

Q4 2021 Earnings Call

Company Participants

- Benjamin Steinbruch, Chairman
- Pedro Barros Mercadante Oliva, Chief Financial and Investor Relations Officer

Other Participants

- Carlos de Alba, Analyst
- Isabella Vasconcelos, Analyst
- Leonardo Correa, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for holding. At this time, we would like to welcome everyone to CSN Mineracao conference call to present results for the fourth quarter 2021. With us today we have 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. Ensuing this, there will be a question-and-answer section, at which time further instructions will be given. (Operator Instructions)

The event today has a simultaneous webcast through Internet and can be accessed at the site of CSN Mineracao, ri.csnmineracao.com.br. The presentation is also available there. There will be a replay service for this call for a week. Once again, you can flip the slides at your own convenience.

Please bear in mind that some of the forward-looking statements made herein are mere expectations or trends and are based on the current assumptions and opinions of the company management. These events may differ materially, and these forward-looking statements, once again, are not projections. In fact, 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 other countries, changes in laws and regulations, and general competitive factors at a global, regional, or national basis.

I would now like to turn the floor over to Mr. Pedro Oliva, CEO and CFO, who will present the financial and operational highlights for CSN Mineracao for the period. You may proceed, sir.

Pedro Barros Mercadante Oliva {BIO 22218512 <GO>}

Good day to all of you. I would like to begin by thanking you for participating in this earnings release call. We're going to begin with the highlights. We had a record result in 2021 with adjusted EBITDA of BRL10.4 billion, driven by the strong performance in the first half. In the second half, we were negatively impacted by heavy rainfall at historical volumes and substantial halts for scheduled maintenance in November.

Regarding the free cash flow, we reached a record 60% higher than 2020 with BRL8.8 billion for the year, considering the negative impact of the fourth quarter due to lower operating results and increase in investments, increase in working capital, and the buybacks made by the company. The production and third-party purchasing levels reached 36 million tons, which is within the guidance that we had presented to the market with 18% higher than the 2020 volumes. The guidance for 2022 despite the rainfall in Minas and Rio have been maintained at 39 million to 41 million tons.

After the opening of the second repurchase program in less than two months, we have acquired 99% of target shares of the program. I would like to highlight the volume of dividends that will be approved in the General Assembly of BRL2.5 billion corresponding to 80% of the payout for the year.

And it is important to underscore the new ESG targets announced at the end of 2021 with a commitment to reduce greenhouse gas emissions by 30%, although the company has the lowest emission per ton of the companies in the sector and carbon neutrality until 2044.

We go on to the next slide, production volume and inventory. We had 6.9 million tons in the fourth quarter, once again, because of the impact of the rains processing, but we ended the year with a growth of 18% with 36 million tons. A very relevant point is the growth of inventory year-on-year. This, because of the sales, 1.2 billion tons that had been shipped in the third quarter, they had not been sold, although they were part of our commercial strategy. And therefore we ended the year with an inventory, which was twofold that we had in -- one year ago.

Next slide regarding sales and FOB net revenue. The sales volume was 7.7 million tons for the fourth quarter '21. Once again, under the impact of the heavy rainfall during the period and we ended the year with a growth of 7% in sales volume, attaining 33.2 million tons. In FOB net revenue, we had a drop of 15% despite a reduction of 33 -- 32%, excuse me. This impacted by the sales -- a lag in our sales, especially to Japan.

When it comes to COGS and EBITDA, we had a reduction of COGS vis-a-vis the previous quarter. Once again, due to the drop in Platt and lower volumes and we had a record EBITDA for the year, 27.5% higher vis-a-vis the previous record of 2020. This shows how exceptional the year 2021 was and we begin the year 2022 with very good expectations for the market, hoping that we will have results very aligned with those of last year.

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Regarding EBITDA -- adjusted EBITDA for the quarter, the great impact was the decline in Platts compared to the previous quarter; also an impact of volume, but there was an impact on logs with lower intensity perhaps, but we did have an impact of provisions for the sales carried out in previous quarters and still subject to price adjustments. We understand that this is a non-recurrent event. The expectations for the first quarter of this year are positive.

