that is visible, definitely in SSAB Americas. In the beginning of Q2 we have increased plate prices in North America with US$100 per tonne – per short tonne. The prices are moving up in North America. So – but Q1, higher volumes, better costs, lower prices. Håkan, if you want to give some flesh to the bone?

Håkan Folin

Thank you Martin. Good morning everyone. I will go through some of the key figures. I will also show the result development from Q4 into Q1 and some more data from the cash flow. I will, however, not now go through the debt situation and the maturities, which I usually do, because we'll come back to that when we talk about the financing package a little bit later.

Starting then with some key figures. And if we start with sales, we had sales of around SEK13 billion now in Q1. It's an increase compared to Q4, with SEK500 million due to the higher volumes. It's, however, a decrease compared to Q1 last year with SEK2.5 billion. And this decrease is mainly coming from lower price. It's 11 percentage points due to lower price, a few due to volumes, and a few due to mix. But it's overall the price level in the market that's so much lower that gives us SEK2.5 billion lower sales.

If we look on the EBITDA, we had an improvement compared to Q4 with SEK600 million, and in Q1 we had SEK744 million in EBITDA which corresponds to six percentage points. The final point on this page is the operating cash flow which Martin mention. Not hugely positive but actually slightly positive at least, of around SEK80 million.

If we go into some more details then on what happened actually between Q4 and what happened now in Q1, we had an operating profit – or loss, rather, of minus SEK800 million in Q4, and minus SEK190 million in Q1. So it's a difference of a little bit more than SEK600 million. And this is actually despite that we had, on average, lower prices impacting the result with almost SEK400 million. And this is because – you know that prices dropped in Q4. They actually stabilised both in North America and in Europe fairly similarly in December, and the spot prices have been trending upwards during the whole of Q1. However, we entered Q4 on a clearly higher price level than we entered Q1, and we also have, in all our three steel divisions, a contract structure with some things on spot, some on three-year contract – three-month, some on six-month. Which means that on average we got a negative impact from lower prices in Q1 versus Q4.

But this was compensated by an increase in volume, impacting with SEK450 million. We actually had 15% higher volumes now in Q1 than in Q4. And also here within others we have the un-absorption effect, so the impact that we were producing at the higher utilisation rate in the mills is a large portion of this SEK212 million. So all in all, volumes and better utilisation was around SEK650 million.

The other point impacting positively is the variable and the fixed cost. This is partly because we had a maintenance outage in Oxelösund during Q4, which we did not have now in Q1, but it's especially driven by the lower cost coming from the synergy programme, from the Ruukki construction savings programme, and from other cost-saving initiatives. And the synergies alone, comparing what we got in synergies in Q4 with Q1, impacted positively with SEK125 million. And we will continue seeing this during the coming quarters as well: that we will get more and more impact in the P&L out of the synergies. But all in all, volumes, lower cost, helped us improve the result at SEK600 million.

On the cash flow side – and we mentioned the positive operative cash flow, but then we had a negative net cash flow of minus SEK244 million. In this cash flow I think there are two things worth pointing out. First one is working capital. Second one is the cash flow. If we start with working capital, we had a build up during the quarter of around SEK500 million. That is because

we had clearly higher sales, so we billed account receivables of SEK900 million, and we lowered inventories, and the net then was around SEK500 million. I think this should be compared with what we did in Q4, because in Q4 we released SEK2.1 billion in working capital. So we were expecting that we would bounce back a little bit and need to build some working capital in Q1, but that was, compared to what we did in Q4, I would say, fairly minor, actually.

The second point I can point out is on the CAPEX side. After Q4, we guided and said that CAPEX during 2016 will be between SEK1.5 billion up to SEK2 billion total CAPEX, both maintenance and strategic. We are now saying that when we are releasing the Q1 report, that we will keep CAPEX level during 2016 on SEK1.5 billion. And in total now in Q1 we have the maintenance CAPEX here of a little bit more than SEK200 million; we have strategic CAPEX of around SEK90 million. So we are a bit over SEK300 million in the first quarter, which means we are well in line towards the SEK1.5 billion in CAPEX for the full year. This can be compared with total depreciation and amortisation level of SEK3.8 billion on a yearly level.

I will also move in and now and talk a little bit about how we foresee Q2. Starting with North America. In North America, the real demand we expect to be fairly stable during Q2. The steel service centres which were replenishing basically the whole of 2015, they are – sorry. They were destocking the whole of 2015. They are now replenishing. And basically what they sell out to their customers they are buying from us to make sure that they keep us stable on the inventory levels. They are on a fairly low inventory level, but we don't expect that they will restock, but we don't see that they would destock further either. Another segment in the US that has been developing in Q1 fairly well and looks to be developing well going forward as well is the wind power segment.

