Q1 2021 Earnings Call

Company Participants

- Benjamin Steinbruch, Chairman of the Board
- Helena Guerra, Sustainability Director
- Luis Martinez, Executive Officer
- Marcelo Cunha Ribeiro, Investor Relations Executive Officer
- Unidentified Speaker, Unknown

Other Participants

- Alejandra Andrade, Analyst
- Isabella Vasconcelos, Analyst
- Leonardo Correa, Analyst
- Unidentified Participant, Analyst

Presentation

Unidentified Speaker

Good afternoon, ladies and gentlemen and thank you for holding. At this time, we would welcome everyone to CSN's conference call to present results for the First Quarter 2021.

Today we have with us the company's executive officers. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company presentation.

Ensuing the remarks, there will be a question and answer section at which time further instructions will be given. Should any participant require assistance during this call, please press star 0 to reach the operator.

We have simultaneous webcast that may be accessed through CSN's Investor Relations website, ri.csn.com.br where the presentation is also available. The replay of this event will be available after the closing for one week. The slide presentation may be downloaded and you can flip through the slides at your convenience.

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I will now turn the conference over to Mr. Marcelo Cunha Ribeiro, Investor Relations Executive Officer, who will present the company's operating and financial highlights for the period.

Mr. Cunha, you have the floor.

Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

(Through Translator). A good afternoon to all of you and thank you for participating in another call for CSN. Today we have the Chairman of the Board, Benjamin Steinbruch; Luis Martinez who works with Steel; Mr. Habelo [ph]; and Helena Guerra, our Sustainability Director.

For the initial address, I would like to give the floor to Benjamin Steinbruch.

Benjamin Steinbruch {BIO 1499059 <GO>}

A good day to all of you. It is with pleasure that we present to you the results for the First Quarter for CSN, exceptional results from the viewpoint of EBITDA and net revenue and the margins that we have been able to attain in each of our businesses.

As mentioned previously this is the expectation that we had, to have a growth in margins in steel, in cement and in other areas. We were confident that we would have a very good quarter end; it has now materialized in all of our businesses.

We have received excellent figures working in a market where we have a continuous price increase for everything, not only for raw material that compose our products, but also in the final cost of our products. Demand domestically as well as internationally for the steel mill is considerable, and I do believe that the market is fully supplied. The regulatory stocks still have not been recomposed, but whatever goes out to third parties is what comes in, which means to say that the production chain has been supplied.

So far, we have not been able to recompose the intermediate and regulatory stocks, in the case of cement the production is sold out completely. In so far as we can produce, we are able to sell our production and I believe that steel as well as cement are essential products for the economic recovery of any country, which means to say that basically, everything will go through infrastructure and in Brazil, the infrastructure work so far have not begun.

Once they begin, without a doubt, there will be demand for these products. And in the domestic market generally, demand for other products more specifically in our sector that have a growing demand. Evidently, we're all subject to price increases. And within the chain, we're purchasing at updated prices.

Simply to give you an idea, the steel plate is approximately $900 and this is the base for the entire steel chain, the base for mining and the first commercial product, of course are the steel [ph] plates. And internationally, this is also happening and the price is equivalent to that of the domestic price.

What is being said in the market of a scarcity of supply and price increase, this is not true. The price increase is due to the cost. Nevertheless, what I would like to do is share my vision with you and speak about the coming quarters.

The cost of goods sold will continue. We're ending the First Quarter. May and June have all been sold out.

We have had a price adjustment as of May 1st. We will have an increase in cement as well as in steel. And we have the outlook to have exports our business outside of Brazil, in the United States, in Germany and Portugal have also shown a very good performance with better margins.

And demand is heated and with more production, of course we could enhance our exports and export coated products to the European market as well as to the North American market. I believe that this will be a trend. There has been a significant change in China's behavior when it comes to steel production, a rather strange movement that so far is not very clear.

There is a strong steel production in China underway due to a lack of productivity and the combat against environmental contamination, pollution. And China has adopted differentiated measures that did not foresee imports and that do foresee the export of steel.

So China is de-stimulating production for exports which, of course is something unheard of, because China is a possibility now to have the entire world supplying China is not something that seems very feasible. These are the initial movements that we observe.

So far, we're not very knowledgeable about them, but the international demand for steel is very strong. Prices are being readjusted as there is an increase in the price of raw material. And as part of our trade policy and we will have the opportunity of presenting this, it has always been a characteristic to diversify, not only in terms of geographies but also based on clients and products and by sector.

Nowadays, I can say that we're much more focused on servicing distribution and not industry per se. And we have greater proximity with the day-to-day with the price of products and amount of products. And the fact that we have verticalization and diversification in products eases our situation. And we have been very successful in this policy of selling steel not by ton but as if it were by kilo.

Cement has also had a very good response to our trade policy in terms of prioritizing the bags, individuals. In effective terms, our concern, of course is to service the end user directly and through the production of cement bags and geographically to be as diversified as possible in the Southeastern region where we act [ph]. We have a good price margin and our production has been significantly fragmented and this is the direction that we're going to follow.

I see very good outlooks for the Second Quarter. I can say that the Second Quarter will be better than the First Quarter in terms of mining. We just held the call of cement [ph] before the CSN call and pointed to a very optimistic stance when it comes to the quality and price of their production. And this also reflected in the CSN balance, but I must say that our confidence levels are high regarding the first semester.

