Y 2018 Earnings Call

Company Participants

- Benjamin Steinbruch, President of Executive Board, Chairman & CEO
- Luis Fernando Barbosa Martinez, Executive Officer
- Marcelo Cunha Ribeiro, Chief Financial & IR Officer

Other Participants

- Carlos De Alba, Analyst
- Gustavo Allevato, Analyst
- Jonathan Brandt, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Thiago Lofiego, Analyst
- Thiago Ojea, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon, ladies and gentlemen thank you for holding. At this time, we would like to welcome everybody to CSN's conference call to present the earnings results for the fourth quarter '18 and full-year 2018.

Today, we have with us the Company's executive officers. We would like to inform you that this session is being recorded. And that all participants will be in listen-only mode during the Company's presentation. After the Company's remarks are over, there will be a question-and-answer session at which time further instructions will be given. (Operator Instructions) We have simultaneous webcast and a replay of this event will be available for a period of one week. Once again, you can change the slide at your own convenience.

Before proceeding, we would like to stay that some of the forward-looking statements are based on expectations and trends on the current assumptions of the company management. There could be differences in what is expressed herein as these do not constitute projections. Actual results, performance or events might differ materially from those expressed or implied in these forward-looking statements as a result of several factors, such as general and economic conditions in Brazil and other countries, exchange rate and exchange rate levels, future rescheduling or prepayment of debt denominated in foreign currencies, protectionist measures in US, Brazil and other countries, changes in law and regulations and general competitive factors at global, regional and national level.

We will now turn over the floor to Mr. Marcelo Cunha Ribeiro, Executive CRO, who will present the Company's operating and financial highlights for the period. Mr. Ribeiro you may proceed, sir.

Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

Good day to all of you and thank you for participating in the conference call for the year 2018 for CSN and I give the floor to our Chairman.

Benjamin Steinbruch {BIO 1499059 <GO>}

Good day to all of you. It is a pleasure to be here. Once again CSN continues to comply with its commitment of showing improvements quarter-on-quarter. We have gone through a sequence of better results and we firmly believe in our recovery. We had a year 2018 that surpassed our expectations not only from the operational viewpoint, but also from the financial point of view. We ended the 2018 exercise with steep growth in terms of the steel market in the domestic market, signing a priority to added-value products. We also had price increases in the domestic market. Therefore, the enhancement was qualitative and quantitative, and as a result, the EBITDA margin was favorable and better than we had expected at the beginning of the year.

The same holds true for mining. We were able to produce more at a lower cost. We had an accentuated improvement in terms of quality premium, which is one of our great achievements for CSN Mineracao. Formerly, we were penalized because of our quality. We now have a premium and this will become a trend to produce ever more and with better quality.

Now despite the strong market competition, we were able to have a positive EBITDA as part of our guidance of working at full speed, as we do with all of our activities. We are initiating the year 2019 working fully at all of our operations. And once again the guidance is to continue doing this and we have a very optimistic view of all of these markets. We have confidence in the domestic market, in its growth and we are prepared to offer quality products with added-value delivering market niches with the greatest possible added-value. We do believe that we will grow further in the domestic market at least in the steel market and we're highly optimistic with the market, awaiting the recovery of the economy, but also optimistic with our ability of commercialization, our partnership with clients and success that was set forth in the previous years, working very closely with our customers.

In mining, we were all surprised with the catastrophe at Bromadi mill [ph], the iron ore price became an unexpected variable. We're working together united to be able to ever more improve quality and receive that premium for quality. This is an opportunity that we have at present. As you know three years ago, we began to work with a change of operations to dry stacking at the Casa de Pedra dam. We have already install and the production of line one is 40% operational, line two will be concluded now in May, and as of that point, we will have a ramp up of production enabling us until the end of the year to work a 100% with the dry stacking process at the Casa de Pedra dam. Our attention day after day in all of the dam continues because of the present moment. But we are fully complying with the legislation and digitally surveying the operation day after day. We are doing whatever is possible, we're doing our best to be sure about the safety of these dams. At the same time, in cement, the outlook is to implement another production unit. We believe in this market, as well, and it is our understanding that this is a promising market as part of the economic recovery that we expect for the country. We will have infrastructure and housing that will become priorities and help the recovery of the market. It is a challenging factor, but with an enormous potential for growth. On the other hand, and as part of our proposals and commitments with the market, we continue with our deleveraging entity. We carried out the prepayment operation that was closed yesterday with Glencore. Marcello will explain this to the amount of $500 million with a very interesting cost of capital that is much below the cost of our bonds. And with a price that is open for the delivery -- for the moment of delivery, once again, a very interesting operation that will deleverage the Company by $500 million, once again contributing to the net debt to EBITDA index. My expectation is that we will end the year below 3 times deleverage net debt to EBITDA index. We continue with the sale of assets and alongside with there's a screening or prepayment operation that has been under negotiation for some time, you are all familiar with this. With a single intention of reaching 2.5 net-debt capital ratio, which is what we committed to do last year after our trip to the United States and Europe.

