EVRAZ plc

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Speakers:
• Alexander Frolov
• Giacomo Baizini

MANAGEMENT DISCUSSION
Operator
Hi, good afternoon, everyone. Welcome to the EVRAZ H1 2016 Results Call. The call will be hosted by Alexander Frolov, CEO, and Giacomo Baizini, CFO. We will start with the presentation followed by Q&A.

[Operator Instructions]

Mr. Frolov, please go ahead with the presentation.

Alexander Frolov
First of all, thank you very much. Dear ladies and gentlemen, I would like to welcome you to our conference call to discuss financial and operating results for EVRAZ for the first half of 2016. I hope that you have had an opportunity to download the presentation, which is available on our website, evraz.com, as we will be following it during the call.

Traditionally, before I begin, I would like to remind everyone that the matter discussed on this call will include forward-looking statements that are subject to many factors, risks and uncertainties that are described in detail on the second page of the presentation. We undertake no obligation to update any forward-looking statements.

Giacomo Baizini joins me on this call today as you'll probably know EVRAZ CFO, Pavel Tatyanin, left the company in the July to pursue other opportunities. While we are in the process of executive search, Giacomo Baizini is our interim CFO.

Now let's turn to the presentation. And I now will begin by outlining key messaging of today's today presentation, following by strategic update and I will then turn the call over to Giacomo, he will go through the financial and operating results in detail, and provide an update on the targets for 2016.

Let us start with the key themes on slide five. In first half of 2016, we have clearly seen improvement in the steel market conditions, and supported by the environment driven by combination of Chinese government investment stimulus, low inventory levels and speculative activity on futures markets, which positively influenced EVRAZ's performance primarily in the second quarter. As a result, we have reported EBITDA of $577 million, a drop of 38% year-on-year reflects the negative effect of weak steel pricing in the beginning of the year.

Our coal business has demonstrated an outstanding result, growing its EBITDA almost 26%, and improving margin to H 40%, on the back of healthy demand and productivity improvements. We have continued the efforts to preserve our lowest cost producer position. We delivered $138 million of cost reductions in the first half of the 2016, and expect to reach $300 million of savings by the end of 2016.

I am also very pleased to say that we are very comfortable with our debt maturity profile. Having focused on refinancing and debt reduction, we have managed to extend duration of our debt and we are now comfortable to cover maturities of 2016 and 2017, in the free cash flow and committed credit facilities. So, the debt reduction remains to be our purpose.

Turning to slide six, EVRAZ continues to pursue a vertical integrated business model, therefore having low cost operations is extremely important for us. The significant progress in cash cost reduction that we demonstrate is a result of our continuous implementation of cost-cutting initiatives and rouble devaluation.

In the next slide as usual, I would like to draw your attention to health and safety. The Lost Time Injury Frequency Rate in first half of 2016 was 2.48 times, the growth of the frequency rate reflects our effort to improve reporting transparency, which resulted in an increase reporting of minor cases. Our strategic goal is to achieve and maintain Lost Time Injury Frequency Rate of less than one to and to have zero fatalities.

On slide eight, I would like just to make an update on the progress to achieve our strategic goals. Our first priority is customer focus. This year customer focus initiatives generated additional EBITDA of $46 million. In the local market, we can make great effort to provide flexible shipment terms and additional services and development, long-term relationships with our clients. Despite the [indiscernible] (04:54) in the Russian steel market and intense competition in long steel product, EVRAZ was able to sustain in its market share for almost all key products.

The market share for rails declined with no negative effect on volume as a competitor ramped up a mill in the first half of 2016. In overseas sales development, EVRAZ have increased export of rails by 45%, export of high quality premium slabs also surged by 70%. Commitment to our cost cutting initiatives and CapEx optimization remains the other top priority for the company.

Now, I will hand over this call to Giacomo Baizini for financial and performance update followed by an international update and 2016 outlook. Giacomo, please.

