Q2 2016 Earnings Call

Company Participants

- Benjamin Steinbruch, Chairman and Chief Executive Officer
- David Moise Salama, Corporate and Investor Relations Executive Officer
- Geraldo Morais, Commercial Director for Mining
- Luis Fernando BarbosaMartinez, Executive Officer

Other Participants

- Carlos de Alba, Analyst
- Daniel Vescovi, Analyst
- Ivano Westin, Analyst
- Leonardo Correa, Analyst

Presentation

Operator

Good morning and thank you for standing by. Welcome to CSN Second Quarter of 2016 Earnings Conference Call.

Today, we have with us the Company's Executive Officer. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After the Company's remarks, we will begin a question-and-answer session, when you will receive further instructions.

(Operator Instructions)

Today's event is being simultaneously aired by webcast and can be accessed through the CSN's Investor Relations website at www.csn.com.br/ir where you will find a slide presentation as well. Please feel free to flip through the slides during the conference call. There will be a replay for this call right after the event is closed.

Before proceeding, I'd like to mention that forward-looking statements that are made during this conference are under the safe harbor arm of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of CSN management and on information currently available to the Company. They involve risks, uncertainties and assumptions, and they do not guarantee performance. Therefore, they depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of CSN and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. David Moise Salama, Corporate and Investor Relations Executive Officer, who will present the company's operating and financial highlights for the period. Please Mr. Cafarelli -- Mr. Salama, you may proceed.

David Moise Salama {BIO 17456021 <GO>}

Good morning, everyone. Thank you all for being here for CSN earnings conference call. I have here with me, officers from the company as well. We will begin on slide three. During the second quarter we highlight an EBITDA totaling 855 million, a 17% increase over the first quarter of '16 with an EBITDA margin of 19%. During June, EBITDA reached 320 million, showing a recovery in the domestic steel market, and also according to the good figures in the mining segment.

In steel sales, we have reached 1,253kt, a slight expansion over the first quarter, with the increased share of coated products, achieving 60% of the total sales for flat steels, a very expressive figure.

In mining, you have iron ore production totaling 8.5 million tons, with sales of 9.3 million tons in the same period. The delivered iron ore costs went from 31.20 in the first quarter of this year to 28.20, a reduction of $3 resulting from the efforts we have been made of reducing costs in production. It is also worth noting that the working capital has been reduced and totaled 718 million during the second quarter and this is in line with our financial agenda that we have been disclosing to the market for China reduction. Therefore, in line with what we have said.

Moving on, we have the consolidated results in the fourth slide. In the second quarter, net revenues of BRL4.3 billion, had an increase of 13% compared to the first quarter, mainly due to higher volumes and sales in mining and the higher prices in steel. Concerning the second quarter of last year, the net revenues totaled 18% higher. Gross profit of 922 million in the second quarter is in line with the figures for the first quarter, and it's interesting if we compare with the second quarter of '15, we have had an increase of 10%.

For the quarter, we have losses of 42 million, which is significant when we compared to the first quarter of this year and also with the first quarter of this year and the second quarter of last year.

The adjusted EBITDA totaled 855 million, 17 million higher than last quarter, and because of the highest EBITDA in the mining segment. And when we compared to last year, we have an increase of 7%. The adjusted EBITDA margin reached 19%. The net debt adjusted fell by 3% compared to the first quarter totaling BRL25.8 million, whereas the net debt/adjusted EBITDA attained 8.3 times which is inferior to the 8.7 times that we showed in the first quarter of this year.

Now I am moving on to slide five, where you can see the net results build-up. In this slide is the build-up for the second quarter, we will go to the second quarter -- the first quarter of EBITDA, and now reaching the loss in the first quarter of '16. We've reached 855 million, an increase by 17%, when compared to the first quarter of '16. To get to 42 million in net losses, we have reached the EBITDA with the controlled companies, 171 million with other expenses, 110 with taxes and total contributions. In addition to the negative result of 228 million, we have included the financial results of the jointly controlled companies and the equity results. It is worth highlighting that the result was 95% better when compared to the previous quarter.

