# EVRAZ plc

# H1 2017 financial results conference call
# 10 August 2017

## Speakers:
• Alexander Frolov
• Nikolay Ivanov

## MANAGEMENT DISCUSSION

## Operator
Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to today's EVRAZ First Half 2017 Financial Results Conference Call. At this time, all participants are in listen-only mode. There will be a presentation followed by the question-and-answer session. [Operator Instructions] I must advise you that today's conference is being recorded today, Thursday, 10th of August, 2017.

I would now like to hand the conference over for your first speaker today, Alexander Frolov. Please go ahead, sir.

## Alexander Frolov
Thank you. Dear ladies and gentlemen, I would like to welcome you to our conference call to discuss financial and operating results of EVRAZ for the first half of 2017. I hope that you had an opportunity to download the presentations that 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 and detailed on the second page of the presentation. We undertake no obligation to update any forward-looking statements.

Today, on this call, I'm being joined by our CFO, Nikolay Ivanov, and now let's turn to the slides. I will begin by outlining key messages of today's presentation, followed by an update on our strategic priorities. I will then turn the call over to Nikolay. He will go through financial and operating results in detail and provide an update on targets for year 2017.

So, please turn to slide 5. EVRAZ demonstrated a strong performance in the first half of 2017 while the global steel industry continues to improve. Majority of the market movements were driven by intensive capacity reduction in China. Steel and coal prices grew and remained quite strong. Overall, thanks to favourable market conditions and EVRAZ's improvement initiatives, we delivered strong financial results. EBITDA almost doubled year-on-year and reached $1.152 billion. An additional effect of $111 million was realized through our two main improvement initiatives: cost-cutting programs and customer focus.

Debt reduction remains of paramount importance for us and we are now at much strong position than a year ago. I'm very pleased to say that EVRAZ was able to reduce net debt by $0.5 billion with net leverage coming down to 2.0x. We also generated solid free cash flow of $549 million in the first half of 2017. After a comprehensive review of EVRAZ's financial situation and based on the fact that free cash flow we have generated during the last 12 months was about $1.1 billion, the board of directors recommended an interim dividend of $0.30 per share, totalling $429.6 million.

On the next slide, I'd like to emphasize that our basic priority which does not depend on the market conditions is safety. We deeply regret that five fatalities have happened in the first half of this year. We continue working with every employee to deliver our goal of zero incidence. In this reporting period, HSE initiatives that focus on the safety conversations programme as well as on developing of standard operating procedure for Top-10 key risk areas in each workshop.

Turning to slide 7, EVRAZ continues to pursue a vertically integrated business model, therefore having low-cost operations is extremely important to us. In this reporting period, however, our cash cost has demonstrated growth due to rouble appreciation as well as raw material price surge.

Slide 8, the key points to be emphasized here are delivery on our commitments. In 2017, EVRAZ's strategic priorities remains the same, to focus on the business's sustainability, develop the product portfolio, retain a low-cost position, make prudent CAPEX investments, and reduce debt.

Customer-focused sales and product development policies are the key to sustain market leadership in infrastructure steel products and expand EVRAZ international presence. This year, customer-focused initiatives generated additional EBITDA of $48 million. In the local market, group is focused on increasing the demand for beams and structural products, providing additional services and building long-term relationship with the clients.

The Russian steel market saw positive trends over the period, though competition in long products remains high. Despite of that, EVRAZ retained its strong domestic position and kept its market shares. One important factor to mention here, as well, is that EVRAZ has signed a memorandum for a new long-term rails supply contract with Russian Railways. The efficiency programme generated $63 million of additional EBITDA during the period through yield improvements, supply chain management, general and administrative expenses reductions and numerous projects to optimize operations.

EVRAZ invested $130 million in development CAPEX in the first half of 2017 with four main projects in progress. We focused on the construction on a blast furnace no. 7 at EVRAZ NTMK to maintain pig iron production volumes in the plant. The project is on track to be launched at the end of the year. The steelmaking upgrade and new large-diameter pipe mill projects in Regina, Canada were ramping up during the period and clients already benefiting from the increased capacity and improved products quality. EVRAZ has also started major construction works for the new ball mill project at EVRAZ NTMK. We are going to remain prudent with our CAPEX expenditure with a focus on product portfolio development as well as the improvement of our low cost position.