When we observe the request and the market perception that we would have a better assessment if we were more deleveraged. Since that occasion, which was in March, CSN surpassed commitment of seeking this deleveraging. I would like to remind you that net debt to EBITDA ratio reached 8.5. We've got 5.5 net-debt to EBITDA ratio before they trip at the beginning of 2018. And we ended the year 2018 with a 4.5 and with the operation yesterday, we are at 4.1. We believe that because of the quality of our assets and the possibility of the financial operations that we can carry out in the short term, this outlook of ending the year with a net-debt to EBITDA ratio of less than 3 and also with enhancements and operational results, as we believe that 2019 will be better than 2018. Doubtlessly, we will be able to deliver to the market this commit (ph) we took on last year. As you can see, we look upon the year 2019 with significant optimism .We're very thankful for the performance, we were able to deliver in [ph]2018 we're satisfied with the work carried out. This is based on great efforts that we have carried out to decrease costs and enhance productivity, with a focus on safety and technology.

We're comfortable with the assets that we have at present and we're deeply convinced of our ability to compete in the domestic market. We believe that we can increase our share be it in cement or in steel once again in the domestic market we truly believe in the market recovery. And as I have already mentioned, our intention is to end the year with better results than in 2018 ensuring that CSN will comply with the demands made by the market.

I would like to thank you for participating in this conference call and I now give the floor to Marcellus to continue on with the presentation.

Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

Thank you, Benjamin. I will now go on to the presentation, which is despite your disposal and as soon as we finish we will go on to questions and answers. On Page number 2 once again we go back to the priorities mentioned by Mr. (inaudible) improvement of operation over (inaudible) that are truly lot of all adjusted EBITDA of almost BRL6 million few people in the market believed in this, but this was our guidance. The second priority was a reduction in liquidity pressure at least in the short-term and at the end of the year we delivered several stages of [ph]debt liability, and we have just showed BRL2 billion into venture and we have all felt completed the financing process. So we seem to have BRL500 million in new resources. And in the third place, not less important, the reduction of indebtedness with leverage rate of 1.3. It was almost twice that of the beginning of the year, which means that we have complied with our goals.

We go on to Page number 4 and began with the evolution of EBITDA showing you how growth was accelerated throughout the year '18. We ended the year with a growth of almost 30%. It's greater than the growth of the year we're at a very propitious moment to begin the year 2019, where we intend to continue to grow the small drop in the Forex quarter vis-a-vis the third quarter is explained by seasonality, and we had a high EBITDA level close to 25%. All of the business units contributed to this a growth of 25% in mining, 30% in cement, generating a substantial EBITDA close to BRL60 million through the growth of volume and market share, showing our potential, and this is how we created our EBITDA growth of 26%.

On the next page, financial indicators, our cash flow, which is an obsession, we began with investments. This quarter we have sped up our investments. We had BRL37 million, four projects that are important for June '19, in steel, the stoppage of the blast furnace number three, we have already began to prepare ourselves for this.

It will happen in mid-year. And then, in mining, the (inaudible) led to this disbursement and we had 1.3 [ph] disbursed during the year. For the year 2019, this amount should be at BRL1.5 billion [ph] precisely because of the projects that I have mentioned. But, of course there, the financial cycle was reduced a total of almost 20 days, since the beginning of 2018 until the end, reduction of inventories, lengthening of periods and greater efficiency in obtaining receivables from customers. We would have had a higher cash generation. We're not at ramp up to purchase slabs from third parties and because of the stoppage, we would have obtained an additional BRL200 million, which was BRL350 million were it not for this one-time event.

Another factor was the reduction of the base interest rates and Brazilian economy and the lengthening of the debt with a positive impact on this phasing [ph] of almost BRL500 million a year. We ended the year with BRL12.3 billion of free cash generation, most of it in the fourth quarter and that non-recurrent event due to the operation in the US for BRL1.7 billion amounting to BRL4 billion generating during the year. On the next page, Page 6, we see this. It is important to guarantee the successive reduction of our net debt-EBITDA ratio that ended the year at 4.5 times beginning the year much higher.