In the next slide, you see the results per segment. You can see in the top part of the chart where you have the second quarter '16, the revenue for steel totaled 2.9 billion [sic], mining 1.2 billion, logistics 382 million, cement 109 million, energy 66 million.

Net revenue consolidated totaled 4.3 billion [sic], out of which 62% comes from steel, 26% from mining, 8% from logistics, 2% from cement and 1% from energy.

On the bottom part of the chart, you have the adjusted EBITDA for the second quarter, totaling 855 million, 40% of which goes to sales, mining 40%, 16% logistics, 0.8% cement and 2% energy.

We will now move on to slide seven, where we will have the results for the steel performance in the second quarter. We see that the total sales of steel totaled 2 [ph] million tons above the first quarter. And an improved sales in the domestic market totaling 53% of total sales, whereas the foreign markets accounted for 47%.

In the top chart to the right, we have the net revenues in steel, totaling BRL2.9 million, an increase of 2% compared to the first quarter of this year.

The EBITDA, 369 million in the second quarter, 12% less compared to the 420 million in the first quarter. Whereas EBITDA margin went from 15% to 13% due to the stoppage for maintenance and also for the retake of the blast [ph] furnace #3 and therefore we had an impact with a less overhead fixed cost.

Now on slide eight. For the second quarter, we see that coated steel sales totaled 60% of the flat steel budget, so we have 85% in foreign market and rest in the domestic market. From the total sales, 37% of galvanized product, 11% for tin plate, and we have hot and cold for 20% and 21% respectively. And we have 49% of distributions, 14% to the white line for home appliance and then we have 14% to automotive and 11% for construction and the rest for packaging.

On the last bar chart we the foreign market sales. In the second quarter we have 219,000 [sic] tons sold by SWT in Germany, Lusosider in Portugal, then we have 178,000 [sic] LLC in the US and 85,000 tons were sold directly, direct exports.

In the next slide, we have the steel cost competitiveness. In the second quarter, the slab production cost was increased by $280, impacted by a stoppage in the Blast Furnace #3 and then the retake of the blast furnace and this interrupted production for 22 days. It is worth highlighting that as of June, the production costs went back to 280 million tons in line with what we practiced in the first quarter. And the stoppage was actually beneficial because of the inventory of steel products and this can be seen that we have reduced the working capital due to this event. In the second quarter, the average net result per ton was BRL2,297 [sic], whereas EBITDA per ton was 295 in this quarter.

In the next slide, we have the performance in the mining sector. As you can see in the biggest chart, we have an increase of 12% in iron ore sales, totaling 9.3 million tons in the second quarter. In the second quarter, the net sales totaled BRL1 billion, 8% above than the first quarter of 2016, mainly due to the increased sales of iron ore, as well as the impact of higher prices, taxes in exports. The EBITDA totaled 365 million in the second quarter, 29% higher than the first quarter. The EBITDA margin was 36%, which was also above the first quarter by 3%.

Now we're going to the mining cost competitiveness. Slide number 11, once again we see an efficient plan for cutting down costs, decreasing 10% in the cash cost of iron ore delivered in China which attained $28 per ton. To the right, you can see the evolution of the EBITDA and the revenue and the EBITDA went up per ton going to $2, reaching $11 in the second quarter.

On slide 12, we have the cement segment performance. In the second quarter due to the ramp up of the Arcos cement operation, we were able to increase sales by 4% to 594,000 tons in the quarter. The net revenue totaled 109 in the second quarter and EBITDA margin is 6%.

On slide 13, we have the results for logistics, highlighting Sepetiba Tecon performance. In the second quarter, we had 32,000 containers in Sepetiba containers, had dropped by 18%, whereas the transport of steel products totaled to 197,000, therefore, increasing by 38%. To the top right you have net revenues, 45 million; EBITDA 11; and a margin of 24%, therefore 5% higher than the previous quarter.

Now we're going to slide number 14, where we will have the investment -- consolidated investments for the quarter. We invested BRL473 million, 271 to the cement segment, where we invested in the new clinker furnace [ph] in Arcos, which will begin producing this year's sales. Then we have in steel, 330 [ph] improving the performance of the Presidente Vargas steelworks and also in an environment of 61% in mining and 13 million in logistics.

