

H1 2021 Financial Results conference call transcript

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Speakers:

Alexander Frolov, Chief Executive Officer

Nikolay Ivanov, Chief Financial Officer

OPERATOR

Good day and welcome to the EVRAZ H1 2021 financial results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to the Chief Executive Officer Alexander Frolov. Please, go ahead.

ALEXANDER FROLOV, CEO

Well, thank you very much. Good afternoon, ladies and gentlemen, thank you for joining us to hear about EVRAZ H1 2021 results. On this call today Nikolay Ivanov and myself will be guiding you through our presentation and answering your questions. I will briefly discuss the key market trends and walk through the Company's highlights.

Let's start with Slide five. In the reported period, both iron ore and coking coal prices spike to new heights, the demand especially from China remains solid. At the same time availability of both products on the sport market was limited, price increased for steelmaking inputs quickly, translated into semi-finished steel and final product prices. We witness health demand levels across the markets where the Company operates. Price differential between slab and billets (inaudible) as global economy gradually opens up after COVID-19 by them.

Slide six illustrates financial results for H1 of the year, revenue increased by 24% to US\$6.2 billion, EBITDA almost doubled to US\$2.1 billion, and EBITDA margin improved to 34%. Even better results on cash side. Despite higher CAPEX and working capital outflow, our free cash flow reached US\$836 million. We prudently managed our debt position, with some reduction of debt and refinancing efforts, leading to net debt to EBITDA ratio one, a comfortable level for the Company. This set of results allowed to the Board of Directors to distribute US\$802 million of dividends or 55 US cents per share.

Now moving to the next slide on safety, which is our core value. Regretfully, I have to report that we have lost six people in H1 of this year. Root causes of the fatalities have been thoroughly investigated and corrective measures were introduced to mitigate future risks. Our loss time injury frequency rate is now on the level 1.16x, and it is well below our internal target of 1.36x. We are currently rolling more tools to prevent the incidents across the Company as part of our risk management project.

More on strategy execution. Next Slide eight. Just a reminder, we have a few pillars that we constantly monitor. Local position in the industry, product portfolio and customers and, on financial side - debt, CAPEX and dividends. I'm glad to report that our cost cutting projects helped us to save US\$82 million, customer driven initiatives improved profitability by US\$174 million. We kept CAPEX and leverage in check and were able to distribute almost US\$700 million of dividends during H1 2021.

Looking forward into H2 of the year. Iron ore and coking coal prices will continue to stay on the elevated levels, while steel prices can cool off somewhat on the back of first, some demand weakening, following rapid growth in H1 of the year. Secondly, Chinese government efforts to bring, like they say, unreasonable commodity prices to the lower levels. Overall, market conditions remain supportive to Company profits, as we speak. In terms of investment projects our focus in H2 of this year will be on the construction of the new long rail mill in North America and on the upgrade of the rail and beam mill in Nizhny Tagil.

On a separate note, I would like to comment a few other matters that are not part of this presentation. We have made progress with the demerger of our coal business, and confirm our intention to complete transaction by the end of the year, subject to receiving all necessary approvals, of course. Further details will be announced later in due course.

And the few words about announcements that were made today: construction of a new vanadium plant. The main idea of this project is to build a new vanadium oxide processing unit. The plant is designed using the best available technologies in line with EVRAZ environmental strategy for 2030. The development of vanadium production in Tula region will increase, let's say, our integration level, we will create new jobs and we will decrease our processing costs. With that, I turn the floor over to Nikolay. Thank you.

NIKOLAY IVANOV, CFO

Well, thank you, Alexander. And good afternoon. I am on Slide 11 of the presentation.

In H1 2021, we reported EBITDA of almost US\$2.1 billion as compared to 1.1 billion in the first six months of 2020. The increase was primarily attributable to higher steel, vanadium and coal product sales prices, as well as better sales of flat-rolled steel products, resulting from improving market demand in North America. In Steel segment revenues rose by 34% year-on-year to US\$4.6 billion; higher prices for construction, semi-finished products and vanadium almost doubled the Steel segment's EBITDA, despite increasing cost of sales. EBITDA of the segment amounted to US\$1.8 billion in H1 2021. In Coal, revenues rose by 6.4% year-on-year, US\$2.8 billion, mainly due to a decline in coal product sales volumes by 7.7%, which was partly offset by a 14.1% increase in sale prices. EBITDA rose 57% year-on-year and amounted to US\$342 million. Our Steel North America segment revenues decrease by 5.4% year-on-year and the amounted US\$1 billion. However, EBITDA increased driven by a significant reduction of cost of sales, which more than offset the marginal decrease in revenues. EBITDA of the segment amounted to US\$53 million in H1 2021.

