Q2 2014 Earnings Call

Company Participants

- Daniel dos Santos, Mining Director
- David Salama, Investor Relations Officer
- Luis Fernando Barbosa Martinez, Executive Officer
- Marcos Assumpcao, Analyst

Other Participants

- Carlos de Alba, Analyst
- Ivano Westin, Analyst
- Marcelo Aguiar, Analyst
- Renato Antunes, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen, thank you for waiting. At this time, we would like to welcome everyone to CSN's Second Quarter 2014 Earnings Conference Call. Today, we have with us the company's executive officers. We would like to point out that this event is been recorded and all participants will be in a listen-only mode during the company's presentation. After the company's remarks are over, there will be a question-and-answer session.

At that time further instructions will be given. (Operator Instructions). We have simultaneous webcast that may be accessed through CSN's Investor Relation website at www.csn.com.br/ir. The slide presentation may be downloaded from this website. Please feel free to switch through the slides during the conference call. There will be a replay facility for this call on the website.

Before proceeding, while we mention the forward-looking statements (Technical Difficulty) Litigation Reforms Act of 1996. Forward-looking statements are based on the beliefs and assumptions of CSN management and on information currently available to the Company.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they're related to future events, and therefore depend on circumstances that may or may not occur in the future. 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'll turn the conference over to Mr. David Salama, CSN's Investor Relations Officer, who will present the Company's operating and financial highlights for the fiscal year. Please, Mr. Salama you may begin.

David Salama {BIO 17456021 <GO>}

Good morning everyone. Thank you for participating in CSN's earnings conference call. Here with me are the company's Executive Officer. We will begin on slide three, where you can find consolidated figures for the second quarter of 2014. In the second quarter, the consolidated net revenue amounted for R$4 billion (Technical Difficulty) with the second quarter 2013, compared with a net revenue of 4.4 billion in first quarter, net revenue in the second quarter was down 7%. (Technical Difficulty) low revenue in the steel and mining segment. Gross profits in the second quarter '14 reached R$1.3 billion, 26% up compared to the second quarter of 2013 and

in (inaudible) with the gross profit of the past quarter. Adjusted EBITDA in the second quarter was R$1.3 billion, up 19% compared with the R$1.1 billion posted in the second quarter '13, while the EBITDA margin grew 6 percentage points.

Compared with the first quarter '13, adjusted EBITDA was down 9% mainly stemming from lower iron ore prices partially offset by an upturn in the EBITDA posted by the steel segment, this led the margin to an instable at 30%. Look at the slide four now, where we show you investments made in the first half of 2014.

In the first half of 2014, CSN invested R$915 million highlights going to investments in mining accounting for 40% of the total reaching R$365 million. Additionally, R$239 million were invested in the steel operations, 127 million in extending our cement production capacity and R$161 million in port and railway logistics. Please go to slide five now where we break down our results by segments.

Let us begin with the other part of the slide. Net revenue in the second quarter totaled R$4 billion of which 64% in from steel, 25% from mining, 6% from logistics, 3% from cement, and 2% from energy. In the next portion of the slide we see the EBITDA for the second quarter, which was R$1.3 billion, 56% coming from the steel operations, 31% from mining, 7% from logistics. While the cement and energy segments contributed with approximately 3% each.

In the bottom part of the slide, we have the quarterly performance of the EBITDA and EBITDA margin. In the second quarter, the steel business posted an EBITDA of R$793 million, mining, 442 million, logistics, 105 million, cement 34 million and energy 37 million. It is important to note that the EBITDA margin grew in line with the segments where CSN operates with the exception of mining.

Due to a lower iron ore prices in the international market in steel, EBITDA margin reached 28%, in mining 40%, in logistics 38%, in cement 30% and in energy 43%.