So despite the significant progress we made with our debt reduction, we will continue bringing our debts further down. So to finish, we believe that the full-year results will be supported by the positive market trends on the global steel market. We believe that Russian steel demand will improve in the second half of the year and domestic prices will follow a global path. North American steel demand is also projected to remain strong. All these expectations provide a positive outlook for the second half of the year.

Now, I will hand over this call to Nikolay Ivanov for financial performance update. So, Nikolay, please.

## Nikolay Ivanov

Thank you, Alexander, and good afternoon everybody. There's a couple of things that I would like to touch on today's presentation. First of all, I would like to say that we demonstrated very good results in the first half of 2017, supported by the positive market sentiment and our efficiency measures that we continue to implement. Secondly, we were able to deliver strong positive free cash flow and demonstrated an ongoing discipline in debt reduction.

Our maturity profile has improved significantly and our EBITDA almost doubled year-on-year, and we were able to reach our net leverage targets.

On slide 10, I would like to start with an overview of our financial performance which has significantly improved over the year. Our half-year EBITDA demonstrated almost 100% increase, mainly due to higher coal and steel prices, as well as numerous improvement initiatives in the first half of 2017. Our EBITDA margin recovered to 22.6% in the reporting period.

Strong performance of the Steel segment in the first half of 2017 was mainly attributable to higher revenues from sales of steel products which rose by 52% year-on-year, largely due to an upturn in average sale prices. EBITDA demonstrated an increase of 38% year-on-year and besides favorable market conditions was also impacted by cost-cutting initiatives implemented in the first half of 2017.

The Coal segment benefited from high prices, healthy demand and productivity improvements. EBITDA tripled year-on-year and reached $659 million. The Steel, North America segment EBITDA reached $14 million and was impacted by higher scrap prices which were partially offset by increased revenues from railway products and flat-rolled product sales.

Moving to slide 11. Our free cash flow for this reporting period remained quite strong, $549 million, and allow us to reduce our debt by another significant amount of $518 million. Net cash flow from operating activities amounted to $746 million in the first half of 2017, affected by cash outflow for working capital financing.

Changes in the working capital are largely explained by an increase in inventories of finished goods and raw material in the U.S. and Canada, which was driven by greater output in response to positive market sentiment regarding OCTG and rails.

Moving to the next slide, slide number 12, Alexander has already elaborated on our CAPEX and key projects. So, I will not stop on this slide for too long. In the first half of 2017, the EVRAZ's capital expenditures increased to $289 million, compared to $200 million in the first half of 2016, primarily due to the stronger rouble exchange rate against the dollar. 55% was spent on maintenance, 31% was invested in our Steel segment, and 14% was invested into our North American business where we made good progress with 2 projects in Regina in Canada. In total, EVRAZ invested $130 million in development CAPEX in first half 2017 and expects to spend another $141 million in the second half.

Going to slide 13, I would like to discuss our maturity profile and refinancing initiatives undertaken in the first half of 2017, which allowed us to reduce total debt by another $392 million. The main points here are the following: we have repaid tranches of its $500 million syndicated pre-export financing facility due in 2017 in aggregate amount of $110 million, decreasing outstanding principal under this facility to $270 million. In March, we have issued $750 million Eurobonds due in 2023 with a 5.375% coupon. The proceeds from the issue were used to fund the tender offer for the Eurobond due in 2018 and 2020. In May, EVRAZ North America called $345 million of its 7.5% senior secured notes due in 2019.

In the view of the abovementioned and other activities, our maturity profile is in a very good shape now, only $23 million maturing this year and just $472 million in 2018. Our average maturity rose to 3.5 years and our average cost of borrowing decreased to 6.7%. Liquidity remains solid with $1,285 million in cash and cash equivalents. And they're also in full compliance with all our financial covenants.

The next slide provides a vivid picture of our continuous focus on debt reduction. Net debt was reduced to $4.3 billion in the reporting period. Due to EBITDA growth and continuous debt reduction, we also improved our major leverage metric, which decreased significantly during the first half of 2017 to 2.0 times compared with 3.1 times at the beginning of the year. In the last three years, our net debt was reduced by $1.8 billion.