Net debt did not drop more because despite the cash generation of more than BRL2 billion, we grew a great deal because of the devaluation of that real, and we had to offset this effect with the prepayment that we made in regard to the 4.1, which was an informal goal of CSN to get of 3.5 in mid-year, which was our former goal and as Benjamin has just announced, we have a new former goal to get to 3 times net debt-EBITDA at the end of the year.

We ended the year with BRL3.2 billion and reinforce with almost BRL2 billion which means almost BRL5 billion as revenue for the operations. On Page number 7, we show you, our debt amortization. And this is important to say, the short-term debt amortization we have in 2018 with lenx [ph] and our debts, we reduced it from BRL6 billion to BRL3 billion and this holds true for the ensuing years. But we do have another challenge, which is the capital markets, they should be good years in 2019, 2020 that will be strengthened, so several initiatives, series of actions that were mentioned by Benjamin, the sale of assets, new iron ore operations that along with the refinancing potential will enable us to face these maturities in 2019, 2020. The maturity of 2019 with the prepayment, has already guaranteed our liquidity for the new initiatives. We will have sufficient for the year 2019 and 2020 in terms of amortization. We will now go on to the specific comments for each business on Page number 9, we speak about steel, where we had a very good year in all variables. A growth of 17% in the domestic market, 3% in the global volume. However, if we compare this without the US market. The impact of the shareholders (ph) sale hampers our -- (inaudible) we had a growth of almost 5% in the domestic market, the growth of 17% is comparable to a market growth of 6%, showing the success of our commercial strategy that is bidding on higher added-value products. In galvanized products, a growth of 30%. We brought back part of what we exported to service the automotive market domestically in the fourth quarter. Good growth, viz-a-viz the same quarter last year, 13%. The drop in total volumes is due to season ability (ph) and once again due to the sale of the operation in the US. In terms of prices, we were able to increase the domestic price, accompanying the international market a growth of 6% and in the last quarter, we continued to increase prices despite the weakness of the international market. And this helped us to have the EBITDA somewhat below the EBITDA of the third quarter because of this variability and below the EBITDA of the last quarter -- last year because of a cost pressure impacting the entire industry, which is what we see on the following page.

On the following page, to the right, the cost of flat production that increased throughout 2018 because of the foreign exchange impact and the increase in raw material, coal and iron ore more recently. Despite the increase of production that we had in the quarter, we went from 900 and some tons to a 1013. We had certain (inaudible) and the EBITDA per ton that stood at BRL503, and a little below last year, once again because of the pressure of raw material that should continue on in the first quarter.

We go on to the mining performance with very good news in almost all the indicators, although the fourth quarter seasonally tends to be weaker in terms of production because of the rain fall. From purchase of third parties, we had an increase in the sales volume, a growth of 6%, almost 9 million tons and with an enhancement of our price realization led to an increase in EBITDA. EBITDA continued to grow and is slightly lower margin, because of the mix in our purchases from third parties.

On Page number 12, we go into the details of our price realized, very positive structural elements for mining. The quality premium during the quarter had an evolution of 7% but, our price realized increased 11% because quality premiums added up to [ph] $3.3 greater than the premium for the second quarter that were $2.1, once again due to the quality of our iron ore with low silica and alumina contents and because we presumed [ph] with higher added-value. That is why the price increase was 11%.

On Page 13, the same comparison for the annual period showing you how important is structural changes, flat up 3% during the year. But, our price realized increased 9%, this because the previous year we have discount for quality of $1.4; for the average of the year, it was $0.9 positive, once again because of the premium and this increase during 2018.

To conclude, on Page 14, this would not have been possible because it's evolution where it's not for the projects that we delivered in the last two years. These are projects while eliminating the bottlenecks in production. They -- these are projects that gradually guaranteed quality, low silica and alumina content. We have the magnetic concentrators, increasing production and quality, reducing events and the filtering system that allows for dry stacking process, reducing the dependency on dam, now the -- coming into production of filter system 2 that will increase production and definitely avoid having to use the dam for the trailings, and once again will guarantee the quality of the iron ore, as you see in the bottom part of the slide, we were able to go from a production phase of 26 million tonnes to 33 million tonnes, which is our present day range with advances, quarter-on-quarter.

With this, I conclude the presentation of the main indicator and would like to offer the floor for your questions.

Questions And Answers

Operator

Thank you. And we will now go on to the question-and-answer session for investors and analysts.

(Operator Instructions)

Our first question is from Mr. Leonardo Correa from BTG Pactual. You may proceed sir.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon to all of you and thank you for taking my question. First, I would like to congratulate the executives for the results and for the deleveraging in the last quarter. My first question is somewhat more specific, there are several doubts in the market regarding this. Now CSN has been working on migrating to the dry process in terms of iron ore and there have been advances on that front as mentioned by Benjamin. And there are doubts in the market regarding when the migration has been completed, if the mining operation will continue without changes or if there will be a change in the cost of operating this business.