Turning your attention to free cash flow on Slide 12. In the reporting period, we were able to deliver a strong free cash flow of US\$836 million, an increase of 165% year-on-year. Free cash flow generation was supported by EBITDA growth, however, was partly offset by working capital outflow, as well as increase in capital expenditures in H1 2021.

Moving to the next slide. Slide 13. Efficiency and cost-cutting remain a primary focus for us. We continued to implement our efficiency improvement program, which is a performance system that aims to generate and implement initiatives with an annual EBITDA effect of at least 3% from the cost of goods sold. EBITDA effect from cost-cutting initiatives totalled US\$82 million in the first six months of 2021. We also remained committed to executing our project with the aim to improve our product portfolio, as well as to enhance our efforts in supply and logistic functions. In H1 2021 the customer focus program generated an EBITDA effect of US\$174 million.

Moving to the next slides, and CAPEX. During the reporting period, EVRAZ capital expenditures rose by 27.6% to US\$430 million, comparing to the US\$337 million last year. And that's even by high development expenses. Out of US\$430 million, US\$258 million were spent on development projects and the rest on maintenance. We continue to implement our main investment projects. In Russia, EVRAZ NTMK continued the design work for the upgrade of the rail and beam mill and started initial construction. In June, EVRAZ returned to the discussion about integrated slab casting and rolling facility at EVRAZ ZSMK. We are currently reviewing the options for this project and will make a final decision on resuming its implementation later. In North America, EVRAZ Pueblo new long rail mill project continued according to schedule. The general contractor for the construction and installation work has been selected. Looking to full year 2021, our CAPEX target is in the area of US\$1 billion.

To the next slide. Slide 15. In the reporting period, we started our debt management efforts with the repayment of capital markets maturity coming due in the first quarter of 2021. In January, we repaid at maturity US\$735 million in outstanding principal of its Eurobonds due in 2021 and in March, we repaid at maturity of RUB15,000 million in outstanding principal of its ruble-denominated bonds due in 2021. Also in June, we repurchased US\$40 million in outstanding principal of our Eurobonds due in 2022.

Talking about our efforts with the bank debt, in February, EVRAZ ZSMK signed a new US\$200 million credit facility with SberBank. Late in March, it used US\$67 million of the available funds. Also in March, to compensate for the reduction in liquidity, withdrew US\$750 million under the committed syndicated facility that is signed with a group of international banks in early 2020. Additionally, EVRAZ NTMK and EVRAZ ZSMK repaid a total of around US\$517 million of the outstanding bank debt in varying maturity.

During H1 2021, we successfully continued preparation for the potential demerger of our coal assets. We obtained necessary credit approvals, including Eurobond consent solicitation from the majority of holders of its Eurobonds due in 2022, 2023 and 2024. It is also should be noted that Rapsadskaya took a US\$200 million long-term loan with Alfa Bank and a US\$200 million long-term loan with SberBank with the interest rate linked to certain ESG metrics. As a result of this action, as well as scheduled repayments of bank loans in H1 2021, our total debt fell by US\$307 million to US\$0.7 billion as of June 30, 2021. And net debt dropped by US\$95 million, with US\$3.2 billion compared to US\$3.3 billion at the beginning of the year. Interest expense amounted to US\$108 million during the period compared with US\$147 million in H1 2020.

Repayment of the Eurobonds due in 2021 and RUB bonds due in 2021, which had high coupon rates, together with the management's efforts to reduce total debt and refinance indebtedness on favourable terms led to a significant reduction of interest expense compared with the prior year. Additionally, the high EBITDA amid a strong market recovery and lower net debt resulted in a significant reduction of our major leverage metrics. The ratio of net debt to the last 12M EBITDA is at 1.0 as of the end of the year, as of the end of six-month period. As of June 30, 2021, cash and cash equivalents amounted to US\$1.4 billion, while short-term loans and the current portion of long debt amounted to US\$536 million. Cash balances and committed credit facilities available comfortably cover upcoming debt maturities.

