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PRESENTATION

Operator

Good morning, and thank you for holding. At this time, we would like to welcome everyone to CSN conference call to present results for the fourth quarter 2019. Today, we have with us the company's executive officers. We would like to inform you that this event being recorded. (Operator Instructions)

We have a simultaneous webcast that may be accessed through CSN's Investor Relations website at ri.csn.com.br, where the presentation is also available. The replay of this service will be available for the period of 1 week. Now you can watch the slide deck at your own convenience.

Before proceeding, we would like to state that some of the forward-looking statements herein are near expectations or trends on our base on the current assumptions and opinions of the company management. And these may differ materially from the forward-looking statements expressed herein as they do not constitute projections. Actual results, performances or events may differ materially from those expressed or implied by the forward-looking statements as a result of several factors, such as the 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 the U.S., Brazil and other countries; changes in laws and regulations; and general competitive factors at global, regional or national basis.

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

Marcelo Cunha Ribeiro - *Companhia Siderúrgica Nacional - Chief Financial & IR Officer, Executive Director of Finance & IR and Member of Executive Board*

Good morning to all of you, and thank you for participating in the conference call for CSN. As is usual, we will have a brief presentation, followed by a Q&A session. I begin with the presentation on Page 2, where we refer to the highlights of the periods, beginning with the main EBITDA figures.

During the year, we were able to have a very strong free cash flow generation, and we achieved record EBITDA figures. Although this was a difficult year, but to be celebrated, we had a very strong fourth quarter. And in terms of the priority of the company to improve its talent, we made significant



strides. We reduced our indebtedness that continues to be lengthened with operations that have brought us higher liquidity and a better long-term debt profile. And we also -- and mainly reduced our leverage. We went from 4.55x to 3.7x through growth of EBITDA, cash generation and iron ore prepayments. We continue on in the presentation going to Page #4, where we show you the evolution of the EBITDA. We had a strong growth of 24%, with a margin of 28%, one of the highest in our history, despite a very difficult year.

And in sequence, it was also a good quarter, where we obtained growth despite a drop in the cost of iron ore.

Now when we look at the results, we have good news, which is that the steel industry, once again, has increased its results. We had better volumes, lower costs. And this, of course, enhanced our results. And mining, despite the drop in prices had a good result because of better volume and better realization of prices. In cement, we had a significant evolution. Even with lower volumes and stoppages for maintenance, we had better prices, better costs, and a significant margin evolution. We got to 1.6, therefore, of EBITDA.

On Page #5, we show you additional and relevant financial indicators. For example, CapEx in 2019, we made investments of BRL 2.2 billion because of a significant evolution in the steel industry. We had a relevant movement, which was a stoppage of blast furnace #3 and, of course, these other important processes like sintering and other peripheral projects that allowed us to practically double the figures in this business.

And this is a very special business when it comes to investments. And this is a nonrecurrent point, and this CapEx of BRL 2.2 billion should be reduced in 2020, coming closer to BRL 1.8 billion.

When we look at the financial cycle, we do have good news. A significant source of cash flow 15 days less vis-à-vis 2018 and in working capital. The source of this reduction is in accounts receivable and inventories, especially we have an acceleration in accounts receivable, especially in the steel industry with shorter terms, giving us greater liquidity. And in inventory of finished products and raw materials, we have become more efficient, generating almost BRL 900-some million in terms of operating cash flow and free cash flow. We also -- because of the strong EBITDA that we had, we reached BRL 1.8 billion. And we ended the year with BRL 1.7 million in cash flow, which is highly relevant for a goal that is to reduce indebtedness.

We go on to Page #6, where we continue our deleveraging.

This quarter, we got to 3.7x net debt to EBITDA ratio. This was a great advance. We began the year with 4.5x. And in this quarter, more specifically, we had a significant reduction in net debt, BRL 1.3 billion. This still is not sufficient.

The reduction of net debt was less than we expected because of some temporary events, nonrecurrent amortizations or operational results that impeded us to have better results, but we continue with our target in the middle term to get to BRL 20 billion in the coming years. And of course, this will require, perhaps, financial initiatives, such as the sale of assets.