And still speaking about iron ore, the market has doubts in terms of the decommissioning of dams. There are several dams, but the dam that is active Casa de Pedra is upstream, it still has not been impacted by the recent decisions made by the government. I would like to know if you have a plan for the decommissioning of the dam and if you have earmarked CapEx for this.

The second point, perhaps for Marcimex [ph]. Marcimex were a company the data from India [ph], from BR -- we're following up on domestic activity and we observe that perhaps the level of activity is below what is expected, since the beginning of the year, there is a new government, doubts about the reform may have had an impact. Now what will happen in the first quarter? In the fourth quarter, you delivered excellent results in your mix. I would like to know if you can further improve the mix of products and how you're going to pass on the cost in this very challenging scenario? If you could refer to this, I would be very grateful. These are my questions.

Q - Unidentified Participant

(inaudible) if you could give us a second -- minute please. You may proceed, Leonardo. This is Enez (ph). A good afternoon to all of you. Now when it comes to the costs in the filtering system, we have not been impacted by the costs. Quiet the contrary, with the increase in production volumes, the trend is to have a decrease. Now what will be favorable to us? Qualitatively, we analyze that producing iron ore again has a better cost on the (inaudible). We are now faced with an (inaudible) of which will be the price. Until the end of December, what is important for CSN is that we will be producing without the need of having that the tailing dam and this will increase our competitiveness. When it comes to the dams that CSN has been in number, we have seven dams for tailing, three in Casa de Pedra, two in Pires and two in Fernandinho. Of all, only one is still active with wet tailings. Now, this is the Casa de Pedra dam that was built with the downstream network; the rest are inactive. We have been (inaudible) and Fernandinho, all of them are being de-characterized and I would like to highlight that both of the dams of Fernandinho will undergo a supervision in March. They will be de-characterized until the end of 2019. Now, this year will be turned into a segment dam and it is also being the decommissioned and this will end in 2019. All the other dams that the Company have are for the classification of water, sedimentation and so forth.

To conclude, when it comes to the amounts involved now for Casa de Pedra dam for the decommissioning in the last five years, we have spent BRL600 million to have -- a lower duration and treatment of tailings; BRL400 million were spent in the last two years and we're in the process of decommissioning projects. Once again when it comes to the dam, but the magnitude of these investments do not truly impact our plant life continues, were ahead of ourselves and we do not say that we will become more competitive much on end of the year.

I hope to have responded to your questions in terms of dam.

A - Luis Fernando Barbosa Martinez {BIO 17456025 <GO>}

Leo, this is Martinez, and simply to review what happened in 2018, as Marcelo mentioned, our market ended with 11% growth. In the domestic market, the growth was 20% and 30%

for resale. We do believe in our power to commercialize and we're going to be working full steam with all of our lines to sell our full production.

Now market figures are important, but they are merely illustrative because we're going to be working with a full production. Last year, at the end of the quarter, we had an increase of inventory and distribution and a small drop in the automotive industry, which is a one-off effect. The automotive sector is working with the forecast of 10% growth and there is a stronger growth in the sale of trucks and buses. We also have civil construction and packaging. When it comes to industry, the growth should be 5% to 7% and civil construction show signs of a recovery 3% to 4%. This is the first point. In the first quarter, there was perhaps a drop in the market but in the second semester, we -- I'm sorry -- in the second quarter, there should be a 5% to 7% improvement for the market.

We have no way out. We're going to be working with full production increasing our added value. Last year we invoiced 1,300,000 tons in the domestic market. For this year, we will continue with the mix 85% domestic market, 15% foreign market. And as part of what is exported 80% to 90% will be galvanized. We don't want to put all of our eggs in the same basket. This is mandatory at CSN. And the strategy does not give very much from what we did in 2018. That was a winning strategy and we're going to implement different things in metal sheets and galvanized products to leverage some sectors.

When it comes to the price dynamics, which is the most important part of this equation, for iron ore went from 65 to 88. The price of metal sheets has increased steeply as it is very difficult to find sheets at less than $500 and another piece of information that is very subtle, 30 million tons per year for metal plates, 15 million intercompany and we have two or three plants working at 1.5 million of capacity. The metal plate capacity in the world is becoming ever more restricted in this scenario. As Marcelo mentioned, this year, CSN will have a stoppage of blast furnace number 3 and I believe (inaudible) will also stop for 60 days. This is the perfect supply and demand situation to enhance the profitability of the sector. The US had very steep prices reaching $1,000. There was a drop to $670, we're now at $660 or $800, which is very positive.