The next slide, which is number 15, we have the evolution of the working capital. In line with our strategy of reducing cash, we have see -- the working capital acquired totaled 220 -- 718 million, 200 million less than the first quarter of this year. Due to the reduction of 602 million in stock, and 155 -- 125 in accounts receivable. The inventory of finished products was reduced by 200,000 tons in the second quarter, which represents 26%.

Now we're going to slide 16, here we have the debt for 2017, as we have seen in close, we are now working to postpone the payment of the following years. On June 30th, the average time was 6.4 years on the cost in reais of 107% of the CDI, in foreign currency 5.7% per year.

Now the last slide of this presentation. To the center we have 52% of the debt is in domestic currency and 48% in foreign currency. And you can see to the right, 44% of the -- and 48% of the EBITDA comes from the domestic market, whereas 56% and 52% respectively of revenue and EBITDA comes from the foreign market. And this shows a natural hedging of the debt of CSN.

Now we will open for questions and answers.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answers session for investors and analysts. (Operator Instructions) Our first question comes from Mr. Marcos Assumpcao from Itau BBA. You can start, sir.

Q - Daniel Vescovi {BIO 15333357 <GO>}

Thank you. This is Daniel Vescovi from Itau. My first question is for the sales tax. We see an increase in the domestic market, but also an improve in the mix and the improvement in coated products. Could you tell us a little bit more about the improvement in the mix that was actually done and if the increase in costs reflected in terms of distribution.

And in line with this, how do you see the premium in terms of the current levels of the exchange rate for imports. And concerning cash generation, you had a lot of liberation of working capital, because of lower inventory due to this stoppage that you mentioned. Do you expect this to be partially reverted during the next quarter. And you will probably be increasing inventories again, or do you think that inventory is at a more normal level now?

And another thing is, concerning the cost of production. I just like to have more information. You commented that slabs went back to 280 in June. Could you say a little bit more? Has this leveled off, has it stabilize in June? And what will -- is this a trend for the third quarter or can we also have some effect of the reduced fixed cost as well in the second quarter? That's what I have to ask. Thank you.

A - David Moise Salama {BIO 17456021 <GO>}

Daniel, thank you for your questions. I'll ask Martinez to answer you all your questions.

A - Luis Fernando BarbosaMartinez

Daniel, good morning. I will start answering what you asked on cost. Going back, we have that maintenance of the Blast #3 which is planned, it was expected to last 10 days. It was started on April 14, it should have finished on the 24th but it went on to May 6th. It was 22 day long. It was successful but it lasted more than we expected. So what happened was that -- at this time we took all the inventory of finished products, which was 200 million ton, the more or less, and we worked on inventories, promoting a reduction of -- a significant reduction of the company's working capital.

So today Blast Furnace #3 is normal, it's operating at full capacity. The furnace #2 is under maintenance and will be back up on to -- on operations in October. So we'll have a brand new Blast Furnace #3, it is totally complete and in full-fledged, although we were delayed. And then the furnace, Blast Furnace #2, will be back on October 1st.

So what David already said was that we had a slab price that was normalized and it was normalized in the second quarter together with the increase in price we are going probably to pick up in margin in the second -- in the next quarter. So the cost issue is totally under control and in addition to the slab cost which is the most important that we have that had a very expressive leap, we still have a target to reduce cost in other lines of the company, to reduce internal cost and all the other cost reduction programs that we have.

Concerning the price increase for the domestic market, going back, we actually did three price increases in the domestic market in distribution, major networks and civil construction and also industries, excluding auto makers. We had an increase in April, May, and June. All these increases were implemented successfully. With the automakers, obviously, we are still negotiating. CSN does not have annual agreement with automakers, but the scenario is not favorable this year for another price increase in the vehicle sector. So we to settle it for next year that for sure will have a two figure increase for the automaker sector.

In the distribution segment this increase went up to the end of the line, it was internalized in the network, in the chain actually.

And today it has mirrored in our balance sheet concerning the mix. For this quarter, in a very slight way, the mix was accounted for 8% and the increase is 5%. So this will still be reflected significantly in the next quarter.