On Page #7, we see our debt amortization profile with very relevant events. As a priority, we have the lengthening of the debt, a reduction of short-term debt and an increase in liquidity. And we made great tries since the first semester and later on. We have lengthened our bank debt. And at the beginning of 2020, we took advantage of the window in the international market with the issuance of \$1 billion for an 8-year period, which has enhanced our liquidity and resolved our challenges of refinancing for the year 2020.

We will continue to do the same, maintaining a high liquidity, higher than BRL 4 billion and cash over short-term debt will be BRL 1 billion, continuing to lengthen the debt and, of course, taking advantage of the local market with the issuance of debentures.

We also speak about the business highlights on Page #9. We begin with the steel production, and this was a very special year for steel, a challenging year. And of course, we lost some competitiveness because of blast furnace #3. And we have a drop in the sales volume. Now our sales indicators is not a very good indicator. It compares the year 2018, where we had the Indiana plant in the U.S. and of course, we have an impact of this in the comparison. But the local market shows our competitiveness and a drop of 5% vis-à-vis the Brazilian market that had a drop of 2%. However, in the fourth quarter, we resumed our strength with the growth of 9%. We have good volumes and a good recovery, enabling us to foresee that the year 2020 will be quite different.



When it comes to revenue, and despite the growth of 4%, we have a growth of 1%, because the average price has dropped 3% because of the mix of the products sold and with shorter average term.

Now despite these factors, we may drive in EBITDA, we got up to BRL 177 million with an increase in margin. Thanks to the increase in costs, which we see on Page #10. We see that we had a significant move forward in terms of production volumes. We practically doubled our production, and I would like to highlight that most of the production was in December, when we concluded the ramp-up once we had resumed the maintenance of the blast furnace, and we see a new level of cost. The cost of flat has had a significant decrease of 9% from the third to the fourth quarter. And we believe this reduction will also be reflected in the 2020 results, enabling us to reach new profitability level. We have had growth, but it is far from what we wanted to have.

On Page #11, we see the highlights for mining.

We had another very important quarter with a record in terms of sales volumes, reaching 10.3 tons .

This is a semester where the production is impacted by the seasonality of rainfall. We tend to have lower volumes, but this was offset with a purchase from third parties and some inventory. We ended the year with a significant evolution of 11% and 5% for the quarter. Revenues increased vis-à-vis the third quarter, although the average prices -- the market prices did have a drop. Our costs increased slightly because of a lower reduction of fixed costs, and because the volume was impacted by rainfall and the EBITDA is marginally smaller than that of the third quarter, dropping to 51%, but high for the quarter. We ended the year with BRL 5.9 million of EBITDA, more than double the EBITDA for the year 2018.

In the last page, we show you the excellent realization of prices in the quarter. And although there was a drop of 13% in the Platts 62% index, we ended up with only minus 2%. We were favored by the basket of quotations that favored us vis-à-vis the third quarter. And we will have more sales as per fixed cost, which help us and also the drop in the price of freight, which was 15%. These are the main indicators that we wanted to present to you.

And at this point, we can go on to the question-and-answer session. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Daniel Sasson from Itaú Bank.

Daniel Sasson - *Itaú Corretora de Valores S.A., Research Division - Research Analyst*

My first question refers to the cash flow that you reported for the quarter. If you could help us reconcile it with a drop in net debt of BRL 500 million and compare the fourth quarter to the third quarter? This would be very helpful. Which were the factors that allowed you not to have a greater drop in net debt. The other question refers to cash flow and dividend.

If you could give us an update on the sale. What is it that is pending still? And which is your expectation for the generation of operational cash and the payment of dividends in 2020? If we're going to have a payout that is higher than the cash generation for the year has happened in the year 2019. These are the questions I have.



Marcelo Cunha Ribeiro - *Companhia Siderúrgica Nacional - Chief Financial & IR Officer, Executive Director of Finance & IR and Member of Executive Board*

Thank you, Daniel, for your multiple questions. Let's speak about the net debt and the free cash flow. Well, the free cash flow as shown is the source -- the operating source. We generated net revenue, but this quarter, we had some temporary events and other nonrecurring events that consume some of our generation among the temporary ones, the amortization of our mining sector, BRL 300 million approximately.

And we also had a new payment that will be announced in the very short term. Now this is one of the variation that will cause variations from one quarter to the other. We also have nonrecurring events.