Giacomo Baizini

Thank you, Alexander. Hello, everyone. So I would like to start with an overview of our financial performance on page 10. Our EBITDA in first half of 2016 was $577 million, a 14% increase on the second half of 2015 mainly due to improved market conditions in the second quarter of 2016.

Our EBITDA margin also recovered 16.3% to the reporting period, as a result of the cost-efficiency measures, market initiatives and further weakness of ruble on average. Steel segment performance in the first half of 2016 comparatively worse market conditions than in the first half of 2015 given $382 million of EBITDA for the current reporting period.

The Coal segment on the other hand, benefited from healthy demand and productivity improvements, leading to an increase of EBITDA to $216 million.

Please now, turn to page 11, for our free cash flow. Starting from our first half 2016 EBITDA of $585 million we can look at our cash generation usage before arriving to our free cash flow of a $102 million. $27 million was the recent working capital due to a number of factors, income tax accrued was $67 million and this compares to the $99 million for the whole of 2015. And this is mostly due to the net effect of foreign exchange fluctuations on the debt of subsidiaries and currencies different from their functional currencies.

Social expenses of $12 million are in line with the figure for last year for the whole of the last year of $28 million. Interest and similar payments were $239 million, these are increasing as we refinance cheaper shorter term debt with more expensive longer term debts.

The CapEx of $200 million we will comment later. A final $8 million of proceeds from the small disposals of property, plant and equipment brings us to a $102 million free cash flow.

Now, please turn to page 12 for the use of this free cash flow. Net debt was $5,316 million on June 30, 2016 and shows a reduction from $5,439 million at beginning of the year. This was achieved mainly by the use of our $102 million of free cash flow to extinguish debt, but this was mitigated by the negative effect of ruble revaluation on our unswapped portion of ruble debt as well as the premium pace for repurchasing of outstanding bonds shown on the chart plus other changes in net debt.

Looking a little further back, we achieved the reduction in net debt of over $1.2 billion in the period beginning of 2014. However, our net leverage increased to 4.9 times on June 30, 2016, due to the reduction in our last 12 months EBITDA to $1,083 million. For this period, net leverage and maintenance covenants will not be tested, testing will resume starting with the reporting of the 2017 financial year.

Now, please turn to page 13 for discussion of our debt. As well as repayment debt from free cash flow, we also extended our maturity significantly with a number of transactions in the first half of 2016. We repurchased $744 million of 2017 and 2018 euro bonds on the market and these were refinanced with the ruble bond issue equivalence to approximately $221 million and a $500 million Eurobond issue. As a result of these efforts on our average maturity rose to above three years for the first time, but our average cost of borrowing also rose to approximately 7%.

Liquidity on 30 of June 2016, at $868 million would be sufficient to cover all debt maturities until 2018. Subsequent to the end of the reporting period on 1 of August, we recalled our 2017 Eurobonds at make whole redemption price further reducing 2017 maturities by approximately $180 million.

Now, please turn to page 14 for an overview of our CapEx. Thanks to the expensive reinvestment program over the last few years. EVRAZ now has a well invested asset base. In addition, over a 60% of our CapEx is normally in rubles, so we are also held by the effect of ruble devaluation. This has allowed us to reduce CapEx in the first half of 2016 to $200 million, which is a 20% reduction on CapEx compared to the first half of 2015. The target for the whole of 2016 is $375 million to $400 million, which compared to the spending in 2015 of $428 million. In 2016, we've largely complete the investment in upgrade, the steel making and large-diameter pipe product in North America. Currently, the only planned new investment is the construction plus [indiscernible] (11:36) NTMK. We expect cost of this $170 million in 2017 and 2018.

Let us now turn to the page 16 or the slide - for the first slide of the operational update.
Revenues from external sales of construction products declined 23% to $819 million compared to the first half of 2015. This was due to lower average prices and volumes, due to lower demand. You can also see here the effect of the marketing initiatives in relation to channel, beams, and angles which all showed an increase in sales volumes.