Concerning the premiums, I think that's also another important question, we must not forget that in China today the price level and China is our main competitor concerning imports, China today has maintained a DQ totaling $400, $420 per FOB ton. If you take this price and you put this in the domestic market at 1.32, this gives a premium of 8% to 11%, which is a sustainable premium, in my opinion, in the domestic market. So the same rationale goes to the hot-rolled coil, cold-rolled coil and galvanized as well because it has level of capacity, which is a bit stronger.

In the case of strategy for CSN for the third quarter, we'll still be working in diversifying products with adding value as well and to work in the niche market, that is our strategy. Concerning the inventory, which was your last question, if we should increase inventories, the inventories that we did was 540,000 tons. If you think that we have a domestic level that's picking up again. This inventory only last one month, if you consider all the companies outside.

We can't forget that for this inventory we have SWT which we sell 70,000 a month, Lusosider is 35, LLC for 70 or 60 and exports that I do directly totaled 25. So therefore, there's no possibility of increasing inventory levels. What we want to do is to keep this level that was achieved in the second quarter.

Q - Daniel Vescovi {BIO 15333357 <GO>}

Perfect. Thank you.

Operator

(Operator Instructions) Our next question comes from Leonardo Correa, BTG Pactual. Thank you, sir. You may proceed.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good morning, everyone. Thank you for the call. My first question, concerns to demand, Martinez. We have seen that they are certainly leveling off, not really significant but the figures has not decreased anymore and maybe in the second half we will have more improvement.

But for 2017, how can one justify or -- is there anything in the outlook for 2017 [ph] in the steel industry that sold or there will be a higher demand. Because if we look in Brazil, the last 35 years, the steel market product has dropped by 35%. What is the elasticity -- elasticity for the demand in steel? What should we expect? Do we expect a stronger demand for 2017? And in terms of steel, again, if you can help us understand, Martinez, by giving your opinion, because all of the protectionism that we have in Brazil, the government now is analyzing an anti-dumping request of China and Russia clients, could you tell us the probability of this, especially given the global consensus, is there any sense -- what is the reason why Brazil should act in this way.

And another thing is heat diagram. What is the expectations for increase, is it around 5%. And my last question is concerning the dam [ph] of the reject product of the byproduct, we have been reading that there may be new legislation on this, due to the Samarco incident, I would like to know what are the risks that you have in your dam, what measures have been taken in order to protect and to act according to the new regulations?

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Leonardo, thank you for your questions. Before giving the floor to my colleagues, I would like to announce that Benjamin Steinbruch CEO and Chair of the Board is following our call, and he is available to answer questions from the market as well. The first question will be answered by Martinez in the steel segment and the last question concerning the dam, I will give to Geraldo Morais who is our Commercial Director for mining.

A - Luis Fernando BarbosaMartinez

Leonardo, good morning, again. You said something that was very important, and that I consider your opinion is very clear. And I highlighted the same conclusion, there is a potential in our country of an ample reform. Therefore, the demand potential would be more encouraging than the last years. The directions are positive than we have noticed is that there are factors that have recovered in the industry, and this is clear to us. The apparent consumption has reached a level that can't get any worse. If you think that we are closing the year with an apparent consumption of 10 million and last year was 12 million and in '14, it was 14 million.

So I have a view for 2017, particularly which is very optimistic. I think that steel in 2017, first of all, I think that next year's GDP depending on the reforms that we have may be much better than what is being expected. And steel may have an elasticity better than it has historically, more than 2.5% the traditional figure. And then the recovery of the sector may happen quickly than we think. And I'm not -- I'm being excessively optimistic. We have witnessed these kinds of moments in Brazilian economy. We have gone beyond and come back from rock bottom.

Another important is too is the level of imports that in Brazil we had the import penetration that making it easier for the domestic market to adjust and to start to have -- the production chains which are more aligned. So today, you will see a certain integration of production chains. And today in import penetration, we may close the year with less than 600,000 tons in imports against 2 million last year.

So this is a scenario that is also very positive, the import levels and it makes it easier for us to transfer prices in the domestic market. Concerning the dumping case, we suffered in the US as you have seen and this will make it more difficult for us to export in our company in the US. We have suffered an anti-dumping of 34% and a countervailing duty of 11%.