For example, the operational generation still impacted by the resumption of the blast furnace 3, representing BRL 170 million in terms of operating revenue that is still not part of our free cash flow. That is part of the EBITDA, but that also consumed resources. We can mention a certain leak of dividends, which are not a normal dividend of CSN to shareholders, but our dividends of CSN mining to CSN, some conversions that represent BRL 100 million that are now part of the consolidated figures. And we had to make contributions to the Transnordestina as part of our commitment with the government to reinstate the work. And the contribution this quarter was BRL 150 million, and the commitment of new investments for BRL 250 million. These are nonrecurrent and temporary investments that explains the variation.

When it comes to SWT, we have a potential buyer who is fully engaged with us, has been engaged for the last 1.5 years. He is interested. He has undergone that whole process of diligence, has improved the proposal until he has come to a proposal that we deem to be attractive.

Now this process is lengthier than we had imagined. After the due diligence, the buyer had a delay in terms of finding insurance and funds to conclude the transaction, but recently has resumed the negotiations. And as we had already mentioned, if the conditions are attractive and aligned with what we expect, we will continue on with this sale to continue to reduce our leverage.

Operator

The next question comes from Mr. Leonardo Correa from BTG Pactual.

Leonardo Correa - *Banco BTG Pactual S.A., Research Division - Research Analyst*

My first question refers to iron ore. We have access to the monthly data of volume per port in Brazil. They are data from LBH. And we are following up on the drop -- on accumulated drop of 40%, including January and February. I would like to know if there's something wrong with the data or if they are real? And if you are reasonably below the pace that you had last year? And if this would pose any risk if there's something extraordinary happening? We know the rainfall situation in Minas Gerais. But why are these figures so weak? What is happening, perhaps, from the viewpoint of buyers? If there's a problem with the coronavirus, problems that we are unable to explain, to justify this great drop in the shipments of iron ore at the port of CSN?

My second question. I don't know if Martinez is on the line. My doubt refers to the steel plant. We see that the results are still under evolution. Now the renovation had a significant impact on the business in 2019, they should stop in 2020. And what investors are attempting to do is understand the pace of the evolution that we can see in the quarter, a result of BRL 200 million and EBITDA is below the potential of steel production. Therefore, what do you expect in terms of evolution? And if you can quantitatively explain to us when you will get back to a normal pace of EBITDA BRL 700 million per semester in the steel production?

Enéas Garcia Diniz

Leonardo, this is Enéas. Yes, it's true.

The rainfall level is 92% above that of previous years. And of course, this has an impact on all the mining companies. We're very much aligned with what is happening with other providers of iron ore. Now our guidelines for 2020 are the same. We're going to recover our production, and we hope that industrially, we can guarantee production. And as of April, we should get back to our normal level. We are suffering, but nothing that will compromise our activity. We're waiting for a normalization in terms of rainfall. And of course, there is a disadvantage in volumes, but an advantage in prices. There is a scarcity of Brazilian iron ore in the basket. And our product has an attractive price because of the low alumina content to offset that scarcity of iron ore in the Brazilian market. And there has been an increase in price because of the supply from China.

Luis Fernando Barbosa Martinez - *Companhia Siderúrgica Nacional - Executive Officer & Member of Executive Board*

This is Martinez. In steel production, the main emphasis, especially at the beginning of the year, is to recover our margins. Nowadays, we're operating in the industry with a margin.

And if you look at the results of 3% to 5% sustainably. This is not something that the steel mills have achieved in the last year. They used to attain higher levels at CSN. From the operational viewpoint, the conclusion of the renovation of blast furnace 3, one of the pillars, is to work at full steam. Last year, we purchased slab. We bought 800,000, 900,000 tons of slab as another. So that means that from now on, we can work at full production. 85% in the local market, and nothing will change.

Now when it comes to prices, and with the dollar rate and the level of the dollar, it's impossible not to restate the prices. In January, we had a correction or restatement of 10% in February in higher added-value products, 7% increase. And on March 2, for civil construction and distribution, a correction of 10% as well. When it comes to the premium, nowadays, the CRO report came out today, with a return of some industries from China and they remarked that the level of activity from the region of Wuhan has returned by 30% to 70% to normality. And the price of China that had reached \$155 is now at \$480 -- \$465.