Moving to Slide 16. As Alexander mentioned, on August 4, 2021, the Board approved an interim dividend in the total amount of US\$802 million, 55 US cents per share, to be paid on September 10, 2021. With this, I would like to thank you for listening to the presentation. As usual, a few more slides on our operational performance and then on ESG which we decided not to talk through but give you more time for your questions. And now we are ready to your question. Thank you.

OPERATOR

[Operator instructions]. And our first question we'll hear from Dan Shaw with Morgan Stanley.

DAN SHAW, MORGAN STANLEY

Hi, thanks for the presentation. Just a couple of questions from me, both on the same theme. Firstly, how do you see the European carbon board adjustment mechanism potentially impact to your steel business going forward? And secondly, following on from that, does the demerger of the coal assets give the steel business more freedom, if you like to pursue a carbon reduction across your portfolio, and what might some of your plans be in that regard? Thank you.

ALEXANDER FROLOV, CEO

In terms of carbon border taxation, I don't think that EVRAZ will have a direct impact because of that, the reason being that we do not explore too much material directly to Europe. On the other hand, these measures may influence steel flows that may also create impact on the other markets where we are more present. But we need more time to understand that bottom. In terms of demerger, I believe that, even though, let's say, splitting coal with the steel business would allow us let's say to address CO2 emissions more precisely for each segment of the business. But at the same time, I guess the potential for reduction is strong on both sides. And even to some extent, it's stronger on the coal side. If I speak about the emissions, which go in line with the production namely (inaudible) because we have a lot of opportunities, let's say, to capture it and utilize, which we are not doing at the moment. I guess this would lead to significant reduction of greenhouse, not exactly CO2 emission from the coal business. Making the story short, I guess that two different strategies, but there is potential on both sides to reduce greenhouse gas emissions.

DAN SHAW, MORGAN STANLEY

Thank you very much.

OPERATOR

We'll move on to our next question. We'll hear from Yuriy Vlasov with Sova Capital.

YURIY VLASOV, SOVA CAPITAL

Thank you. Quick number crunching exercise, you reported that your cash cost on intergrated basis is under US\$300 a tonne, I believe US\$285 or so. At this level, highly hypothetically, will it be more profitable for you to convert more material for the domestic market? Or will you have an issue a rerolling this extra volumes and selling it on the domestic market? Thank you.

ALEXANDER FROLOV, CEO

I think the situation is the following. It's very simple. Our rolling capacities are utilized fully, so that's why even we would want, we will not be able to provide more material for the domestic market. We just have as much as we can. And demand is quite healthy, even though we're seeing that decrease in our segments and mainly construction demand has some seasonality. So, we may see some cooling of the market towards the end of the year.

YURIY VLASOV, SOVA CAPITAL

Many thanks. And one follow-up. If we look at Expo, even with new export taxes that kicks in at the beginning of August, I believe you highly profitable if from, if we look at a slab exports.

ALEXANDER FROLOV, CEO

I think you are right. Even though slab prices have gone down in comparison with comparison to billet prices recently. Yes, slab is more favourable scale to export.

YURIY VLASOV, SOVA CAPITAL

Okay, many thanks, and congratulations for good results.

OPERATOR

Next we'll move to Nikolay Sosnovskiy with Prosperity Capital Management.

NIKOLAY SOSNOVSKIY, PROSPERITY CAPITAL MANAGEMENT

Thanks for the opportunity. I have three questions. First of all, it's on additional taxation that was introduced just recently. We know the numbers for H2 of this year, but maybe you could share your view on what could happen in January 2022. What could be the long-term implications, whether the state might introduce this excessive profit taxation and in the longer run? Or if prices go down, this will solve the problem automatically. What's your view on this additional taxation potential?

ALEXANDER FROLOV, CEO

Well, I guess the answer to this question is we don't know anything, which would not be publicly known.