In the next slide, we will speak a bit more about the investments and net working capital, a growth of CapEx, as had been foreseen due to the implementation of projects and an enhancement in quality and productivity and an expansion of our capacity and expansion of our fleet for Casa de Pedra Mine. In net working capital, we had a decrease in the company's inventories, balanced out by a decrease in obligations to suppliers.

When we speak about shareholders' returns, as we had committed to do before the IPO, we're closing our first annual cycle, confirming the payout of 80% of the net profit during the period. This will be submitted to the General Assembly, BRL2.5 billion, and totaling a distribution of BRL4.8 billion in terms of proceeds to the shareholders and 13% increase in the price of share. During 2021, CMIN repurchased BRL658.8 million, and of course, this will also impact the return on shareholders.

In the next slide, we present to you the amortization schedule for our financial obligations. We are in a very comfortable position, BRL6.1 billion net cash; BRL10.9 billion of cash and a very extended schedule of financial obligations, allowing us great comfort to execute the financial plan that was presented to the market.

The free cash flow for the quarter, negative at BRL436 million due to a combination of factors; an increase in working capital, a higher volume of investments and the impact of income tax for the period. The annual record result was BRL8.84 billion, 60% higher than in 2020.

In the next slide, we would like to speak about the impact of the heavy rainfalls on CMIN production. We had a rainfall index much higher than that foreseen by the company. This interrupted the extraction of iron ore for approximately one week with an impact of 1 million tons in volume. Both plants are now operating at full steam and this enables us to maintain the guidance of 39 million to 41 million tons and we're going to seek to close this gap in the dry period of the year. Despite the heavy rainfall, the dam structures of C Mineracao continue with maximum levels of stability.

In the next slide, we would like to speak about ESG. And I reiterate the reduction of reducing greenhouse gas emissions by 30% until 2035 and the commitment of being net zero by 2040. We have made strides and best practices. For example, the first report of CDP and Climate Change module and the TCFD risk metrics. We reduced by 20% the new water consumption per ton of ore production. We have reforested 29 hectares and ended the year with the lowest rate of fatality in the last three years. And with the advance in our diversity agenda, with an increase of 27% in female participation in the company, it went from 14% in 2020 to 18% in December '21 and 19% increase in PCD representatives vis-a-vis the year 2020.

With this, I would like to conclude the presentation and I would like to give the floor to our Chairman of the Board, Mr. Benjamin Steinbruch.

Benjamin Steinbruch {BIO 1499059 <GO>}

Thank you. Pedro. A very good day to all of you. I would like to greet all of you and state how satisfied we are with the publication of our release for the last quarter for CSN Mineracao. Everything that we had proposed to do has been delivered.

Of course, things can always be better, and this is one of our characteristics of demanding from ourselves better and better results. However, CSN has fully complied with everything that it set out to do despite all of the pending doubts and the uncertainties during the launch of CSN Mineracao in the market, the commitment with our investments and increase in production or reduction of costs, which means to say highly challenging issues that we have set forth to deliver and we have delivered. We had a fourth quarter that of course could have been better.

Notwithstanding this, there are two events that took place. With the drop of the market, we decided to maintain our margins and hold back a bit on invoicing, and because of this, we're beginning the year with sufficient inventory, which is positive. Demand continues to be strong and the price rises, the increase in raw material that we observe in all sectors will remain, and we're going to make the most of this situation.

It is important for us that within the general context of the company, we are beginning 2022 in a much better position than that of last year. We are convinced and have certainty in terms of the delivery of our commitments, our commitment to increase the amount, enhance the quality, reduce costs, and we're also convinced of the continuity of the success of the implementation of the expansion plan.

Additionally to this, we also have another certainty that we have had a very long journey and that we have gotten to a point where we were never at before with excellent outlook for the company.