This amount of \$465 with the price increases we had at the beginning of the year and with the level of the dollar means we should work with a new price increase to ensure that the premium is 0. In the local market, nowadays, the BQ is 2,800 with PIS and COFINS. This will give you an idea that it would cause BRL 620 million. And this will show you how we will recover our margins. Now when we return to levels of BRL 700 million of EBITDA, throughout the second semester, without a doubt, we will present to you more relevant statements in terms of dollar per ton for EBITDA.

Well, we have to seek at CSN as to return to that level of \$100 per ton, giving us 2 billion -- BRL 2.3 billion EBITDA in the steel industry per year.

Leonardo Correa - *Banco BTG Pactual S.A., Research Division - Research Analyst*

If you allow me to check some details, and I begin with Enéas. Enéas, it was my understanding in the past that (inaudible) was at 40 million tons of iron ore this year.

Is there a minor revision to 386? Or is my understanding wrong?

Enéas Garcia Diniz

Yes. We're seeking that figure of 40 million. Now the rainfall at the end of November and December hit us strongly because of the seasonality. For this year, of course, we were highly impacted in the first quarter, but we do have a great deal of muscle. We expect to operate at full steam. And industrially, we're more ready to advance through the coming quarters. Our guidance, therefore, is at 40 million, and which would be the volume that we ended 2019 with.



Leonardo Correa - *Banco BTG Pactual S.A., Research Division - Research Analyst*

And for Martinez, you are suggesting that given the exchange rate, that you could have a third increase for the year. Is there anything on the table for the month of April, some evolution? Or is it still too premature for that?

Luis Fernando Barbosa Martinez - *Companhia Siderúrgica Nacional - Executive Officer & Member of Executive Board*

Our policy -- and the policy in the domestic market, which is the more correct policy is to maintain a price for CSN based on our portfolio. But very generally, the premium should be 7% to 10% for the nationalized imported products. For BQ with the present-day dollar rate for 60 practically brings us a negative premium of 7%.

And this, of course, would justify a new increase for either April or May. We have to make a correction. It's an issue of cost. We cannot recover margins because of the increase in the dollar rate.

Operator

The next question comes from Thiago Ojea from Goldman Sachs.

Thiago Augusto Ojea - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

My first question refers to the cash generation.

This year, we saw a very strong EBITDA at CSN BRL 7.3 billion, but the net debt also increased because of a combination of exchange rate and the payment of dividends. Marcelo, perhaps you could give us greater guidance, not with specific numbers, but in terms of capital allocation for 2020 and 2021. For Martinez, if you have any figure confirmed in March, it would be interesting if you could remark on this?

Marcelo Cunha Ribeiro - *Companhia Siderúrgica Nacional - Chief Financial & IR Officer, Executive Director of Finance & IR and Member of Executive Board*

When it comes to our cash flow, as I mentioned here, the cash flow and the reduction were either nonrecurrent or temporary. So we have focused on cash flow. We will see a better EBITDA in 2020, vis-à-vis 2019, a CapEx that will be somewhat lower, as mentioned, a working capital that will be quite comfortable and a lesser of cash generation and interest cash also lower. Which means that we will have a favorable situation in an environment where the dividends will follow the minimum mandatory payout of 25%. The dividends in 2019 were higher because we had a year of extraordinary profit coming from 2018.

And there will be a strong reduction in the year 2020 and 2021, which will be the necessary amount to get to that minimum debt of BRL 20 million. Perhaps with the sale of assets or more, now there was a mention of 5%, and we will have to review that situation. Because with the present-day exchange rate, it is impossible to maintain the market industrially. Going forward, we're going to follow-up on the forecast, and we will recover our margins in the industrial sector, the home appliances, white line equipment and much more.

Operator

The next question is from Mr. Caio Ribeiro from Crédit Suisse.



Caio B. Ribeiro - *Crédit Suisse AG, Research Division - Head of LatAm Metals and Mining Team*

My first question refers to the effects of coronavirus in China? And your viewpoint, especially the slowing down of the iron ore production domestically, which would be the annualized volumes of production. And you're reading on the stimuli package that was announced recently in China. Is this a great surprise or was it expected for this first semester? In the fourth quarter, you were very successful in capturing market share in the domestic markets. If you could give us a hint of what will happen in the first quarter 2020? And where will your market share stand?

