Y 2017 Earnings Call

Company Participants

- Benjamin Steinbruch, Chairman and Chief Executive Officer
- Edvaldo Ferreira Miguel
- Gustavo Henrique dos Santos Sousa, Director, Investor Relations & Chief Financial Officer
- Luis Fernando Barbosa Martinez, Executive Officer & Member of Executive Board
- Marcelo Cunha Ribeiro, Investor Relations Executive Officer
- Pedro Gutemberg Quariguasi Netto, Executive Officer
- Unidentified Speaker

Other Participants

- Daniel Sasson, Analyst
- Leonardo Correa, Analyst
- Rafael Cunha, Analyst
- Unidentified Participant

Presentation

Operator

Good morning. Thank you for waiting. Welcome to the teleconference of CSN to present results for the fourth quarter of 2017. 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's presentation. After the company's remarks, there will be a question-and-answer session. (Operator Instructions) Our event is also being simultaneously webcast and it can be accessed through CSN's Investor Relations website at www.csn.com.br/ir and MZiQ platform, www.mziq.com, where the presentation is also available. So it will be ready there for a week after it's done. The slide presentation may be controlled by you.

Before proceeding, we would like to declare that some of the statements herein are mere expectations or trends and are based on the current assumptions and opinions of the company's management and that future results, performance and events may differ materially from those expressed herein which do not constitute projections. Actual results, performance or events may differ materially from those expressed or implied by forward-looking statements, as a result of several factors, such as the general and economic conditions in Brazil and other countries, interest rate and exchange rate levels, future rescheduling or prepayment of debt denominated in foreign currencies, protectionist measures in the US, Brazil and any other countries, changes in laws and regulations and general competitive factors on a global, regional or national basis.

I would like now to hand it over to Marcelo Cunha Ribeiro, Investor Relation Executive Officer, who will present the company's operating and financial highlights for the period.

Please, Mr. Ribeiro, you may begin your conference. Thank you.

Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

Good morning, everyone. Welcome to our conference call. We are now back into having quarterly presentation. I would like now to hand it over to the Chairman of the Board, Benjamin.

Benjamin Steinbruch {BIO 1499059 <GO>}

Good morning, everyone. Thank you very much for participating in our earnings sharing call. We are presenting the results of the fourth quarter and also results for 2017.

And as we had said before, we have picked up into improving and getting better results and as you can observe in the business, we have had a significant recovery of our EBITDA, BRL4.6 billion, which resulted from all our efforts. We had a significant decrease in debt level. Compared to EBITDA, there was 2.5 times as opposed to 5 times reduction and we want to reach below 3.5 times, which is our commitment for '17, but we haven't suffered any deleveraging as expected by the market. So thanks to our efforts, we have obtained improvement in our performance shown by EBITDA in the reduction of EBITDA over debt results from our debt operating effort.

For 2018, we can anticipate a deleveraging of 2 point or BRL2 billion or BRL3 billion in terms of sales of assets, and we are fully committed with doing all that at the same time that we adjust our operating -- operations, so that we can get by the end of the year at a much more comfortable position. We strongly believe in significant recovery of operating numbers of our company.

For '18 and if you want to hear my own perspective, I expect 20% growth in terms of revenues, thinking about amounts and prices, because we are going to work at full speed as we've been doing before. We are operating at full and we are focusing on all our business units to have full operation, full production. And in terms of margins, we probably will have 20% margin increase because of our intent to reduce costs and as a result of price increases that we have already started implementing, and we'll keep on doing that as the year goes on.

In terms of steel operations, a lot has been taken into consideration because of what's going on in the United States. But Korea has already dealt its issues with United States and Brazil is going also to have its (inaudible) actions within 2 or 3 weeks. And defining focus, for example such as advocating [ph] Korea, something that we haven't anticipated at first, which means that we'll get rid of a problem in terms of Brazilian steel production overall. But from a practical perspective, we really have to be concerned about Chinese imports much more than exports to the United States. One of the main concerns in the United States concern Brazil and other countries is being used to transport Chinese production. So I think that we are going to be able to deal with the situation very quickly in Brazil.