Now please go to slide six, here we give you the results of the steel business in more detail. (Technical Difficulty) in the second quarter the total sales volume of steel was 1.26 million tones down 9% compared to the volume sold in the first quarter of 2014 basically explained by growth economic activity in the domestic market with fewer business sales in the quarter. Of this total, 73% of sales came from the domestic market, 25% through our subsidiary service fees, and 2% from export sales.

Still on the top of the slide on the right end corner, we see the net revenue of the steel business totaled R$2.8 billion, a 9% reduction vis-a-vis the first quarter basically due to the lower sales volume in the second quarter of 2014 and net revenue per ton was 2,214 [ph] increasing with the previous quarter.

Now, on the bottom of this slide we will analyze the EBITDA. In the second quarter, adjusted EBITDA for steel operations were R$793 million up 4% compared to the first quarter '13 primarily explained by a lower production cost. This have been the highest EBITDA since the third quarter of 2010. Adjusted EBITDA margin was 28%, during the second quarter growing by 4 percentage points from that was basically in the first quarter of this year.

We will now do the same analysis for the mining segment.

Once again let us begin with the chart of the also our last quarter, in the second quarter CSN's and Namisa's iron ore sales totaled 7.2 million tons therefore 13% higher than the first quarter of 2014. Of this total volume 2.4 million tons were sold by Namisa. In addition to sales to our customers, CSN used another 1.5 million tons of iron ore in the second quarter of this year.

In April, we concluded the maintenance work of the conveyor belt cost bringing the shipment sales in (inaudible) to normal. Still in the other part of the slide the time on the right, we can see that that the net revenue of 1.1 billion in the second quarter went down 10% vis-a-vis the first quarter of this year, due to lower prices with an average of $73 per ton in the second quarter vis-a-vis an average of $89 in the first quarter of 2014 and that was partially offset by the higher volume sales.

In the second quarter, EBITDA totaled 442 million going down 25% quarter-on-quarter where the EBITDA margin of 40% went down 7%.

Now on slide number eight, we show the consolidated EBITDA performance. EBITDA, 1.3 billion in the second quarter, went down 10% vis-a-vis the third quarter of 2014. The lower EBITDA resulted from lower prices of iron ore and a lower volume of steel sold. The effect were offset in part by lower cost in steel operation and a higher mining volumes sales.

Now, let us move on to the next slide where we show the performance of our net debt at CSN.

On June 30, 2014, the gross debt was R$28.6 billion remaining flat vis-a-vis the end of March 2014. The net debt in turn totaled 16.7 billion an increase of 900 million vis-a-vis the first quarter of the year.

Our net debt was affected by a CapEx of 600 million, disbursement of 600 million with debt charges, 400 million with a share buyback program and an increase in working amounting R$200 million. These effects were partially offset by the EBITDA of 1.3 billion in the second quarter of (Technical Difficulty) was denominated in the Reals and 40% in foreign currency particularly US dollars. 87% of the debt is long-term and (Technical Difficulty) portfolio very strong. We are now extremely focused, I mean, our portfolio at CSN today is very diversified in terms of marketing products.

And now, this last quarter, we also had the molten steel product and now we have another product in our portfolio. So basically, this is the scenario that we are emphasizing for the third quarter. David [ph] now is going to tell you about our confidential plan. (inaudible) actually have been working for some quarters now.

We have a strong program for confidential of the company and also focused on productivity gain. This is clearly bringing targeted results to the company. Actually we had a reduction in the second quarter of 2% our production cost of lab, which now would be around R$950 per ton.

Now just to give you some examples, obviously part of the raw materials are also in our favor but in addition to raw material, we also have a number of other actions been implemented at the company. Let me begin by addressing raw material first, and then I'll be talking about the other confidential program. Just to give an idea, right now we are working with the coke for lower than $10 per ton.

Our coke is below $210 per ton, we also have a good supply agreement for natural gas with Petrobras. In addition, we also see a significant reduction in the main metal alloy premiums are going down.

