

Q3 2018 Earnings Call

Company Participants

- Benjamin Steinbruch, President of Executive Board, Chairman & CEO
- Edvaldo Ferreira Miguel, Unknown
- Luis Fernando Barbosa Martinez, Executive Officer & Member of Executive Board
- Marcelo Cunha Ribeiro, Chief Financial & IR Officer, Executive Director of Finance & IR and Member of Executive Board
- Pedro Gutemberg Quariguasi Netto, Executive Officer & Member of Executive Board
- Ren o Augusto Coelho, Unknown
- Unidentified Speaker, Unknown

Other Participants

- Gabriela Elerati Cortez, Banco de Investimento S.A., Research Division
- Gustavo Allevato, Research Analyst
- Leonardo Correa, Research Analyst
- Marcos Assump o, Sector Head
- Thiago K. Lofiego, Research Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Thank you for holding. At this time, we would like to welcome you to CSN's conference call to present results for the Third Quarter 2018.

Today, we have with us the company executive officers. We would like to inform you that this event is being recorded. (Operator Instructions) We have simultaneous webcast that may be accessed through CSN's Investor Relation website at www.csn.com.br/ir, where the presentation is also available. The replay of this event will be available for one week ensuing this event. Once again, you can flip through the slides at your convenience.

Before proceeding, we would to state that some of the forward-looking statements made herein are mere expectations or trends that are based on the current assumptions and opinions of the company management. The future results performance and events may differ materially from those expressed herein, which do not constitute projection. 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 general and economic conditions in Brazil and other countries; interest rates and exchange rate levels; future rescheduling or prepayment of debt denominated in foreign currencies;

protectionist measures in U.S., Brazil and other countries; changes in law and regulations; and general competitive factors at global, regional and national basis.

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

Marcelo Cunha Ribeiro {BIO 4139071 <GO>}

Good afternoon, to all of you. And thank you for participating in our conference call.

I would like to offer the floor to Mr. Benjamin Steinbruch to give you the management message.

Benjamin Steinbruch {BIO 1499059 <GO>}

Good afternoon, to all of you. We are now presenting the results for the Third Quarter of 2018 for the company and -- as you have been able to analyze, the performance this quarter was quite satisfactory and well within our expectations. We came very close to what we truly wanted to deliver. And the outlook has been improving since last year, improving quarter-on-quarter, in terms of our operational performance for all of our segments.

I believe that this quarter was one of the best in the last few years. And if we maintain this trend, the First Quarter was -- 2018 was better than the Fourth Quarter of '17 and so on and so forth. And of course, the Fourth Quarter of this year should be better than the Third Quarter. And we're working. So that we can deliver what we set forth at the beginning of the year and was communicated to you.

What we are presenting here, therefore, perhaps, surpasses what we mentioned in the previous quarter. And I would like to invite the analysts to pay close attention and truly understand the figures of CSN and observe the consistency in our reports.

If we compare what was posted with the Third Quarter of 2017 and the outlook for this year, we are going beyond all of the indicators. And we do not see this reflected in your reports, Mr. and Mrs. Analysts. So please, I request that you pay very close attention or perhaps gain a more in-depth understanding of the figures that are now being presented. Should you compare any of our activities, you will see that they were overlaid to everything that had been set forth and proposed by the company and by the reports of the analysts.

I do believe that the results have favorably surprised us as the company. And I do hope they will also favorably surprise the market because the outlook continues the same.

In mining, we were able to work with a significant volume, with an enhancement in quality. And we have reverted a penalty into a quality premium in the steelworks domestic

markets. We were able to make great strides in the high added-value products. And we gained significant market share in the Third Quarter. We already have the non-consolidation of data from LLC and the United States. And notwithstanding this, we have had a better performance than with the data of the subsidiary in the Second Quarter.

We also had consolidation in terms of market share. In logistics and infrastructure, the same can be observed. Therefore, as a company, we are extremely satisfied with the results that we have obtained in the Fourth Quarter and as we move towards the closing of the year.

If you analyze the performance in the first 3 quarters, what we do hope is that we will be able to go beyond what we have done and deliver very good results to crown the efforts that management has set forth to reduce expenses, control cost, improve sales performance and enhance quality. We're working in all the possible areas to ensure that the company performance will surpass what we did in the past. And I do believe we have attained this. The market outlook is good. And I already believe that prices will rise, qualities will increase and the premium for quality will be significant in the steelworks domestic markets.