On slide 15, we summed up technical details of the dividend payment timetable for your convenience. What I would like to say, it's a real pleasure for me to announce that EVRAZ reinstate dividend payments. Our results are very strong, the outlook for the year is rather positive, plus we have clearly achieved our target of 2.0 times in the net leverage metric and have been greatly reduced net debt and improving maturity profile significantly.

With this, I would like to thank you for listening to our presentation. We have a few slides on our operational performance served in the presentation, which we decided not to talk through but instead give you more time for your questions. And now, we are ready to take your question.

# Q&A

**Operator**
Thank you. [Operator Instructions] The first question comes from the line of Gakku Omarova. Please ask your question.

<Q>: Excuse me for the wrong dialing. I have no question. Thank you.

**Operator**
The next question comes from the line of Alex Collins. Please ask your question.

<**Q - Alex Collins** >: Hi. Thanks for the presentation. I actually have a number of questions. I'm just going to ask them all at once. So, the first question, so you've resumed dividend payments. I was just wondering how you were looking at these payments going forward. Will there be a formal dividend policy, for example, timing it to EBITDA or cash flow, or will this be looked at in the context of leverage? That's my first question.

My second question, I've seen some Bloomberg headlines about further asset sales. I believe Yuzhkoks, which I think is in the coal division. I was just wondering if you had any further detail on that one?

Looking at working capital, obviously we saw an outflow in H1 and I'm just wondering what trends you were seeing in H2 and what we should be modeling this?

And then my final question, in the financial statements, you note that you prepaid some bank maturities after the reporting date. And I was just wondering if you could explain to us which the maturity split of these repayments, i.e., which bank that is now no longer needing to come due. Those are my questions. Thanks.

<**A - Alexander Frolov**>: Okay. So, it's Alexander Frolov. I will try to answer the first two questions, Nikolay Ivanov will continue. So, speaking about dividend policy, I think it is on the agenda of EVRAZ's board. However, it will probably take a little bit longer time for the board to decide what sort of policy will be the most relevant for our financial situation.

And you correctly said debt reduction is - remains our first priority. And again, future cash flows would be primarily used for the develeraging. So, then speaking about Yuzhkoks, it's a coke plant, which is located in Ukraine. It's not part of the coal business. This company is using some of EVRAZ's coal, but it's not more than 50% of the LSF fee. They buy the rest from the market. So, that's why we don't think that this asset is critical for our value chain.

So, we have been considering disposal of it for some period of time. We see now some opportunities to dispose, but I'm not prepared to give any further details at the moment. We would prefer, let' say, to come to the market with this information when the deal is finalised. So, then on the working capital....

<**A - Nikolay Ivanov**>: Okay. With regards to the working capital, yes, you're right. There was some negative change in the working capital in the first half of 2017, and as I said, it was explained primarily by the increase in inventories in North America. And this was driven by the output expansion in the view of a positive market for OCTG and rails primarily. We also have a slight increase in inventories in Russia, mainly on the back of high raw material prices.

As for the second half of 2017 forecast, I assume that you have known the significant changes in the price for the key commodities and for key products. We believe that the working capital will remain in the same area. So, we do not expect any worsening or any changes in the working capital.

And could you please repeat your final question?

< **Q - Alex Collins** >: Yeah. So, my final question was, in the financial statements, you note that you prepaid about $300 million of bank maturities in H2 already. I'm just wondering if you could tell us which years you've prepaid or how that $300 million falls between, say, 2018, 2019, et cetera?

<**A - Nikolay Ivanov**>: Yes. Okay. Got you. Yes. The bank loans that we prepaid relates to the years 2018 and 2019. And the key growth for such prepayments was a refinancing of the expensive bank loans. So, we got the better terms on the new loans with regards to the interest expense right now.

< **Q - Alex Collins** >: Okay. That's excellent, excellent color. Thanks. Thanks very much.