Now, in China, here, of course, the situation is controversial CBQ. CBK, I think is at $560, so the presented premium, if it is BRL2,700 in the domestic market for distribution, the premium is of minus 7 to minus 12. Do your calculations to see what is happening. With this, CSN does not doubt that beyond the market issues, what is important is the cost that will prevail in the market.

On March 25th, CSN will raise prices from 10% to 15% in its product line. In the coated products, perhaps, we will change this, and the premium will be a maximum of 7% to 8%. In January, we had an increase of 25% in assembly plants and 6% to 8% for the rest of the industry. This is a scenario working at full steam are the prices on price increase on March 25th.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you very much, Martinez, very clear.

Operator

Our next question comes from Mr. Marcos Assumpcao from Itau BBA. You may proceed.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

A good day to all of you. The first question refers to the gains and purchase of iron ore from third-party. You bought almost 7 million tons. And -- is there a risk of having a rupture in this because of what happened in (inaudible) or if there will be an increase in competition or a price increase in iron ore in the domestic market, as happened internationally? When it comes to the dams, I would like to gain an understanding of the certification. How often does the certification take place and if this could a cause a risk of stoppage in some of the operations? This has happened at Vale, but perhaps you are different. Finally, if you could comment on the impact of the recent drop in freight of iron ore, and how this has impacted your business? Was this a benefit in terms of the delivery of iron ore?

A - Luis Fernando Barbosa Martinez {BIO 17456025 <GO>}

Marcos, good afternoon. This is Martinez. Okay, let's go to the first question, CSN Mineracao have always carried out supervision of the dam, inspections daily and every six months we have certification regardless of the method of construction. In September 2018, we carried out the first supervision. The first stage of supervision is underway and will be fulfilled until March. Now, external auditors are replaced every two years to avoid any buyers in their analysis. This is our stance. When our it comes to the expectation for the purchase of iron ore, the figures could drop because several suppliers have come to a standstill and there has been a change in control among others. Now, we should have a net increase in sales this year, third, in terms of trade, we hope that the freight levels will extend until the end of the year, especially in south and south east. Thank you. Simply to answer to this, so you have benefited already from the drop in freight price fall, yes, and if there is a reduction of production in the south and south east, will also be a benefit for the company.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Very well. Our last question is Benjamin is on the line. Which is the capacity of sale of iron ore that you have -- a range of capacity would be interesting to begin thinking about some calculations. Thank you.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Simply to answer the issue of freight, we haven't bought anything in terms of future freight. At present, we're working at -- taking advantage of the drop in the freight prices and when that timely moment comes up, we will close the deal for future freights. But basically we're working with the stock market. When it comes to the streaming operation, the idea is to make a million dollar, this has already been advertised in the press. We have been working on this operation for four or five months and the pre-payment from the streaming operations are advanced and enhanced. Of course the complexity of streaming is much greater. But I can advise you that were practically at the end of negotiation for an estimated value of $1 billion and so have an order of $1 billion and so have an order of magnitude in mid-single digit in terms of production percentage because of that $1 billion.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Thank you, Marcelo.

Operator

Our next question comes from Mr. John Brandt of HSBC. Mr. John, you may proceed.

Q - Jonathan Brandt {BIO 5506998 <GO>}

Hi, good afternoon. I wanted to ask two questions, first on surrounding the (inaudible) announcements. Could you give us a little bit more details on how that actually work with the 22 million tons, right -- even in they were the five-year. What the price you're receiving will be -- it's actually even, if this is something that as you could repeat in the future, depending on your debt levels.

And then my second question relates to I guess capital allocation. You have made it quite clear that you want to continue deleveraging the balance sheet through a few times or maybe even the last -- by the end of 2019. I'm wondering, how potential extraordinary dividends would pave into -- this is something that you wanted to do last year. Is that something that you are continuing to look at, or is the priority going to be on the -- on getting to that 2.5 times leverage ratio. Thank you.

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

Thank you, John for the question. First of all, when it comes to the prepayment, this operation can be considered as the advance of our clients, of our customers for 22 million tons, that will be delivered in a linear way through two shipments a month during that period. This is the option of CSN to advance this $500 million and this means that through that five-year period, we're going to be selling based on market conditions. We will be paid cash for the two shipments a month, but Glencore will pick up $24 per ton because of these $500 million. This is how this works. When we look for capital allocation, minimum dividends to pay off the shareholders because of the dividends that were canceled last year will take place, and they are fully compatible with our deleveraging goals to end the year at 3 times leverage or 2.5.

Q - Jonathan Brandt {BIO 5506998 <GO>}

Okay. Thank you very much.