And what we have set out to do is of knowledge of all of you, deleveraging and without a doubt, we will end the Second Quarter with less than one time net debt EBITDA. And we're striving to do this. We continue to strive when it comes to this delevering.

We truly believe that the secret at present is to work in a completely deleveraged way to make the most of the organic growth opportunities through M&As or structured market operations that can comply with the opportunities for each of our products. We continue to work arduously in terms of the C-Min [ph] IPO.

As you all were aware, we began with the mining IPO. We're now going on to the C-Min [ph] IPO taking advantage of the moment of the new plants that we have and the productivity that we have been able to obtain and the price margins that we are able to obtain and the fantastic EBITDA that we have presented.

Our idea, therefore, is to make the most of this moment to hold the IPO and an eventual merger and acquisition. And we will become one of the most important players in the cement market in Brazil. So there is a convergence of positive moments in each of our distinct sectors. And we have a great deal of merit in this.

The entire team worked very hard in 2020 to reduce cost, to reduce working capital, to increase terms for suppliers, that is to say doing everything possible to survive the year 2020 that ended up being better than we expected. And we will maintain this with the trend of further improving this for the second semester of 2021.

Therefore, it is with a great deal of satisfaction and pride that we present the figures to the market to all of you. This is what we committed ourselves to doing way back. We have been working three years in this direction. We see that our action plan is now begin awarded by the brilliant figures that we are presenting and, of course this is a reason of celebration for the entire team.

Once again I would like to thank all of you for participating in the call. And I return the floor to Marcelo Ribeiro to continue on with the presentation. Thank you.

Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

(Through Translator). Thank you, Benjamin, for your initial address.

We will now go on to the presentation, to the period highlights on page two. As Benjamin said, this is a semester with superlatives. The EBITDA was R$5.8 million, another record, a margin of 48% and a true merit when it comes to cost control, production. But we also had very good prices and profitability in each of these segments.

Secondly, this was also mentioned by Benjamin, delivering the deleveraging. We have been working on this in three fronts -- operational improvement, financial actions, working with our liabilities. And I think this quarter, we were able to deliver this 1.29 times net debt EBITDA aided and abetted by CSN Mining and we're very close to attaining our goal of a 1.0 times net debt EBITDA ratio.

With this, of course we have had a reward when it comes to credit, the increase of our SCN [ph] ratings and we're at an intermediate stage. We would like to get to an investment rating.

We go on to page number four speaking about the adjusted EBITDA. This is not an isolated measure. We have had five quarters of strong growth. And if we look at this, we have five years of growth, with a growth of almost, compound growth of 40% a year.

This time, we delivered an EBITDA that is double what it was a quarter before, R$5.8 billion with a record EBITDA already last year which was R$4.7 B [ph] and 23% with an exceptional performance for the mining that grew more than other businesses, a growth of R$48 million contributing with R$600 [ph] million only this quarter. But of course all companies contributed for us to reach this R$5.8 million.

On page five, we speak about cash generation. We begin with financial indicators and begin with CAPEX. There is a natural seasonality because of the maturity of projects and the approval of budget. Some investments do not reflect our expectation for the year, it is R$3 billion [ph]. As set forth in the guidance, we're going to speed up especially in the second semester and deliver the disbursement that will take us to the guidance figures.

In terms of net working capital, quite comfortable, in this quarter nominally a slight drop because of the dividends of R$900 million that we're going to pay out after the general assembly at the beginning of May that is why we observe a drop.

But in terms of operation, we have a recomposition of inventory offset by new terms for suppliers, so this does not show you our full cash generation. It was very strong, R$3.5 million [ph]. It was not a record because of seasonality, the income tax, social contribution based on the annual regime of mining and this is what normally happens at the end of the First Quarter.

On page number six, we see how this good operating performance and the C-Min [ph] IPO allow us to get to a leverage of 1.29 times and a net debt that allows us to attain the goals and the leverage in a very short time. They will no longer be goals, we will not have to be concerned about them. We will have the right capital structure for CSN and a net debt of R$15 billion.

It doesn't mean that from the viewpoint of capital allocation, we're not going to make the most of whatever is interesting in each of the sectors. There are interesting growth opportunities in cement, for example, but we're going to seek to make the most of opportunities such as the opening of capital of our subsidiary and we're not going to get releveraged again.

We go on to page number seven where you see our debt amortization schedule. We're working on three fronts here, fronts that were weakening our balance. The first, liquidity, liquidity is closed to R$16 billion -- R$15 billion, I'm sorry, in March 21.

Another important thing is the size of our gross debt. After the IPO of mining, we made the commitment of using almost R$5 billion for the repayment of the debt and this is what we have been doing since December. We have paid R$2.3 billion. And with the conclusion of this plan, we will pay an additional R$2.7 billion. And in the short term, we will have this reduction of R$5 billion in the debt.

The third point refers to the average term of the debt. We're working with partner banks, especially the public banks, Banco do Brasil and Caixa [ph]. As a profile that we're presenting is the minimum lengthening profile. This is what has been accepted by the banks. But we will attempt to improve on this.

And despite the lengthening with the banks, we have the financing of the bonds that will begin in 2023. This will enhance cash coverage and we will work with liquidity in the medium term. And with the size of the debt, we have had updates with Fitch, Moody's on the path to obtain the investment grade in coming years.