Now please, turn to page 17. Rail consumption in Russia, increased 34% to 525,000 tonnes in the first half of 2016, mainly through additional demand by Russian Railways. The majority of this increase was taken up by competitor, leaving shipments by EVRAZ to [indiscernible] (12:46) largely unchanged. At the same time, the rate of increase our export sales by 45% to 54,000 tonnes.

Now, please turn to page 18. Revenues from external sales of semi-finished products fell by 37% to $720 million in the first half of 2016 due to lower average prices and lower volumes. The volumes were affected by the plants stoppage of blast furnace number one in ZSMK in May, which reduced big iron production by 300,000 tonnes. As a result of management initiatives the export sales premium slabs increased by 70% to 458,000 tonnes.

Now, please turn to page 19. Our results in North America suffered from broadly weaker markets compared to the first half of 2015. This resulted in a 34% decline in sales revenue to $770 million. Flat-rolled product return to profitability, however cumulative products and rails continue to show difficulties.

Now please turn page 20. Overall revenues in the coal segment increased slightly in the first half 2016 to $544 million, this was driven mostly by an increase in total coal volumes of 9%. Management has been focusing on productivity increases including [indiscernible] (14:27) long wall repositionings and [indiscernible] (14:30). These efforts have led to the increase in mine volumes of coal.

Let us now turn to page 22 for summary outlook. EVRAZ expects its results to be affected by the positive dynamics in global steel markets. While the group does not anticipate significant improvement in Russian steel demand in the second half of 2016 due to moderate investment activity and economic environment, it anticipate the current steel prices will gradually increase to the average seen in 2015.

In the second half of 2016 the North American segment will likely experience headwinds from large volumes of dumped and subsidized large-diameter pipe imports into Canada which will extend into 2017-2018 should no trade remedies being put into place against unfairly traded large-diameter pipes from China and Japan this October.

In addition, results may be negatively impacted by delays in approvals of key large pipeline projects in the U.S. and Canada and continuing weak demand for rails. In the second half of 2016 EVRAZ expects coking coal concentrate prices to be supported by stable demand on the domestic market and key export destinations as well as the temporary high volatility rate coal deficit. [indiscernible] (15:57) continues to pursue customer focus and cost cutting initiatives. As a result, EVRAZ expects positive free cash flow and progress towards using that debt in absolute terms by the year end.

Thank you for listening. We're now ready to answer any questions.

Q&A

Operator
Hi, everyone. [Operator Instructions] [audio gap] (16:36-17:11) Seth Rosenfeld, please go ahead to ask your question.

<**Q - Seth Rosenfeld**>: Hi, Hello, this is Seth Rosenfeld with Jefferies. A couple of questions now looked for pricing, you mentioned that you could expect H2 prices to gradually increase for the average seen in 2015, can you just go into little bit more detail on what drives this level kind of confidence and how you expect perhaps an interplay between the domestic Russian market and the export market in the Southeast Asia, as being some of the offsets to get us there?

And then separately, can you just talk a bit about your kind of recognition of the year-to-date recovery in global prices within the P&L. And so like to get a bit of detail for whether or not some of the recent quality is yet to be seen in your average sales prices in the second half of this year, because of either contract structure or because of longer lead times to your deliveries? Thank you.

<**A - Alexander Vladimirovich Frolov**>: This is Alexander Frolov. Thank you for your question. Why we are kind of course the positive for both to the development of the market, it's because I believe that the price levels which we have seen in the beginning of the year are not sustainable prices for what majority of steel playing out globally, primarily in China. And let's say high spike, we should - we have seen in the second quarter, which was in a way unprecedented since 2008 has been furloughed by some correction in the market, but towards the end of the second quarter, but after that prices has started to increase again, so it leads us to a conclusion that it's not just very short-term thing, it would probably last for a longer term. At the same time, we are not saying that something has changed structurally in the industry, we still see a lot of over capacity, and we still believe that we should not, let's say, decrease our focus of cost cutting and keeping our cost production as always possible.

Regarding prices domestically and outside Russia. What we can say is that of course Russian prices are mostly following international prices. And, we have been able to increase our selling prices for construction steel in April and May, quite substantially with [indiscernible] (19:59) prices in line to the highest price we have seen let's say globally.