NIKOLAY SOSNOVSKIY, PROSPERITY CAPITAL MANAGEMENT

And just currently, the previous step was made out of the blue and companies were not aware largely that these changes are coming, but this time is around for these longer term changes. Are these respective ministries, you know, working with companies, or they do their work kind of on their sides and companies are not involved?

ALEXANDER FROLOV, CEO

Again, my, at least, it's my understanding and just take this into consideration, that currently they do the internal work. We, of course, expect there will be some discussion about potential changes, and the companies will be involved in that discussion. But we will see, I guess, it will not happen before September–October.

NIKOLAY SOSNOVSKIY, PROSPERUTY CAPITAL MANAGEMENT

Thanks. My second question is also based on the first one, in case there is, just hypothetically, once again, in case there is a mechanism introduced by the state, which urges companies to spend more on CAPEX and, you know, making dividends less favourable, would EVRAZ be ready to materially increase CAPEX and add more projects to its pipeline to avoid this additional taxation.

ALEXANDER FROLOV, CEO

I guess it's a hypothetical question. What I could say is that we always have a number of projects, which we are investigating as potential investment opportunities. In case it would be more favourable to deploy capital on the investment side, I guess we will be ready for that, at least in terms of that we don't have a lack of ideas. On the other hand, again, I would rather prefer to wait and see what would actually happen and what kind of measures would be finally proposed.

NIKOLAY SOSNOVSKIY, PROSPERUTY CAPITAL MANAGEMENT

But just hypothetically, do you have a long line of potential projects or in addition to what is known to the market or not really, and that's to be worked to produce this project?

ALEXANDER FROLOV, CEO

For sure, we have some, again, early stage. And again, no commitment. But again, as the list of ideas, we have quite an extensive list to work on, for sure.

NIKOLAY SOSNOVSKIY, PROSPERUTY CAPITAL MANAGEMENT

Okay, thanks. And my last question, I just wanted to clarify one thing on this on this Rospadskaya demerger. I know you've mentioned it, during the call, but in your press release dated April 15, 2021 there is the paragraph stating that the company intends for a mechanism to be made available to EVRAZ shareholders providing them with the opportunity to sell for cash, the shares. And, also that the Company's intention is that such mechanism will not be dependent on funding from post demerger. EVRAZ Group Steel and its major shareholders leave basically a couple of options: either, another big shareholder comes potentially buying shares from Rospadskaya shareholders who would not want to hold them or the Company itself can announce a buyback to collect this shares from this unwilling shareholders. Can you maybe clarify this statement for us in order to understand what did you mean really by saying this?

ALEXANDER FROLOV, CEO

I guess the statement you just quoted remains 100% valid. On the other hand, we are not yet ready to release further details; we just need a little bit more time for that. And we don't want to come out with kind of semi-final propositions.

NIKOLAY SOSNOVSKIY, PROSPERITY CAPITAL MANAGEMENT

But is it just something technical that has to be done or there are some conceptual for those, and the deal might not go through due to some conceptual complications?

ALEXANDER FROLOV, CEO

No, as I said, we are pretty confident that demerger will take place by the end of the year.

NIKOLAY SOSNOVSKIY, PROSPERITY CAPITAL MANAGEMENT

Okay, super, many thanks for your detailed answers.

OPERATOR

Next, we'll move to Boris Sinitsyn with VTB Capital.

BORIS SINITSYN, VTB CAPITAL

Thanks, congratulations on very good results for H1. A few questions from my side, please. Firstly, on coal dividend. I think you have the guidance for 2021 of 25 million tonnes of coal mining volumes run of mine. Do you reiterate it? This is the first question. And follow-up for this. What is the expected coal sales volumes for this year given some issues with logistics.

ALEXANDER FROLOV, CEO

I think that we prefer not to give, let's say, guidance for the future. One thing we expect that, let's say, the risks which we currently have in production, mainly in Rapsadskaya mine and to some extent at Esaulskaya mine those risks will be mitigated. Because of that, we expect that there will be some catch up on production volumes in H2 of the year. In terms of transportation, you're absolutely right, unfortunately. But on the other hand, it's probably the same situation every year. Summertime is not the best time for transporting material, mainly because Russian railroads use this time for their regular maintenance. And that's why the ability to get materials through is less than it would be for the rest of the year. But again, I think that we don't see any kind of major impact of transportation as much on our ability to ship ourselves.