Concerning China, I think it's high time we do (07:39) positive and pragmatic attitude in order to be able to deal with the new positioning of the US government. Concerning steel, the steel segment, we are going to focus more on the domestic market offering better product prices. We can have an increase in margin, the expansion of market. We really think that 2018 will provide growth in all areas. Automotive industry, for example is showing an improvement, home appliance as well, civil construction still lagging behind, but we still think that the improvement will be noticed. And infrastructure, which is also lagging behind but will catch up. We have already delivered what we had promised in terms of prices, but we have much better prices for the first quarter. And we think prices will improve and will help us recover margins as of the second half of the year.

Concerning mining operations, we had a performance below the level we expected, but this is a onetime occasion because of planning. As you know, mining is something that takes long-term planning, and we had some gap between what had been planned and permits and license. With Samarco accident, environmental issues changed significantly despite the willingness of environmental agencies and the government, seems they're taking much longer. And as a consequence, we had to work with what we had in hand already approved for mining operations.

We had high-rate silicas in the second half of the year, silica over 8%. And as a consequence that impacted our prices. Now we're working with silica rates below 6%, which we -- grew significantly the price pressure and with much better perspective of curating our mines and improving the quality of ore. Therefore, for the first quarter, I already expect significant improvement in our margins and price improvement in mining segment because of the reduction in silica content. This was a one specific problem in the second half of last year that has already been corrected, so we're going to have better performance and better quality, as well as higher volumes as we are going to be given permits of additional exploitation by the environmental agencies. We're going to have better quality ore and a better solution of tailings to our dams. I think that for mining, the year will be much better in '18 over '17.

In cement, we also had a performance below our expected levels. We are newcomers in the market that had been suffering from reduction of volumes, so we had double the impact. And as you know, we can have 800 million tonnes. We just had less than that, and we've run some experiments to check amounts as opposed to prices. We brought down quantities to have better prices then increased volumes regardless of reduced prices. But I think that in '18, we will experience a de-cap of the cement market and we are going to work at full operation and we are going to benefit from price improvements.

In terms of cost, we are highly competitive. Our plant is probably one of the most modern, the most competitive in the market. We have very good cost levels, and we think we can really improve that further. And we are going to have a very competitive position in the market. And we think the market is going to be better. My take-home message though, considering the results of the previous quarter and the perspective and the outlook for '18 that CSN will keep on working at its full capacity, focused on domestic markets, considering the attempts to yield better price margins in all its segments and considering significant reduction of cost. We had 20% cost reduction of administrative costs on a year-to-year or year-over-year basis. And we are strongly focusing on reducing general expenses -- general, administrative expenses and financial costs. There was almost BRL600 million of reduction in financial costs and I think it will be even better for the year.

We have negotiated an extension of the terms with Banco do Brasil, and we think that this year will be a year where we can provide very positive results to the market. If we base on the year of '17, we can expect 20% increase in revenues as a whole in terms of quantitative and qualitative factors and 20% margin increase, that is our challenge.

I think we are on the right path. I don't see any difficulties to or any hurdles implementing what we have agreed on in terms of budgeting. The deleveraging will happen in '18 to try to converge the best operating results that we have. And I think '18 will be an important year to pick up margins at CSN because CSN has always been a brand of delivering excellent results and good margins in world steel production and mining operations. So I'm sure we are going to restore our current position compared to the past in terms of margins and EBITDA.

And in addition, I think we are going to have the deleveraging, so that we can really yield the best results of all the efforts that we have been putting in place since 2016. And now we think it's the best time to collect those results. Thank you all very much for participating this morning. And now our executives are going to share with you our results. We are going to start with Marcelo, and then we'll be open for your questions. Thank you all very much, and have a nice day.

Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

Well, thank you. Now I'm going to share with you consolidated report, and then we'll go on results by results. Page five, we can see the improvement in all our key businesses. We can see an increase there compared '16, '17 with 14%, BRL4.7 billion, over BRL4 billion, with strong recovery in steel applications, especially in terms of prices and margins. For mining, similar performance with volumes and significant progression and the additional business, including logistics. We showed improvement also in volume. Based on the initial recovery of Brazilian economy with increase in transported volumes, volumes of containers and also sales of energy at interesting price ranges. Everything has contributed to our increasing EBITDA. And finally, a significant reduction on corporate expenses, which also helped with our EBITDA.

Next slide, we have a dedicated focus on the four products we didn't grow because of different performances in our main businesses. In steel, we have an excellent quarter, probably the best in years because of prices and costs that we're going to see. For mining, due to specific problems such as independent quality such as reduction of average Platts and increase in freight cost, we didn't perform as expected. The other one had similar performance, just added some seasonal elements, but BRL1.2 billion adjusted EBITDA.

On page seven now, we can see our financial indicators comparing something that's really essential for us today. These are the indicators that indicate that we can generate cash observing data on an annual perspective, so that we can see our continuous progression. Starting with CapEx, we had significant reduction going from BRL2 billion in 2015 to BRL1.065 billion in '17 because of the end of our investment cycle and because of more connectivity in CapEx, more focus on specific projects, sustaining, maintenance, safety and environment.

Next, we can see our working capital management. At first, very positively in '15 and '16 because of reduction in our inventory levels. Whereas in '17, we have taken one more step, especially in suppliers management. And we still have more to do there. The third element that's contributing to cash generation are the interest rates, and it impacts foreign exchange variation because there was a depreciation of Real in the last quarter. Otherwise, we would have had more reduction, but still we are on the path BRL1 billion better than we were 2 years ago in terms of financial expenses. Combining it all, in addition to increasing EBITDA, our operating cash generation will become positive generating cash flow in very strong levels for '18. And that's what we did for the two last quarters. So 300 and 100 in the fourth quarter would indicate the continuity of this trend. And this is absolutely essential for what we have done.

Here, we have all the scenario of leveraging. We had eight quarters of reduction of leveraging. In the last quarter, the net debt had a reaction to the Real exchange rates, but there were three EBITDA turns compared to 1.5 years before. And it shows a clear trend of quick deleveraging to operating cash generation EBITDA and also sales of assets, which is one of our perspectives for '18, BRL2 billion to BRL3 billion in sales and -- of our assets, which will help us get faster to our guidance, which is below 3.5 times by the middle of '19.

And the last aspect concerns liquidity on slide nine. We have our cash position BRL3.4 billion, compared to the amortization, how they used to be before our efforts for expansion and our current position. So we can see an impact that there was an extension with Banco do Brasil. Secondly, a new bond with repurchase for '19 and '20 and a number of new conditions approved with Caixa Economica. So it means more than BRL7 billion reduced in terms of amortization, increasing our duration from 28 to 41 months. It's still an ongoing process, so we probably will have upcoming moves shortly concerning new expansions and liquidity management. These are the consolidated figures that we have, and I would like to give the floor to Luis Martinez, who will carry on as of slide 11.

Luis Fernando Barbosa Martinez {BIO 7187744 <GO>}

Well, steel operations, we are very glad to tell you that, in the last quarter, Marcelo told you, we had the highest EBITDA in the past two years, BRL713 million better than the previous two years. And this is what Benjamin has said, it will go from what we've been doing in price adjustments, price alignment, portfolio adjustment, cost reduction, manufacturing management, et cetera. This year, specifically for steel production is a very important year. We have focused on results, mix portfolio and prices. We had a 10% increase in prices overall, 5% in the fourth quarter.