In Europe, we also expect demand to be fairly stable. Don't see any huge changes going into Q2. We saw in Q1 that probably the end of Q1 was slightly more positive than the beginning, but no major changes effective for Q2. Segments in Europe that are doing fairly well is the automotive segment and also the heavy transport segment. As Martin pointed out, there has been trade barriers, both being decided upon, but also being filed or being considered. And our view is that for our two home markets, North America and Europe, we will start to see the impact of these trade barriers in Q2 onwards. That should mean that we, with a local production, will be better positioned to get offset for our production models.

Moving into high strengths steel and the special steel segments, we don't foresee there is any major change in the second quarter. In the first quarter we saw heavy transport construction machinery developing fairly well. We foresee that will happen in Q2 as well. While the mining segment, which has been on a lower level for a long time, we expect to be stable but still on a low level.

So all in all, adding this together, our view is that in Q2 we will see slightly higher shipments across the board, basically, and also given the price increase announcements we have made in North America, and given the price development in Europe, we will also see slightly higher prices in Q2 than Q1.

Martin Lindqvist

Thank you. So I think I covered most of this in the beginning, but it is so that these financing or refinancing package included – including the rights issue and also the bank package and other things will clearly strengthen SSAB and clearly strengthen our balance sheet. And as said, we will take away any potential – and I use the word potential – refinancing issues for the coming years from the company. And we will now fully focus on delivering on our strategic roadmap and make sure that we end up as the most profitable steel company having industry-leading profitability.

As said, the package is structured in this way: SEK5 billion in rights issue, supported by main owners, underwritten by banks; additional SEK5 billion in clear actions to reduce net debt up until end of 2017; divestment of non-core assets; free cash flow – and I will come back to that; and also comprehensive refinancing package. And we will look at this and look into the coming one and a half year, we are certain that we will reach our – at least reach our net debt target of 30% up until end of 2017.

Håkan Folin

Okay, looking then at the debt maturity profile, and as you see, we have two here on the slide. One is how it actually looks like after we finalise Q1, and one is how it will look pro forma after these refinancing activities have been completed. And if I start with the Q1, we have cash and backup facilities of around SEK11 billion; we have an average duration of 4.3 years, and we have a net gearing of 53%. It was 52% at the end of the year. It is fairly unchanged now at 53%.

We also have, what we call a buffer ratio. And this means how much cash and backup facilities do we have divided by rolling 12-month sales. And it is now at 20%. It's a fairly high level. And if you would exclude the commercial paper, it's at 14%. If we then look at, after we have completed this refinance package both then getting the rights issue completed and also moving the

majorities out in time that we have agreed upon with our lenders, we will have a fairly different structure here. We will have a similar sight actually over the cash and backup facilities, although more cash. We will have a duration of more than five years, instead of 4.3. We will have reduced our net gearing already by completing this down to 38%, and the buffer ratio I talked about before, if we exclude the CPs it will be increased up to 17%. Because in this plan we are lowering the level of CPs that we had. We got a lot of questions on the CPs after the Q4 result, and actually now, after Q1, we are almost at the same level as Q4, with similar interest rate, basically.

But in this plan we are reducing slightly on the CP side. What we are also doing, we are moving the –we are repaying some of the loans maturing in 2016, but we are especially moving mature dates from 2016, 2017 and 2018 to 2019, 2020 and onwards. If we looked at what we have maturing in the coming three years, after this refinancing is done, we will have SEK9 billion maturing the coming three years. And if we compare that with how it actually looks today, we have SEK16 billion. So it's a significant reduction of what we would need to refinance in the coming three years. And if we add together the lower amount of maturities in the coming three years, we have to gather that we will also have clearly more cash on the balance sheet, and the additional SEK5 billion in debt reduction that we are targeting that Martin just talked about, we will have no major refinancing needs in the coming three years.

Coming down to the terms of the rights issue, it will be with preferential subscription rights for existing shareholders. It will be class B shares only, and the amount is approximately SEK5 billion. The issue price and the subscription ratio will be determined at the AGM in May. And in terms of subscription and underwriting, as Martin said, Solidium and Industrivärden have committed to take the pro-rata share. On top of that we have also talked to some other owners where Robur and LKAB have said that they support this transaction and they will vote in favour at the AGM. And the remaining amount not taken by Industrivärden and Solidium for that we have an underwriting commitment from four global coordinators.

And in terms of timetable, we will announce the terms just before the AGM on 24th May. The AGM will be planned for 27th May. The subscription period for the shareholders will be from the beginning to the mid of June and then the plan is that right after midsummer and before people go on summer holiday, we will announce the result of this transaction.