And, of course, since that kind of peak period, Russian prices are slugging down, they're still substantially high since the beginning of the year. And, we expect that some slugging down would continue for construction steel primarily because September-October is already going to be end of construction season and the seasonality price decrease it's the same which way basically see every year.

At the same time, there are some positive lagging effects on the pricing of our rails which we sell to Russian Railroads for example, because the prices are based on the formula and one of the variable since this formulate is a scrap price. And, basically that's why we expect some improvement in our selling price for rails in the third quarter and first quarter, just because the formula would affect earlier increase in the scrap prices.

So, otherwise, obviously, we would remain opportunistic trying to choose between exports and domestic sales depending on the price situation. And, we will try to maximize our margins, at the same time, of course keeping commitment with our clients, is basically what we have been doing, so we'll look at it.

<**Q - Seth Rosenfeld**>: Thank you very much. One quick follow-up. Outside of Russian rails, are there other products you would highlight where there is more of a lag effect to your ASP recognition given the rising prices you saw in Q2?

<**A - Alexander Vladimirovich Frolov**>: I think that rails is the best and has been most sizeable example.

<**Q - Seth Rosenfeld**>: Great. Thank you very much.

Operator
Oleg Petropavlovskiy. Please go ahead.

<**Q - Oleg Petropavlovskiy**>: Good evening, gentlemen. Thanks for the presentation. Several questions from me. First of all, in your cash flow statement, you are showing that you had $244 million of losses from derivatives. Could you please explain as how this works and what will happen next?

Also, I have a question on Raspadskaya. Today, there were news that you changed the ownership structure of this company. Do you plan any actions with this subsidiary? And also, what is progress on your other non-core assets [indiscernible] (23:16) than that? And my last question is about your second half steel products volume target? How many products, how many tonnes are you going to sell?

<**A - Alexander Vladimirovich Frolov**>: Yeah. Let me start this an example - let me start with your first question. We don't give any precise guidance, let's say tonnage wise. Just kind of general observation, we have had some scheduled maintenance in our blast furnaces in the first half of 2016, those in [indiscernible] (24:09). So, this should make a positive effect on our production volume for the second half. Regarding Raspadskaya deal, could you clarify your question, because I'm not sure that I have catch it precisely quite definitely.

<**A - Giacomo Carlo Baizini**>: Yeah, I think there were two parts to that, one was on the Raspadskaya, one was on the progress on non-core assets. Just to clarify on Raspadskaya, you mentioned an announcement, but could you be more specific?

<**Q - Oleg Petropavlovskiy**>: Well, my questions could be simplifies to, so that, are you planning to buy our Raspadskaya minority, so do something else with the remaining shares of this subsidiary?

<**A - Alexander Vladimirovich Frolov**>: No, there are no such plans. No.

<**A - Giacomo Carlo Baizini**>: Okay. And so let me then go back to your question on the loss from derivatives. So if you want more details, it's probably better to go offline. But basically, what is happening is there is the hedging on with the rouble bonds themselves and the hedging that goes with them and the way they're accounted for. So until relatively recently when we issued rouble bonds, we immediately swapped the vast majority of the principle and the interest payments for the duration of the bond. But because these were done on different entities, not always are we able to eliminate the effect of that on the account, so sometimes these two things get separated.

So, the effects on the - that you see in the cash flow statement is from the unwinding of these swaps as the bonds come to maturity.

<**Q - Oleg Petropavlovskiy**>: So, going forward we should not expect such losses or gains?

<**A - Giacomo Carlo Baizini**>: No. So, therefore no...

<**Q - Oleg Petropavlovskiy**>: I mean, in..

<**A - Giacomo Carlo Baizini**>: Yeah.

<**Q - Oleg Petropavlovskiy**>: ...in the second half.