Operator

Our next question is from Mr. Gustavo Allevato from Santander Bank. You may proceed, sir.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Hey, good afternoon to all of you. I do have some questions regarding the Glencore business. I would like to understand the costs, which are costs compared to what you purchase from the market in this agreement? The second question is an update on the (inaudible). And third, the purchase of iron ore from third-parties. Can you continue buying from other players in the short-term or will there be a drop in the purchases from third parties in the third semester?

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

Gustavo, good afternoon. The problem of the purchase is to obtain the same figures in 2019. The great issue is the market -- mining companies are being impacted by what happens, and the great dispute in the market is supply of iron ore. We're trying to buy the volumes that we need for 2019, but there will be an impact, and this is what will define the volume for the coming year.

To complement this, there is a floor that is not very different from what we had last year in the contracted value. There hasn't been in the normal swing when it comes to the costs of the prepay 150, 200 basis points below our curve or by bond. So this was favorable for CSN.

And I'm sorry, which was the last question. SWT. It'll be purchased at the moment of negotiation. We obtained multiple proposals in the binding phase, and therefore, there is no specific forecast of when of if this business will take place. These are credible proposal where insured financing and they continue to be active. That is only active, which only one of the initiatives that we have along with streaming and the sale of assets. It should represent BRL5 billion. This was BRL2 billion of prepayments and this will contribute to the deleverage of 3 times net debt to EBITDA at the end of 2019.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Thank you very much Marcelo.

Operator

(Operator Instructions) Our next question next question is from Thiago Lofiego from Bradesco BBI. You may proceed, sir.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good day to all of you, I have two follow-up questions. If could repeat the CapEx for the decommissioning of the dam, it would be very useful to have a figure and Martinez I did not understand and very clearly what you have said, which is the increase of market that you're expecting in the (inaudible) market for CSN and your expectations for the market as a whole.

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

Thiago, this is (inaudible). Our pace of expenses because of these operations for the safety of dam has represented BRL600 million in the last five years. Life continues at this pace precisely; the main dam contemplated in this plan, Casa de Pedra, the two from Pires and Fernandinho; five dams approximately and we do have our schedule besides the de-commissioning, we want to be at the advanced stage at the end of June '19, to be in even more robust situation. Now, all of our are dams are fully certified and this is our plan, during the four or five years to continue with BRL400 million.

The information we have from steel Brazil is that forecasting a growth of 6% to 7%, although we have already grown 20% last year. We're adding an additional 10%; expressive growth in metal sheets because of the added value of CSN. This year, we have a good outlook in exports and part of galvanized that we will convert to the domestic market 200,000 tonnes that should return to the domestic market for the civil construction sector. These are our forecast.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you. Simply a follow up, Martinez, in terms of prices, I believe and discount. This year, you said it would be 560 around 560. Now, we see a growth of metal sheets, will this lead to a price increase or not?.

A - Luis Fernando Barbosa Martinez {BIO 17456025 <GO>}

Well, I have a scenario with 520 which is what you said. With 520, it was a premium with EBITDA [ph], 560 was fiscal fees, the premium would be zero. Once again, why need money on the table, where you have to have a premium for supplying just in time in the local market. And that is why, we believe that in this scenario, where there is a scarcity of slabs and we're purchasing slabs, we cannot buy those slabs for less than 500 . I think they will get closer to 560 and not 520. With this scenario, the increases will be of 10% to 15%. This is the scenario, we're working with. We're betting on this and March 25, we will have a 10% to 15% price rise. We of course follow-up on parity. In the last two years, imports of cold rolled sheets was almost zero. And CSN suffers a great deal of 12% that comes through Brazil, 1.4 million tons, we get 17%. And we have to fight in the domestic market with those that have idle capacity. But we have to see what is happening internationally as well.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you very much Martinez and all the rest for the answers.

Operator

Please wait while we pool our questions. The next question is from Mr. Thiago Ojea from Goldman Sachs. You may proceed, sir.

Q - Thiago Ojea {BIO 17363756 <GO>}

Thank you. Good afternoon. My first question to Marcelo is this, you already have a CapEx figure for 2019 and 2020 and which is your expectation for a free cash flow for these two years. This is pending. The second question for Martinez, simply to gain a better understanding, do you think that the total sales volume will increase or is it only your mix that will improve, enabling you to sell more to the domestic market, which is your sales expectations for 2019?