Marcelo Cunha Ribeiro - *Companhia Siderúrgica Nacional - Chief Financial & IR Officer, Executive Director of Finance & IR and Member of Executive Board*

Caio, regarding the coronavirus, we haven't had any impact from our clients. The orders continue. What we do observe now is something favorable. There is a greater control in China. And with the stimuli, the economy is reacting, there is a greater infrastructure and construction. Now Platts used to be at \$95 net. There was volatility. And what we expect is that a strong flat because of a return to normalcy in China. And as you mentioned, the economy itself is resuming. The steel production tends to increase its production level. So our outlook for the second quarter is very good.

Now when it comes to the fourth quarter '19, with a return of the blast furnace, there was a recovery. It was our obligation to go back to the historical levels of production of products was truly collaborated in the fourth quarter was price. We had a drop of 4%. But we ended up selling more BQ. We normally had 235,000 for the quarter, we went up to 300,000 in the last quarter. Therefore, it's natural to have lost 2% in price only in the mix. Now for 2020, as I mentioned previously, we're going to work at full steam, all of our lines are full, and coronavirus itself has made imports more vulnerable. And with the dollar exchange rate, any importer will have to think twice because of the cost. What I foresee, therefore, is an opportunity to recover part of the market because of the penetration of imports that last year represented 10%. There's 1,200,000 tons that could be converted to the domestic markets.

Now regarding the different sectors and despite the coronavirus and data that is not satisfactory for the industry, we foresee an apparent consumption of approximately 6%, but all of these sectors involved continue on with their same forecast.

In a specific case of CSN, regardless of the market, we're going to work with a full market. Domestically, we're going to work for the domestic market. Basically, the strategy for the first quarter is to be careful in the lines that are somewhat more vulnerable (inaudible).

Caio B. Ribeiro - *Crédit Suisse AG, Research Division - Head of LatAm Metals and Mining Team*

If you could give us a quick follow-up. Besides the steel production in China and the production of iron ore domestically, do you have a reading of which was the impact due to coronavirus? Which was a drop in production in China?

Marcelo Cunha Ribeiro - *Companhia Siderúrgica Nacional - Chief Financial & IR Officer, Executive Director of Finance & IR and Member of Executive Board*

Are you referring to China or Brazil?

Caio B. Ribeiro - *Crédit Suisse AG, Research Division - Head of LatAm Metals and Mining Team*

I'm referring to China.

Marcelo Cunha Ribeiro - *Companhia Siderúrgica Nacional - Chief Financial & IR Officer, Executive Director of Finance & IR and Member of Executive Board*

China had a drop of production. I truly don't know which was the impact in percentage, but there was a drop in the production due to the coronavirus. This is a fact. Percentage-wise, I can't give you a figure.

Operator

The next question is from charge from Thiago from Bradesco BBI.

Thiago K. Lofiego - *Banco Bradesco BBI S.A., Research Division - Director & Head of the LatAm Pulp & Paper and Metals & Mining Equity Research*

Martinez, I don't know if you have already remarks on this, the trend for a drop in price and steel production. What is it that we should expect in the first quarter? And when will you be comfortable to say that there is normalization for the level satisfactory now or not? And you already mentioned this, but simply to gain a better understanding, you had an increase of 10% for distribution in January, another 10% that will be implemented in March. And there seems to be room for greater price increases perhaps 7% to be able to recover that negative premium. If you could confirm this?

The second question for Marcelo. How much more in terms of contributions do you have to make for the Transnordestina, the total figure for the coming 12 or 18 months? And if you confirm the CapEx for 2020 once again?

Pedro Gutemberg Quariguasi Netto - *Companhia Siderúrgica Nacional - Executive Officer & Member of Executive Board*

Thiago, this is Pedro. Good and bad about your question. Referring to the ramp-up of blast furnace 3, we're very close to what we would deem to have the ideal results. The first quarter has been very typical because of the rainfall something seasonal, of course, on our operations. But presently, we have a stable operation, and we have been able to capture 80% to 90% of the expected results. And we will get to the second quarter with a situation that is more sound. We have another work that we began recently on our coke plant that will allow us to have even more competitiveness and more than we had in this first quarter, we will have sounder results. And we're very optimistic that as we make new investments, we will have a very clear return on this and that we will present on the following 3 quarters.