BORIS SINITSYN, VTB CAPITAL

Okay, thanks, this clear. My second question is also on coal. I think you mentioned in press release that you try to increase spot sales of coal to China. The question is, what was your share of Chinese spot sales in H1 of this year? And what is probably your feasible target share of sales to China?

ALEXANDER FROLOV, CEO

I think that our policy is to have 80% to 20% split, meaning 80% long-term contracts and 20% spot, I guess, for the H1 of the year, share of spot, which in a way means China, was a little lower than that with the target to catch up in H2.

BORIS SINITSYN, VTB CAPITAL

Yeah, thank you. Follow up on this. Did I understand you correctly that all your spot sales to export are basically China.

ALEXANDER FROLOV, CEO

Absolutely.

BORIS SINITSYN, VTB CAPITAL

Okay, thank you so much for this. And my last question is on your few recently announced projects. Firstly, on vanadium plant and I think there was a comment in media about Timir iron ore project. The question is, does your CAPEX guidance of US\$1 billion per annum until 2023 include these two projects?

ALEXANDER FROLOV, CEO

Well, I guess that Tula project would not make any major, let's say, contribution to our overall CAPEX. That's why we don't expect that because of that our guidance should be changed. It remains. Timir, of course, is not there, even though, as I said this morning on the conference call with the media, that we come back to this project, and we have started some more active work on developing it. It's too early to speak about the timing, the potential spending.

BORIS SINITSYN, VTB CAPITAL

Okay, thank you very much. That's clear. This is all from my side.

OPERATOR

We'll move to Nina Dergunova with Goldman Sachs.

NINA DERGUNOVA, GOLDMAN SACHS

Ladies and gentlemen, thank you very much for presentation. I have just a few questions from my side. Well, first, can you please advise on what's your CAPEX target for next year? And, the second question relates to dividends. You already announced (inaudible) 130% of free cash flow to dividends this year. And, your dividend policy is not very explanatory on how you allocate cash for dividends. You set on a minimum level, how shall we be thinking about dividend payouts in the future? Thank you.

ALEXANDER FROLOV, CEO

Could you repeat your first question because I'm not quite sure that I have understood it correctly.

NINA DERGUNOVA, GOLDMAN SACHS

What is your CAPEX guidance for 2020?

ALEXANDER FROLOV, CEO

CAPEX guidance?

NINA DERGUNOVA, GOLDMAN SACHS

Yes. Capital investments.

ALEXANDER FROLOV, CEO

As I said earlier, what we have announced, basically, is the number of the level of US\$1 billion, the guidance remains for the next two-three years. We do not expect any substantial deviation from that. On dividend side, I guess Nikolay would explain better, because I'm not sure 130% of cash available is correct.

NIKOLAY IVANOV, CFO

Yes, thank you. So, the dividend policy, which we have, states that EVRAZ guarantees a minimum payments of US\$150 million every six months, but the Board has an opportunity to pay larger amounts, and paid more often, as we did this year, for example, if we have good financial results. I believe that if you look at our cash dividend policy during the last few years, you will see that, and if you at our year on a full year basis, you will see that our free cash outflow is approximately 89% to 90%. I think that your estimation of 130% is correct, taking another interim dividend of 20 US cents, which we paid in June. But I think it's better to look at the picture for the whole year.

NINA DERGUNOVA, GOLDMAN SACHS

And for the whole year, shall we be thinking about 100% payout for the full year?

NIKOLAY IVANOV, CFO

Well, I think it's for the Board to decide. I don't think I can give you any guidance on this right now.

NINA DERGUNOVA, GOLDMAN SACHS

Maybe can you lead us through the logic, what do you discuss when recommend dividends? For example, if in the end of the year we see that steel prices are high and Company's cash generation in H1 2022 will be strong. Can we expect the Company to allocate 100% for free cash flow?

ALEXANDER FROLOV, CEO

We can only repeat the answer. It's at full discretion of the Board to decide how big dividend to distribute based on strategic priorities and financial results of the Company in this particular moment. Otherwise, we can only refer to the policy.