We're sold out until December. We don't think we will have any significant hiccups when it comes to the forecast for this Fourth Quarter after the election. We have gone beyond that scenario of doubt.

We also have a good performance in the domestic market. And we're working to present results that will surpass our own expectations and those of the market.

I would like to now return the floor to Marcelo to present our results. And then we are at your entire disposal for questions and doubts. Thank you.

Marcelo Cunha Ribeiro {BIO 4139071 <GO>}

Thank you, Benjamin. I'll begin the presentation on Page #2, speaking about our highlight, we have 3 axis that are priorities. And the first, an improvement of operational results with an adjusted EBITDA of BRL 1.6 million, the best quarterly result since 2013.

We're also lengthening our debt. We had important results, a lengthening with the main creditor, such as Santander Bank, BRL 1 billion in -- for amortizations. We have just signed the lengthening of our debt.

And in the third place, not less important, an acceleration of our deleveraging. We already announced the sale of one of our assets for \$93 million. And now in the Third Quarter, we received additional working capital, which will also contribute to our deleveraging. And we have a significant pipeline of alternatives to continue to accelerate the deleveraging. And we're analyzing divestment of some activities outside of Brazil in some iron ore activity, depending on the business needs.

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On Page #4, we show you the evolution that was referred to by Benjamin. In the last 3 quarters, a constant growth in EBITDA. Profitability reaching 25% as EBITDA margin, a growth of 34% vis-à-vis, the previous semester.

And we obtained BRL 5.5 million in EBITDA compared to 2017 and growth of more than 20%. When it comes to the Second Quarter, a significant growth of 15% as well with a highlight for mining, more than 50% due to volume increases, price gains, quality enhancements and, of course, the appreciation of the dollar versus real.

In terms of flat steel, we also have had growth, thanks to the deconsolidation of LLC and operations outside of Brazil. Therefore, this truly was a very good semester in terms of operating indicator.

In Page #5, we show you some financial indicators. We begin with our CapEx, a slight increase this quarter, vis-à-vis the first semester. But this, of course, is natural because of the projects during the year, though second semester tends to be stronger and the expectation with investment of BRL 1.1 billion during the year.

In terms of financial cycle, excellent results. We're becoming evermore efficient. We took out nine days in the Second Quarter and a total of 24 days, vis-à-vis last year. And this is thanks to our inventory. We have been able to reduce our inventory significantly, removing the effects of the second semester of the truck driver strike. We also had scheduled stoppages. And through this, we had a reduction of BRL 400 million in inventory. And this has helped our cash flow in more than BRL 500 million. This operational result, plus working capital, jointly with well-controlled financial expenses, have allowed us to have a record operating cash flow of more than BRL 800 million and, in the last 12 months, with the sale of LLC, more than BRL 3 billion.

Obviously, this is crucial for what we see in the coming page, which is the leverage reduction. Finally, we see our net debt and EBITDA at 4.9x and because of the appreciation of the real, the reduction will be up 7x. Net debt and gross debt did not fall at the same pace simply because of the appreciation of the dollar or devaluation of the real. Were it not for this appreciation, we would have reduced our indebtedness by BRL 3 million.

We continue with a 4.7x at present and hope to get to the end of the year closer to 4x net debt EBITDA. Because of the growth of EBITDA, the deceleration of leveraging. And the coming year, we would like to get to 3.5x.

In terms of cash, we continue with BRL 4 billion. This is our minimum operating cash. It's a strategy to maintain it at this level to be able to pay our debt. And this is what we'll see in the following page with our repayment of debt and amortization schedule, showing you the lengthening that took away BRL 1 billion this year. The last good use is with Santander Bank, (inaudible) to Bank of Brazil, Caixa Econômica and the perpetual bond. Once again, the BRL 1 billion that have been taken away in the last three years and has been lengthened. The average duration is now 29 months, which still is not sufficient.

We have significant goals for 2019, 2020 because of the bond that come hand in hand with our operational cash generation and, of course, with new windows.

With this, I would like to conclude the financial part. I give the floor to Mr. Martinez for the business highlights.