Martin Lindqvist

Thank you, Håkan. So, what are we then going to do? This is an updated picture, with the target of cost savings, and as I said, the synergy programme will be finalised during this quarter and will be met. When it comes to the Ruukki construction, restructuring, all the actions are taken, and that will now, onwards, be seen in the P&L. What we call, selected efficiency investments, the PCI and the water treatment plants in Alabama done, up and running. Other cost measures, lowering cost position, Special Steel products and so on, are under implementation. We all have finalised, I think it was last Friday, all the workforce reduction negotiations, and now people will start to leave, and at the end of Q1, I think the reduction of manning was one – 1,500 or 1,600 people, so we will definitely not come under the target of 2,400 people. And when we look into this, we see the possibility to raise the target from SEK2.5 billion to SEK2.8 billion in structural cost savings, and we know that we will need – we will be at this full run rate, end of this year.

If we talk about opportunities to free up cash flow, I mean, the synergies in the structural cost savings will of course help us to improve EBITDA, and that will be of course helpful, very helpful in cash flow generation. As Håkan said, we will have a CAPEX this year of SEK1.5 billion, and for the coming years, we will be around SEK2 billion, and that should be compared to the total amount of depreciation and amortisation of SEK3.8 billion. And the reason for this being possible is that we have done all the big strategic investments, but also as a part of this combination, we are actually closing down production line that will require no further maintenance, of course. We are specialising lines, we are increasing sequence lengths and getting our [inaudible] running the machines in a better way, so that's why we can have CAPEX level of around SEK2billion for the coming years, compared to the depreciation and amortisation of almost SEK4 billion.

We see potential to continue to reduce working capital structurally. Work in progress, Finnish goods and so on, I would say mainly within inventories, and then of course a lower net debt will also help us to get down financial costs. So when we look at this, we see the clear possibility, with clear actions to get another SEK5 billion out of the balance sheet, up until the end of 2017, and as said, then clearly meets the target of a net gearing of 30%.

This is what we're going to focus on, this is what we always have focussed on, but this is what we are going to continue to focus on. The global markets were advanced high-strength steels and Q&T, where we, especially within Q&T, are the global leader. Our two important home markets, flat carbon steel and tubes in the Nordic region, where we today have a market share between 45% and 50%, so higher than before the combination with the two companies separate. And then in North America, where we today have a market share, within heavy plate of 25%, so we have been able to increase that market share as well.

When we look at the divisions, in special steel it's very much about accelerating growth through innovation, product and application development. One very important part will be the aftermarket, the new business unit, SSAB Services. We have currently 200 Hardox Wearparts globally. The target is to, within the coming years, double that amount of Hardox Wearparts, and will drive growth of Hardox steels, through that network. When we look at SSAB Europe, well, here we will see the big part of the structural – structurally lower costs, so at full run rate, end of this year, will be more than SEK1.5 billion, structurally lower costs in SSAB Europe. That will be beneficial. We have, as I said, since the combination, not only maintained market share, but actually been able to take market shares in the Nordic region. We see good possibilities with better delivery performance and shorter lead time, which is also a consequence of this combination to take further market shares. We have a number of very interesting steel products on the way to the market, Docol 1,700 and some other products within Automotive, and last week, at the Bauma Fair, we launched also a new product family for SSAB Europe, which was very well received among customers.

If we take the US, and we have talked about this before, if we benchmark the cost position, we are clearly not only the quality leader but also the cost leader. I think the – with the flexible production system, we should be that, and we have – we are very well positioned to take part of the growth or the rebound of the North American market, and especially if we see positive effects from trade barriers or damping measures, we will be very well situated to take part of that market.

Sustainability is an important part of SSAB, and it's actually our business model, because what we do, it's actually helping end users to reduce weight, increase payload, increase life length and reduce fuel consumption. And that's how we sell our steel and our steel products. So that is the sustainable offering, this is one good example of many, and I've said it many times before, but we typically – when we look into an application, we can typically double the life length, we can typically reduce the weight between 30% and 50%, and by that, then increase payload, reduce fuel consumption or a combination of that. We are, today, the most carbon dioxide steel producer – carbon-dioxide-effective steel producer in the world, in our mill in Luleå. After the PCI investment in Raahe, we are on par with Luleå, so we have, in that aspect, very good measures. In the US, we are 100% scrap based, we only use recycled materials, so that is important. But a couple of weeks ago, we launched a new project together with LKAB and Vattenfall, where are determined to look into the possibilities of produced iron without any carbon dioxide as a waste product. Today when you produce iron, you use iron ore and coal, and you get iron and carbon dioxide. We're looking at a new process, and it's not only theoretically possible, it's also possible in small scale development tests. You use hydrogen and then you would produce iron sponge and the residue would not be carbon dioxide, it would be water. We are now determined to look into this and try to make it in a full scale, cost competitive industrial project, and that project has been started a couple of weeks ago.