Marcelo Cunha Ribeiro - *Companhia Siderúrgica Nacional - Chief Financial & IR Officer, Executive Director of Finance & IR and Member of Executive Board*

Thiago, I confirmed this. There is a price increase in tinfoil, 7.5% for April 1. So civil construction, 10% in January, March. In February, galvanized, 7%. This has already been put in place. This has already been put in place. The portfolio has already been altered. So distribution was a negative premium of 7. Now when you get to the price of BQ, the more common one with PIS and COFINS is 240, 250. Now if you work backwards, then you think of the BQ in China that was 465. Theoretically, with \$1 between 440 and 470, the premium is negative between minus 2% and minus 8%. So of course, there's room for increases. And we have to transfer this increase. Otherwise, in this case, it's very clear, it's cost, and we have to recover the cost. And well, we'll prevent you from making a new announcement now. It's not a problem of transferring this one of the distribution extremes.

Distribution is not a market, it is a channel. There was a price increase in January, another one in February, one for galvanized products, one for hot and cold production, 10%. Theoretically, we should announce a new increase for April or May. But once again, the entire chain has to be lubricated and should continue to buy. We have a commitment of contributing to the work of Transnordestina. This represented BRL 550 million. Once this investment is over, the work will be proceeding for team will be financed by public resources. These resources have already been identified. And they're awaiting the approval of the new budget in the coming 15 months. This budget should be approved, and it will no longer need our operational contributions. We will be contributing BRL 150 million, up to BRL 260 million more during 2020.

Operator

Our next question comes from Mr. (inaudible) from UBS.

Unidentified Analyst

About the process that underwent catchment at Kadi, will you be successful in this process and this would entitle the -- entail, I'm sorry, the payment of almost BRL 1 billion in 2020.

Marcelo Cunha Ribeiro - *Companhia Siderúrgica Nacional - Chief Financial & IR Officer, Executive Director of Finance & IR and Member of Executive Board*

This is one of the processes that has been resolved or included in our financial payments with part of the transactions that we had in mining. This is a process that has already been won in the lower chamber of the Kadi, 7 to 1 votes. And yesterday, it was voted again. And as expected, there was a decision that favor us luckily enough. So there was a very positive evolution, in our opinion, the amount has a reduction of almost 40%. And now we're going to define what to do. We're going to discuss this in court. But of course, this will be a lengthy process. From our viewpoint, there has been a positive evolution, in our opinion, on this case has not been altered.

Operator

Our next question comes from Mr. Carlos De Alba from Morgan Stanley.

Carlos De Alba - *Morgan Stanley, Research Division - Equity Analyst*

So questions on -- for Marcelo on Transnordestina. Just could you repeat the commitment for 2020? Like I think I heard BRL 250 million, but just wanted to double-check that? And also, what happened to that fellow after 2020.

If there is no agreement for the new funding of the project? What are the obligations and responsibilities of CSN. If you have any records in terms of finishing funding for this project? Or whether it stop the company's responsibility?

On SWT, Marcelo. So -- with CFR we see a firm offer from the buyer. Because given the uncertainties that we have right now in the macro front, I just want to understand how likely you see it that the company will finally close this transaction? And then if I may, for Martinez, what -- while building the actual implementation Martinez, of the price increases that the company has already announced because we're seeing relatively weak demand in January. And all of the companies in the domestic market that have imported a show, a decline in the realized prices. So right along skewing to poor mix, but the fact is that prices -- net prices in the fourth quarter was down for the 3 steel companies in the country. So I just want to see how much of the announced price increase has the company been able to implement?

Pedro Gutemberg Quariguasi Netto - *Companhia Siderúrgica Nacional - Executive Officer & Member of Executive Board*

Carlos, thank you for your questions. When it comes to Transnordestina, based on pre -- present-day movements, we do have a very positive viewpoint. This is now awaiting the decision of the tribunal of accounts to proceed with the works. And of course, all of this depends on the budget on the budgetary approval. Now the budget was prepared in July, the work should proceed. And that is why we have this commitment of making contributions to this work. Even though we have already fully complied with our contractual commitments, we have done our share. And now we're missing an important contractual part that was 14 in the original agreement, monetary restatement and other things that we're foreseeing. So this is our obligation to try to conclude this work because it will be positive for CSN. Now financially, what exists and what you see in our balance is a guarantee from CSN to pay part of the debt of the subsidiary, that is at about BRL 2.5 billion. Now this is our exposure in the project. So we're highly confident that this new evolution will allow the project to continue and begin to operate in a few years.