Luis Fernando Barbosa Martinez {BIO 7187744 <GO>}

Simply to underscore what Benjamin mentioned, I love to read all of the reports. I have read 8 reports in great detail. And I am at your entire disposal for clarifications of doubts because there are some reports that show asymmetric and wrong conclusions. And I think it would be worthwhile exchanging ideas to understand what is happening.

The Third Quarter for steel performance was the best quarter since 2014. We're referring to four years of turbulence in Brazil. It was better than the Second Quarter of 2018. If you keep in mind the deconsolidation of LLC and seasonality in Europe that takes place during the European summer, if this has not happened, our growth would be 4x in volume.

When we look at the Brazilian market. And I think this is what is worthwhile discussing, portfolio added value, selling by kilo or meter or knot, the flat steel market in Brazil grew 10%, CSN grew 25% and 45% in galvanized products. In my opinion, this is an excellent delivery when it comes to results and market value. Our main competitors grew 8% to 10%.

Another very important point, which, I think, is noteworthy, in terms of price, we grew 21% in BQ, in (BS) and in galvanized products, once again, reflected in our balance. Part of this growth allowed us to search the positive ways of the automotive markets that grew 20%, 14% growth in civil construction and 14% in distribution, all of this to value what is being done in the company, excellent operations, product portfolio and to seek ever better results.

In the second chart -- the next one please. And Pedro will refer to competitiveness of the steel market and production cost.

Pedro Gutemberg Quariguasi Netto {BIO 19803245 <GO>}

A good afternoon to all of you. In Slide #11, to the left in the first graph, we had a drop in our slab production in the Third Quarter. We carried out maintenance in filtering and the furnace. And this was done in a timely way, using our slab inventory and finished products inventory. So as not to compromise our sales volume, especially in the domestic market.

To the right, we observe that there was an increase in slab because of foreign exchange pressure and the cost of raw material, as we will see in the next slide.

At the bottom, what is important is that the EBITDA per ton maintained above -- was maintained above BRL 500 per ton, which was very good. And we, at the commercial

area, are setting forth great efforts. Besides transferring the cost, we're redirecting volume to the domestic market and increasing the added value of our portfolio.

In the following slide, we will show you what has happened. We had greater pressure of the exchange rate and reasonable oscillation of exchange rate, exerting pressure on slab.

And at the bottom, you can observe that 70% of our costs are pegged to the dollar. Yes, of course, carried out a higher cost pressure for us and we do believe that this will stop in the Fourth Quarter.

I give the floor now to RenÃ©, who will speak about mining.

RenÃ© Augusto Coelho

A good afternoon to all of you. It's a pleasure to be with you. And here we have the sale of iron ore. We have a production planning and much more. As we mentioned in other opportunities, we always work with the outlook of a gradual increase in growth and a reduction of our dependence in the tailing dam. CSN achieved robust results in the Third Quarter. And this reflects these guidelines. And it is a pleasure to share this with you.

We begin with our operating data. We had a growth of 14% during the period. Other sales were associated to a devaluation of 10% of the dollar, vis-Ã-vis the U.S. dollar. We had a quarterly increase of 20%. EBITDA reached BRL 811 million of growth, greater than 52%. It is important to underscore that net revenue and adjusted EBITDA in the Third Quarter were record for mining, all of this since 2005.

We continue on with the lines adopted in the past period. I will now speak about prices. The CSN quality is acknowledged in the market. And we have been awarded for this. We have the CFR reference price that reached \$69.5, a quarterly increase of 4%.

Now (inaudible) remained at 4 tons and went on to FOB sales. A greater demand in Japan and Europe resulted in an increase in the sales modality over the total, reducing our revenues, nevertheless, as FOB sales also decreased our cost with freight. The increase in (inaudible) was very good for the market because we had an increase in maritime freight.

In the next slide, as we mentioned last semester, our goal is to achieve 31 millions of tons in the second semester and sales of 35 million tons for 2019. Sales for alumina were very good in the first and Second Quarter. And we can consolidate it in the third. And of course, these indicators of supply and demand indicates sustainability. And this is what we would like to continue to show in the Fourth Quarter.

CMAI II will begin operations this month and we have anticipated this compared to the previous call. We will be generating less tailings in this plant.