NINA DERGUNOVA, GOLDMAN SACHS

Thank you very much. That's it for my side.

OPERATOR

And we'll move on to Anton Fedotov with Bank of America.

ANTON FEDOTOV, BANK OF AMERICA

Hello and thank you very much for presentation. I have several questions. My first question relates to working capital increase, which exceeded US\$250 million in H1 of this year. As I understand, it was driven by higher prices for steel, mainly in the prices stabilized and started declining. Would you expect some reversal of this amount on H2?

NIKOLAY IVANOV, CFO

Yes, let me take this one. I think you're absolutely correct. There was some working capital release in the first six months. And it's driven primarily by the increase in prices. And, first of all, the steel prices. But also, let me mention another factors of volumes increase in operations in our North American segment of the business. There is some volumes increase in inventories as well. That's another factor, which needs to be taken into account. Obviously, there will be a decrease in prices in the H2 of the year. We do expect that that will affect the working capital. Yes.

ANTON FEDOTOV, BANK OF AMERICA

Thank you. I have a second question regarding your new vanadium plant, will it replace some of your existing vanadium processing facilities or it will be a new processing facility on top of the current capacity? And if this is the case, will the share of vanadium and slag sales decrease once you complete this plant?

ALEXANDER FROLOV, CEO

I think the answer to all your question is yes. It will decrease party sales of vanadium slag. And it will not impact current processing capacities which we already have, it will be on the top of that. And both plants would allow us to process 100% of vanadium slag we produce.

ANTON FEDOTOV, BANK OF AMERICA

Thank you. And my last question relates to you announced decision to reconsider your flat casting and rolling facility investment plan, to come back to this plan, actually. Previously you're talking about building a US\$2.5 billion ton plant with a total CAPEX of about US\$650 million. If I remember correctly, this plan was announced about two years ago. Will you come back to these exact figures or you might change it?

ALEXANDER FROLOV, CEO

In terms of projected capacity, there will be no change. Talking about the budget, of course there is some risk of the number increase because of higher steel prices, higher prices for construction material and the cost of sources, which at least at the moment, have gone up substantially if we compare with the situation two years ago. But we need to evaluate all of that before we make final commitment to move further on.

ANTON FEDOTOV, BANK OF AMERICA

And, when do you expect to make the final investment decision?

ALEXANDER FROLOV, CEO

Well, our current plan is to do it till the end of the year.

ANTON FEDOTOV, BANK OF AMERICA

Thank you very much.

OPERATOR

Next move to Anna Antonova with JP Morgan.

ANNA ANTONOVA, JP MORGAN

Hello, thank you for the presentation. Just two brief follow-up questions from our side. First, on this newly approved vanadium plant in Tula. Could you please comment, how much volumes can we expect the plant to add to EVRAZ Group merchant vanadium production?

ALEXANDER FROLOV, CEO

Just to give you an idea, current processing capacity is equivalent to 8 to 9 thousand tonnes of vanadium in slag per year, new facilities will be capable of processing 12 thousand tonnes of vanadium in slag per year.

ANNA ANTONOVA, JP MORGAN

That's more than doubling your current existing vanadium processing capacity. Is that correct?

ALEXANDER FROLOV, CEO

Yeah, it would be correct way to look at it.

ANNA ANTONOVA, JP MORGAN

Thank you very much. And, the second quick follow-up question is, you commented earlier that you have a selection of investment projects in your pipeline. Could you remind us, what are your IRR, threshold levels to consider an investment projects an attractive investment?

ALEXANDER FROLOV, CEO

20%.

ANNA ANTONOVA, JP MORGAN

Thank you.

OPERATOR

And, we move on to Timothy Riminton with Barclays.

TIMOTHY RIMINTON, BARCLAYS

Hi, there. Thanks for your time this afternoon. I'm just wondering if you've had any thoughts about your plans for financing into a coming year-end and with the maturity of your 2022 in early next year. Any comments on that would be very interesting. Thanks.

NIKOLAY IVANOV, CFO

You're right, our first significant debt repayment is coming on January of next year. And that's actually would be the only big refinancing we need to do next year. We are currently investigating different options. And we haven't decided yet which option to follow. We are looking at different opportunities. We expect to come to a decision in September with regards to that.