So this puts us at 43% less competitiveness in the US. This happened also in Mexico, with other countries, smaller countries that are working against Brazil. Concerning the investigations, Brazil has started a dumping case for flat steel investor in China, it was a lawsuit that we started, it was a process that we've opened and we filed, and this is in Russia and China and they are working to prove it. And another important issue that is having a good result is the non-automatic licensing of the imports.

The change in the treatment that the administration is giving to imports and the measures that Brazil has taken has put back the import of materials. But this was happening and has helped Brazil in a war that we are suffering in terms of exchange rates and protectionism crisis that is global today. And these are my answers.

Now I'll give the floor to Geraldo, who will be answering the questions referring to the dam.

A - Geraldo Morais

Thank you. Our dam in Casa de Pedra has a license, it is safe, it has recently undergone two environmental inspections and we went through them successfully. The way the dam was built was the most safe, it was the safest and our dam is considered a reference into -- in the sector. The work schedule for the dam is correct, we are on schedule and there are two to three years that we have for the level of the dam that it is today. So that's the rates that we have. Now I would like to give the floor to Mr. Benjamin Steinbruch who would like to make some comments concerning the results for the second quarter of this year. Mr. Benjamin Steinbruch?

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Good morning, everyone. Good morning, CSN personnel. I only managed to connect now. I would like to participate briefly in this call to provide you with an overview of what we have been doing in the second quarter and the consequences that this may have or the effects concerning the results for the next quarter.

I'd like to highlight that I was not able to listen to the previous questions, that giving you some of my view concerning the prices in mining. We have been penalized because we are conservative, and have opted to sell at a closed price and because of the high prices in the second quarter and probably in the third quarter we do not enjoy the -- this high -- the peak in prices, but we will capture it in the next quarter. So we will recover significantly.

In terms of margin and concerning the quantities, we are optimistic, we are producing more than we forecast. And I believe we are going to meet the budget earning -- be over the budget by 10% which affects quality, price and margins and this we will be seeing in the third quarter. Concerning the steel price I heard the penultimate question, we have had three price increases that have been affected totaling 10% each. They will be mirrored in the next quarter.

And in terms of quantity, you see that the high furnace #2 is being -- is maintenance -- is being maintained and we will be back in October, in first week, and we believe there is demand and there is space -- room for this production. In the second quarter, we acquired an DQ plaques to feed the production and we are now back -- we will be back with the second Blast Furnace in October. And we always look for added value, we prioritize the coated products and I -- we believe that in steel we should have a quality leap that affects the margin.

We have operated the second quarter with an EBITDA margin of 18.7% and I expect for the next quarter, a margin of 25% in terms of EBITDA. I think it is given and we are working very hard to meet at least this margin. What we have to do in terms of operations has been done. The cost control is very, very strict and other expenses. We are negotiating everything that we can with suppliers. We have withheld investments. We have recently completed the last major investment that we had to do with the furnace of Arcos and now the investments are safe in terms of expenses and we intend with this to provide a significant improvement in working capital. And as you have seen, the working capital rate was much better managed and we have seen a reduction in inventory and the postponement of purchases has resulted in a reduction of this working capital. And we also expect that in the third quarter this will -- also reflects in terms of cash.

We will have also another movement due to the first demobilization that we will be having and then we will have a second. And this is to improve the ratio between net [ph] and EBITDA, so we can improve the capital structure of the company. We are also working in an optimistic way in the second quarter because we believe that not only it's no longer getting worse, but we are seeing a slight improvement in terms of domestic market across segments. And we believe that in a diversified manner if we segment products and markets, we will be able to have a full-fledged production. In the second quarter, you've seen that we are increasing production from 210,000 tons in June to 315,000 [ph] tons in cement.