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Before concluding, we would like to say that the strategic guidelines are to grow based on quality, premium cost and independence from the dam. We would like to thank all of you for your participation in our call. With this, we would like to end the presentation and offer you the floor for questions and answers.

Questions And Answers

Operator

(Operator Instructions) Our first question is from Leonardo Correa, BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

My first question. And I will focus on the operational part and allow my colleagues to speak about leveraging. Let us begin with steel. Mr. Martinez, take advantage that you are present here. We're following up on the outside scenario that has been somewhat more challenging. The price of steel in China has dropped below \$50 and the exchange rate in Brazil has had a slight appreciation. So I would like to know what is your opinion of tariff fee.

Operator

Leonardo, I'm sorry. We are going to reconnect you. (Operator Instructions)

Q - Leonardo Correa {BIO 16441222 <GO>}

Once again, this is Leonardo and I would like to know if you can hear me, yet? We can proceed. And I do apologize. I'm not sure what happened. My apologies. I began by saying I would focus on the operational part of CSN that has been very positive and this is my focus. First for you, Martinez, I was speaking about the outside situation. Prices in China dropping. And we still do not see a recovery. It is said that because of the supply, the price of steel should increase again and, that at present, this is somewhat difficult to foresee a price below \$550 cold rolled. Now because of the exchange rate, the tariff fees are being reviewed. There are great discrepancies in the market in terms of which will be the premium 1 to 5, 1 to 10. So I would like to hear from you your perspective on this market. We have also heard noise about discounts and distribution. It seems to be a one-time event. But I would like to hear your opinion regarding this market noise. And to conclude, the automotive negotiation, which is underway. And all the players had great expectations in terms of the readjustments. The sector has suffered because of a drop of imports, sudden drop, especially for vehicles from Argentina. And I would like to know which the present-day situation of this. The second question refers to iron ore, which was the highlight for the quarter, which will be the evolution of breakeven in China, the cost of the product delivered in China. And I was somewhat surprised with the increase in the FOB percentage that you had in sales. Somewhat different from what we have seen from other industry players that have reduced their FOB sales. I would like some assistance in understanding this if this will be a new dynamic in FOB sales. And perhaps, this could help us gain a better understanding.

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

Leo, thank you for the questions. In your report, you mentioned complementation for our performance and, once again, referred to the price rise, which was interesting because in this quarter, in the domestic market, if you carefully analyze the domestic market, what we have gained was 5.5% in terms of price. Regardless of the scenario, what we have at CSN is the following. We have to fill our production. This is our mission. And CSN, as its main asset is the product portfolio, we don't put everything in the same basket. We sell less to get more. This strategy is fundamental. What is happening in terms of China, I was in Alacero, the Latin American steel congress. And we were able to speak with people from Turkey, China and the United States to gain an understanding of what is happening in the world economy. In China, the price is highly resilient. If you look at the BQ historic tree, it was at \$580, \$570. And it has decreased only in the last few weeks. Despite this, what would happen in the worst scenario with an exchange rate of BRL 3.70, that could appreciate even more. A price of \$550 for BQ, this premium in the domestic market would be from 4% to 8%. This is a very favorable premium. And for that premium, we are in the present day situation with uncertainty and logistics. There will be no big difference. Now where we have to be more cautious is when it comes to the coated material. I reiterate that our strategy has been a winning strategy. I'm looking at segments to see what we have to do with each of the clients in the value chain. In my opinion, China, from what I heard at the Congress, is that the price is at a floor and should return to levels of \$590. And this is what I heard from participants at the event. When it comes to prices, we implemented this year for distributions, accumulated adjustment of approximately 27%, which means that we can still capture an additional part in the Fourth Quarter. This would be very positive. Although there are the rumors of timely discounts in distributions, this is more for the retail market and the wholesale market. We will continue as we are and maintain our prices. When it comes to the tariff fee of BQ, I reiterate, this premium is still very favorable and there should be no import. Imports are doing well, ending the year with 2.5 million tons, giving us a 12%. And if it would be reduced to 5% or 6%, it would be better. And negotiations with the automotive industry, they're doing quite well. Last year, at the same time, I mentioned that we would have 22%. And this is what happened. This year, the orders are 27%. And we are very close to already ending our negotiation with the automobile industry because there is a lag, especially in the galvanized products that are more consumed. I don't know if I responded to your question.