You can make a very simple calculation and average price of BRL2,800 we had for -- and the cost of the jobs plus the cost of conversion is BRL2,800 in '17 and a cost of BRL1,940. It's gross margin of 31%, which is a very strong competitive margin compared to other players in the Brazilian and international market. It shows the resilience of CSN and what we have been observing for the three years because the past three years were the worst in terms of steel production ever.

Turning to some things that I would like to point out. We have also reached in '17, 58% of total volume of steel production of prepainted and precoated material. We also believe that working in product mix would be successful. In 2014, we had 45 -- 46% of that mix. Today, it's 58%. Even though in '17, we exported to the US 270,000, which is now going to go back to the domestic market in '18. In '18 and I'm going to tell you a little more about the market, but we have great perspective.

Benjamin has said that we expect the price increase in June 7.5%, we have already defined it, focused on 8 -- 85% in MI in the domestic market, and we used to deliver 360,000 to the foreign market to the US and that was going to be reverted to the domestic market. And the numbers of the first quarter of '18 compared to '17 are very positive so far, showing a 2-digit increase compared to the same period previous year. So very positive scenario in terms of results. Pedro tell us about cost now please.

Pedro Gutemberg Quariguasi Netto {BIO 19803245 <GO>}

Slide 12, you can see our production of slabs, 17% increase in production of slabs in '17, compared to the previous year, fourth quarter over the fourth quarter of '16. Over 4 million tons of slabs produced in the fourth quarter last year, compared to the third. There was also an increase 3.5% in production of slabs. And on the right in the slide, we can also see an increase in revenue that Martinez has just emphasized comparing fourth quarter '16 over fourth quarter '17 and the two previous quarters. And the increasing costs that we had because of price increase of coal and iron ore was below the increase in revenues that we had. As a consequence, our EBITDA margin by ton increased, as you can see from BRL459 per tonne to BRL569 per ton. It's also important to show you between the third quarter and the fourth quarter '17, the cost of slab was flat with an increase in revenues per ton. And the cost of slabs to operation also reduced compared to the cost of third quarter '17, maximizing need for further the increase in margin going from BRL358 to BRL569 per ton.

Now let me give the floor back to Martinez to talk about market perspectives.

Luis Fernando Barbosa Martinez {BIO 7187744 <GO>}

What do we expect for '18? Benjamin has already briefed us on it, automotive increased, it is now 29% more than '17, here in the first 2 months, which is a public data, 14% increased production. And it's expected to finish at 12% total increase. Trucks 25% last year and this year we expect to grow 20%. The only area that we still expect will take two or three months to pick up in terms of consumption of supply, civil construction and launches is really the civil construction, which will just pick up about the second half. When you extrapolate that to steel, we are talking about a 12.4 million ton market, 1 million more ton compared to '16 -- '17. And another important bit of data, first 2 months of the year, there was an increase, and this is public data, there was a 14% increase. But so far, very good outlook for the domestic market in general in all different markets.

Now speaking about 232. The first exchange has already lost its importance (inaudible) China and US stock exchange market were going up because of negotiations that seems to be quite advanced between China and the US. US and Korea, they have also started as we've mentioned in the previous result and (inaudible), it's a very positive scenario specifically for CSN, we are working within the cycle of products, so that our slabs can be preserved, also flex steel pages -- sheets and also a kind of additional product that can be added with added value to the US market. Negotiations today are really very successful and they include what is a voluntary restrictive agreement on a country-to-country basis, and companies will be privileged depending on the economic interest and the kind of investments they have in each country.

Concerning imports. As Benjamin mentioned, imports from China, last year it was very strong, we reached 1.5. This year, it started somewhat at a lower level, but the government has a role to play as well. There are positive signs that the government is much more attentive, starting with non-automatic (inaudible) products and trying to build surges in the market of imported products that may impact our goods in the domestic markets. Last year, imports had a penetration of 13%, I think it's too high, which is what 4% or 5%, that would be doable, 1 million tons more in the domestic market and that would be most welcome. So that's what I have to say you about the negotiation number 232.