Now in terms of SWT, we have an interested buyer, perhaps not a firm offer. This is a buyer that has different moment, has participated. He has always been firm in his will to diversify. He is a producer of long steel that works in Germany and is a leader in other parts of Europe, and this buyer is truly interested. So on our part, we want this proposal to reach a satisfactory level. There is nothing contractual, so far. Of course, could not happen, could not materialize.

Luis Fernando Barbosa Martinez - *Companhia Siderúrgica Nacional - Executive Officer & Member of Executive Board*

Carlos, all of the price increases that I mentioned here have been implemented.

And what we have to consider is that part of our invoicing, we have 22%, 23% in the automotive sector and spare parts and 13% in the industrial market. The greatest challenge in the first quarter and in the second quarter as well as to recover margin in these sectors. Those increases for distribution have been fully implemented.

When it comes to demand, as I mentioned previously, we have the downstream lines working at full steam. Painting and metal sheets and a greater capacity in the cold and hot rolling, because of the resumption of the blast furnace, and there will be no problem in placing these new volumes during the first semester.

Operator

Your next question comes from Alex Hacking from Citibank.

Alexander Nicholas Hacking - *Citigroup Inc, Research Division - Director*

Could you please discuss the performance of dry stacking technology at the Casa de Pedra mine? Is the dry stacking currently operating at the full rate? How was the performance last year versus your expectations? And was -- how is the performance been during the very heavy rainfall during the fourth quarter?

Pedro Gutemberg Quariguasi Netto - *Companhia Siderúrgica Nacional - Executive Officer & Member of Executive Board*

Alex, well, both are already in operation. We have achieved 100% of our production capacity, which means that CSN no longer depends on the dam. The final adjustments were made in December, enabling us to reach the nominal capacity of the plant. And we're now going to have full domain of the technology and produce more. But we're very satisfied with our performance in this field.

Operator

Thank you. As we have no further questions, we will now return the floor to Mr. Marcel Cunha Ribeiro, the CFO and IRO, for the closing remarks.

Marcelo Cunha Ribeiro - *Companhia Siderúrgica Nacional - Chief Financial & IR Officer, Executive Director of Finance & IR and Member of Executive Board*

Thank you all for participating in the call. I will very quickly review some of the questions and to emphasize the company policy and give you a very brief outlook of what we foresee for the first quarter and the year 2020.

Begin with Daniel Sasson from Itau, who asked about the dividend. Our policy is 25% as a minimum payout. We're going to stick to this for the year 2020. And in normal situations, this is what we intend to implement, as was said last year and for the coming years. When it comes to the shipment of iron ore and steel production from the viewpoint of demand, we have never had supplied for cargo that has now been placed in the market, which means that there is no problem of lack of demand in the sale of our products. Quite contrary, as you have observed the steep drop in shipments because of the torrential rains that we had in the southeast since November. And now at the end of February and March, we had a very high concentration of rainfall at the port. And because of this production, transportation and shipments become highly complicated for all the producers in the Southeastern market.

As in Australia, we had problems due to the bad weather, but the demand exists, and it will come back even stronger, especially for high-quality iron ore. And this is what we intend to do to have a premium iron ore is at 91 60 at present. And we think there should be a price increase and a higher premium because of the quality. We believe, therefore, that this year will be quite steady in terms of price and quality and from the viewpoint of surprises for the market.

Regarding the steel mill, we do have a price recovery. We have worked a great deal with our steel production last year. You followed up on this, the renovation of blast furnace 3, a recovery of 15,000 tons with a hot roll process. And we're going to use our distribution chain. And part of the policy of CSN is to give support to our allies and distributors. We want to significantly increase distribution during these 5, 6 or 7 clients that will become our main partners and place the production in the domestic market. Our priority has always been and continues to be to place the production in the domestic market.

As Martinez mentioned, the added values have already been concluded until the first semester. And for BQ, we will do everything through 6 or 7 distributors that are our partners.

When it comes to prices, Martinez has already explained to you, the new price implementation. Without a doubt, we will be forced because of need, cost, and devaluation of the real to have an increase of 10%, beginning in May for all sets of products and all types of segments. It is a recomposition of prices. The dollar will reach 4 70. And there is a -- I don't think that dollar will have less value, and we will have to recompose our prices due to the cost. And these increases will be implemented in April or May.