So, summing this up, integration: almost done. All the cost measures, to a large extent, done, will be seen. We are in a position now with this strengthening of the balance sheet with a combination of the rights issue and the refinancing package, and the actions we have – we'll take to strengthen the balance sheet with another SEK5 billion. We are in a very good position to 100% concentrate the organisation towards the strategic goals and to reach industry-leading profitability.

With that, Andreas, I guess there will be a lot of questions.

Q&A

Andreas Koch

We hope so. Let's start with a Q&A session, and we're now starting with the audience in Stockholm, I think Olof, you're the first one. Let's give Olaf a microphone.

Olof Grenmark

Olof Grenmark, ABG Sundal Collier. Coming back to this reduction programme then, of course. And you're talking about a second step to reduce the debt by SEK5 billion. Just to clarify, is that based on the market conditions now in the first quarter of 2016, or do you build in any kind of scenario into that debt reduction?

Martin Lindqvist

I mean, it's a couple of actions. It's also divestments on non-core assets, so we feel, with what we see, pretty confident or very confident that this is doable, but it's a combination of free cash flow from the operations, and that is due to synergies and cost-efficient measures coming through, and then it's also divestments on non-core assets.

Olof Grenmark
Fair enough. And you're talking about slight price increases and volumes now are going into the next quarters. I've learnt that slight, that's somewhere in between 0% and 5%, is that correct?

Martin Lindqvist
Maybe if we have a slightly broader definition of that.

Olof Grenmark
Thank you.

Andreas Koch
Oskar from Danske.

Oskar Lindström
Oskar Lindström from Danske Bank. I'd like to follow up on Olof's question there, regarding the SEK5 billion in debt reduction from cash flow and your own measures, maybe phrasing the question a little bit different. What's, sort of, the base year there? Is that cash flow level that you had in 2015 or –

Martin Lindqvist
No, but what we see, from now up until end of 2017, we will see addition SEK5 billion debt reduction, due to cash flow and divestment on non-core assets.

Oskar Lindström
Any, sort of, indication of how much in terms of non-core asset divestment would contribute to that?

Martin Lindqvist
We have clear plans and clear actions for that, but as said in total, and we communicate the total number is SEK5 billion.

Oskar Lindström
All right. All right. Thank you.

Andreas Koch
Hjalmar Ahlberg

Hjalmar Ahlberg
Another question on non-core divestments. Ruukki Construction is obviously one of the potential divestments. Is Tibnor also a potential divestment candidate?

Martin Lindqvist
As I said, the core business of SSAB is to produce and sell – or sell and produce steel, and that's what we do. And Tibnor is an important part of the European set-up so that is our way of, call it, keep a grip on – maybe that's the wrong wording but, to 'service', is a better word, the Nordic market for small and mid-size consumers with short delivery times, some extra services like it could be bending or whatever, servicing consumers that are not able to take deliveries directly from the mill so they need smaller packages or whatever. So I would say that Tibnor is more an integrated part of SSAB Europe and by that also part of the core business.

Hjalmar Ahlberg
Okay. And then a question on the results on Americas, which was quite good in my view. It was through some kind of lag effect or timing effect we have more benefit from close scrap prices than price increases, or is it some kind of sustainable level or even better level going into Q2?

Håkan Folin
Well as Martin said, for Q2 we have a done a number of price increases, which we believe will go through. On the other hand, what we have also probably seen is in the last months, scrap prices have gone up into Q2. So in fact if I will compare how we see

Europe compared to Americas, in Europe we see prices moving up and, yes, iron ore has moved some, but not to the same extent. If we see Americas, prices are also moving up, however at the same time we see scrap also moving up so there will still pressure on the margin, but we have increased prices more than what we have seen scrap move.

Speaker
Okay. And then just the last one on the new SEK300 million savings. Which business segment will that be in mostly or is it overall?

Martin Lindqvist
I would say it's on top of the synergies, and that we are running a programme. And I think I said it last time as well, when you run a programme you have internal ambitions, internal targets, then you have a level where you're certain that you will reach and that level, we're more than certain that we will reach, and that level you communicate. When we're into these programmes, you always find more things to do, and that's the case. I would say it is within the special steels, to a large extent, but it's also, I would say, in other divisions. But that is part of a process when you run it: you lose some but you win a lot and you find new ideas and new ways of working and then you see, 'Well, it's actually possible, it's possible to reach the target,' and that is what we have done.

Speaker
Thanks.

Andreas Koch
Johannes from Handelsbanken had a question.

Johannes Grunselius
Yes, Johannes Grunselius here, Handelsbanken. A question there on Americas. I mean, there is new trade cases now being, well, considered. When do you expect those to be fully implemented? And do you expect those, like this debate or – and this investigation to have an impact already, well, in coming weeks, in the short term?

Håkan Folin
It will take a while before they decide and then it will be, I think it's retroactive of 45 or 60 days.

Martin Lindqvist
160 days.