On page number nine, we speak about the performance of different segments. Beginning with the steel performance, in the quarter, we attained the best sales volume since 2016. It was a quarter where international sales also had a good performance. The United States business took advantage of the quotas for galvanized products. The domestic market is strong with a very high level of orders as will be mentioned, which allowed us to anticipate that we will have growing levels for the coming quarters.

We confirm our guidance for the Year 2021 at double-digit growth for the volumes sold in steel. Regarding prices, we are working to transfer the cost of raw material and reflect the cost of steel in the international market that have attained successive records not only in China where the recent reduction in export increased the prices even further, United States and Europe with record prices. The same happens in Brazil. What happened in the

First Quarter should continue on in the Second Quarter. We attained EBITDA margins of $R1.2 billion and 27% margin.

On the next page in production we continue with volume increases. In the First Quarter we began the two blast furnaces. They worked full-steam. We attained a million tons of production and this is one of the best quarters since 2017.

Of course this helps us to reduce fixed costs but was not sufficient when there was a strong increase in raw material, especially iron ore, pellets and Chinese coke. It led to a reduction that was offset by the increase in price allowing for a 38% increase in unit profitability, $260 EBITDA margin and this should improve. All of this was brought down by the performance in Germany where the price of tar [ph] decreased and we were able to recover our margin. In the Second Quarter we should recover these margins.

In page 11 we speak about mining. Well the First Quarter always has smaller volumes, but they are much higher than those of last year when we had those centennial rains in the region of Belo Horizonte, a growth of 47%, a slight drop but more than offset by the price increases of the plats index [ph] and the realization, we had a good price realization above and beyond the growth of plats [ph], 6.5 million, a growth of 22%, once again translating into an EBITDA of 3.7 million of record EBITDA with percentage margins somewhat below because of the purchases from third parties that were higher than those of the previous quarter, but still representing 70%.

On page number 12 we refer to cement and show you the excellent market performance, not only more recently, but this is the outlook of some years coming out of a very long period for drop of volumes with an increase into '18 [ph], a faster pace in 2020, low interest in 2020 and speeding up in the First Quarter of 2021 despite the quarantine, despite the pandemic.

As an anchor we had a growth of 19%. And throughout this period CSN has had growths above those of the market. And this year we have come to a situation where we attained our maximum production and sales levels. And our Board has met to re-discuss the growth plans especially in the cement business, also rising, that we look for an IPO to fund our growth plans.

This an organic growth, as well as projects that we already have in complementary regions, in the Southeast where we operate and an M&A for an inorganic growth, making the most of the opportunities in the market. It shows you that we are ready for this new phase. Our competitiveness has showed margins that are above 40%, a very strong cash generation, EBITDA of $R103 million.

With this, we would like to end the discussion of each of our segments and I give the floor to Helena Guerra, director of Sustainability to speak about ESG for the quarter.

Helena Guerra

(Through Translator). A good day to all of you. It is a pleasure to address you. We are going to speak about ESG, speak about safety. It's a semester of so many operational and financial results, and when we speak about safety, a very important delivery, the best result, a historical result in 2021 since we have incorporated this data.

In the First Quarter of 2021 we had a 19% reduction in the accident frequency rate based on our historical averages. This is of course an expressive reduction and we had two accidents per man-hour work only and 34% reduction vis-à-vis 2020. So we not only have positive financial and operational results, but also very positive results in safety.

We would like to speak about CSN Mining. In March we concluded the de-characterization of the VGR [ph] auxiliary dam and we underwent a new audit cycle. And we have all of these statements. We remain at zero emergency level.

The next dam that will be de-characterized is in work already and we will end up with only two more dams that will need to be de-characterized the coming year, another very important point for the quarter.

When it comes to our social and diversity agenda, we created a new diversity management and this will enable us to comply with a goal that we set forth for 2025. We are going to -- in five years we have anticipated our schedule, but we want to double the percentage of women in the CSN group by 2025. In February we approved our new integrated policy, diversity policy that is a very streamlined modern policy. It is fully aligned with regulatory issues and global practices and it will be deployed throughout all of our operations to speak about responsibility and other issues.

The Board also approved the creation of this committee based on five main pillars, social practices, sustainable practices, governance, diversity and inclusion. And all of this made up by the high levels of management of the company.

In terms of environmental protection and climate action, this quarter we began the matrix of risks and climatic opportunities based on TCFD [ph]. It is important to incorporate the risks, the risks that relate to climate. We began this task in the company this quarter and of course this is extremely important. We have to think about the risks we have in the company due to climate impacts.

We have also contracted an artificial intelligence software that will help us. It is called CO2 Roadmap [ph] and it will help us in our research, will enable us to create that curve of the marginal costs, in terms of the new technologies that we are going to use to set CSN aside, and so, that we can begin establishing long-term goals that will be very aggressive and perhaps review the goals that we had set forth initially in terms of a reduction of CO2.

And finally in May CSN as a group with a new matrix, we have reviewed the matrix we came up with last year. We have this with more than 1,000 people and stakeholders, both inside and outside the company, and we are going to verify this by third parties. And of course this enables us to comply with Resolution 14 of the CDM.

And I would now like to return the floor to Marcelo.

Questions And Answers

A - Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

(Through Translator). Thank you, Helena. With this we would like to end the presentation and go on to the question and answer session. Thank you.

We will now go on to the question and answer session for investors and analysts. (Operator Instructions)

We have a question from Leonardo Correa from BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

(Through Translator). A good afternoon to all of you. Are you all well? My first question is for Benjamin. In the more strategic part we look upon CSN in the last few years and the focus was one of de-leveraging that I think has been very well addressed by the C-Min IPO and the expressive cash generation that the company has had and will have going forward, besides other initiatives.