Unidentified Speaker

Good morning, everyone. I have here Gustavo de Sousa with me, responsible for the commercial area, procurement and sales of iron ore and Daniel Bueno from production.

Gustavo Henrique dos Santos Sousa {BIO 17683157 <GO>}

In a sense, mining has presented a very consistent result in '17. We can see BRL4.6 billion in our net revenue, despite the lowest volume of sales. Adjusted EBITDA, BRL1.9 billion, with 11% adjusted margin and a quarter increase in our volumes from 1.6 billion despite one -- the reduction in our production because of variation of inventory levels in the productive chain and with positive net result of assets after Platts, 1.8 million tons, higher volume of 400,000 tons and a reduction of EBITDA, especially because of prices. Prices of iron ore and higher volume of purchase and American freight, which had a significant impact on the fourth quarter where we also had a new market commission in the segment of mining, and it was a difficult quarter concerns that.

In terms of quality, on the left of the slide, we can see the result of the restructuring of our productive sector. We can see the average content of iron, which is normally thanks to the Chinese market. In addition to marginal improvement of iron, we had observed a decrease is one more additional point of silica, which has an impact of price growing exponentially on the fourth quarter.

The reduction of volume offered a high-content silica in the market and the reduction and improvement of quality reached by CSN mining will lead to net gains in the first quarter of '18, and we can already perceive that. And we can clearly see in the material our reaction to the market condition. The market has changed drastically and you know all the demands or solution in China, new projects of Vale, and we are getting adapted as quickly as possible to the new conditions. And in '18, things will be very positive for us.

Let us now talk about our dams. What can we say about that? We have to emphasize that we have had a proactive position since Samarco accident. We have been working proactively, so that our dams are compatible with the best safety standards. And we are working with the best consulting companies in the market, which have been supporting us. And we work preventively.

Starting from CSN and Mineracao, we have 10 dams, the largest one, Casa de Pedra, and it's important to emphasize that it is built downstream, so lower risk than those that are built upstream. The construction for reinforcement will be completed in April '18 and we are going to have filtering plants, which will reduce the need to use Casa de Pedra dams.

Concerning Fernandinho and the latest news we had in the media, I would like to emphasize once again that we do not need these dams, all the tailing is exposed. And to make sure that we have safety, we drained the dams and improved channels to distillate all the water that we reserve in the system. We are going to process the tailings of our dams, so that we can have a recovery of the area and can reincorporate the area to the natural landscape, making it very clear about how we operate at CSN and very well managed by the team.

In '18, this is a year that we are going to operate in new operational model, complying with the ore market, really getting rid of difficulties depending less on the dams and having a reduction on our complications. We have four main projects, one which is already in operation. Filtering, it's going in operation in April, phase two already in construction and filtering team. So as a consequence, we are going to depend less on the dams. We're going to have a significant improvement in quality and significant cost reduction. All the projects have received their environmental permits to operate.

And concerning the market, we have an impact demand from China. Here, we see a good prediction. It's forecasting a growth of 2% of the demand, which shows a positive scenario for use of ore. We have detected an increase in demand of 50,000 tons. So CSN has been working on operating at similar price range which we had in '17. Thank you very much.

Luis Fernando Barbosa Martinez {BIO 7187744 <GO>}

Now going back, this is Martinez talking about cement. Benjamin has also briefed us a little bit. In the last quarter, we didn't perform so well, for two reasons. First, because we tested price ranges that have to pick up. They are very low in the Brazilian market compared to other world economies. But even so, we grew for the second consecutive volume -- year in terms of volume 20%, even in a decreasing market, we are still growing

20%. In the first two years, we had the commitment of start getting to be known in the market, showing our capacity and we have reached a consolidated market in the Southeast market, Sao Paolo, Rio de Janeiro and Minas Gerais.