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

Thiago, first question. Last year, we closed the domestic market with 300 -- 32,000 (ph). For this year, the forecast for the domestic market is 34,000 (ph) tons. Now I would like to underscore that in part of that portfolio of 500,005,200 (ph) I can still carry out a migration of what is exported to the US, to the domestic market. And there is an increase in volume that we should be able to obtain, thanks to those minor investments in the prepainting galvanization processes where we have to obtain greater added value. I estimate that our sales in the domestic market will grow a minimum of 10% this year. Now, there's not enough steel to grow 20% and the market issue is important for us. But what is more important for CSN is to work at full steam with greater EBITDA. This is our strategy.

And CapEx, so we're accelerating because of the projects that were mentioned, some projects to streamline steel. This year, it will be around BRL1.5 billion and perhaps higher in 2020, if our deleveraging plan is obtained. This is our goal. The figure of 2020 onwards still has not been formed. I can't give you a more precise guidance. When it comes to cash flow, we do have guidance in terms of EBITDA that seems to be conservative at present. The guidance is BRL7 billion and based on this, we will have a free cash flow of BRL3 billion approximately with BRL1.5 million CapEx and working capital and interest at least BRL3 billion, and of course, there is an upside in terms of this figure. These three, whether additional three-for-sale, adding up to BRL6 billion that we will use to reduce our net debt throughout 2019.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Thank you, Marcelo. Now simply to confirm this, which is the iron ore pricing you are using for the cash flow generation. Well the figure of BRL7 billion [ph] is with iron ore, different from present day situation between (inaudible) is what we expect so that the figure will be higher, I'm not going to give you figures, so I don't have to update the guidance. The figure BRL7 billion had a reference of (inaudible) for example.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you. Very good. Thank you.

Operator

Our next question is from Mr. (inaudible) from Credit Suisse. You may proceed, sir.

Q - Unidentified Participant

I have two questions -- follow-up question. First, in terms of imports premium. Is there a great discrepancy in DQ compared to other projects, and in terms of your investment pipeline, as iron ore will become more important, and if you have an estimate of the total amount that you can raise with these investments in coming years.

A - Luis Fernando Barbosa Martinez {BIO 17456025 <GO>}

This is Martinez. As I mentioned DQ where we continued the range of 520 [ph] to 560 [ph], the premium is 0 to minus 7, with the dollar at BRL3.60, we do take into account the dollar. And cold rolled products the situation is the same. Chinese have very similar character, almost parallel, this would be the premium. In galvanized products the situation is somewhat different, with the price situation externally 680 [ph], 700 [ph] for galvanized products. The premium is still favorable for imports.

It's much more favorable now than an year ago, and this is the great secret that we have to manage the sale of galvanized products. We monitor what is happening abroad, and we look at our initials, it's easier to increase rates in cold rolled products, more difficult in galvanized products. And in terms of the pipeline, we continue with the iron ore operations. We do not discard in prepayments; streaming, we continue active negotiation, and we could have a decision in the short-term (inaudible) of course there could be candidates, but as we mentioned, our expectation is to have a total biz investment of BRL5 billion this year, BRL2 billion have already been given -- award in terms of the prepayment and the pipeline would be for those additional BRL3 billion.

Q - Unidentified Participant

Thank you very much.

Operator

Our next question comes from Mr. Carlos of Morgan Stanley. Mr. Carlos, you may proceed.

Q - Carlos De Alba {BIO 15072819 <GO>}

Yeah. Thank you very much. Marcelo, my first question is, could you repeat -- any comments or guidance that you may have on potential asset sales and timing. The plants in Portugal -- in Germany -- Portugal, what will happen in the short-term. But what about Germany and then the port in Brazil as well as the diminishing shares. If you can give us a little bit more color on those. That will be very useful And secondary to Martinez. Martinez, it sounds like that the company is still quite optimistic on the infrastructure spending pick up in Brazil. Could you comment on the reasons why you are so optimistic and also (inaudible) levels and also the timing of when do you see these -- the spending accelerated?

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

Carlos, I'm going to speak in Portuguese. When it comes to the pipeline, once again, we're creating strategic alternative. We're not taking commitments with one or another alternative or with specific terms and the strategic alternatives are the assets in Europe. I would not include Portugal this year. This is not the right time because of what is happening in Turkey and the custom duties. But still, it continues to be a possibility, streaming prepayment and the preferred shares that will be Minas. We hope to collect at least BRL3 billion, which would be sufficient to obtain our 3x leveraging tested at the end of the year.

A - Luis Fernando Barbosa Martinez {BIO 17456025 <GO>}

Carlos, this is Martinez. Why are we so optimistic? I don't know if we are that optimistic. CSN has always been optimistic, because, luckily our proposals have been put in place in the last few years, especially in the steel sector. And we have to be optimistic. We had a growth of 20% vis-a-vis last year. As I mentioned, previously the first quarter this year was somewhat slower compared to what we're used to or vis-a-vis 2018, my entire portfolio and all of the indicators turn towards a second quarter because of the political scenario, the government's approval of some measures show that selling the CSN production will be mandatory. I have a finite capacity and then the work (inaudible) team regardless of what will happen in the market.