When we look at the company perhaps it could get to 0.5 times net debt EBITDA. And this would of course place CSN at a level equivalent to peers not only in Latin American but globally and equivalent to companies that have a very conservative balance. So this level has already been attained.

Now when we look upon CSN in the period 2005, 2010, a company with strong growth seeking out new businesses, CSN today approved last night something that the market had been working on, the IPO for cement. And CSN held the C-Min IPO and CSN has all of its business units fully funded with a very good growth outlook that can capture on their own and grow.

Now the question that I would like to pose now, Benjamin, looking forward, are the opportunities in the field of infrastructure and with the world recovering from COVID and reopening, you did speak about the resumption of business in the United States and Europe, my question therefore is a strategic one. What is it that you are looking upon as new businesses, new businesses of interest, which are the fields that you would consider as good opportunities? I imagine that in your strategic map, this is something historical considering the background of the company.

The second question is to Martinez. I will not refer to the details, Martinez. You always point these out brilliantly, speak about price scenarios, demand and opening outlooks. But my question is somewhat more generic. It refers to the implementation of the significant price increases, something unprecedented. I think we have never seen the prices going up more than 100% a year.

Of course we understand the reasons underlying this, the exchange rate, international prices. It's not that CSN is practicing excessive prices. This is a global movement. There is a strong movement to increase prices. There is the exchange rate and international parameters, but which is the acceptance of these price increases downstream. Do you feel that you have a margin squeeze, have you had a pushback in these implementations, or has all of this been accepted and are you able to transfer this expressive price increases that are unprecedented? Thank you.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

(Through Translator). Martinez, if you could respond first? Thank you.

A - Luis Martinez {BIO 17456025 <GO>}

(Through Translator). Hello, Leonardo. Good afternoon. A very timely question that you posed. And I waive from my natural script that is to speak about prices. But your question of course is highly pertinent. If we speak from the strategic viewpoint of the company, I have been in the company practically 20 years.

I was able to serve the small waves, the large waves and observe business cycles. And in fact in the last seven or eight months, I never observed such strong movements as we see in terms of supply, demand, imports and cost. It truly is something as mentioned by Benjamin, a peculiar thing, China being serviced by the world and not otherwise, of having China as an exporter.

Now first of all, what we are focusing upon in the market and we have always spoken about added value and capacity, as we move ahead in the value chain and get to the consumer, there is a natural difficulty of implementing increases, not in our case, but this when you work with the end consumer and it is legitimate because in some products the share of steel, if we think of agricultural implements and I think agricultural implements are the sector with the greatest amount of steel, 70% of steel or cars, incredibly enough do not have such a high share of steel as they put in the price.

So Benjamin also referred to our trade policy, what is it that I am doing? What is it that I am thinking first of all, and more and more? And I had this experience in other sectors. The distribution price will come close to the price for industry.

If you look at my portfolio today with a strategic viewpoint, I have practically 70% of my shipments or my sales linked to the distribution sector, civil construction, part of the industry that are spot prices, that do not follow contracts and the trend therefore is that evermore CSN and I'm speaking positively, not negatively, we will work with spots and more attuned with what is happening in the market. This is not a trend, it's a fact. And I can dare to say that in the coming quarters, these sales will represent 80% out of contract.

And another very important point, something that we have closed up in the last days was to alter the pricing system and some OEMs. And you will say but to hamper, to the client, no. When you are negotiating a price situation, I sell steel and the client produces a final product, this has to be a symbiotic relationship. Otherwise, it will not work. So there are two OEMs that are important, the white line and the automotive sector that are very important for CSN especially the home appliances for our plant in Parana [ph].

We have altered our policy and we have contracts with very few clients. Instead of being yearly or six months contracts they are quarterly contracts, to give more color to what you ask, we had an increase for the assembly plants in January, spare parts, OEMs. Those who assemble home appliances and we are also going to have a price correction in June. Now this has a positive and negative side, but we have a long-term relationship with the clients, and of course I cannot live without selling steel and they cannot manufacture their products without steel.

Of course there's a difficulty, a standstill but we do have the right to be different from the rest of the world. Who would imagine that a BQ [ph] in the United States would come $1,200. And in China according to the report is now 920, 940. This had happened in 2008. And to corroborate what was said by the Chairman, it's not an issue of scarcity or capacity.

The industry here is highly prepared. If you base yourself on the year we have 14 million a year, perhaps more. It's not a problem of capacity. What exists now and what was mentioned by Benjamin is that inventories are still low. They will be recovered, recomposed and from the viewpoint of prices they are going to go up, there is no way out, everything is moved by cost. And there are articles saying that the distributing sector is speculating this does not exist.

This is one of the most promising sectors in Brazil. Everything that is limited, that is (i) goes through the distribution sector. It is a sector that adds value and it is a sector that CSN holds in high value, high esteem, therefore everything is moved by cost, by the world movements and despite all of this we also have the increases in imports.

There are several trade-offs that I have mentioned here that we are leaving with very well. This change in the CSN trade policy is very important. It allows us to say that we will have a list price for the entire market regardless of their being distributors or industry and that this will be modulated by scale discounts, which is a practice that exists worldwide and that we are finally able to work within Brazil for the good of the market and to redress the variations that are immense upwards and downwards.