In July and August we are having 325,000 tons. And of course, the margin is very tight because of the increase in the offer. So we are doing all we can to work hard and in terms of annual sales we will beat the budget and you have seen that in the last quarter we had 4.3 in terms of sales. The third quarter will be even better, I believe. And we have had a slight sign because we had a loss of 42 million in this quarter compared with 831 million in the first quarter and this shows a reversion of the situation and I am certain that we will have positive number in terms of income for the third quarter. Everything that we could have done in terms of operations, as we have said, we have done everything that we committed to do, has also been done and we are now beginning this process to demobilize assets and it's another thing that the market is asking for. And after the third quarter we will be working firmly in the financial area.

And that is what's missing because we need a liquidity position that is improved and its capital structure, which is also needs to be improved. We have very good assets, we're working on several fronts, not only the peripheral side, but we're looking for sales of some of the assets -- the core of our assets in order to meet this better capital structure that we are aiming at.

In terms of delinquency, we are basically at a zero level. This is something I'd like to share. The importers are the ones who are delinquent in this system and the credit de facto that was given to sellers for those who imported have 180-day period. They were penalized due to the lower exchange rate and the former importers are now in a very critical position, therefore, imports decreased because what actually moved imports a lot in terms of steel was credit de facto, the easy credit lines that those who imported has and they used this advantage to import major productions in the Brazilian market.

But this in the past now, most of them today has a serious problem in terms of credits and therefore the market is, so to speak, cleaner. We are very optimistic in terms of the second quarter, you see that iron ore is at $62. We believe that this price will be between 60 and 70 for the quarter. And the steel [ph] factor, we also believe that the prices have reached another level and because of this limitation of imports we will be witnessing a leveling-off of prices. Our fixed costs is a reason for joy, we have $280 for iron ore and in steel we're going back to 280 a slab, going now to 260, I believe, in the next month, which says that -- which translates in our competitiveness being very high, both in steel and iron ore and the margins will therefore pick up. We are confident. We are sure that the third quarter will explicitly show all the efforts that we have done in operations and with the market improvement that we have seen, that has happened in the second and third quarters, we will ensure that we will be having positive figures and good figures. This is what I had to say. If you have any questions, I'm available, and thank you very much for your attention.

Operator

Our next question comes from Mr. Ivano Westin from Banco Credit Suisse. Sir, you may proceed.

Q - Ivano Westin {BIO 17552393 <GO>}

Good morning, everyone. I'd like to make a question in terms of iron ore, what can we expect for this year and for next year. This cost of $28 per ton in China, even with the exchange rate effect, how much -- how long can you sustain this cost? And can you keep it at this level if we look to the future? These are the questions. Thank you.

A - David Moise Salama {BIO 17456021 <GO>}

Ivano, thank you for the questions. Geraldo will answer both of them.

A - Geraldo Morais

The volume for this year, it is 32 million tons and concerning the sustainability of the cost part, the reduction that we have seen is a result of this very, very hard work that Mr. Benjamin Steinbruch has said, and it is grounded in structural actions that we've taken in the operations. We have (inaudible) that where we have captured synergy in that operation. We have gain in productivity. They were very positive. We also -- as we have mentioned and as Benjamin mentioned, we have already discussed all the contracts that we have with suppliers exhaustively. Brazil today is going through a moment of recovery and in order to cut down on costs, we sat down with suppliers for services and products. Our inner planning, medium and long-term has been optimized. We have a very clear view of our reserves.

And we have optimized our planning for the mines and still with some -- presenting some kind of ore that were being used as byproduct. We have $70 that products that should not have gone through the market, went through the market because we recovered products and we made this feasible.

Finally, our steel [ph] trade, according to the volume that we were able to produce additionally, we exported almost everything to China because the level of the market is very competitive. And we saw that despite the figures of last quarter, our Maritime freight was reduced. And therefore these actions are structural and are here to stay. We don't believe that freight in the next years will be changing us, and therefore these actions are at a competitive level, at the same level of the major mining companies that work with lower prices -- lower costs.

Operator

Our next question comes from Mr. Carlos de Alba from Morgan Stanley. You may proceed.

A - David Moise Salama {BIO 17456021 <GO>}

(Foreign Language)

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

Yes, good morning. Thank you very much. Just clearly the company had -- the company had made great efforts.