In terms of manufacturing, operations and excellent management, we are really state-of-the-art. It's not different from what we tried to do, but still we want to fill a lot of fields and that is one of the reasons why we are increasing our average price, which is BRL160 per ton or 13% increase leading to EBITDA or 50% higher than before. So for '18, we are going to work at our maximum capacity, 380 million tons per month, operating it further and obtain price recovery, so that we can get prices as high as some international markets have it.

Edvaldo Ferreira Miguel {BIO 1966610 <GO>}

This is Edvaldo Miguel. Let me talk about the outlook for cement on slide 18. The decrease in consumption of cement in Brazil reduced in '17 since 2014, it was about 10% reduction per year, but in 2017, the decrease was 6% only. In the first half of the year, it was even lower. The National Trade Association expects to have a growth in '18 of 2%, small growth considering the low basis, but it's already a good indication of the reversion of consumption of cement in Brazil. Prices are also very low, and we just heard compared to history prices and also compared to the reference prices in matured markets such as US and Europe, it is significantly lower, but we also think that this is a moment where the curve is going to change because as much and it's showed us there has been an important price pickup, especially now in the Brazilian market.

Our cost -- as we've heard, our cash cost had a 17% reduction throughout '17 compared to '16, and we have a number of actions in addition to startups, a new account with Arcos, we have a number of other actions in place, reducing costs so that we can have from now on much greater profitability in our cement operations.

Thank you very much all our officers for their presentation. I think we should open for questions before we make our closing remarks. So let us now open for questions. Thank you.

Questions And Answers

Operator

Thank you. We are going to start now the Q&A session for investors and analysts. (Operator Instructions) The first question comes from Leonardo Correa, BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good morning everyone. Thank you all very much. My first question to Martinez. You mentioned price increase in June, could you please confirm it will be 7% price increase? And I would like you to correlate this price increase with the pressure that we have observed, still perception only in the market. But we've seen EBITDA, for example, going back to 570, 580, do you think that this is going to somewhat impact your movement because in terms of priorities, if we incorporate the new references, it'd be something like 10%. So if you can please talk about this equation, that will be most helpful. And I also have some points concerning iron ore. How can we understand you're breakeven with China, and how can we expect that for '18? And I would like to confirm concerning the dams are all the permits available, so that you can deliver 13 million in volumes this year? Is there still any risk or not? So please expand it or elaborate it further. Thank you.

A - Luis Fernando Barbosa Martinez {BIO 7187744 <GO>}

Hi, Leon, this is Martinez. Now talking about the priorities, we talked the other day what we are observing now in China is something absolutely new in the past two or three days. Yes, indeed, there was a $20 or $30 decrease. I think it's still too early. If you read all reports and analyze the business, our capacity and the logic, what China's no longer exporting and the possibility of having an agreement between China and the US, I don't think Chinese prices as I said in the previous call, prices below $580 to $610 per ton, I don't indeed. With this level, $580 to $610, our premium would range from 3% to 5% for a dollar of 3.25 to the Real. So we think that we have a stronger domestic market by June.

With the decrease in imports, this 7.5% increase will be applicable to all markets, industry and distribution. It's also important to point out that prices in the US, particularly in last week reached 944, right. And this trend is ongoing. I don't think it is going to go back to levels of 800. It will be about 940, 890, which is also going to be positive for the price equation. What really makes me somewhat more comfortable is that the utilization capacity in China today, which is something Marcelo shared with you is about 87%. So I am talking about actual figures, right. I am not giving my personal opinion, but rather talking about data. Obviously, we are going to closely observe what's going on in the market. We are not going to leave anything on the table. It's the year of the domestic market, and we have to serve down on the bottom wave that we have felt in Brazil.