<**A - Giacomo Carlo Baizini**>: Yeah, for two reasons. One, is that we have a much lower volume in general of rouble bonds that we have because as of June 30, we had in dollar terms just $500 million worth of all rouble bonds outstanding. And the other reason is that we did not swap our latest issue of rouble bonds. So, both the opening bonds...

<**Q - Oleg Petropavlovskiy**>: Okay, clear.

<**A - Giacomo Carlo Baizini**>: ...with rouble bond themselves and the amount of swap is less.

<**Q - Oleg Petropavlovskiy**>: Clear. And about M&A deals with your other non-core assets.

<**A - Alexander Vladimirovich Frolov**>: What is exactly your question? Sorry.

<**Q - Oleg Petropavlovskiy**>: I mean, what is the progress with high well than - and the other assets, you want to sell?

<**A - Alexander Vladimirovich Frolov**>: Well, first of all, heartfelt we are not planning to sell [indiscernible] (27:36) is under external management at the moment. So operations [indiscernible] (24:44) shutdown already last year and now external management is trying, let's say, either to sell the company in parts or liquidate. What will happen is not very clear, but we are not taking part in any of those processes and regarding, let's say, all the assets are - just again don't know what exactly you mean we don't have any major let's say disposals of that pipeline at the movement.

<**Q - Oleg Petropavlovskiy**>: Okay. Everything is clear. Thank you very much.

<**A - Alexander Vladimirovich Frolov**>: Thank you Oleg.

Operator
[indiscernible] (28:26) please go ahead.

<**Q**>: Hello, gentlemen, and thank you for the presentation. Three questions from my side, please. The first one is on your CapEx plans for 2017, so could you please provide your estimation and guidance for the next year and more specifically the structure if you could provide some highlights namely, maintenance and expansion and given that you're going to start construction of new blast furnace in - at the Russian assets.

The second question is on your expectations on the working capital movements for the second half of 2016, if you could provide the amounts of increase or decrease it will be very helpful. And third question is on your treasury shares, so could you please remind us what are your current plans regarding this year's treasury shares held on the balance sheet? Thanks.

<**A - Alexander Vladimirovich Frolov**>: Okay. So as an example, starting from your question about CapEx, I guess, that the most rational assumption would be to look at 2017 as similar to 2016 maintenance would probably remain in the same level. Though we think which happened in terms of the development, we will complete a construction of our large diameter pipe mainly with Canada and probably comparable amount of money would be spent on the new blast furnaces, [indiscernible] (30:18), which they are going to build here in 2017, 2018.

Regarding working capital, I'm not sure that we would be ready to give you any guidance straight away, because again we don't expect any extraordinary, let say, things happens there and we're strong and we're delight with our working capital on the other hand, it's obviously subject to let say price wells, which we'll see at end of the year and again we don't have any critical bond, let's say, to set exact numbers for such period in advance. Regarding preserve of the shares, we don't any specific plans, we just keep it on our balance sheet and we don't expect any particular or any specific action with the transactions.

<**Q**>: Okay. Thank you very much.

<**Q - Barry Lee Ehrlich**>: Hello?

Operator
[Operator Instructions] We have a question from Ehrlich Barry from Citibank.

<**Q - Barry Lee Ehrlich**>: Yes, hello, this is Barry Ehrlich, thank you very much for taking my question. I want to ask a little bit more detail on the inventories within different product lines, how they might have moved over the periods. Having noticed that your coking coal sales were up 9% in the period, you had much stronger growth in raw coking coal mine?

And so, I'm wondering, whether you've built some inventory in coking coal products and perhaps ran down some inventory in steel? I'm trying to get a sense of what sort of excess inventory that might be coming into the second half that might enable higher sales volumes in different product lines? Thank you.

<**A - Alexander Vladimirovich Frolov**>: Okay. Just maybe two splits around. First of all, from a managerial point of view, we're not getting - we don't expect taking major, let's say, stock exchange even though again

estimated production flow. We have sufficiently some demand of that, let's say, example of [indiscernible] (33:13-33:41).

<**A - Giacomo Carlo Baizini**>: Absolutely.

