S&P Global
Market Intelligence

EVRAZ plc LSE:EVR

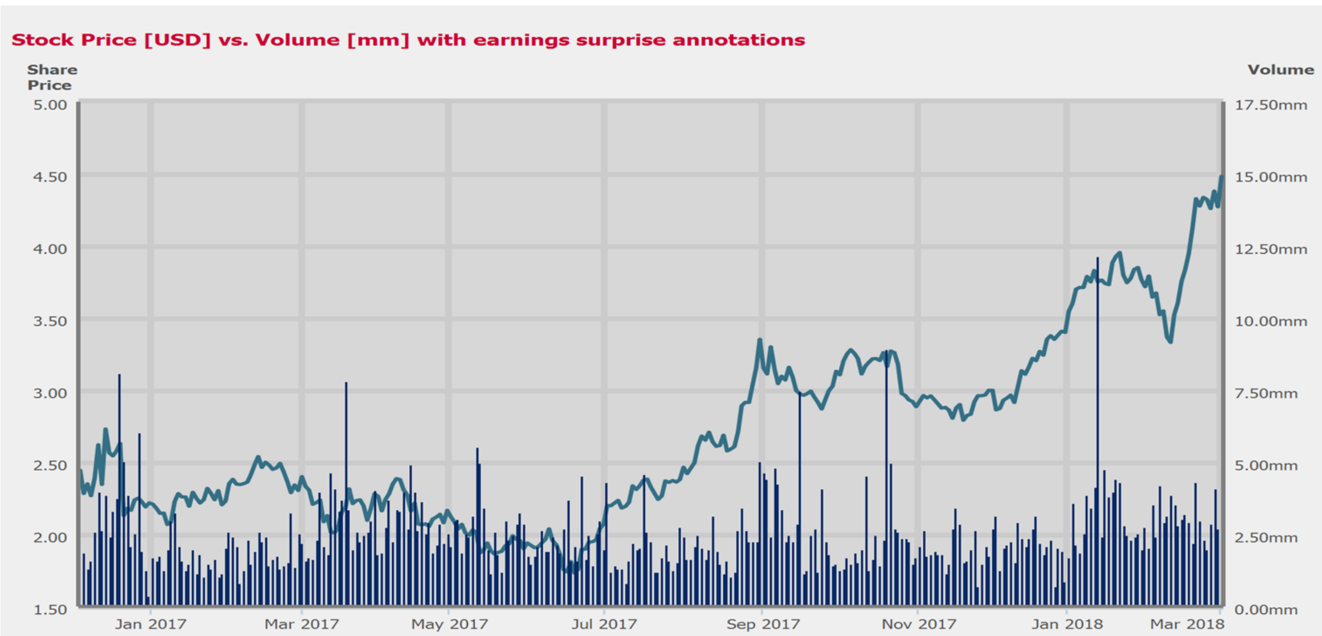
FY 2017 Earnings Call Transcripts

Thursday, March 01, 2018 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FY 2017-			-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS (GAAP)	0.62	0.48	(22.58 %)	0.74
Revenue (mm)	10419.23	10827.00	3.91	10135.67

Currency: USD
Consensus as of Feb-28-2018 1:42 PM GMT



	- EPS (GAAP) -		
	CONSENSUS	ACTUAL	SURPRISE
FY 2016	0.19	(0.15)	NM
FY 2017	0.62	0.48	1 (22.58 %)

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Call Participants

EXECUTIVES

Alexander Vladimirovich Frolov
CEO & Director

Irina Bakhturina
Director of Investor Relations

Nikolay Ivanov
Chief Financial Officer

ANALYSTS

Andrew Ian Jones
Wood & Company Financial Services, a.s., Research Division

Barry Lee Ehrlich
Citigroup Inc, Research Division

Daniel Harry David Shaw
Morgan Stanley, Research Division

Nikolay Sosnovskiy
UBS Investment Bank, Research Division

Seth R. Rosenfeld
Jefferies LLC, Research Division

Unknown Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to today's EVRAZ Full Year 2017 Financial Results Conference Call. [Operator Instructions] I must advise you that this conference is being recorded today, Thursday, 1st of March 2018.