I was somewhat long in my response, Leo [ph], but I wanted to share this moment with you and what we are doing internally if anybody needs this premiums and what I normally refer to more direct information. Thank you.

Very well, Leonardo [ph]. What we are presenting now in terms of materializing good results is something we have been building since way back. We have always looked or aimed for the leadership in the sector which we have opened and we will continue to seek and perhaps the great novelty beginning last year or I would say perhaps in 2019 is our understanding of the need to present ourselves, deleveraged to the market to be able to have a recognition of the qualities that CSN has always had and that were darkened perhaps or, by the high indebtedness.

An indebtedness that was higher than the market wished for. This was in 2019 when we began to capture growth and quality in our assets. We superimpose this to the deleveraging -- and this deleveraging pinned by the strong cash generation of the business.

We were under pressure of the market to sell our assets. We held back on this because this would be the easier and faster thing to do in terms of deleveraging, but we were confident in our assets. We were aware of their quality, so we did this gradually, progressively. And I can say that at present, we have come to point three. We're going to end the quarter when, with less than one time net debt EBITDA.

And the CSN businesses target is less than that, of course we're going to work in a deleveraged way below 0.5 times or half of net debt EBITDA and maintaining this commitment as a premise assumption with the market, of course. At one point or another (i) of our business but the goal, of course is 1.0 net debt EBITDA ratio, according to the opportunities that appear. But we have separated the CSN products. We have valued them in such a way that the part is more important than the whole.

This was done with mining. It will be done with cement and it will be done with a steel plant. The Board has already authorized that we seek out an IPO yesterday. And the idea is to do this along with an M&A.

We will have our own currency per business. And the issue of deleveraging will be a secondary one because we can offer the mining currency, the cement currency, the steel currency and make the most of other opportunities in the market.

Our most important commitment and I would like the market to understand this, is with the deleveraging that is a given already and will be faster than the market expects and the main priority that we have is investment grade.

And we would like to attain this until the end of the year. I believe that CSN will fully deserve that investment grade and we're doing whatever is possible and impossible to obtain this investment grade until the end of the year.

It will open up all of the markets and for our bonds and equity for all of the large investors worldwide. And along with the investment grade, we have the deleveraging and technology as another aid through the new CSN where we're working very hard to begin to deliver results.

We're working in pairs and we truly believe that this will be a differential for CSN in terms of novelties. It's not something mad or crazy. Don't expect any changes from CSN in terms of priorities.

And investors were simply going to continue to do better, more of the same and in the fields where we are active, of course respecting the deleveraging technology through Inova. And the ESG part which is the third pillar that we have in terms of priority and support to have a rapid development.

We're going to concentrate on the business, of course. We do foresee a huge potential for organic growth and M&As for mining. And similarly, we observe this for the cement business and for the steel business as well.

We will be larger and better in each of the sectors, always respecting the three assumptions that we mention formerly. I foresee a very quick route for CSN. Our challenge and the challenge for our team and all of the personnel at CSN and my own challenge is to double the CSN profit.

And we're going to do this with greater profitability, better profitability comparatively in each of the businesses. And we are in a deleveraged way going to make the most of some opportunities -- opportunities that will make sense for us from the strategic viewpoint in the short, medium and long-term to truly become a benchmark in each of the sectors where we have a foothold, more of the same in an elaborated way.

And whenever we can gear towards new things in our way of doing things through technology or communication with the market and this is what Martinez is proposing to do, to have a new trade policy, a revolutionary trade policy. We will adapt very quickly to that.

I believe that this expansion is present in all of our businesses and internationally as well. To give you an idea, the plant in Germany as well as our plant in Portugal can double their production immediately.

They have been conceived, projected to do that. They will be able to double their protection. And outside of Brazil, the funding lines -- the local funding lines offered by the countries themselves where we are working will enable us to do this very expeditiously very calmly in terms of deleveraging.

And in Brazil, we intend to have organic growth. When I say that we will be doubling from 2020 going forward, this, in terms of operational adjustments that we have with our present day assets, I'm not considering new assets, acquisitions or new M&As.

I do see big opportunities that if we are strongly deleveraged, then this is what we will do, 0.5 times net debt EBITDA with technology. And prioritizing ESG we will transform CSN into a leading company recovering the value that was perhaps hidden by the high indebtedness we had in the past.

So we expect to have a significant valuation of our assets. And I think the penalty that we were paying was the leveraging. Now, if you analyze the basis that we're working on now, they are forecasting [ph] mining at 70%, steel at 30% cement, 45%, which means that these are concrete facts that are underway.

And I'm fully convinced that the second semester will be much better than the first semester for us. This is a given and we have the certainty as part of our strategic priority regarding this company what was supposed to be have done in two years will be done in six months in my opinion.

And beginning in July, CSN will set itself aside in this market and will be ready for organic growth and will make the most of market opportunities, always based on our three basic premises, deleveraging ESG and technology. Thank you very much.

A - Unidentified Speaker

(Through Translator). The next question is from Daniel Fason [ph] from Itau BDA [ph].

Q - Unidentified Participant

(Through Translator). Good afternoon. Thank you for taking my question. My question refers specifically to cement and is geared to Martinez. We know that IPO is very close. If you could recall the outlooks in terms of volume, price, results for the year.

And if you allow me, Martinez, with the news that Lafarge leaving Brazil, do you think you will have any problem with CADI [ph]. I would be very thankful if you could share your outlook on this.