**Operator**
Thank you. The next question comes from the line of Dmitry Nikonov. Please ask your question.

< **Q - Dmitry Nikonov** >: Hello, everybody. Alexander and Nikolay, thank you for the presentation. Well, I got a couple of questions about your further bond issuance plans, if there are any? And so, what are the plans for the new issue structure? So, will the new bonds be guaranteed by EVRAZ Group S.A. or EVRAZ Plc or issued from these entities? And how are we going to overcome the structural subordination if the bond is issued from EVRAZ Plc level? Thank you.

<**A - Nikolay Ivanov**>: Yes. It's Nikolay. We don't have any specific plans for any new bond issuance. If you look at our maturity profile, which is on slide 13 of our presentation, you can see that we have no debts to repay this year and very little debt to pay next year related to the Eurobonds.

Looking in the year 2019, you also can see that the majority of the debt we need to repay is a bank debt. So, the first significant outflow really related to the Eurobonds is 2020. So, currently, we are not planning any activities for refinancing the bonds.

< **Q - Dmitry Nikonov** >: Okay. Thank you.

**Operator**
Thank you. The next question comes from the line of Vahe Ovasapyan. Please ask your question.

<**Q - Vahe Ovasapyan>:** Hi, Alexander and Nikolay. Thank you all for the presentation. I have a few questions. You want me to ask one by one or altogether?

<**A - Alexander Frolov**>: You can ask all together.

<**Q - Vahe Ovasapyan**>: Yeah. Sure. So, the first - yeah. The first question is pretty much technical but just I wanted to understand. So if we use your income tax expenses and financial statement, which account to like for most of profit before tax, definitely I believe this will not be the normal rate. I just want to ask why it came substantially higher year-over-year or what do you think should be the normal? And last thing is what do you think will be the normal tax rate for EVRAZ?

The second question is about interest payments in interest expenses in financial statement. If analyse interest expenses and divide by gross debts which you have on the balance sheet. It will be higher than cost of borrowings which you showed in the presentation on page number 13 of 6.7 percentage. So, I just want to understand how do we need to see and view the total interest charges, effective cost of borrowings that we need to use in our analysis?

And also want to ask two questions to Alexander about to continue to talk about dividends and the next one is about general strategic view on the company regarding to dividends. You say Alexander that the reduction of net debt is the key priority. Yet, if I'm not mistaken, I saw in the press release that you are comfortable with the current net debt-to-EBITDA level of 2 times. Can I understand do you see that if net debt-to-EBITDA remains 2 times, the company will be able to continue to pay more free cash flow as dividends? Could we use this as a key assumption?

And the last one about strategic view on the company. If you will take aside your Ukrainian assets, do we understand correctly that you think that you mostly optimized asset portfolio, so we do not need to assume any potential further sale of assets? That's it from my side.

<**A – Nikolay Ivanov**>: Okay. Let me start. So, the first - your first question was on income tax expenses. Let me try to answer it. First thing you need to take into account is that our income tax expense was significantly impacted in the first half of 2017 with the transaction on the sale of Nakhodka Trade Sea Port. On this transaction alone,

we accrued the income tax equal to slightly more than $60 million. So, that's one of the things that needs to be taken on the account.

Speaking about our regular activities. We operate in different jurisdictions like Russia, United States, Canada, Ukraine, et cetera. And even operating in the same jurisdictions, we are operating through a number, a multiple number of both different legal entities. So, if such happens in the first half of 2017 that the majority of taxable income regenerated was in Russian Federation. So, for this particular taxable income, the tax rate on average is 20%. So, if you need more detailed reconciliation, I will be happy to provide it offline. But there is no other unusual things here.

With regards to the interest expense, another thing you need to take into account here, I don't know if you took into account or not, but let me say is that we pay a significant premium in the repurchase of bonds, on the tender for bonds which we made in March of this year. So, that is a one-off that needs to be taken off from the consideration. As for the rest, it just tendered interest expense. There might be some small other costs there related to the repayment of debt, but they are not significant. So, 6.7% is our current cost of borrowings. We believe that it's going to be - will start to decrease later this year and in 2018.