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

Alexander Vladimirovich Frolov
CEO & Director

Thank you. Good morning, ladies and gentlemen. I'm Alexander Frolov, the CEO of EVRAZ. It's my great pleasure to welcome you all to our 2017 full year results presentation. I'm joined today by EVRAZ's CFO, Nikolay Ivanov. I would like to start by providing some opening comments supported by a few slides. I will then turn the call over to Nikolay. He will go through 2017 financial results in detail.

Let's start with Slide 5. 2017 was a good year for EVRAZ. Good market conditions endorse our efforts in product development and cost cutting have brought us to material improvement of all our financial metrics.

Robust free cash flow had allowed us to reduce net debt below $4 billion. Based on that, we now announce a formal dividend policy and made a decision to place a second interim dividend for 2017, equal to $0.30 per share.

Now Slide 6. Safety remains our top priority. Despite some reduction in the lost time injury frequency rate, we had 10 fatalities last year. We have made all necessary efforts to analyze all these tragic events to make sure that relevant rates are minimum.

By Slide 7, I would like to remind you that vertically integrated business model is one of the key advantages of our company. Our cost remains very competitive for the whole value chain in coal, iron ore and steel.

Then moving to Slides 8 and 9. We show here our strategic priorities. Slide 9 explains them in more detail. But we believe that expanding and diversifying our product portfolio and customer base is a foundation of robust development. This year, our product development and customer focus initiatives had an incremental effect on EBITDA of USD 104 million. We also believe that retention of lower-cost position is critically important for the company, and we are putting a lot of efforts into that. Our cost-cutting initiative generated additional $163 million of EBITDA effect.

The measures that we undertake on cost cutting and product development are discussed in detail in our press release and in our annual report, which was also published today. I would be happy to answer any questions concerning that in our Q&A session.

Now a few words on CapEx. Our CapEx strategy continues to concentrate on prudent investments. In 2017, our capital expenditures totaled USD 603 million. More than 50% of our development CapEx was spent on constructing the new blast furnace #7 in Nizhniy Tagil, and there are 25 went towards warehouse projects in EVRAZ North America. In 2015 (sic) [2018], we expect CapEx to be at around USD 650 million.

Our fourth strategic priority has seen a slight change in new positive market development and our strong performance in 2017. We will continue to work on deleveraging, and we will remain -- we will maintain regular dividend payments to our shareholders.

As you can see on Slide 10, we have achieved material progress in managing our net debt. It's now below $4 billion, and the ratio to EBITDA is just 1.5.

As you know, on the back of strong free cash flow and debt reduction, we have resumed dividend payments already last year. As it is shown on Slide 11, we now want to introduce more detailed dividend policy. It states the minimum payment of $300 million per year to be paid in semiannual installments of minimum $150 million each, following interim and full year results. As I have already mentioned earlier, we have also decided to pay a net interim dividend for 2017, equal to the first one, and it will be $0.30 per share.

Now before I hand over to Nikolay Ivanov, I would like to say a few words about our view on the market. Our outlook is positive, in general. We expect that demand will grow further on both Russian and North American steel markets, with the prices stabilizing at a relatively high level. At the same time, we don't exclude the risk of negative development because of China and also because of potential import restrictions in the United States.

So now, Nikolay, please continue.

Nikolay Ivanov
Chief Financial Officer

Thank you, Alexander, and good afternoon, everybody. There's a couple of points that I would like to touch on in my today's presentation. First of all, I would like to say that we demonstrated very strong results in 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 with debt reduction.