Q - Leonardo Correa {BIO 16441222 <GO>}

That's very clear, Martinez. Then for mining, when it comes to the breakeven, the cash cost in China was at \$40 and it was \$180 per ton, if I believe.

A - Ren o Augusto Coelho

Now the FOB percentage of volume, for us, it varies between 30% and 40% depending on the demand of clients in strategic markets with different price conditions. And this is linked to our freight strategy, 60% to 70% of the exports from CSN go to China. Now we have some short-term spot sales. In the recent history, we have carried out some exports below those 3 things. Now we tend to follow long-term premises normally and carry out semester adjustments. I don't know if this responds to your question.

Q - Leonardo Correa {BIO 16441222 <GO>}

Yes. You have.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Leonardo, this is Benjamin. I would like to compliment something. And perhaps, this is something you haven't realized in terms of the domestic steel market. We're going to end the year with, perhaps, what will be the lowest inventory in all years. In our opinion, the market is destocked and our outlook for a market resumption and for the steel market is quite high for 2019. If eventually there are one-time discounts, they should not be deemed to be the rule. Our outlook is that the market is unsupplied and with an enormous recovery opportunity for 2019. And perhaps, we will have to have a leap in prices because of this market resumption. As I mentioned, our policy is to end the year with an extremely low inventory, almost 0. And I think it is happening throughout the chain. Now what happens with the automobile sector in Argentina, this is a one-time event with the resumption of the domestic market and with other exports to other countries and with the recovery of Argentina that, I believe, will improve. All of this will be neutralized. We have to be careful with the levels of supply of the domestic market. Perhaps we're not ready for this recovery. And I'm referring to the sector as a whole.

Operator

Our next question comes from Gabriela Cortez from Bank of Brazil.

Q - Gabriela Elerati Cortez {BIO 18801371 <GO>}

I take advantage of the fact that Leo mentioned this and would like to speak about your deleveraging. You mentioned that the goal for the end of the year is to get to 4x net debt EBITDA. Considering a growth of the EBITDA. But also because of the sale of assets, what is happening with the mining streaming that you mentioned the last quarter? And if you are not able to sell assets until the end of the year, which would be your goal? Which would be the debt EBITDA for the end of the year? Another question refers to cement. If we could hear more color about strategy in the market and your outlook for 2019.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

I will begin. Thank you for the question. Even if we do not sell off assets, with the growth of EBITDA, the denominator, as somebody said, we expect that the figure will come close to the 4x. The present day 4.7x and with a price of -- in the last 12 months of 10%, we would get to 4.2x. The operation per se is helping us in this deleveraging. Now when it comes to the pipeline, it's not only streaming. It's full. And we're quite busy in all fronts. When it comes to streaming, we have already launched an operation for an M&A. We've contracted an investment bank. We have begun to speak with investors and SME M&A process. It will take time. And in the first phase, we will have to see the level of interest in the proposal. And this is a pioneer structure. We're quite curious in terms of the structure that is about to come and to understand if this is feasible for CSN. So far, everything points to the fact that it will be an interesting as well as a feasible option. And because it is something pioneer, we have to base ourselves on probability. But this is something that will take place in the short term in mining and iron ore. This will, of course, be very helpful and we should have some news in the short term. And other iron ore operations could also help. And they can allow us liquidity and deleveraging in the short term. When it

comes to the divestment of our operations outside of Brazil, which has also been mentioned, this process is well advanced. It has drawn the interest of competitive investors in the region. We're now in the phase of diligence. And we will know the results, whether positive or not, in the next 45 days. We hope to give you more concrete news until the end of the year.