Operator
I believe our next question is from Stella Cridge from Barclays.

<**Q - Stella Cridge**>: Hi, there, and good afternoon and many thanks for the call. I had one question about M statement, which was in the press release, and it was talking about the renegotiation of covenants with the banks, and it said that as part of the agreement it was subject to compliance with certain additional restrictions on indebtedness and dividends, I was just wondering if you could give us a bit more information about those and what those additional restrictions are? Many thanks.

<**A - Giacomo Carlo Baizini**>: Yeah. Can you hear me? Yes, so the additional restriction, well, I guess the main additional restriction is limit on net debt to $ 6 billion until the covenants holiday, let's say until the testing resumes at the end of 2017.

<**Q - Stella Cridge**>: Okay. Super and anything on the dividend say, specifically?

<**A - Giacomo Carlo Baizini**>: Pardon.

<**Q - Stella Cridge**>: Anything on the dividend then.

<**A - Giacomo Carlo Baizini**>: there are also restrictions on dividends.

<**Q - Stella Cridge**>: Is that perhaps linked to net debt or is it really to the cash flow or some kind of metric?

<**A - Giacomo Carlo Baizini**>: That is linked to basically until we again return to testing, then we would not able to pay dividends.

<**Q - Stella Cridge>:** Understood. Okay, thank you very much.

<**A - Giacomo Carlo Baizini**>: If you want to get really details. If we want to we can voluntarily go back to the previous levels of testing and able to pay dividends earlier, but not a scenario that we're look at the moment.

<**Q - Stella Cridge**>: Okay, and then I remember from previous calls the dividends sorry and the net debt covenant was something around 4% or 4.5%. Is that the kind of level that you would have to get to before you could go back to the old regime?

<**A - Giacomo Carlo Baizini**>: Yes, I mean currently the covenants will return to a level of five times at the end of 2017 and then 4.5% in the middle at the end of 2017 and 4.5% in the middle of 2018.

<**Q - Stella Cridge**>: Okay, that's it super. Many thanks.

Operator
Follow up question from Oleg Petropavlovskiy.

<**Q - Oleg Petropavlovskiy**>: No sorry, nothing from me. I forgot to mute it.

Operator
Not a problem. [Operator Instructions].

<**Q - Andrew I. Jones**>: Hello, This is Andrew Jones could you hear me?

<**A - Giacomo Carlo Baizini**>: Yes.

<**Q - Andrew I. Jones**>: Excellent, I just wanted to clarify on the covenants point. I mean a suspended for three semiannual periods from the first half of 2016. Does that mean the usuals basically be able to test covenants some

time in 2018 in the earliest, based upon the full 2017 financial year, is that the earliest number that will be about full year 2017 figure or right about that long?

<**A - Giacomo Carlo Baizini**>: That is correct. In actual tax and I mean again getting into more details, but I guess perhaps to be factually accurate. We're talking about the net leverage covenant, there is an actual impact on the interest cover ratio. There is one outstanding facility that has an interest cover ratio of 1.5 times, but generally I don't mention that, because we're always very comfortably above that.

<**Q - Andrew I. Jones**>: Okay. So, that's - so basically the 2017 financial year tested in 2018, practically net debt-to-EBITDA in 2017 based on the testing at the start of 2018 need to be divide by guidance and [indiscernible] (38:45).

<**A - Giacomo Carlo Baizini**>: All right.

<**Q - Andrew I. Jones**>: Yeah. That's it. Thank you.

Operator
[Operator Instructions] Do we have a follow up question from Stella Cridge?

<**Q - Stella Cridge**>: No, I just have un-muted myself [indiscernible] (39:25).

Operator
No problem.

<**Q - Barry Lee Ehrlich>:** This is Barry Ehrlich from Citibank. I have a follow-up question. Can I go ahead?

Operator
Please do.

<**A - Alexander Vladimirovich Frolov**>: Yeah. Please go ahead.

<**Q - Barry Lee Ehrlich**>: Yes.