Our maturity profile has improved significantly. Our EBITDA increased by 70% year-on-year, and we were able to reach net leverage of a $1.5 million, which, in the end, allow us to consider second interim dividend and announce a dividend policy.

Now let's turn to Slide #13. Our EBITDA in 2017 is record high for the last 4 years and reached $2.6 billion. In Steel segment, revenues increased by almost 41% year-on-year to $7.7 billion or 63% of the group's total before elimination. The growth was mainly attributable to higher revenues from sales of steel products due to an upturn in average sales price. The Steel segment's EBITDA improved, reflecting higher steel and vanadium prices and reflects on cost-cutting initiatives implemented in 2017.

In Coal segment, revenues surged by 67.5% year-on-year, supported largely by higher sales price. Volumes also increased by 4.6% due to the stable demand and the improved productivity at mines. The Coal segment's EBITDA is about $1.2 billion, reflecting this positive trend.

In our North American segments, revenues also went up by more than 27% year-on-year. Prices rose by 18.7% and volumes climbed by 12.7%, boosting the segment's revenues from sales of steel products. The key drivers of this growth were an improved demands for oil country tubular goods, following a recovery in oil prices and the stronger demand for railway products. The Steel North America segment's EBITDA also increased year-on-year.

Moving to Slide 14. Our free cash flow for 2017 was strong, $1.3 billion. Net cash flow from operating activities amounted to almost $2 billion in 2017, affected by the cash outflow for working capital financing. Changes in working capital are largely explained by the increase in inventories and receivables at EVRAZ North America, driven by output expansion in the view of positive market sentiment for pipes and rails. Our free cash flow was also impacted by the proceeds from the disposal of some of our noncore assets, in particular, Nakhodka Trade Sea Port, Sukha Balka at Ukraine and Vametco, our vanadium operations in South Africa.

Moving to the next slide, Slide 15. Alexander has already elaborated on our CapEx, so I will stop on this slide just to summarize some results of the key projects that we have. In 2017, our capital expenditure increased to $603 million compared with $428 million a year earlier due to significant expenses on major projects and the strengthening of the ruble exchange rate against the U.S. dollar. EVRAZ NTMK continued to implement its 2 main construction projects during 2017, the blast furnace #7 and the new grinding ball mill, both of which are scheduled to be launched in the near future. In 2017, the degasser was installed at

EVRAZ Regina's steel mill. This was the last important module of the upgrade project, making it possible to achieve the project's full planned effect.

Going to the next slide, Slide #16. In 2017, the group continued to focus on deleveraging and reduce its total debt by $529 million through the repayments of maturities scheduled for current and closed years. Throughout the year, we've repaid and refinanced several of our bank financing facilities, thus, reducing our financial leverage and debt service costs.

There are a few additional comments I would like to make on this slide. Due to the decreasing total debt and our efforts to refinance existing facilities in 2017, interest expense in respect of loans, bonds and notes, decreased to $394 million versus $439 million a year earlier. Our net debt-to-EBITDA stood at 1.5x at the year-end versus 3.1x at the 31st of December of 2016.

Our maturity profile is in a good shape and only $63 million maturing in 2018. We are also in full compliance with all our financial covenants. Cash on hand and committed credit facilities at the year-end are more than sufficient to cover all of our debt principal maturing in 2018 and '19.

And as a year-end highlight, I would also like to mention that in December, Standard & Poor's recognized leverage improvements and strong business performance with an upgrade of corporate credit ratings to BB stable. We are very comfortable with these developments, and we continue to expect positive free cash flow and progress towards reducing our debt in absolute terms.

With this, I would like to thank you for listening to our presentation. We have a few slides on our operational performance shown 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 questions. Thank you.

Question and Answer

Operator

[Operator Instructions] And your first question is coming from the line of Seth Rosenfeld from Jefferies.