Håkan Folin
160 days, sorry. So – and it typically takes a number of months, but what you see typically, you see that people start to be a bit reluctant to import because they know if they import and continue to import they will be sitting there with the risk of those 160 days paying out penalties. You typically see, call it, a short-term effect, and then when it's decided you see a bigger effect. That has been at least in the case during the previous actions like this.

Johannes Grunselius
Really, all this will be a positive direct impact, but a few other countries involved in this investigation, that they are exporting to different countries in Europe – do you expect to see any kind of indirect effect here for your plate market in Europe?

Håkan Folin
Well, for standard plate maybe, and we are not really in the standard plate market in Europe so we have not thought so much about those effects.

Andreas Koch
Julian Beer from SEB, had a question.

Julian Beer
Thank you very much, good morning. With regard to the anti-dumping cases, European law-makers have been much more timid than their US counterparts; they're now setting punitive tariffs to dumping entities. Do you see any risk that that could mean volumes that have previously been directed at the US market will actually start flowing into Europe?

Martin Lindqvist
That will of course depend what the tariffs will be in US and the transport costs and so on but of course it could be a risk factor that, yes, for, in this case, standard plate.

Julian Beer
There's been a lot of focus in the UK on this specific issue, and the timid nature of the European tariffs. Do you see or hear from your contacts with Europe and others whether there could be a shift to a more aggressive move by European law-makers?

Martin Lindqvist
Well, I know for sure that EUROFER is in favour of that. I've not talked to the European law-makers so I can't really give you a good answer on that. I know that EUROFER is still working with a question and they think it could be more to be done.

Julian Beer
Okay. Last question on scrap. We've seen, or we saw last year, scrap really taking quite a long time to correct down in line with iron ore. This, we've seen particularly in the last two months, a very aggressive move up in scrap prices, in fact a larger per tonne contained steel move than iron ore. Has something fundamental happened to the supply of scrap, and how do you see the outlook for scrap pricing for the new couple of quarters?

Martin Lindqvist
I wouldn't say that something fundamentally has changed. And if we look at scrap collection and look at inventories before scrap collectors, I mean, ARS and whatever it is, I mean, those inventories are actually on a high level. So I wouldn't say that something fundamentally has changed, and my belief is still that the correlation between scrap and iron ore over time will be there, and we will see short ups and downs compared to that normal curve, so to say, so no. Then of course it depends on – with a strong US dollar, the export of scrap has not been that high the last one and a half years, so it will also of course depend on the strength of the US dollar because when you see a weak US dollar you typically see a lot of scrap export, especially from southern US out to Turkey and other parts of the world but that has not been visible the last, I would say, one, one and a half year. And I wouldn't – I don't know but I wouldn't think that we have seen a sharp increase in scrap export. I haven't heard that at least.

Julian Beer
Nucor said last night they expect scrap prices in the US to level off some time during Q2. Would you agree with such an interpretation?

Martin Lindqvist
I don't have a clear view on that but hopefully they are right.

Julian Beer
Thank you.

Andreas Koch
Any more questions here in Stockholm?

Speaker
Yes, a follow-up question. There's been quite a lot of talk about consolidation or structural changes, especially in the European steel industry – do you have any comment to that? What's your feeling about sort of the true sort of interest in actually doing something for the different parties in the steel market?

Martin Lindqvist
I can't really answer that question. My answer would be in the same way I've answered before. I think it's needed, I think it's positive, and I think hopefully, or I hope that something will happen. And something will most probably, I guess, happen with Riva because that is due for during May here. I can't see too many possibilities with Riva but there are a couple of natural possibilities that may or may not occur. Then of course I read the same trade press as you probably do and hear all the rumours, but I can assure you that we are not bidding for Riva or trying to be a consolidator in the European steel market.

Speaker
Thank you, that's reassuring.

Andreas Koch
Okay. Yeah, let's see if we have any questions over the phone. Just remember to please state one question at a time, operator, please.

Operator
Thank you. Ladies and gentlemen, if you haven't already and you want to ask a question, please could you press 01 on your phone keypad to enter the queue. And we will take the questions one by one and, as was mentioned, can you please limit it to one question per turn?

And we first go over to Alain Gabriel at Morgan Stanley. Please do go ahead – your line is open.

Alain Gabriel
Yes, good morning ladies and gentlemen. If I may go back to the Steel Americas part of the discussion and do you mind giving us more colour on what has driven this big uplift in EBITDA in Q1, given that prices have been down, it doesn't really benefit from the synergies with Ruuki, so what has really driven this big uplift versus Q4 and versus what the market has been expecting? Thank you.

Håkan Folin
I think there are two changes compared to Q4. You're right about prices that are still continuing down. On the other hand, we had a big decrease in scrap during the fourth quarter, which was impacting us in the first quarter. And then the second one, which is actually the larger one, I would say, is that we have clearly higher volumes in Americas than in Q4.