I would like to express my satisfaction, everything that we proposed to do, we have done, we have delivered not only in CSN Mineracao, but also at CSN. We have a completely different position vis-a-vis that at the beginning of 2021. Presently, we are two completely different companies ready to deliver the challenges that we have set forth for ourselves in a very calm, tranquil way.

I can say at present that I have conviction -- I have absolute certainty that in 2022, we will do even better than in 2021, and of course, much better than everybody expects. I can see this through the reports that are presented regarding the company CSN Mineracao.

I would like to end by thanking all of you, those who have believed in us, who have bet on us, who have supported us in that ambitious plan that was launched in 2021. What I can say is that the outlook for CSN Mineracao is fantastic from the viewpoint of organic growth as well as in regard to small and medium-size acquisitions and M&As we can do. We truly

believe in the continuity of the work that has been done with an outlook for a much better delivery for 2022.

I would like to thank our entire team that had a year of enormous challenges, arduous work and we were able to navigate through all of that and deliver these results that for us are truly wonderful for the full year of 2021.

Once again, our thanks to all of you and I return the floor to Pedro Oliva who will now open up the floor for questions and answers. Thank you very much.

Pedro Barros Mercadante Oliva {BIO 22218512 <GO>}

Thank you, Chairman. We can now begin the Q&A session. And I have the Director Eneas Garcia here with me as well.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) Our first question is from Isabella Vasconcelos from Bradesco BBI.

Q - Isabella Vasconcelos {BIO 20566061 <GO>}

Hey, good morning and thank you for taking my question. I have a main question here about your price realization and adjustments in your price changes. If you could offer us more color in terms of the breakdown of your volumes in the fourth quarter, which are distributed among different prices. Some are not updated. And compare this to the first quarter, if you could share this breakdown and the provisional price at the end of the fourth quarter, if possible. This of course would help us have greater accuracy and our calculations of price for the last semester. The second question refers to volume, which will be your strategy for purchases from third parties. If you have any projection in this sense. Thank you very much.

A - Pedro Barros Mercadante Oliva {BIO 22218512 <GO>}

Thank you for the questions, Isabella. We'll begin with the price realization. We ended the third quarter with 5.2 million tons of sales carried out during the third quarter, still subject to price adjustments in the future periods and mark-to-market was an FOB of \$70.91, equivalent to \$119 for the fourth quarter. And throughout the fourth quarter, the realization and new mark-to-market of these volumes meant we ended with \$53.91. This drop of \$17 applied on the volume of 5.2 million tons explain the impact in the results of the period.

We ended the fourth quarter with a somewhat lower volume that is open up 4.3 million tons with an FOB of \$57.4. Now, this will become a reference. And as we know about the positive realization of prices during the first quarter, perhaps all of this will help you in your calculations.

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Regarding the fourth quarter, we had 24% of the sales with not updated price, and due to the efforts of the commercial team, we tried to capture the higher price that existed in the previous quarter and we ended up doing this successfully. There will be a slight drop, but this is what we obtained in the fourth quarter. And it's 29% of QP and 49% of provisioned QP.

Regarding your second question for volumes and the focus on purchases, we ended the year with 8 million tons in purchases and we're working to maintain these levels, which is a record level for the company vis-a-vis the past. And we're going to ensure to maintain this higher level of purchases going forward.

Q - Isabella Vasconcelos {BIO 20566061 <GO>}

Very clear. Thank you very much, Pedro.

Operator

Our next question is from Leonardo Correa from BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Hey, good morning, everybody. Can you hear me?