<**Q**>: Hi. This is [indiscernible] (39:39) Securities. You expect second half of the year to be better, would you mind providing maybe a guidance for the full 2016, in terms of EBITDA that you may expect? And the second question, I didn't hear the answer about Raspadskaya is one of the all participants asked earlier. Would you mind commenting on that Raspadskaya situation, is there change in ownership? Thank you.

<**A - Alexander Vladimirovich Frolov**>: So, in regards to guide - the EBITDA guidance, we don't give any EBITDA guidance for the year, sorry about that.

In terms of Raspadskaya, change of ownership, the answer that we gave is that there are no current plans to change or to do anything about the Raspadskaya minorities.

<**Q**>: All right. Thank you so much.

Operator
Barry Ehrlich, please go ahead.

<**Q - Barry Lee Ehrlich**>: Yes. Two questions. When is, the current - if you look at the first half, what amount of let's say slab or billet did you not produce that you could have? And what's preventing you from increasing production sales to that higher level given that - it's clear that your costs are well below at least benchmark our export slab and billet prices?

<**A - Giacomo Carlo Baizini**>: Yeah. Sorry. So to clarify your question, you are saying, where we fully or putting it another way, where we fully utilized in steel making in the first half of 2016.

<**Q - Barry Lee Ehrlich**>: And yeah, what was the unutilized portion in tonnage?

<**A - Alexander Vladimirovich Frolov**>: We - so, it's very simple. We have been fully utilized in our steel making and again, it's in a production of semi solar products.

<**A - Giacomo Carlo Baizini**>: Yeah. So, we're talking about Russia now.

<**A - Alexander Vladimirovich Frolov**>: Yeah.

<**A - Giacomo Carlo Baizini**>: We were not fully utilized in North America.

<**A - Alexander Vladimirovich Frolov**>: North America is a slightly different story but in Russia and Ukraine we will 100% utilize.

<**Q - Barry Lee Ehrlich**>: And is there a cost argument for bringing up utilization in North America, given current slab in bill prices?

<**A - Alexander Vladimirovich Frolov**>: Well, first of all our North American business is not a business where we sell semi-finished product, they're basically in the high value-added stuff like whatever large diameter pipes putting on rails [indiscernible] (42:24) in the worst case. So, the possibility is to increase productions there unfortunately all are limited by the market size. And of course, we are trying to produce as much as we can but we are below full utilization.

<**Q - Barry Lee Ehrlich**>: And so, can you just explain, I'm sorry maybe I missing something, but why as you showed in slide 18, and the sales volumes from the CIS operations is flat that they are down by about 200,000 tonnes year-over-year?

<**A - Giacomo Carlo Baizini**>: Yeah. We mentioned that a couple of times, we had a blast furnace or two blast furnace maintenance in the first half of 2016. So, as you see the total volumes, so if you look at the bottom left of page 18. First of all the volumes are down by about 200,000 tonnes of [indiscernible] (43:22-43:37) where you see -where you see the slabs coming down, billets going up. Basically, we have a choice in the fees or rather we have a bottleneck, but in the steel production or rather we have more capacity to use slabs and billets, then we have capacity to produce steel.

So, depending on the marketing conditions, we can switch the steel that we produce to a certain extent in between slab and billets, and that has what happened, and that's the difference you see between the first half of 2015 and the first half of 2016. So, depending on the attractiveness of the relative markets, we will produce more - one or more of the other, but the total is constraint by the - by the steel production.

I hope, that was clear. But if it was not, I mean, we're always happy to meet and go through that.

<**Q - Barry Lee Ehrlich**>: Okay.

<**A - Alexander Vladimirovich Frolov**>: Any further questions?

<**A - Giacomo Carlo Baizini**>: Operator, is there any further questions?

Operator
There are no further questions. Please go ahead and conclude the call.

Alexander Vladimirovich Frolov
Okay. If you don't have any questions, I would like to thank everybody who was on the call with us today, and we will be more than welcome to have you on our next result presentation, which will be in 2017. Thank you very much.

Giacomo Baizini
Thank you.