Now, if you think about the last three years, we're in a much better position. 2018 was a better year than the previous three years. And if we look at the growth of the sector, the automotive growth, capital goods, home appliances, packaging, all have attractive figures for the growth of steel in Brazil. That is the reason underlying our optimism. There is another factor which are imports. Imports, of course, represent a threat, but Brazil has learned how to live with these indices. If we're able to reduce the import of products from 1.4 to half, we could have our plants in Brazil working at full capacity. Everything can fire for the situation to be better than in 2018. This is our reading of the market, at least.

Q - Carlos De Alba {BIO 15072819 <GO>}

Understood. Thank you. Thank you very much. And Marcelo, just if I may come back to the CapEx figure, BRL1.5 billion in the last few years. Do you have a breakdown by (multiple speakers).

Operator

Mr. Carlos, may you repeat your follow up please.

Q - Carlos De Alba {BIO 15072819 <GO>}

Sure. Thank you very much for them, Marcelo. And if I may, Marcelo, just coming back to the BRL1.5 in CapEx for this year. What are the main projects including -- and how much is maintenance, how much (inaudible) grow?

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

Carlos, during the years we have reduced cash flow, we invested almost BRL8 billion cash, which nowadays is our depreciation. For the BRL500 million, we have discretionary projects divided between mining and steel in a fashion that is very much similar. And when I say they are discretionary, they bring us incremental and additional reserves. Coking, batteries, blast furnace that will allow us greater productivity. Elimination of bottlenecks entering, pellets, that's to say a series of investments to enhance result. In mining, a group of projects that we call Marziben [ph] -- that -- the basis should guarantee quality and reduce our dependency on dams along with the filtering systems and the magnetic separation. These are the projects that will lead to the BRL1.5 billion CapEx in 2018.

Q - Carlos De Alba {BIO 15072819 <GO>}

Thank you very much.

Operator

(Operator Instructions) Thank you very much. As there are no further questions, I will return the floor to Mr. Ribeiro, the CFO and Executive Director for his closing remarks.

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

Well, I'll give the floor to Benjamin for the closing remarks.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

I would like to thank all of you for your participation in this conference call and emphasize the confidence that we have in the recovery of the Brazilian economy in 2019. We are aware of the fact that after carnival, we will have a resumption in demand in the industry, this has already been observed and in those sectors that tend to anticipate this, we see enhancement in distribution and civil construction which is lagging behind. Our quarter has been fulfilled in terms of sales. When Martinez speaks about sales increase in the second quarter. That is something that we're going to begin to implement by the second quarter. The first quarter is all sold out in terms of quantity and price and we truly believe that as part of the policy, developed at CSN in the last few years, we are different commercially. This means that we are an extension of our customers. We have a very close relationship with our main customers in the steel market, we share their day-to-day problems and we share solution differently from other dam will be done with a very high levels of safety. We do have the help of external people. We have the follow-up of our own team and we have great confidence in terms of what was done in the last few years and we also have a great deal of confidence in the professionals that day to day work in that operation. From the financial viewpoint, the commitment that we took last year with the market in terms of deleveraging is something we will achieve, those BRL3 million [ph] that we are lacking will be made feasible through financial operations through the sale of assets or both -- but of course this will be done and with the improvement in operation and margin and volume that we are forecasting, I'm convinced that we will surprise you by delivering the challenges that we received from the market of getting to 2.5 times net debt-EBITDA. There is no magic here. This is the result of arduous work, dedication and the work of our associates. We went through very difficult years between 2015, 2017. In 2018, we felt a significant improvement. We're sure that 2019 will be even better and this enables us to harvest therefore the attitude, the stance that we took three years ago, we did whatever was possible to reduce costs, we strove to have higher productivity. We invested in quality enhancements because we're convinced that all the products not only iron ore, all products have to set themselves aside in quality, those that have quality will have a market where distancing ourselves from being a commodity and because of our partners, therefore the customers through our joint work, I think we have guaranteed a larger share in the domestic market and a share in the US market as well. We sold the operation, but the operation continues on. And this enable us to set forth of challenges for the budget in 2019 and I believe, we will deliver on this.

Once again, I would like to thank all of you for participating in our call and I reiterate our trust in the recovery of the country and CSN. Thank you very much for your attention.

Operator

Thank you. The earnings call for CSN ends here. You can now disconnect your lines and have a good day.