A - Unidentified Speaker

Gabriela, this is (Marcos) speaking. Simply to respond to your question on cement and refer to what is happening in the civil construction, a very important market for us. And this is a figure that illustrates the market situation. The trends for the sector is positive. It's the only sector that hasn't woken up. In terms of civil construction and infrastructure, there is an inventory of work that is stagnated 120,000 works that could be resumed immediately. Once again, leveraging the consumption of cement and (inaudible). To give you an idea of the number of new launches in real estate grew 30%, I believe. The number of buildings and the foundation had an increase of 16% and those that are being finished, 1%. What does this mean? That there's an important pipeline for the resumption of the civil construction and commercial construction sector that. So far, hasn't been properly priced. When we speak about the market in Brazil, the total market of Brazil will have a small drop of -- it will end at 54,000 tons because of a drop in the Northeast. The market in which CSN acts, which is Minas Gerais, São Paulo and Rio, should be stable and have a slight growth. This year, CSN is working with a huge supply of cement. BRL 304 million is what we expect for the closing of the year. We're selling less to a greater number of clients. We're selling our products in smaller stores and moving away from what is not important in the market. We have also had a price recovery, 18% in the price of cement, which makes our results EBITDA positive and very positive, vis-à-vis the past. This is the situation for cement. There are other projects that we are surveying. And I will give the floor to Edvaldo who will also refer to cost.

A - Edvaldo Ferreira Miguel {BIO 1966610 <GO>}

We go back to what Martinez said. We have a high occupancy level. But we still have to make some adjustments in the operation. And we can still grow our market share for cement. This is what we expect. We have a competitive position when it comes to price in the market. Despite a very strong pressure of the price of fuel, Argentina is able to offer a positive EBITDA. And we do hope that with the exchange rate becoming more accommodated, we can improve future cash cost. The outlook is good. And we're fully prepared to absorb future growth and the economic recovery of the country, which will necessarily have to go through civil construction, which means a greater use of cement in coming years.

Operator

Our next question is from Gustavo Allevato from Santander Bank.

Q - Gustavo Allevato {BIO 18933135 <GO>}

I have some questions. One, to Edvaldo in terms of the operational part. What can we expect in terms of the price evolution for slabs in the Fourth Quarter, vis-à-vis the Third Quarter? You're speaking of a run rate of 30 million tons for iron ore for 2019. Will this

level increase with all of the processes that are in place? And my last question refers to capital allocation and the issue of leveraging. Marcelo, if you were to classify this as a priority, what will happen more properly -- more probably, the sale of assets or something with iron ore?

A - Unidentified Speaker

This is (Tiago). In terms of costs of slab, we're still seeing an accommodation of the exchange rate and the cost of raw material. What we have at present will remain stable in the Fourth Quarter with a slight trend towards a reduction.

A - Ren   Augusto Coelho

Gustavo, this is Ren  . In terms of the volume of mining, the outlook for 2019, if we consolidate our projects, a gradual increase of production no longer depending on tailing debt represents more than 31 million tons for 2019. And to refer to the pipeline, what should happen more quickly is one of the iron ore operations, that is -- this is what I believe, not only in terms of streaming. But also trade payment. The characteristic is that they are not a debt. They will bring us liquidity and a reduction in net debt EBITDA. And this could, of course, happen until the end of the year.

Operator

Our next question is from Thiago from Bradesco BBI.

Q - Thiago K. Lofiego {BIO 16359318 <GO>}

I have 2 questions. The first referring to the operational part and the mining results. Looking forward, what can we expect in terms of an improvement of content? If we could have more detail in terms of this and if this could have an impact on your production. And in terms of capital allocation, in the call, you have spoken about the development of the galvanized products and some studies with a potential of enhancement. If you could refer to this and what has happened with the analysis of these new lines.

A - Ren   Augusto Coelho

Thiago, this is Ren  . From January to September, the average quality was at 62.5 for silica and 1.6 for alumina. Now the average quality sold to China was 6.4 silica and 1.7 of alumina. Our expectation is to maintain this level of quality. But increase production.

A - Marcelo Cunha Ribeiro {BIO 4139071 <GO>}

When it comes to investments and galvanized products. And this is Marcelo, from the institutional viewpoint, this is still under the survey stage. It's not something that we should expect. We should not expect the beginning of the project until the end of 2019. This has not been clearly defined at CSN yet. Have we responded to your question?

Q - Thiago K. Lofiego {BIO 16359318 <GO>}

Yes. That is clear.

Operator

Our next question comes from Marcos Assumpção from Itaó BBA.

Q - Marcos Assumpção

The first question in terms of taxes that are little more than BRL 700 million, how are you going to use this benefit? The second question refers to investments in 2019. Which is the level we should expect similar to 2018? And if you could also remark, Pedro, should remark on the changes in the furnace #2 and the use of CapEx. Both questions are related.