Seth R. Rosenfeld
Jefferies LLC, Research Division

I have a couple of questions on the outlook for the Russian construction steel market. I guess, I was a bit surprised in the release today and to read your comment about continued price competition despite rising demand expectations. I know it's something that you touched on last half as well. Can you give us an update on what's happening in that market and whether you expect that sort of price competition to persist into 2018? Or are you beginning to see any alleviation? And perhaps, you can quantify what sort of margin you lost as a result of this.

Alexander Vladimirovich Frolov
CEO & Director

It's Alexander Frolov. It's probably a little bit complex, let's say, area to give you a short and straightforward answer. I guess, the situation is the following. So market is growing. I mean, it's not a huge, let's say, growth space, but depending on the product. Last year, we have seen growth for various products, let's say, ranging from 3% to 7% per year. We expect that probably similar numbers on the consumption side, we will also see in 2018. At the same time, as you said correctly, there is competition around. And what it practically means, it means that we, let's say, reduce, for example, sales of some of our material for construction last year, because, let's say, in order to reach, let's say, remote destinations, for example, central part of Russia, because of a relatively high transportation cost, now all that didn't make a lot of sense for us. And we had better alternatives to convert this material, let's say, to export sales, which we actually did. And we do not exclude that similar situation may happen in 2018, and we would decide kind of opportunistically what to do. But all that is mostly related to kind of simple commodity products like EVRAZ. At the same time for kind of higher-value added products like beams, so let's say, other sections. We have, how to say, more, let's say, strategic growth there. We are, let's say, trying to develop better use of those profiles as a placement of use of concrete, for example, in construction. I think that we are making certain progress in that, which, at the same time, of course, it's not an easy issue and it takes some time. So in combination, I think that, again, same factors would exist in 2018 like in 2017. And in general, I would not expect any major move for either, let's say, to price improvement or price deterioration.

Seth R. Rosenfeld
Jefferies LLC, Research Division

That's great. And if I can ask a second question, please on your coal price realizations. I believe at the time of the capital markets day last summer, you guided to a full year price rotation, I think 57% of the benchmark hard coking coal. But the result today showed it's just coming in south of 50%. Can you walk us through what drove that somewhat disappointing price realization and how you expect that to progress into 2018 as your volumes grow?

Alexander Vladimirovich Frolov
CEO & Director

Well, again, not an easy question to answer, because basically, what we are trying to achieve, we are trying to sell based on price formulas, which are basically a blend of doing business. One is hard coking coal and one is semisoft coking coal. And historically, we were trying, let's say, to increase the portion of hard coking coal in this formula. And what has happened, actually, hard coking coal was more volatile than semi-finished. And that's why effective price have gone a little bit down. So this is basically an explanation. But I think that in the future, what we'll see is that, in general, demand for high-quality coals stay high. And from that point of view, let's say, our logic in the formula when we are trying to push for better portion of hard coking coal in that is probably a formula, which will, in the long term, work in the right direction for us. At the same time, again, short-term deviation may exist.

Operator

Your next question is coming from the line of Dan Shaw.

Daniel Harry David Shaw
Morgan Stanley, Research Division

First one is just on the U.S. division. So if we look at 2017, it generated almost 20% of your group revenues but less than 5% of your EBITDA. Can you talk about the past to a more acceptable level of profitability there? How much CapEx is required? What the scope is to reduce cost there? The second one is just on your capital structure. Are you happy with your current level of debt? Do you see that increasing going forward? Can you give us a bit of color around how you see your capital allocation from split between debt reduction, dividends and CapEx going forward?

Alexander Vladimirovich Frolov
CEO & Director

Well, first of all, speaking about capital expenditures in North America, I think what Nikolay has mentioned in his part of presentation, we have completed the major, let's say, revamping of our steel mill and [our] mill in Regina. And we have also built new large-diameter pipe mills there, and we also added, let's say, coking line to our operations, which we have done with one of, let's say, global leaders in this area. So we believe that, let's say, our value chain in North America, at least in terms of large-diameter pipe and OCTG, is more or less complete and does not require any material CapEx, even though we have some, let's say, few value creative, let's say, projects, which would certainly enhance our profitability and sales volume. So I guess that nothing mentioned should be done there, and we should see, let's say, a significant improvement in 2018 in comparison with the last year. Then regarding capital structure, I think that I would have Nikolay to give enough to you.