<**A - Alexander Frolov** >: Okay. Let me continue. Just to answer your last question. First, regarding net optimization, you could assume that no any major disposals are planned. So, we believe that current configuration is solid enough and provide material synergies itself for the entire portfolio. Speaking about dividends and assumptions, you need to make about further cash distribution… What I could say is that even though our current net debt-to-EBITDA ratio is 2.0 or something, it does not mean that for longer-term, our last 12 months EBITDA is under no risk. Because even though we are quite positive about second half, it does not mean that there is no problems in steel industry, because our capacity still remains in place and the markets remain very much dependent on the situation in China.

And if now, the Chinese are trying to reduce production volume of the steel based on concerns with ecological situation. Again, what would be the impact of continuation of that in two years' time, we don't know. That's why we believe that it's not only a ratio but also absolute number of debt is important. And I would say is current 4.3 is a little bit on high side. And just to finalize all what I was saying, what it means for me that each time when we make a reporting, whether it's full-year or semi-annual, the board would carefully consider let's say how to use the free cash flow. And we will try to find an optimal distribution between the needs of the company for capital expenditures, debt reduction, and dividend to the shareholders.

<**Q - Vahe Ovasapyan**>: Alexander and Nikolay, thanks a lot.

**Operator**
Thank you. The next question comes from the line of Barry Ehrlich. Please ask your question.

<**Q - Barry Ehrlich**>: Yes. Hello. And thank you for the presentation and opportunity to ask question. So, I do have a number of questions. First, can you clarify what you mean by positive outlook for the second half if you're comparing it to any particular period, on what metric or just a general statement about the health of the market?

On slide 22, you show your coal product sales which sell year-over-year and also with flat half-over-half and you mentioned the sales volume sale on logistics constraints. Can you help us understand whether we'll see that low sales volume in the second half and what was it and maybe give us - maybe remind us what your guidance was for production during the year.

And then my next question is about, also about whether there has been any damage from the flooding that affected your shipments or any of your infrastructure? And finally, the Regina mill upgrades that are supposed to be completed this year, when will they be available? And do you expect there to be demand to run those new capacities and what might be the contribution from them? Thank you.

<**A - Alexander Frolov**>: Okay. Alexander Frolov. Let me try to answer your questions. I would probably regroup it in a slightly different order. So, first of all, starting with logistic constraints, we are primarily speaking about shipments of coking coal, and so as constraints are basically linked with good situations and high prices of the coal because as you know, demand in Russia remains stable. But at the same time all – major coal producers in Russia, based on good market conditions, they're trying to increase their shipments and Far East is one of the most top destinations because basically China is buying a lot of coal and there is no problem to sell if we have material; at least, I mean, for this period of time.

So, that's why everyone basically rushed, I mean to ship to Far East. And at the same time, capacity of railroad is limited. That's why again we have been facing let's say strong competition with other coal supply to Far East, and essentially reflected to slightly lower shipments which we have been expecting.

I think the situation is improving. Recently, we are basically shipping almost as much as we can and as we want. Talking about recent flooding, it's probably a little bit difficult to say because all shipments has been suspended for the period of few days. Most likely, everything will restart very, very shortly.

At the same time, we should not forget that normally July, August, and September are the months when a lot of maintenance are done by the railroads and it also make some pressure on the volumes which the railroad could get through.

So, speaking about our confidence, in the second half. First of all, just to remind you is that our export sales we are booking ahead of time. And basically we are now sold for good portion of September production. So, the month which we did not yet - when we don't have confirmed prices only for the fourth quarter of this year. And price dynamics is very positive on iron ore, on coking coal, on steel at the same time. And basically, from my experience, this is actually a good signal for, I'm not saying long-term but short-term goals. And we also see a lot of signals from China market, where serious ecological measures has been announced. And for example, what we see in particular for EVRAZ, for example, import of vanadium slag to China has been fully suspended just a month ago, which again makes a good, positive impact on vanadium prices. And again, we think that similar situation will be around steel export, at least short-term.