Regarding Thiago from Bradesco who spoke about iron ore, coronavirus, and shipments. Coronavirus is a reality. We have seen high number of people contaminated by this disease. There is a low-mortality rate in terms of percentages, but it is a surprise when it comes to the speed of dissemination and increase of this disease in China.

They did very good work when it comes to controlling the disease. We'll see what will happen in Europe and the United States. And we're ready for another 2 months of difficulties in terms of the resumption of logistics, business and a bit of tranquility for a better consumption. I think we will overcome all of this worldwide. I think we are able to fight against this disease. And beginning in the second semester, everything will have been controlled, and we will no longer have greater interferences in the [drop of the TNC] that we observe in all countries.

When it comes to the shipments of iron ore, the difficulty of production, transportation, and shipments, we're going to recover this production. We will do everything within our control to get there. And in flat steel, the first quarter, we have had a good performance.

And based on January, February, and March, I think we will have a good year in the domestic market. As you know, the market was unsupplied. Now the recovery of the Brazilian domestic market is lagging behind for more than 1 year and 3 months.

Everybody were sure that the economy would resume. This does not happen. It began well this year, but then we had the coronavirus problem. We're ready for a full redemption of the local market. And from the viewpoint of steel production, there have been no difficulties in terms of our sales for the market. To respond to Thiago from Bradesco, we have resumed the Transnordestina work as of October of 2019. Through an agreement made with the Ministry of Infrastructure, the intention was to contribute BRL 254 million for the recovery of some of the part of this highway Piauí and others. And of course, there's a negotiation underway with the entities funding this project. And the -- CME already has funds allocated to the project for the continuity of the project, and these are funds from the development fund of the Northeast that do not depend on the budget. We have done our share and beginning in April, when we will conclude our commitment, we believe that the work will be resumed at a very fast pace. And the conclusion is 14 for April of 2022. Still within the mandate of President Bolsonaro about Mr. Smith, and the fine as you know, we're involved in a significant litigation with the government. These are large companies, and we were able to win a favorable decision at the lower chamber. This has gone up to the upper chamber of the Khadi. And as happens most of the time, the president has favored the government, but we do believe we have a very good foundation in terms of our discussion. And as other issues that are being discussed. We do believe that the result will be favorable.

Now regarding this year, and regardless of the situation with coronavirus, we are ready to work and operationally, you can expect that we'll do whatever is possible to reduce cost and increase prices and we will deliver a better EBITDA than that of 2019. We will do this when it comes to the



deleveraging, that continues to be a market concern. We're discussing not only the sale of SWT. Not only that, perhaps, we made a mistake. We were left with only 1 interested party after the discussion and of course, surprisingly, this is dragging the discussion more than we expected.

However, we cannot impose the timing on this. So we continue on with our negotiations. Regardless of these other issues, prepayments, streaming, the sale of assets from mining, a part of mining to conclude our strategy. We're working on the IPO for mining. That is to say, we're working in all sources to get to BRL 20 billion of net debt for the company as fast as possible. This is our wish. And of course, in a certain way, this coronavirus will delay our intentions somewhat. As you know, all of the markets are quite uncertain about the near future. So we're making the most of the good market opportunity to issue \$1 billion in bonds. We thought we would have continuity to streaming or the sale to a strategic partner of 12% of our mining and that is how we got to the IPO of mining.

But now we will have to wait more and the greatest priority for all here and Marcelo is responsible for. This is to see alternative -- alternatives, I'm sorry, for the leveraging of the company to get to BRL 20 billion in net debt.

Now our expectations for this year are good. We are optimistic, we're working at full steam with lower costs in mining. We're going to seek a recovery to deliver what has been budgeted, and we are able to do this in cement.

We believe that we can make enhancements because of the resumption of civil construction. This would enable us to deliver better figures in 2020 compared to the ones we have already delivered that. We're quite good.

I would like to thank all of you for your participation in this call. And Marcelo's team are -- is always at your disposal. What we seek is transparency, and we will gladly clarify any of your doubts. Thank you very much.

Operator

Thank you. The conference call for CSN ends here. You can disconnect your lines, and have a good afternoon.

[Statements in English on this transcript were spoken by an interpreter present on the live call.]

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