A - Marcelo Cunha Ribeiro {BIO 4139071 <GO>}

When it comes to tax credits, this is a situation that 7 open companies in Brazil are going through. They're announcing the recognition of their results, fiscal fees and ICMS. We went through court for an amount that is much higher than the ones that was acknowledged. Only 1/3 of the amount was acknowledged. As we're now going through the phase of measuring the tax credits, the other 2/3 should come now in the Fourth Quarter. And what we estimate is to use these tax credits in the next three years. They will be transformed into cash in the period of 2019, 2020. When it comes to CapEx for 2019, it's somewhat premature to speak about this. We're still in the budgeting phase. But at this point, I think we can say that it will be marginally higher than in 2018, considering the situation of mining. These are essential products when it comes to sustaining and enhancing quality. They're accretive to -- put it this way, from the point of value and the renovation of furnace #3. It's something I would like to comment because, of course, this will impact our investment.

A - Unidentified Speaker

This is (Marcos). We have foreseen to have a stop down at the end of July for the furnace #3, our main purchase. And this stoppage should last approximately two months. The expectation for use of capital is up BRL 200 million, BRL 220 million. We're now seeking optimizations in the project. And when the furnace comes back to working, we're, of course, going to try to reduce the stoppage time. We're going to have 400 additional tons in the surge of increasing our production capacity and getting ready for this additional demand. And we're very optimistic with the data from the coming year. Marcos, simply to refer to CapEx, what we are defining at present is where we're going to place this line. We're working on a new galvanization line that could cover a different range of products, perhaps in the white line, automotive sector or civil construction. We're referring to investments of BRL 3,000 per ton and a capacity of 350,000 to 450,000 tons of galvanized products. If we estimate the growth of this market, there is a higher demand for higher added-value products and less cold rolled products. So this is an investment that is part of our pipeline and should be approved in 2019.

Operator

(Operator Instructions) The next question is from Crédit Suisse.

Q - Unidentified Participant

Most of my questions had been answered. I simply want a follow-up in terms of working capital. You released an expected amount, thanks to inventory. And Benjamin mentioned that your inventories are at the lowest levels in the last few years. My only doubt is how far you can still optimize this working capital or if you are at a level where you would consider it as stable.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Well we hope to grow. And growth will, of course, lead to a greater use of working capital. But we think our financial cycles will be more efficient than today. And inventories will continue to be reduced. We're working on 2 different pillars, supplies. And we're devoting ourselves to an increased payment terms, less expensive as well, which is very necessary. And in terms of sales terms, what we're doing is to decrease to the utmost until the market accept this in terms of sales terms. And we would like to end the year without an inventory. We're considering all possible -- possibilities in mining and steel works and to end with 0 inventory. Of course, a 0 inventory would be impossible. But we would like to get very close to it. And the second fortnight of December, our domestic steel will be geared to export. So what we're doing is scraping the bottom of the tin. And this should allow us a benefit and allow us to increase our freight. This was one of the great objectives, to reduce the working capital, to truly have a better financial gain. And as part of this, we're getting ready to increase our production capacity, of course, within what would be possible to be able to face up to that market resumption and to be ready to go in the first semester of 2019. Another important factor I would like to mention, to speak about exports, another analysis we're carrying out is to use -- we have a unit in Portugal with a capacity of 400,000 tons per year of galvanized products. And we're considering the possibility of sending BQ to that unit, galvanizing it and bringing it back to the domestic market. This is another possibility to capture additional value in the domestic market using an asset, which is not found within the country. Now exports to the United States, although we sold the operation plant, we continue to have a team there in cohort. And this year, we will continue with our sales. Since the beginning of the year, we were selling at a strong pace. And we have an interesting strategy there. So that we do not leave the U.S. market. Quite the contrary, we would like to increase our share, especially in the Midwest.

Operator

(Operator Instructions) As we have no further questions, I will return the floor to Mr. Marcelo Cunha Ribeiro for the closing remarks.

A - Marcelo Cunha Ribeiro {BIO 4139071 <GO>}

Gentlemen and ladies, I would like to thank all of you for your participation. And we hope to see you at our next earnings release call. Thank you. The earnings release conference call for CSN ends here. Have a good afternoon.

FINAL

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