Then speaking about our reconstruction in Regina, I guess that we have done there almost all the work. The only missing point there is installation of vacuum degasser, which will take place quite soon. So speaking about impact on our profitability, I can't give you simple numbers right now. The only thing what I could say is that all operational targets, cost-cutting targets of those projects are on the way, almost achieved. It will probably take another few months to get them up to full amount. So, basically we are quite positive with all what we have done there. And just one other thing which is important, that this revamping allows us to provide a wide range of - large-diameter pipes to our clients and this is actually very good thing for us to win more orders and this is important under current market environment.

<**Q - Barry Ehrlich**>: Okay. Great. Thank you.

**Operator**
Thank you. The next question comes from the line of Andrew Jones. Please ask your question.

<**Q - Andrew Jones**>: Hi, gents, I just have a few questions. First of all in the North American division, EBITDA was obviously still very low in the first half. So, clearly you're seeing a turnaround in OCTG pipe markets in terms of an available CAPEX from the big companies and so forth. I mean, when can we - when do you believe that we can start to see a sort of normalization and profitability in that business?

And could you give us any guidance ahead of the second half about potentially volumes or what you sort of expect in terms of maybe sort of EBITDA per tonne or something like that to give us an idea if we're going to see any improvement in the second half. And also a couple of other questions on the disposal of Sukha Balka. You had an initial $25 million down payment on that but you were talking about the deal being sort of adjusted due to working capital over and debt adjustments. How much do you expect to receive in cash as of net of any cost in the second half of that deal? And also on this coking plants in Ukraine. I know you can't give us any details about potential price, but can you give us some details about the division itself? I mean, how much EBITDA did that generate in 2016, so we can have an idea for how variable balance that potentially could be?

And then just finally on the interest payments. You mentioned that some of the interest cost we saw in the first half related to this one-off cost that you paid to repay the debt? I mean is it, just to clarify, on a 6.7% interest rate, is it fair to say that your interest payments going forward could be in the region about $370 million a year on that basis? Is that as of normalized level in terms of what you see now, excluding any one-offs? Thanks a lot.

<**A - Alexander Frolov**>: Okay. Thank you for your questions. Let me answer all your questions about Ukraine. So, disposal of Sukha Balka; I think that the total consideration which we are going to receive for this asset is $109 million. And we don't have any doubts as we've all cash in the second half of 2017. So speaking above Yzhkoks, I don't think that EBITDA of 2016 could you give any real feel about what sort of valuation should be

used for this asset because if I'm not mistaken, EBITDA was below $10 million. But at the same time, it does not mean that there are no buyers in the market for whom amount of synergies might be very substantial and might lead to the price which will be interesting for us. And as I said, we have some ideas in mind and we believe that we would be able to realize them within a relatively short period of time.

So, then coming back to North American operations, you correctly mentioned that OCTG market is booming. We are basically running full capacity with an increasing our prices every quarter of this year. We are fully sold until the end of the year. At the same time, situation around rails is not, it has improved as well, but it is not so good as it was before. And rail volumes we are going to sell this year, they are well in line with our budget. But at the same time, below 2015 and 2014 for example. So, we see improvement, but it's coming a little bit slow.

Then also some uncertainty remains around large-diameter pipe situation. Because if you have probably heard, there was a lot of speculation whether Canadian large-diameter pipes, which we produced would be really welcome in the U.S. market or let's say, everything which is used in the United States must be produced in the United States.

We need a little bit more time to understand how the situation will develop. So, that's why it's a little bit difficult to give any sort of firm forecast what the numbers we will have for North American operations, and what sort of EBITDA or margin it would have, so it's too premature. And even though, normally, we do not even give such forecast as our practice.

<**Q - Andrew Jones**>: Yeah. Okay. Fair enough. And on the interest cost?

<**A – Nikolay Ivanov**>: And on the interest costs, again, the amount of slightly than more than $50 million is the premium that we pay in the first half of 2017, on earlier repurchasing of the bonds which mature in 2018 and 2020. And also on repayment of $345 million of senior secured note. So, those losses in the amount of $51 million, are reflected in a separate line of our statement of operations under the line loss on financial assets and liabilities. And this amount is not taken into account when they calculate the average cost of borrowing of 6.7%.

As for the approximation of what the costs interest expense might be in the next year. Again, it's a more complex situation because - again, as I've said, we are not planning to repeat the tender or we're not planning at this point of time to repeat the tender with the bond of the year 2017 or 2018. So, I do not expect we will see this additional except in the near future.