A second question also for you, Martinez, about the steel mill, you mentioned that your Second Quarter has already been sold out. What is happening in terms of the margins, the margins that were above 27% in the First Quarter?

What is it that you expect in terms of realized prices in the Second Quarter because of the increases in distribution and refer to the costs, the increase of costs in raw materials, which will be the margin evolution in the steel mill?

A - Unidentified Speaker

(Through Translator). Good afternoon, Daniel [ph]. This is Eddie Valdo [ph]. I'm going to respond to this before Martinez and respond to the questions on cement, first, about the M&A, the exit of Lafarge from the Brazilian market.

Now, in terms of M&A and market consolidation, we're following our up on this closely. And of course there will be a market consolidation in Brazil. In the last five or six years, the players in cement suffered a great deal, always working with margins that were close to zero or even negative.

Therefore, it's natural to have a market reconsolidation and obviously CSN is an important player and we are in the process of consolidation. Now, faced with that, we are thinking of the opportunities that we're going to go deeper in if they make sense for the company.

So this movement of Lafarge was leading Brazil, I think this was something that was expected. Now, when it comes to the expansion plan as was said by Benjamin, we have two different avenues for the growth of the cement business.

One is through M&As that we have just remarked on. We're looking for opportunities and the other avenue is organic growth. In the last few years, while there was a drop in the market, we surveyed Brazil. We carried out a deep analysis, looking for the most relevant regions, relevant markets in Brazil.

And we also tried to acquire rights in those areas, so our organic expansion plan will go through diversifying CSN cements geographically, but in a very orderly way. And it will be one of the best markets here in our view point.

So we have five projects that we're working strongly on. They're very robust projects. One is a downfield project, specific growth in our steel unit, with a growth of 30% of volume in that unit and four greenfield projects, Parana project, the Sergipe [ph] project, another in Serra [ph] and one in Para [ph] that will depend on the market growth and the resources that we may obtain from the IPO.

Therefore, we're working strongly on these projects where we have a mineral reserve that is more than a 100 or 200 years old that we're quite protected that way. We're carrying out the environmental research for a project in the northeast.

We're working with the government so as to create a protocol of intentions for both parties so that we can implement these projects. We already have some of the protocols signed. We also have the engineering part for the project, so we're moving forward.

We also have equipment that was acquired some years ago. A large part of this equipment was manufactured and they're now stored at the Port of Antwerp in Belgium, but we will be bringing them down to Brazil. They should be here by July. And we will gear them to these different locations. Therefore very quickly, this is the plan. This is what we're thinking of doing in the coming years and thank you for your question.

A - Luis Martinez {BIO 17456025 <GO>}

(Through Translator). Thank you, Eddie Valdo [ph].

Daniel [ph], once again thank you for the question. And I would like to complement what Eddie Valdo [ph] said. He spoke about all of the projects. I would simply like to underscore something that I have reiterated often.

Analysts speak about how this market will behave in Brazil, if it will continue to grow, if it depends on infrastructure, if it depends on the green and yellow CADI [ph]. The truth is that in the First Quarter this market grew 18.8%, a relevant figure that motivates us and thrusts us forward to look upon this market with a much more positive viewpoint.

If we carry out a historic series of this market since 1980, since the crisis and later I can detail this better for you, we did this in a roadshow that we carried out with investors and clients, but despite this up and down of cement, if we look at 1970, the growth was 8 [ph].

There was a drop. Now, if you look at this historical series, the growth was very positive at 7% to 8%. And this is important. Our drive for the IPO is to grow. It is not to pay off our debt. Our drive for the IPO is to set up a new plant, to think of M&A opportunities and to enhance our position in the market.

Now, we go back to what was said by Benjamin. We have a single strategy, a unique strategy that considers a sale bag by bag, a fragmented sale, looking at different regions and this sets us aside in the market.

Thanks again for the question about Lafarge and regarding the market. And I'll give you a short summary of what happened. The market projection for 2021, now projection of CSN is that the Brazilian market should have a 10% growth, perhaps a little more differently from other projections that referred to 5% or 6%.

The industry in general will grow 6% to 8%, the automotive segment, a modest growth of 15%, distribution 8% to 10%. We still have the re-composition of stock, the part of the home appliances, the white line 8% growth. Packaging, which is a sector where we have good representation, 9%.

If you mix all of that and put it into our portfolio, I do believe that our sales as mentioned by Marcelo will be a high double digit for the year. This is relevant information that I wanted to share with you about the market.

Now, some points of curiosity, to give a greater foundation to what I say if we think about a sector with incontestable growth. The power of Brazil compared to other countries in agriculture; in agriculture, we have silos, agricultural machines the drums for storage, agricultural implements.

They have intensive use of steel. And as these markets were going to continue on regardless of what happens in the world at least during the Second Quarter and in the Third Quarter that are practically guaranteed.

CSN has a very strong front of orders of 1,200,000 tons. And as Marcelo also remarked, luckily, our units outside of Brazil; Marcelo spoke about the United States, but if we think of Portugal, I would have never imagined that in Portugal we would have 15 million EBITDA for the quarter. And I see no possibility of being different because sales there are at another level. So the market component is important in terms of understanding what is happening.