A - Pedro Barros Mercadante Oliva {BIO 22218512 <GO>}

Yes, we do. We can hear you, Leo.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good day, Benjamin, Pedro, and others. Thank you very much. I am going to go back to the topic mentioned by Isabella, prices. We haven't been competent enough to estimate, which would be the right price. We have made mistakes and -- with CMIN. And I would like to perhaps interpret what you have just said, the tone, as we are in a scenario of appreciation abroad. You referred to 4 million tons at the end of the fourth quarter, below \$80 FOB, and we now imagine there will be a reversion in this negative adjustment and end up with a positive adjustment. I would like to confirm if this understanding is correct that we will have a positive balance considering the recent movements. And while we speak about projections, we have some questions referring to quality, the quality of CSN, of what was sold, if there is a higher discount based on quality higher than we had imagined, and all of this due to humidity, of course. I would like to make sure that there is absolutely no issue with quality in terms of what is being sold. Is there anything that we can use to calm down the market that the quality is good, that the products have good acceptance?

The second point refers to capital allocation still. We saw a buyback that has been carried out by the company. And evidently, the management believes that these shares have been discounted. Now, how do you obtain this with the liquidity of the shares? I know that the more you buy, the effects are more positive. But what will happen to the liquidity of

other peers? And I would like to know which are your thoughts on this. Thank you very much.

A - Pedro Barros Mercadante Oliva {BIO 22218512 <GO>}

Thank you for the questions and the opportunity to go into greater detail on these points. Regarding the first quarter, we have a very positive outlook. At present, we estimate that we have a potential of increasing the reference price by more than \$20 and the impact in terms of financial value -- absolute financial value will be much higher than the negative impact we had in the fourth quarter. And this difficulty of incorporating this, if you look at the difference in EBITDA in the fourth quarter, the increases increase by this adjustment in provision exclusively and this should benefit us during the first quarter. If you look at the future curves for iron ore, they are relatively flat. We have once again begun new hedging operations to be able to capture and lock in this price level.

Now when it comes to quality, Leo, the quality in the fourth quarter, we had a level of 71.6%, a silica of 7%, a low alumina of 0.6%. Now these are quality products with exceptional acceptance. The market has never asked us about the liquidity of the products. It has never been an issue for the company. And our spot sales are based on auctions, on competition, always with the participation of a great number of players. And of course, in present conditions, because of instability in Russia and Ukraine, the liquidity of products with low alumina have increased more. And this is the case of Brazilian iron ore.

When it comes to capital allocation and our shares, this is a basic thing to be very cautious in terms of the buyback of shares from CSN Mineracao. We could go back on the numbers that we purchased, if our shares have a better price vis-a-vis the present-day price, but we do accompany this metric. We understand how relevant this is for the market and we know that some investors prefer to have exposure to CSN Mineracao through greater liquidity. We are attentive to that and we will try to enhance the quality of our shares.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you, Pedro. Simply a clarification therefore. Compared with Platts 62, you're selling with a minor discount at present for a slightly lower quality. Is that it?

A - Pedro Barros Mercadante Oliva {BIO 22218512 <GO>}

Yes, a very minor discount for metal and silica, and we do benefit because of the low alumina. Now, at this moment of the market, discounts, because of alumina, have increased significantly. And as we have low alumina products, it's becoming a premium for the product and it has become very relevant. We carried out that exercise of the impact of an enhancement in quality that we will be delivering during 2022. And this increase in the amount of alumina is increasing the margin to \$1.5 with spot prices. This is something that will benefit us. Last year, as we conversed during the year, the price conditions allowed us to market opportunity iron ore. We're going to consider this, of course, but in our basic scenario, what we want to do is enhance the quality during 2022, benefited -- what will happen in May of 2022 in spirals and others, which will help us in the enhancement of quality.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you, Pedro.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Leo, simply to complement to what Pedro said in terms of complications, that is a one-off case. The company has to have ever greater liquidity when it comes to moving the shares. So this was a one-time intervention due to the drop in prices and our idea is to speak to the market about this. And once again, if this is canceled out, we will come back with a new issuance. It was done at that time to make the most of prices and it was a very assertive move because it was done when the price was very low. And at present, we could return to the market with significant profit.

Our idea is quite the contrary. It is to increase the liquidity of these titles or shares, and of course, with all the necessary science and techniques to obtain that higher liquidity. But the intervention per share was done because of that sudden drop in the shares, and of course, we knew that the conditions were temporary in the market and we try to avoid them for the company. Thank you.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you, Benjamin.