Nikolay Ivanov
Chief Financial Officer

Yes. Speaking of capital structure and allocation of free cash, we believe that it's going to be a balanced approach between total deleveraging, as it has returned to the shareholders, and prudent CapEx story. So with regards to the debt, you all know that by the middle of last year, we reached our targets of net debt-to-EBITDA of being 2.0x. And at the year-end, that ratio stood at 1.5x. So we are very comfortable with this level. However, it's still some further room for improvement and for decreasing our debt in absolute terms. We believe that the right level of debt is somewhere between $3 billion and $4 billion. I'm talking about the net debt. Speaking about the CapEx, we believe that the number somewhere between $600 million and $700 million per year is an adequate number in the near future. So -- and as Alexander mentioned today, we are introducing a dividend policy, which calls for a minimum payment of $300 million of dividends per year. However, the board can consider a larger amount if we have available resources.

Daniel Harry David Shaw
Morgan Stanley, Research Division

All right. And is it possible to give an indication, just thinking about the U.S. division and the improvements and the CapEx that you've spent there so far in the improvements you're mentioning. If we were to kind of have another year like 2017 again, what would be the potential improvement in profitability kind of at the EBITDA level? Can you give any indication around that?

Nikolay Ivanov
Chief Financial Officer

I don't think that we are prepared to give any guidance for this now.

Operator

And your next question is coming from the line of Nikolay Sosnovskiy.

Nikolay Sosnovskiy
UBS Investment Bank, Research Division

I got several questions. On the strategic outlook and your view on the cycle, basically, earnings have improved quite materially. Are you planning to somehow revise your development strategy, adding more projects, volumes in terms of steel mining and on vanadium given the quite material changes to the market? That's my first part of the question.

Alexander Vladimirovich Frolov
CEO & Director

I think that speaking about volume there, well, we expect some changes and material changes. It's -- is it a deal where -- let's say, right now, we are switching to new blast furnace #7, which should lead -- and this switch was in, whatever, let's say, few months should lead us for higher productivities than we had there with the old blast furnace. And again, difficult to say right now what sort of percentage it would be, but I would say that it is there and well, let's say, steel production will increase. Speaking also in coking coal, we expect a certain volume increase this year. Again, I would prefer not to give a guidance, but it will be a material number. We don't see any improvement in vanadium because -- well, to some extent, it would improve, but it would -- could probably come a little bit later on, because our mines also for vanadium feed stock, it is vanadium slab from Nizhniy Tagil. So by increasing the iron productions there, we would increase also production of vanadium. But then it would take some time to get this vanadium to the value chain because processing and delivering it to the clients take some time.

Nikolay Sosnovskiy
UBS Investment Bank, Research Division

Okay. So we should not expect any kind of major CapEx growth, let's say, in 2019, with introduction of new big projects after the new blast furnace at NTMK is done?

Alexander Vladimirovich Frolov
CEO & Director

2019, no, probably not. Even though we always leave some room for us for the development CapEx, which, over the last few years, was at the level of $150 million, $200 million a year.

Nikolay Sosnovskiy
UBS Investment Bank, Research Division

So the same scope. Okay, super. And my second question is on dividend policy, which is kind of a new theme for EVRAZ. But still, can you share with us your thoughts and the way how you got to this particular number because your dividend policy differs quite materially from, I would call it an industry practice in Russia, where companies link their dividends to free cash flow generation or profit? And what is kind of, not frustrating but a bit strange in a way that the minimum number introduced somehow relates, I think, to the bottom of the cycle earnings of EVRAZ and not the current quite healthy free cash flow generation and profits. So it's a little bit confusing in the way that the $300 million number relates to kind of different part of the cycle. So what are your thoughts on this dividend policy? And are there any potential changes to the policy we might expect in the future?