TIMOTHY RIMINTON, BARCLAYS

Thanks very much.

OPERATOR

We move to Maxim Krutko with CFC management.

MAXIM KRUTKO, CFC MANAGEMENT

Hello. In May you announced that Alexander will step down the president and Nikolay will take this role. I wonder how will those changes actually change the whole corporate structure. And, what will be the further role of Alexander in the Company?

ALEXANDER FROLOV, CEO

First of all, I guess there is some misunderstanding on your side and we are sorry about that. It's not going to be Nikolay; unfortunately, it is going to be Alexey Ivanov, Senior VP for Commerce and Business Development. I do not expect any major organizational changes in the Company. And, I would not expect any big change in strategy. Talking about myself, I would continue to be a member of EVRAZ and currently a member of the Board in EVRAZ, and I'm also currently Chairman of the Rospadskaya Board of Directors. I will continue these two main activities if you talk about EVRAZ-linked activities.

MAXIM KRUTKO, CFC MANAGEMENT

Okay, thank you.

OPERATOR

We move on to Boris Sinitsyn with VTB Capital.

BORIS SINITSYN, VTB CAPITAL

Thanks. You've actually mentioned that billet prices traded quite a large discount to slab prices. I wonder your views on the nature of this difference? And whether it's logically fair to expect this discount of a billet to decrease to zero? Thank you.



ALEXANDER FROLOV, CEO

I already know that it's probably more rapid increase in demand in flat products after the pandemic, in comparison with the long ones. To say about future, I would expect that the gap of now, if never been there historically, and I don't see fundamental reason for the current situation to continue.

BORIS SINITSYN, VTB CAPITAL

Thank you. And, follow-up on this topic with regard to your capacity of billets and slabs, is it possible for you to quickly switch to slabs on 100% basis of your semi-finished product sales?

ALEXANDER FROLOV, CEO

No. I think that we have some limitations in terms of switching, let's say, 100% in slabs. But we have some flexibility which we quite often use, and used actually in the past, depending on the price for each type of product.

BORIS SINITSYN, VTB CAPITAL

Okay, thank you.

OPERATOR

Currently, there are no further questions at this time. I'm sorry, we just had one come in from Andrew Jones with UBS.

ANDREW JONES, UBS

Hi. I've just got a couple of follow ups on the previous talk, especially on the vanadium plant. You're obviously adding this new capacity. What's the sort of uplift in terms of the EBITDA for a tonne from processing the final product. That's first question. Secondly, just on the flat rolling mill. Is 20% right sort of IRR that you've been looking at on that project? Or, you can give us some ideas for your expectations for what you'd expect or want to get to proceed on that project? And then just, thirdly, on the taxation. Is, I mean, you obviously don't know the form that's going to take, if you advising the government, or if you had discussions with the government in the coming months, and they are intent on taxing the sector more, what form of additional taxation, would you be recommending to them? I mean, would it be through, you know, continuation, some sort of export tax with some revisions, or would it be, you know, although revenue, basically? What sort of taxation would you think would be palatable to the industry of EVRAZ as well?

ALEXANDER FROLOV, CEO

Just starting from your last question, I would not do any advice on that. First, I don't see myself as a specialist in whatever taxation matters, and also I'm not a specialist on forming the conflict budget. So, as I said before, we expect there will be some discussion with the business and particular with steel makers, before those measures will be introduced. Talking about the vanadium project, IRR is above the threshold. And, I guess no in the CAPEX number, you could probably guess yourself, what kinds of EBITDA this project should have on an annual basis in order to improve the profitability.

ANDREW JONES, UBS

Okay, thank you. Is it, I mean, should we be taking that minimum as a reasonable number or could the IRR significantly exceed that?

ALEXANDER FROLOV, CEO

You can take 20 as a benchmark and do a calculation on that for simplicity.

ANDREW JONES, UBS

Okay.

OPERATOR

Currently, there are no further questions.

COMPANY REPRESENTATIVE

Ladies and gentlemen, yes, I see that there are no further questions. So I would like to finish this call and thank you for your participation today. Have a great evening ahead. Thank you very much.

OPERATOR

And, that will conclude today's call. We thank you for your participation.