A good indication of what the - a fair interest rate for us is, again, the latest bond issue that we have in March. We received a record low of 5.375% interest rate. And the rates - the terms we are receiving right now, the quotes, we are receiving right now for the bank they even better than that.

<**Q - Andrew Jones**>: Okay. Thank you. Just on that interest value; just looking at the $230 million of interest costs we report in the income statement. Based on the average debt level, just between the year-end or even the current value, that's implying sort of over an 8% sort of average rate, we say - are there any forex or kind of - all those one-off impacts in that or...?

<**A – Nikolay Ivanov**>: I see what- yeah, I see what you're asking. In terms of the interest expense related to the eternal debt, there's other things here which I mentioned. So, it's the small charges and it's also the interest related to our pension liabilities and similar-type of liabilities which also reflects in this slide. So, it's just not viewed as just expense-related to external debt; the bond and bank. That's why probably here you're seeing a slightly higher number than 6.7%.

<**Q - Andrew Jones**>: Yeah. Okay. Makes sense. Thank you.

**Operator**
Thank you. [Operator Instructions] The question comes from the line of George Buzhenitsa. Please ask your question.

<**Q - George Buzhenitsa>:** Good evening, gentlemen, and thank you for the opportunity. I can see you've raised your CAPEX guidance for 2017, which I believe, to an extent, is attributable to rouble strengthening. Assuming similar rouble for the next year, where do you see your CAPEX in 2018?

<**A - Alexander Frolov**>: I think it's a little bit premature to say or as the simplest assumption it would be on the same level, even though we don't have detailed picture yet. Just to remind you the largest project we have which we're working on now, it is blast furnace no. 7 in Nizhniy Tagil, which will be launched at the end of this year. So, basically, most of the CAPEX will be spent already this year. And for 2018, I don't think that we don't - we have any major development project to be financed.

<**Q - George Buzhenitsa**>: Thank you.

**Operator**
Thank you. The next question comes from the line of Barry Ehrlich. Please ask your question.

<**Q - Barry Ehrlich**>: Yes, apologies. If you've mentioned this already, but can you just specify what is the new CAPEX guidance? And can you provide us any details on projects you just mentioned, the blast furnace no. 7, how - when you believe that will begin operating? And any other updates on it? Thank you.

<**A - Alexander Frolov**>: I would say, with guidance, it would be $600 million as a kind of round number. Then the second question, could you repeat it? I did not quite catch it. Sorry.

<**Q - Barry Ehrlich**>: Yes. When exactly do you expect the blast furnace no. 7 to be operating?

<**A - Alexander Frolov**>: The end of this year.

<**Q - Barry Ehrlich**>: Okay. Great. Thank you.

**Operator**
Thank you. [Operator Instructions] The question comes from the line of Andrew Jones. Please ask your question.

<**Q - Andrew Jones**>: Hi, gents. Just another question on some second half guidance. In Russia, could you give us some sort of idea on volume guidance for the full year? Because obviously we had some blast furnace downtime and so forth in the first half. Volumes were maybe a bit light than usual.

Could you again maybe give us some idea that potentially the finished product sales you expect in the second half? And maybe if some sort of forecast on crude steel output. Could you give us some sort of guidance on volumes in the main steel division? Thank you.

<**A - Nikolay Ivanov**>: Yes, this is Nikolay. We believe that the overall volume of steel sales this year will be similar to the level of 2016, maybe slightly above of this level.

<**Q - Andrew Jones**>: Thank you.

**Operator**
Thank you. [Operator Instructions] Dear speakers, there are no further questions at this time. Please continue.

**Irina Bakhturina**
Okay. So, if there are no further questions, I would like to thank everyone who dialled in for this call and management for participation. If you have any further questions, please feel free to contact Investor Relations.

Have a good day.

**Operator**
That does conclude our conference for today. Thank you for participating. You may all disconnect. Have a nice day.

**Alexander Vladimirovich Frolov**
Thank you.

**Nikolay Ivanov**
Thank you.

# Disclaimer