Alexander Vladimirovich Frolov
CEO & Director

Well, first of all, I want to emphasize that we are speaking about minimum amount, okay? And I guess, this is important. In general, let's say, if I speak about the reasons why we decided to introduce with such policy, our main target was to give more predictability to the investors. And basically, by introducing the number, let's say, fix number, we, as a company, certainly take some commitment, let's say, to be able to pay this minimum amount through the cycle. And if you also look at our projection for cash flow, which we see realistic, again, through a longer period of time, I would say that this number would represent 30% to 40% of our free cash flow, which we would expect, again, longer term. And I think that this is a reasonable number in terms of, let's say, satisfying the needs of the company for development, also, let's say, debt management and the interest of our shareholders. And just to finalize again, this is minimum amount. And you have seen yourselves that interim dividend, we're just paying in order, let's say, to satisfy because there's, in our view, possible balance between our creditors and shareholders.

Nikolay Sosnovskiy
UBS Investment Bank, Research Division

That's a very clear explanations for the numbers. Just a small follow-up, if I may on this -- that sale that Donetsk has planned. Are you planning any kind of special dividends in the first half this year similar to what you did last year with Nakhodka and other assets included into the first half '17 dividend?

Alexander Vladimirovich Frolov
CEO & Director

First of all, we did not make any special dividend last year, it was just an interim dividend, which was based on good and healthy free cash flow. Of course, let's say, dispose, Nakhodka made some contribution to that. So I don't think that we expect to make any special dividend just in relation with disposal of Dnepropetrovsk Sukha. By the way, it's not Donetsk. This town is called [indiscernible]

Operator

Your next question is coming from the line of Barry Ehrlich.

Barry Lee Ehrlich
Citigroup Inc, Research Division

Yes. I have 3 or 4 quite different questions, if I may. So just to start with vanadium, do you expect slight production to return to the 2016 level, so about 10% lower? And does that mean sales volumes will also fall by 10%? And when we look at the average fair vanadium benchmarks in Western Europe and North America in the second half of last year, it's about $40 a kilogram. Spot, looks like it's about $60. If spot remains at this higher level, does that mean you're going to see approximately 50% higher realized price compared to the second half of last year? Those are my first 2 questions. And if I can, I'd like to come back with an additional 2.

Alexander Vladimirovich Frolov
CEO & Director

First of all, I would probably be not able to comment on the volume dynamics because I don't have this information in front of me. Speaking about realized, let's say, price for us, I think that all sales we make, it is some sort of, let's say, very straightforward link, let's say, to the benchmark. So if we move from $42, the current price, which is $62.5, or whatever utilization price, then of course, it is 1.4 increase in revenue. Did I answer your question, sir?

Operator

And your next question is coming from the line of [Lada Korshunova].

Unknown Analyst

The line wasn't that so good. I'd like to repeat the question. Maybe it was already asked. About the rumors about the possible sale of DMZ in Dnepropetrovsk. Are there any plans for the company to sell this asset? Or it's still not decided yet?

Alexander Vladimirovich Frolov
CEO & Director

I think that the we have announced just a few hours ago that we have signed an agreement with the buyer to sell this business. You can see the details on our website.

Unknown Analyst

And regarding the question with the buyer, is it the same that bought your raw material assets earlier this year?

Alexander Vladimirovich Frolov
CEO & Director

It's the same group of companies who bought Sukha Balka.

Unknown Analyst

Okay, great. And may I ask a couple of more questions?

Alexander Vladimirovich Frolov
CEO & Director

Yes, sure.