A - David Moise Salama {BIO 17456021 <GO>}

(Foreign Language)

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

Yeah, to improve the performance, but your leverage remains quite high around eight times net debt to EBITDA. And so my question is, if the asset sales, sale or it take longer to be realized, if the controlling shareholder and other shareholders are ready to inject fresh equity into the company to alleviate much much faster, the balance sheet of CSN.

And the second question has to do with just within the delivered cash cost of iron ore of $28, how much do you freight [ph]? Thank you.

A - David Moise Salama {BIO 17456021 <GO>}

Carlos, thank you for your question. I will ask Geraldo to start with the second question and then we will answer the first question concerning the ramp up of the company.

A - Geraldo Morais

The $28.11 is the freight. Carlos, concerning the first question that you placed concerning the higher leverage of the company, we have been conducting a kind of work that has several fronts to try to bring to a more comfortable level. Many of these actions have reduced, our working capital for example, we are focusing on company business increasing profitability in terms of operations, better cost, better results. And at the same time we have a deleverage program, which is ongoing. This program may, as you know, take awhile and we must look for a fair price for our assets, we have excellent assets, so we cannot miss an opportunity to look for a reasonable price for these assets.

This of course takes some time. But we are comfortable, because we have already renegotiated the main -- the principal of our debt for 2016 and 2017. So I believe we are on schedule, we are going to announce our first sale in the next 10 days. I can't announce it yet. And then we have another sales, so it is a program that is ongoing and it will have the effect in the figures that we will have for the next quarters.

Operator

(Operator Instructions) Thank you. Since there are no more questions, I would like to give the floor to Mr. David Salama, CEO for Investor Relations for his final remarks.

A - David Moise Salama {BIO 17456021 <GO>}

I would like to reinforce our optimistic message for the second quarter of this year. We have seen a recovery in the domestic market that has begun. The company is focused on certain niches and this leads to higher profitability. The situation of China is better than what we could have imagined in the beginning of the year. We are working hard to reduce costs and expenses and you can now see this on the results.

Our working capital has also shown the results and the work we've been doing having an expected decrease in this quarter. The commercial strategies are consistent and also we will be announcing the first sales of assets. We have very good assets and this will happen within a schedule that the company thinks appropriate. Lastly, the scenario is positive and will be reflected in the figures, and this will be a gradual process from now on.

I would now like to give the floor to Mr. Benjamin Steinbruch, who will also provide final remarks.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

I would like to thank you all for being here for this earnings conference call. And to express our belief that the scenario is improving, that the company's performance is improving of the entire segment, in fact, and that things will get better and will improve more than they have improved till now. We have the political scenario that will be solved in the short term and with this I believe that the market conditions might improve -- will improve, due to a return of credits and cutting down on interest, which we know that is highly exaggerated and has been penalizing productions and consumptions.

We believe that what has -- what has to be done in terms of reducing costs and to work on production, everything has been done. Everything that was on depending -- that depended on us in terms of operations for the entire company has been done. We have started reaping fruits of this in August and July. And we are certain that the task is the correct one and the EBITDA 25% rate for the third quarter is a reality.

And the company has a feature that it reacts very quickly to favorable scenarios. That is when we work with the production with low cost and the possible pickup in the market that we have discussed, will lead to figures for a third quarter that are much better than these ones.

As I have said, we will tackle the financial part now, the leveraging is what concerns us at this moment. And it was not the increase of the debt that penalize us, but the decrease in EBITDA from iron ore went from $150 to $37 and it is now at 62, 63, but in concrete terms, it was just dropping margins that penalized us in terms of the debt.

And that was in terms of what we could do operations wise, we will show an improvement in EBITDA with consequences that will lead to a better leveraging. And I'd like to stress again that we are concerned, and we are acting, we will be announcing a sale of assets in the next days -- 10 days and we would like to say that we are working even on what we think is core to sell hard in order to reduce the debt of the company and this has been our focus.

So everything we can do that is within our reach we have been doing and we are doing. And after this general operations improvement is what comes next is the financial aspects. This is that we have to do to say to you. Thank you very much for all your questions. Thank you for your participation. And we will see each other in the next call, which will probably bring everything that we have. Thank you.

Operator

Thank you. The earnings conference call for CSN is now closed. Please disconnect your lines and have a good day.