Alain Gabriel
Okay. Thank you.

Martin Lindqvist
And also, I mean, even though Americas is not part of the synergy programme as such, we are not – I mean we are of course driving other cost measures: we work a lot with these, what we call, internally the Six Sigma projects, and so we are also reducing the cost base in North America.

Alain Gabriel
All right, very clear, thanks.

Operator
We are now over to Robert Redin at Carnegie. Please go ahead Robert – your line is open.

Robert Redin
Yeah hi. So this is sort of a follow-up on that, on Americas, on the result and volumes there. You said the wind was looking good but what are you hearing from other key end-segments like, you know, yellow goods or contracting equipment or heavy transport, when you have discussions with them?

Martin Lindqvist
The biggest difference in Q1 compared to Q4 is that the destocking that we talked about, and I gave a prognosis how[?] many quarters ended during Q4, and the service centres started to replenish, and were not building up stocks but they were starting to buy again and, I would say, apparent and real demand from them were on the same level: that was one of the big changes. So low apparent demand and destocking amongst the service centres and that changed into Q1.

Robert Redin
Okay –

Martin Lindqvist
But apart from that, when we look at it overall with some ups and downs, I would say, we are seeing fairly stable underlying demand with some pluses and some minuses depending on segment.

Robert Redin
All right. I mean, because I saw the distributors, they were sort of selling 23% less plate in Q1 year-on year but okay then at least they were at the super low level in Q4 then?

Martin Lindqvist
And especially they were not replenishing any stocks so the stocks going into Q1 were very low.

Robert Redin
All right. Would you say you took market share in Q1 in terms of production in the US?

Martin Lindqvist
We haven't seen the statistics yet but during 2015 we took market share, yes.

Robert Redin
All right. Thanks.

Operator
We're now over to the line of Cedar Ekblom of Bank of America Merrill Lynch. Please go ahead Cedar, your line is open.

Cedar Ekblom
Thanks very much. Thanks for the call gentlemen. I've got one question just in terms of the size of the planned rights issue. If I look at net debt to EBITDA at the end of last year, which is about 7x, with the rights issue you're only going to get your net debt to EBITDA being dropped down to about 5.5x. I appreciate you have further debt reduction plans, but ultimately those will take some time to play out, so I just wonder in terms of the size of the rights issue that you decided on, was the decision to do not a larger rights issue a function of support from your major shareholders?

Martin Lindqvist
Well, I mean, net debt to EBITDA of course depends on the EBITDA. But with SEK5 billion in rights issue and then actions to get another SEK5 billion within one and a half year, we felt that we will be in line or below our net gearing target, so that was the main reason for doing the SEK5 billion. This will take away, as I said, the potential financing issue for the coming three to five years, so we felt that this was the way we wanted to do it.

Håkan Folin
And I think to add upon that, it's not only the debt reduction in itself, it's also the way we have moved the maturities out in time from 2016, 2017, 2018 to 2019 and onwards, which gives us basically very limited refinancing needs to come in three years. It's a combination of those three factors.

Cedar Ekblom
Okay. And if I could just have one follow-up question: in terms of the incremental SEK5 billion, you've obviously said diversions of non-core assets and other cash flow generation; could you give us a split in terms of what you expect to generate out of each one of those potential cash-generators? And when you say 'other cash flow generation' is that simply your working capital move, and what potential working capital unlock do you think you can deliver?

Martin Lindqvist
I would actually not give you any clear split about that but it is a combination of those things you're mentioning. And that's also why we are so clear about the investment level this year and the investment with the CAPEX level the coming years, and that would not have been possible without the combination then, and it is – and it's mainly an effect of the combination – of the specialising lines and closing production lines and so on. And so when we look into this, we are confident that we will be able to get those SEK5 billion, including then, say, some non-core assets but to give you an exact split, how much is working capital, how much is divestments and so on, I would prefer not to do that.

Cedar Ekblom
Okay. Thank you.

Operator
We're now over to the line of Carsten Riek at UBS. Please go ahead with your question, your line is now open.

Carsten Riek
Thank you very much. The first question I have is on specialty steel because you, also, you have shown a very strong performance in the first quarter. My question is: was it entirely volume driven or were there other components in there which I missed? That's the first question, the second follows soon.

Martin Lindqvist
I would say it was mainly volume-driven, then we see some effects on costs as well, but, as we've said, after Q4… In Q4, the apparent demand also in special steel was very, very low, and now in Q1 we have seen apparent demand being in line with underlying demand. So it was, I would say, mainly a volume, or to a very large extent, volumes, up 27% compared to Q4, but also some elements of cost measures and nothing on price.

Carsten Reik
Okay, thank you.