Unknown Analyst

Yes. My second question is regarding your expectations for the situation with Section 232 in the U.S. Well, do you consider that slab imports can really be bent because you guys supply to quite a lot of slabs to its assets in the United States, and if the duties will be implemented, what will be the strategy of the company? Where the slabs will be reallocated? And where slabs will be taken for American assets?

Alexander Vladimirovich Frolov
CEO & Director

Well, our understanding is that announcement about this Section 232 will be made basically within less than a couple of hours, so I would rather prefer, let's say, to wait and to see what this announcement would tell us. And then based on the result, I guess, we would be able, let's say, to give more preferred comment. Right now, I prefer not to guess.

Unknown Analyst

I got you, I got you. And one more question is regarding the blast furnace #7 at NTMK. You said that the steelmaking capacity will increase. In case of -- if Section 232 doesn't -- will not influence slab supplies to the USA, and you will have more steel volumes at NTMK. Will you increase supplies to your own assets or you will be exporting to -- in the free market? Because this year, we didn't see much EVRAZ that's being sold from NTMK for free market.

Alexander Vladimirovich Frolov
CEO & Director

Well, I think that slabs we are producing in Nizhny Tagil are sort of premium slabs, especially for plate makers. So we don't see any problem, let's say, to place this material to the market. And just to give you an idea, for example, our own mill in Italy, Palini & Bertoli, which is now running at full capacity, is not buying any slabs from Nizhny Tagil. They just buy slabs from the market. So it would be, let's say, one of the potential, let's say, way to process our Nizhny Tagil slab and sell the plates to you, for example.

Unknown Analyst

That's very interesting. And one last question is regarding China. What are your expectations regarding the litigation in the country? Do you expect that China will be exporting better this year because last year, we did not see much volumes, and this helped a lot of suppliers like EVRAZ and other in Southeast Asia to increase sales and increase sales prices. So what do you expect for this year from their side?

Alexander Vladimirovich Frolov
CEO & Director

Again, it's difficult to make long-term projections. What we can see are -- we see that all campaigns, let's say, which the government is making there in order to improve ecological situation, first of all, and because of that closure of inefficient or, let's say, polluted steelmaking facilities, we see that it's kind of real efforts, which leads to real reduction of steel volumes. At the same time, consumption in China is improving. So hopefully, this trend will continue. And under these conditions, again, we would not see a lot of -- hopefully, we will not see a lot of export material from China in [large areas].

Operator

Your next question is coming from the line of Nina Dergunova.

[Technical Difficulty]

Your next question is coming from Barry Ehrlich.

Barry Lee Ehrlich
Citigroup Inc, Research Division

In President Putin's address today to the Federal Assembly, he suggested that industrial users were not implementing existing ecological policies. And now, all those policies would be strictly enforced. And on the screen, he put the entire Russian steel industry cities, including Nizhny Tagil. So I guess my question is, are there any key projects that would need to be implemented? And what would be the related CapEx to conform to the ecological regulations that perhaps were being referred to?

Alexander Vladimirovich Frolov
CEO & Director

Well, first of all, I have to say is that we comply with existing ecological regulation. And it will -- let's say, if you have time you could read, let's say, our Annual Report, which I think has sufficient amount of information on that subject. It doesn't mean that, let's say, regulation will not become stricter in the future, because there is a lot of work, let's say, going on, I think, in the Russian government. I mean, they're trying, let's say, to introduce new concepts based on kind of new best available technologies, and they're trying, let's say, to change some of the industries. But again, I can't say that because of that we expect any major CapEx or -- major, let's say, spendings there. It's probably a bit longer-term issue, which is, again, legitimate issue, but not an immediate one.

Operator

And your next question is coming from Andrew Jones.