When it comes to prices, I don’t know if you will recall in the last call, I said that the carryover prices for the First Quarter would be 25% and I got it right. It’s exactly that. I imagine Daniel [ph], in terms of modeling and depending on my new commercial policy, I should have a carryover of 22 to 28% in the Second Quarter, quite expressive for the present day Brazilian market. So this is something that we are truly pursuing.

Another fact, I don't know if you perceived it, but our cost has increased in the First Quarter. The increase was expressive vis-à-vis the First Quarter 20, and despite this, we had a very high EBITDA margin with those costs.

What is going to happen to costs? Of course in the First Quarter, we had the impact of the raw material and we had a few variations in the cost of goods sold and the cost was somewhat higher.

Going forward, what is going to happen? We buy coke. We paid $480, $500 and this will benefit our costs. This coke is now being negotiated at 409. It has reached 380. I don't think it will remain at that level, but it should increase in the Second Quarter.

Now, iron ore, we truly cannot say what will happen. And in coal, were bought out, the value reached 140 now is down to 110. So if we think about margins, were going to have a volume growth in the Second Quarter. We have 300-dollar margins in the domestic market. We think that in the Second Quarter well go out even more because the; when you have a full capacity, were maximizing the bottlenecks, the real per hour of a hot lamination.

And so were now prioritizing to undo the bottlenecks, and despite the limited capacity that we have at present, were obtaining maximum potential from the company. And the issue of premiums and its important to speak about them. This came out in CRU. It is underestimated.

The BQ price in China is impressive. It has reached 920, 940 dollars. The premium at present is negative and 6% or 7% and beginning on May 1st, we have decided to implement a price increase that will go 16% to 18%.

I think that the value chain will end up absorbing this price. It's a matter of cost. And of course the more steel-intensive products will suffer more, but generally this is not something that pertains only to CSN, pertains to the entire market.

This is the scenario that I imagine for the Second Quarter and I dare to say that in another month, the Third Quarter will be guaranteed in terms of profitability, the placement of orders and results as a whole. Thank you, once again for your question.

A - Unidentified Speaker

(Through Translator). The next question in English comes from Carlos DiAlba [ph] from Morgan Stanley.

Q - Unidentified Participant

Yes. Hello. Thank you very much. The question is just with a very strong performance CSN businesses and the very strong balance sheet, what can we expect in terms of either more dividends perhaps and more defined dividend policy linking those payments to shareholders to free cash flow or cash flow from operations when you're sustaining CAPEX or share buybacks? What are your thoughts there? Thank you very much.

A - Unidentified Speaker

(Through Translator). Carlos [ph], thank you for the question. We mentioned the capital allocation goes through the center of the company. Formerly, we were working on reducing debt. Now, were seeing what to do with cash allocation.

We can invest for the business to grow. We can invest to enhance the business or remunerate the shareholder in the short term through dividends and share buyback. Now, all of this is very recent. Therefore, we still have not attained our deleveraging goals.

It's around the corner, of course and we should do this in the Second Quarter having a net debt EBITDA below one and EBITDA below 15; the debt below 15 billion, but until we do this, were not going to change the CSN dividend policy.

We pay the minimum mandatory amount, 25% profit. What happens is these dividends will already increase significantly. Only in the First Quarter, we had more than $R5 billion in profit. Only these will lead to dividends that are higher than those in 2020. We will have more disbursements in terms of the payout to shareholders.

In CSN Mining, the dividend payout will be more generous as discussed in the IPO and then payout of 80 and a 100% this for the short term. In the medium term, as mentioned, were going to try make the most of the growth opportunities and M&As, investing organic growth, but should these opportunities not appear in the short term, it would be natural to use these capital to pay out the shareholders through the dividend policy. It's too early to say anything at this point.

Q - Unidentified Participant

Fair enough. Thank you very much.

A - Unidentified Speaker

(Through Translator). The next question is from Kayo Ribero [ph] from Credit Suisse.

Q - Unidentified Participant

(Through Translator). A good day to all of you. Thank you for taking my question. Most of the questions I had have been responded to, I would like to speak about the risks that you foresee today.

We see a very favorable movement for mining, for steel. But what comes to mind is a possible reduction in the import of steel or the steel cuts in China that have been mentioned by ministry and perhaps the taxation for the mining sector in Brazil. If you could speak about this, see if it is feasible that will have changes this year and what will happen with the dynamic that we see for this year. Thank you.

A - Luis Martinez {BIO 17456025 <GO>}

(Through Translator). Kayo [ph], this is Martinez. Regarding the reduction of the import tariffs, a very important thing is that the steel industry and specifically CSN have no problem in competing, none whatsoever the level of operating excellence that a company such CSN has is outstanding.

Now, the problem is that the worldwide business arena is not the same. What were looking for is competitive isonomy [ph]. I don't think it would be intelligent for the government to scrap the industry by increasing import tariffs. I do believe that this is a movement that has a trend as the government has said, but I think that CSN particularly will be able to competitive.

And we also have competitive industry and this will enable us to reduce taxes and reduce tariffs as well, another important thing. What the government is saying is taking 10% of the 12% that we have present which would be 1.2 for the first year which means this is correct from people who are looking at the equation, a competitive isonomy [ph].

It's not something that is of concern at present. We are obviously concerned with the Brazilian industrial policy and the opportunity for exporting. Regarding the rebates in China, they're unbelievable. Throughout the last year, China was a net importer, became a net exporter.

And with this new rule in the government; what happened, in the last call, I said that the capacity of the Chinese industry was 94. They continued to work with a high level of capacity, a very high level and its not only absolute capacity.