Håkan Folin
And maybe I'll add on that that we had an outage also in Q4 and obviously that we guided for SEK 130m in direct costs and then you also have under-absorption and so on so.

Martin Lindqvist
The volumes also give the effects, positive effects, on under-absorption of these costs.

Carsten Riek
Okay, that's helpful. The second question I have is on the rights issue and the net debt target. I was actually a bit disappointed that the net debt to equity target wasn't put lower than the 30%, because effectively you haven't reached the target by the underlying operations but you ask shareholders to step up here. So is the free cash flow target, going forwards – did it come down, or what changed, because you clearly got a help now from shareholders in driving down the net debt?

Håkan Folin
If I'm – I'm not sure if I understand the question correctly but I'll try to answer that and then you have to add if I was wrong. But as you saw, pro forma we will be down to 38% in net gearing, and we have the financial target of being around 30% but this was pro forma at the end of Q1 and this was not included in the additional SEK5 billion in net debt reduction that we also talked about. So when we have done that by the end of 2017 we will be lower than the 30%, which we have as our financial target.

Carsten Riek
Yeah. No, that's understood but you had it before even without the rights issue.

Håkan Folin
Yes.

Carsten Riek
So your original target was below 30% without getting extra equity from shareholders. So now you're getting extra equity, extra, let's say, cash from shareholders and you're now moving – you're not moving your net debt to equity target down, so operationally something must have changed: what actually has caused not to change this target further down?

Martin Lindqvist
We have not said that we will not change the target – we have not changed the target yet – and we are just using that as a comparison where we will end up. And we will end up below 30% if we change the net gearing target: that is another decision. Nothing has really changed. We have not – the only thing that happened, we have not changed the net gearing target, no.

Carsten Reik
Okay, understood. The other thing I had is on the disposals because SEK5 billion looks quite substantial. We know some of the assets which might be involved. Some others, of course we don't know. But is there a risk that some of the assets you might put on the disposal list could also lower your intangibles?

Håkan Folin
Not materially, no I wouldn't say that.

Carsten Reik
Okay, perfect, thank you very much.

Operator
We're now over to the line of James Gurry at Credit Suisse. Please go ahead, your line is open.

James Gurry
Thanks for taking my call. Just a couple of questions on the outlook. It's one question in two parts, I suppose, yeah related to the non-core assets. The construction division: it had lower results in this quarter; it might be one of the ones that I suspect that you'll look to sell in terms of the non-core assets; what do you think the outlook is for that business over the coming months?

And in terms of maintenance, it has impacted your steel results quite significantly in past years. Can you just outline maintenance plans for the rest of the year? Are they quite low, given that you've lowed the CAPEX forecast for this year, but just maintenance for the rest of the year and what is planned.

And let's say that steel prices do actually go significantly higher and profitability is very high, would you consider postponing the usual maintenance period that you have over the summer?

Martin Lindqvist
To start with the first question, what we see if you compare Q1 this year, because there is – in the construction business there is a strong seasonality, if you compare Q1 this year with Q1 last year, you see a better performance in Ruukki Construction even though volumes are much lower, so you start to see positive effects of the restructuring programme, and that will be seen now onwards. And what we are aiming for there is to take structurally down the costs of at least SEK200 million per year so... I mean, yes, there is a seasonality between Q4 and Q1, and Q1 is, in this business, always the weakest quarter, but if you compare Q1 to Q1 a better, or call it, lower losses this year compared to last year.

Håkan Folin
And in terms of the maintenance outages, we have a table in the report where you can see for the coming three quarters what the plan is – it's on page 4 or 5, fairly up front in the report. In short, we have – in Americas division we will have a mini outage in Mobile now in Q2 and we will have a larger one in Montpellier in Q4. In Europe, we will have the normal summer outages planned for a second and third quarter – second quarter. And then in special steels we will have the outage planned for the fourth quarter. We changed that actually in 2015, where we had always had the Oxelösund – the outage plan for, or performed in – during the summer period, but we moved it to Q4 in order to make sure that we could actually continue to deliver during what's normally a better period than the somewhat lower period towards year-end.

Martin Lindqvist
And then on the margin, of course, it's possible to change that a bit, on the margin, depending on market situation: that will of course be taken into account.

Andreas Koch
And maybe finally a comment on the maintenance CAPEX side, of course last year was a bit different as we had the relining on the blast furnace in Luleå: that's a big difference.

Martin Lindqvist
That will not be done in the coming 15 years.

Andreas Koch
So of course that added to the maintenance CAPEX last year.

James Gurry
Okay. Can I just follow up with one question then in relation to the rights issue? Just explain the dependence of the new bank facilities and the equity raise, and just clarify with, you know, you've got your 30% gearing target, are there any covenants being introduced into your financing package, going forward?

Håkan Folin
There is one covenant on the RCF facility, yes.