Andrew Ian Jones
Wood & Company Financial Services, a.s., Research Division

I've got a few questions. Around the Section 232 regulation. I'm not asking you to speculate on the outcome of this, but clearly, your business in the past has produced over 3 million tonnes there compared to less than 3 million today. So clearly, you have expected that to potentially to boost output. Could you give us an idea for -- not to speculate on what's likely to happen, but if there is a great amount of imports being pushed out in the market, how quickly do you think you could kind of ramp up and potentially increase your use of -- level speed in the past? That's my first question. And then related to that...

Alexander Vladimirovich Frolov
CEO & Director

Excuse me, could you repeat your question, because I really did not understand.

Andrew Ian Jones
Wood & Company Financial Services, a.s., Research Division

Sorry, so in response to reduction in imports that may arise from the Section 232 regulation. What potential do you see for growing volumes back to more towards best sort of levels like you've done in the past and maybe about 3 million tonnes rather than the less than 2 million tonnes you're doing at the moment? I mean, do you see the potential to return to 2013 or '14 levels of volumes in response to this? That's my first question. And then just on your exposure in terms of semi product sales to the U.S. In 2017, what volume of semi products did you actually export to the U.S. from your Russian plants?

And what spec have -- do you have in your electric arc steelmaking in the U.S. to potentially offset those volumes if they were -- a large tariff were put on them?

Alexander Vladimirovich Frolov
CEO & Director

I'm sorry, again, I would probably just repeat what I have said earlier. We would rather prefer to see the outcome of this, let's say, Section 232, and then we will analyze and give comments on all the questions you have been asking. Not at the moment.

Andrew Ian Jones
Wood & Company Financial Services, a.s., Research Division

Okay. But could you give us some numbers around, a, what was your absolute level of semi product sales from Russia to the U.S. in 2017?

Alexander Vladimirovich Frolov
CEO & Director

I'm not ready, I don't have these numbers on the top of my head. We can talk offline, if you wish.

Andrew Ian Jones
Wood & Company Financial Services, a.s., Research Division

Okay. And do you have the number of your total EAF steelmaking capacity in the U.S. compared -- and how much spare capacity you have to potentially increase output in this scenario? And how much spare capacity do you have in the U.S. for steelmaking now?

Alexander Vladimirovich Frolov
CEO & Director

Again, it all depends because we have 2 steel plants, 2 EAFs in the U.S. One is in Virginia. And I think right now, it's more or less fully utilized. Then we have another electric arc furnace, which is in Rocky Mountain, which is less utilized. I guess, current utilization is on, whatever, let's say, sort of market leverage it's about 70%. But then, again, it's not [indiscernible] because, for example, in Rocky Mountains, we have -- we are cutting, let's say, around the billets. I mean, basically, for one product in Virginia, we are cutting slabs, and so on and so forth. So that's why, again, I mean, for me, it's just early to build versus potential scenarios.

Andrew Ian Jones
Wood & Company Financial Services, a.s., Research Division

Okay. And just another question on dividends. You -- I apologize, my line was cut off earlier, so you may have been asked this already. But what -- could you give us any clear idea in terms of some sort of guidance about how you will think about dividends going forward? You've given us a minimum level, but let's -- and you've said broadly where you want your debt to be. But if we assume that you averaged between $3 billion and $4 billion of net debt and you -- so maybe about $3.5 billion is a target. If you get down to the $3.5 billion sort of level, which you believe is kind of a reasonable level going forward, would you then be open to potentially paying up to like 100% free cash at that point as some of your peers have been doing in recent months?

Alexander Vladimirovich Frolov
CEO & Director

Well, for sure, we will not feed on the cash. That's for sure. Then the rest, our board will decide what to do.

Operator

[Operator Instructions] We seem to have no further questions coming through. Please continue.

Irina Bakhturina

Director of Investor Relations

If there are no further questions, we thank you for taking your time and joining us today, and this concludes the call. Thank you.

Alexander Vladimirovich Frolov
CEO & Director

Thank you.

Nikolay Ivanov
Chief Financial Officer

Thank you.

Operator
That does conclude our conference for today. Thank you for participating. You may all disconnect.