Q - Leonardo Correa {BIO 16441222 <GO>}

Clear, thank you. If I may, in terms of growth, a lot has been announced -- was announced in January, 10% increase for industry automotive sector and also 10% increase for distribution, if the implementation is going okay, what would you expect in terms of price increase?

A - Luis Fernando Barbosa Martinez {BIO 7187744 <GO>}

So first 6% to 10%, this is what we expect. You can consider that 6% to 10%.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay, thank you.

A - Luis Fernando Barbosa Martinez {BIO 7187744 <GO>}

Andreas [ph], good morning and I am seeking good morning. Our breakeven is $44. Concerning the second item, concerning the dams in our project, 100% of them or the four key projects are -- we have already been given the permits, and we are currently in implementation very successfully. And as a consequence, CSN will experience cost reduction, improve the quality of ore and depend less on dams, so we have it all set up.

Q - Unidentified Participant

So thank you, thank you very much. All clear.

Operator

The next question comes from Daniel Sasson, Itau BBA.

Q - Daniel Sasson {BIO 19234542 <GO>}

Hi, good morning, thank you. Thank you for the presentation and giving us the opportunity to ask a question. The first one concerning steel production. What has changed in your strategy concerning the full production in all units? And how is it compared to the production of long, flat steel, which was reduced in '17, almost a 10% reduction compared to '16? Concerning your mining strategy of improving quality, reducing silica and having large penalty on sold ore, could it impact volumes or quality of ore in the short and mid-term or do you expect to review your mining plan so that you can maintain sustainable quality in the long run?

A - Unidentified Speaker

Good morning. We have our goods and bads here talking about long flat steel. We had a difference in our product mix, so it's adjusted to what would be better for the market considering the recovery of the civil construction market. We have also had some maintenance, construction operations where we recovered our production capacity, which is going to be felt now in '18. So these are the two main reasons why we could do somewhat less in '17, compared to '16.

Q - Daniel Sasson {BIO 19234542 <GO>}

How much do you think you can produce of long flat steel in '18?

A - Unidentified Speaker

Over 250,000.

Q - Daniel Sasson {BIO 19234542 <GO>}

Now Daniel, talking about our strategy, what has changed in our strategy. 4Q, we had the highest EBITDA in the past 2 years with 62% [ph] of domestic markets. So we are going to have 80% or 85% domestic, which is something feasible because we are talking about 1 million ton increase and part of that will be approved by us, and are mostly talking about in market that got really hung by the precoated, prepainted market because of civil construction and distribution, which are now going to get somewhat better. So in '17 and still had to have the positive leverage that we had from the US to produce these products and still make money without angering the local prices.

So we work as much as possible to get the price of BRL2,800 in the end of the year, it's a very important price range for us. Now this is rigid for that price. Prices are going up 6% per ton, makes to the better. I'm going to have these products 1,200 ton to be sold domestically and not going to export. So the domestic markets will be better. So the strategy has changed, but just for the better.

The main strategy and is all essential prices, 58% added value. So sell more to few, but those who we're going to distribute, do not put all your eggs in the same basket, selling to all market, I have not polarized based on one specific market. I do not depend on automotive industry only, I'm on all markets. And also in terms of long flat steel, this is a market that we are coming, but within the correct leg position, there's no market to do that without appropriate plan.

Even if I'm working at full capacity, this is a market that had a reduction in capacity. So we have the right strategy. We are going into producing products that consumers need. And this is why our portfolio of products has gained some of its capacity. So we are going to work focusing on the end consumers of our market. This is our strategy in long, flat steel and cement. It's an integrated strategy.

A - Pedro Gutemberg Quariguasi Netto {BIO 19803245 <GO>}

So this is Pedro talking about mining. Our strategy is to obtain full market to maximize our margins. We are going to be a very conservative. Iron ore with higher margins, highest-quality products. Our strategy is to reach by the end of '18 with our four main projects, reaching 34 million of our own production with premium products. So we want to depend less on them and have significant cost reduction. First part of the year, we're going to consolidate implementation of projects, for the four of them, one is ready. The second one will be ready the end of March.