Operator

Our next question is in English from Mr. Carlos de Alba from Morgan Stanley.

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

Yeah. Thank you very much, everyone, and Pedro. Thank you for the opportunity. I just wanted to come back and ask about the guidance for volumes. I think Pedro mentioned the guidance for 2022 of between 39 million to 41 million is unchanged, but how do you see beyond that? And clearly the story of the company as it was presented to the market is a growth story, a growth opportunity in iron ore, with very good cost -- cash costs. So also if you could comment on the progression in cash cost, the increase in the fourth quarter and it will be more than what I think either the guidance or the soft guidance (inaudible). How do you see the C1 cash cost evolving in 2022 and in the coming years? Thank you very much.

A - Pedro Barros Mercadante Oliva {BIO 22218512 <GO>}

Thank you for bringing up that point regarding volumes. The guidance is from 39 million to 41 million tons. This is maintained. We are working with several measures to guarantee a performance that is better than that of past years to offset the rainfall period, which was extremely strong in Minas Gerais as you were able to see in the news.

And going forward, Carlos, we have growth projects that are underway. As we mentioned at the CSN Day at the end of last year, we have the entry of the Pires plant with an addition of 3 million plants. And in 2024, we will have a significant leap. We will have the

entry of 5 million tons and another 4 million tons and the recovery of residues of previous periods with an additional 3.5 million tons. So we're speaking of an increase of 23 million tons approximately, which we consider as the first phase of those 33 million. So two-thirds of that capacity will come in 2024. The projects are well underway. We have already purchased the first package of equipment, 1.5 billion of equipment with the technical validation of proposals. Negotiations are quite advanced. And of course, our investments will continue in a positive path.

Regarding the lower cost of \$21.6 in the last quarter, this is something non-recurrent again because of the impact of heavy rainfall and the extended stoppage in November for maintenance and extension of our activity. And what I would like to share with you, Carlos, is the information on December. We had a cost below \$19, which was the guidance for the previous year. And I think this points towards where we are aiming at throughout 2022. Of course, we still have to understand the impact of global inflation and what Petrobras will be doing because this is relevant for the mining scenario, but we want to deliver a cost below that of last year, a cost around \$18. We have several measures to control SG&A, improve operations. Beginning this week, we began to receive trucks with a larger capacity that will be moving our residues, and of course, this will reduce our transportation costs. So we have several measures that have been adopted that will back up this lower cost, which is the company guidance for 2022.

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

Sorry. Pedro, thank you for the clarity. Just to make sure that I get it, so do you see -- the \$18 per ton C1 cash cost is the average that you see for 2022 or is where you may be ending the year? And also, since you were kind enough to mention the December cash cost of \$19, what was it in January and February, given the rains that we saw particularly in January?

A - Pedro Barros Mercadante Oliva {BIO 22218512 <GO>}

Well, probably those \$18 that I mentioned will be the average for the year, the guidance for the year. In December, it was \$18.6, below the \$19. And regarding the cost at the beginning of the year, we did have an impact on the volumes. We continue to maintain the \$18 for the year. This will have an impact, of course, on the first quarter, but we believe that we will be able to deliver that throughout the year.

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

Okay. Thank you very much. Good luck.

Operator

(Operator Instructions) Thank you. As we have no further questions, we will return the floor to Mr. Pedro Oliva, the CEO and CFO for the company, for his final remarks.

A - Pedro Barros Mercadante Oliva {BIO 22218512 <GO>}

I would once again like to thank all of you for your participation in our earnings conference call. I would like to thank our associates at CSN Mineracao. Without them, we would never

have achieved these record results because of the context of the pandemic. In Minas Gerais, it was a more difficult context at the end of the year, and even so, we have delivered a historic result above that of last year. We're quite confident that the year 2022 can be even better and we're going to work to deliver new records this year.

Operator

Thank you. The earnings result conference call for CSN Mineracao ends here. You can now disconnect and have a good day.

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