James Gurry
Are you able to tell us what it is?

Håkan Folin
It's net debt over equity of 60%. And as you can see, pro forma now – after doing this – we are right now at 53 pro forma, after doing this we will be at 38% on the same metric.

James Gurry
Okay.

Operator
Okay, we now go to the line of Kevin Heligard[?] of Goldman Sachs. Please do go ahead.

Kevin Hellegard
Hi there. I just wanted to check in a bit on pricing. If I currently see plate prices in the US around $6.45 per tonne and in Europe around $6.35 per tonne, how much of, like, announced price increases would be in that, in your view, and how much could yet be to come, just on the currently announced increases?

Martin Lindqvist
To be honest I can't really answer that question on the spot prices. I mean, there was a price increase announced earlier this week and that is obviously – probably not part of that. So I don't have that compared to spot prices. I only know it for SSAB and as said we have been announcing 100 bucks[?] for short term since beginning of Q2.

Kevin Hellegard
Okay. So that is, I guess, all still out there.

Håkan Folin
And also just remember of course they come gradually and some more into May's rather than April, but from May and June you should definitely see the new levels.

Kevin Hellegard
Thank you.

Operator
Okay, we're now over to Bastian Synagowitz at Deutsche Bank. Please go ahead, your line is open.

Bastian Synagowitz
Hi, good morning gentlemen. I've got three questions. Firstly, we are looking into the European landscape and there seems to be clearly a lot of momentum for a possible consolidational step, and you already said that you are not planning to be a consolidator, but how far would you be willing to get involved in this consultation in a passive way? In other words, are there any assets among your European plants which you would be willing to sell? I'll stop here before taking my next one.

Martin Lindqvist
Oh, but we are in the middle of finalising the consolidation move we did when we acquired Ruukki so we have our plates more than full in that aspect, so yeah that's what we are doing.

Bastian Synagowitz
Okay, very good. Now, my second question is on CAPEX, which will be obviously significantly below depreciation. In a very extreme scenario, how long could you run with a 2 billion CAPEX level without getting any negative impact on the equipment or product qualities?

Martin Lindqvist
No, but, I mean this – you need to remember this is due to the combination and the structure we have now in the production set-up. So we have been first of all closing a number of lines, the lowest performing lines and the older lines; we are specialising lines as well so you get up sequence length, and that, I mean, makes it possible to reduce CAPEX because you will have less portion[?] and stocks[?], and so I would say that these are things that structurally have changed because of the combination.

Bastian Synagowitz
Got it. So basically this is the sustainable CAPEX run rate level going forward and there are no further strategic CAPEX steps which you plan for the next, say, three to five years, or is there anything down the road?

Martin Lindqvist
It's impossible to answer that question of course. But what we know when it comes to CAPEX, we know that 2 billion, around 2 billion, is okay. Then of course if we would do something else, something strategically, that would change it. What I'm saying is that, I mean, to fulfil the strategy we have sufficient capacity when it comes to special steels and so on, so we have done, over the last couple of years, fairly big strategic investments into our plant. I mean we have built QL6 in Mobile and so on, QL7 in Borlänge and so on. We have done all the big, big ticket items so I don't see a big need for strategic CAPEX going forward.

Bastian Synagowitz
Okay, thank you. Now, my first question is on your financials line. Could you give us a bit of guidance how your net financials line would look like before and after the rights issue, also considering the other refinancing measures which you've done? In other words, would SEK150 million, which we have seen in the first quarter, be a good assumption as a quarterly run rate for the rest of the year, and how will this move once the rights issue and the other refinancing measures have been finalised?

Håkan Folin
The 150 for Q1 was positively impacted by this Eurobond transaction that we did, so excluding that it would rather be in line of SEK200 million. And I would say that for the coming – we will have – with the new refinancing we are doing – they are at market level obviously, which is slightly higher than what we had previously, but at the same time since we are reducing the overall net debt, that will enable us to lower the total financial costs anyway.

Bastian Synagowitz
Okay. And could you give us a rough guidance on how this would like?

Håkan Folin
I would say, no you should view Q1, if we clean it from that transaction of around SEK200 million and then adding slightly higher on the margin cost for the new facilities, on the other hand lower overall net debt, so financing costs for net debt.

Bastian Synagowitz
So financial costs basically staying around 200?

Håkan Folin
Yeah, or slightly below.

Bastian Synagowitz
Okay, perfect. Thank you.

Operator
That was the final question on the phones. Gentlemen, can I please pass it back to you for any closing comments?

Andreas Koch
Are there any last questions from the audience in Stockholm? If not, we will conclude this presentation and Q&A session. Thank you for participating.

Martin Lindqvist
Thank you very much.

Håkan Folin
Thank you very much.

Operator
This now concludes today's session. Thank you all very much for attending.