Hence, by the end of the year, the other two will be completed. So we started '18, capturing value from these projects. And in '19, we are going to have a flat production. So our strategy will be premium market, adjust production to the market and have a significant reduction in cost and bringing down our dependence on them. We want to operate at high technology, so that we don't depend on dams in the future. Thank you.

Operator

Next question by Rafael Cunha, Credit Suisse.

Q - Rafael Cunha {BIO 20229675 <GO>}

Good morning everyone, thank you very much for the question. Talking about steel production and the carryover of price and back in the middle of the year, considering those, could you please tell us what is the breakdown of import parity by product. Could you see extrapolated to our products or do you think that there are some lines which are more successful though. How can we get to a more relevant buffer against decreasing prices in the international market, it's like -- I would like to know it -- breakdown by product.

A - Unidentified Speaker

So as I've said, the range we have is $580 to $610 with 3% to 5% premium without increase. In coal, $630, the premium is about 5% to 7%. We have to be careful though, especially to be sound because of all our imports from last year, 1.5, 600 affected us directly. The premium is about 8% to 10% right now in these two markets. Then related products precoated and prepainted, we have to be additionally, but carefully. You can tell we delivered higher value to these clients. So premium and perceived value are equally important, but it's basically that we have greater effort in coal and hot and less in the precoated.

Operator

The next question comes from Caio Ribeiro, JPMorgan. Caio, if you mute, we cannot hear, your line has already been (inaudible). Caio, can you hear us? So if there are no further questions, I would like now to hand it over to Marcelo Cunha Ribeiro, Executive Director, Investor Relations for his closing remarks.

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

I would like to thank you all for being here this morning. Should you have any additional questions, please let us know. Once again, we have shared with you how optimistic and confident we are concerning our performance for '18. I would like to thank you all for the opportunities and for participating in our conference call. We are very optimistic for '18, as you've heard. We have finished our investment cycle, and it is a very important initiative. We have highly competitive assets and we are going to address them better, so that we can continuously focus on competitiveness. I think that what really matters here is quality, and it applies to steel production and mining. So quality is the key word when we're talking about flat steel or long carbon steel, we have to sell, we have to look for niches. We have to deal with volumes and work with added value whenever possible.

I think CSN has a very favorable position in terms of diversification of products in steel production. We have good quality prospective in mining, really focusing on what we have. We have always to comply with environmental rules and operate easily, now that we have a dry technology, and we can somewhat reduce our dependence on dams, this is wonderful. And the same applies to cement. We have learned from the market. We are newcomers, new players, but we have a very comfortable market position.

And now we want to maximize the potential we have because of the highly competitive plan we implemented with Arcos. Cost reduction is a constant concern of CSN. Deleveraging will equally be the case. And I think that '18 will be the year to deliver more results. Everyone is aware of the potential of CSN. We have suffered a lot because we believe -- and that said in further production and market solutions, and we finished that investment cycle last year. And now we expect improvements to the market. We still haven't reached that. The business looks very bad last year, we noticed an improvement in the second half of '17. January was better than February, February better than January, March better than February, but we think the market should still react more. We think that the economy can get much better.

I don't think we will maintain that low rate of an employment base. Really, Brazil has to reach a normal level again, going from simply saying to actually doing it. We had a project, we expected to have it all implemented in the first quarter, but it was not. We really believe that as of the second quarter, Brazil will really pick up its growth path again, increasing employment opportunities, greater consumption and more investment. And we are really expecting it to happen, so that companies and families can resume their regular life.

Thank you very much, everyone. And we hope that in our next conference call, we can show you significant improvement in the performance that we always expect to reach. Thank you all very much. See you next time.

Operator

Thank you. The conference call or the event is closed now. Please disconnect now, and have a nice day. Thank you.