In truth, they're modulating everything vis-à-vis what happens with the climate. We no longer see those images of complete pollution. There are people in Hong Kong that are witnesses to what is happening.

The fact that they changed the tariff is due to survival. China had a CDP growth of close to 20% in the First Quarter. There is no country that can grow without cement or steel. It's very simple. They're going to leave the steel in the domestic market. What's also not perceived is that there was a tariff for China to import semi-finished products from other countries, this is over.

In the next meeting, were going to see a movement of steel plates coming from Brazil and from Russia going to China. So this world balance of plates; the transoceanic plate market, it's transferred from one plant to the other. It's 12 or 13 million. It's not that considerable.

And this is another important point. Another point that could improve, I particularly believe that the prices in China are low. They will be appreciated because of the restriction for exports. The scenario therefore is very positive in China. The scenario is highly positive in Europe.

For a long time, we had not seen such a thriving automotive industry in Europe, and in the United States, no need to mention that United States is undergoing a spectacular virtuous cycle. For the first time in history, the stock is at zero practically.

I will then ask Pedro [ph] to share with you an analysis of the inventories in the United States. And it's hard to go back. There's a natural industry inertia to recompose this and have accelerated growth. So, very generally, this is the worldwide scenario. Now, what could go wrong? Difficult to say.

I think that there's an excess of liquidity worldwide. It's not happening only in the world. It's also happening in Brazil. And the President has said several times, those that produce will be privileged and Brazil is a country that has to produce.

We have a great deal to do here not only in the agricultural sector, industry, infrastructure. Were still at an incipient stage. Infrastructure hasn't even begun. Imagine when we have the resumption of the sector in Brazil. Kayo [ph], the environment is very positive. It's the realist-optimist speaking. I'm being more optimistic than realistic at present. Thank you for your question.

Q - Unidentified Participant

Thank you very much. Very clear, Martinez.

A - Luis Martinez {BIO 17456025 <GO>}

(Through Translator). Thank you, Kayo [ph].

A - Unidentified Speaker

(Through Translator). The next question is in English from Alejandra Andrade from JPMorgan.

Q - Alejandra Andrade {BIO 19343725 <GO>}

Hi. How are you? Thank you, so much for taking my question. I just had a quick question on possible liability management. When we look at your pro-forma debt profile, clearly, we can see there that the idea would be to refinance with a smaller bond but I was wondering if you're possibly looking into other types of liability management across your entire debt structure. Thank you.

A - Unidentified Speaker

(Through Translator). Thank you, Alejandra, for the question. You're right, I'm going to confirm your interpretation. One of our initiatives would be to use our short term bonds in

2023, lengthen it. The bond matured (into 18). It has a coupon of almost 8% and the refinancing today would bring us a great deal of savings and possibly also a reduction of gross debt.

We could reduce this and reduce our gross debt. Now, in this phase of rating improvement, another liability management is the possibility of an issuance in the local market. Our rating begins to get to AA and goes beyond the local market. And it would be interesting for issuance to finance investment and to finance our bank debts with longer terms and lower rates.

So this is a front that were going to seek out. And third, with a group of banks, that are a minority in our balance at present, they're no longer interested in leaving. They want to remain and they're interested in lengthening the debt under interesting conditions. These are the three fronts that we will tackle therefore, Alejandra.

Q - Alejandra Andrade {BIO 19343725 <GO>}

Thank you, so much. That was very clear.

A - Unidentified Speaker

Thank you. That was very clear.

(Through Translator). The next question is from Isabella Vasconcelos from Bradesco BBI.

Q - Isabella Vasconcelos {BIO 20566061 <GO>}

(Through Translator). Thank you. And a good afternoon to all of you. I think that all of the topics have been approached here. Martinez, if we have estimates on the restocking cycle in Brazil for steel and the finished products, I think that this will move forward perhaps or will it not move forward until the end of the year.

A - Luis Martinez {BIO 17456025 <GO>}

(Through Translator). Good afternoon, Isabella. Thanks for the question. I could state today that the situation of the Brazilian market is full supply. What we have is a lag in some value chains linked to the sudden growth that we had in a very short interval.

Simply to give you an idea in distribution at present, we had inventories of 1.5, 1.6 months of inventory. At present, it is at 2.3. In another two or three months, we will get back to the level of three months which is what is acceptable for the market.

In the automotive sector, a very important sector, the car inventory at present is of 13 days and in truth, the market would like to have 30 or 40 days and steel is not the villain here. There are other products that are missing such as semi-conductors and other primary products.

A very important fact and I like to speak about facts, (CSB) presents a very well drafted report every month of all sectors of economy and steel is the sector with the best supply in the market compared to paper, glass, and other sectors linked to commodities. I can say very calmly that Brazil and CSN are prepared to once again capture this growth that should be even stronger in the Second Quarter. Thank you.

Q - Isabella Vasconcelos {BIO 20566061 <GO>}

(Through Translator). Thank you very much.

A - Unidentified Speaker

(Through Translator). As we have no further questions, we will return the floor to Marcelo Cunha Ribeiro, the executive investor officer, for the closing remarks.

A - Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

I would simply like to thank all of you. It's been an hour and a half that we have been conversing. We hope to see you in the next call. Thank you very much.

A - Unidentified Speaker

(Through Translator). The conference call for the CSN results ends here. We would like to thank all of you for your participation. Have a good afternoon.