And we are also working to lower our inventory levels, particularly in raw material and the stock raw material or supplies. Coming back to the first point, in terms of cost reduction and just to give you some numbers, for the last 12 months, we renegotiated more than 470 contract with the company greater than R$1 million in total. And up to now, the total accounts for a reduction, a price reduction and a cost revision of R$150 million.

Another program that is also being implemented is about an extension in the maturity term with supplier. I could also mention other thing too about gains or efficiency of the company. For instance, we implemented a metal reclaimer system and this should bring annual gains of at least R$16 million so in addition to the financial impact, we also have something very positive in terms of environmental preservation.

And also increase in thermal efficiency of Blast Furnace 2 generator this is also bringing significant gains over 4 or 5 million. In the end, there are several programs that are in progress right now, results are beginning to appear and like I said, this is also going to be our focus. We will be very strongly engaged in order to cut down our cost.

And I can also say that everything is sustainable, we expected to be maintained for future quarters. Thank you

Questions And Answers

Q - Unidentified Participant

Just as a follow up question. What about prices for the second half? What is the trend for the domestic market?

A - David Salama {BIO 17456021 <GO>}

(Technical Difficulty) In reality, the clarity if you think about hot bands from 530 or $520, cold-rolled products around 590, 610; galvanized 720. The current agreement is between 11% and 16% consider exchange rate of 2.25. Basically at the price range. And the premium range we have vis-a-vis imported and clear product (Technical Difficulty) net revenue net of taxes, other financial expenses for hot-rolled product ranged from 1,890 to 1,970. For cold-rolled, up to 2,305 galvanized 2,700. So, basically this is the price range we have. And the scenario for the third quarter is stable.

And we don't have any other reclaimer or recovery on prices this quarter, because we have already captured 2.2 vis-a-vis the first quarter of 2014. Please note that our price from the second quarter of 2013, vis-a-vis the first quarter of 2013 was increased by 22% and from the third to the fourth quarter around 8%.

So basically this is the scenario for premium, the next [ph] company that we follow up which is the import. Import grew a little bit in the second quarter, basically 26% that's something we are watching very closely because CSN is very much affected. The bulk of the imports are related to price of product and indirect import remain at 1.2 million ton of the -- in terms of the steel consumption fees, then by the scenario we maintain our guidance for sales volume of 6 million tons for year 2014.

Operator

Our next question comes from Renato Antunes from Brasil Plural. Please go ahead sir.

Q - Renato Antunes {BIO 17439917 <GO>}

Good morning everyone. Thank you for taking my question. My first question is about CapEx. This quarter CapEx for mining, (inaudible) is lightly increasing, what about the outlook on CapEx with (inaudible)and what you get up to now is in line or keeping with your budget? The second question is still about mining, I wonder if you could tell us the outlook for sales, for future quarters, maybe next year and what about the impact of the poor capacity in the region will that have a negative impact to some extent? Thank you.

A - David Salama {BIO 17456021 <GO>}

Renato, thank you for your question. I'll be answering the third question about CapEx and then I'll answer the Fernando to answer your question about mining. As you could see in the first quarter of 2014, we invested something around 915 million with a strong focus on mining, 365 million, 240 in steel operation, 160 in logistics and 127 in our expansion for cement.

In reality for the full year, we do not re-vist our CapEx. It remains the same for the full year. We announced something at R$1.5 billion in mining, 600 for two operations and 400 million for cement. This CapEx in reality is been met. It is within our schedule of execution and if we consider all the actions that we've performing vis-a-vis our cost, in other words more than anything, we want to improve in a sustainable manner. And always with full control over CapEx and now in terms of production cost.

Fernando is going to answer now your question about the iron ore in mining.

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

Renato how are you? In terms of sales of iron ore, in the third part of the year, as the critical path we have the poor capacity. We've been having some problem that we reported in previous call. But for the second quarter we expect to run above or between 3 or 4 tons per month, reaching 45 in the year. As the volume, if you check steel in China, it has been growing quarter-over-quarter. China is having record steel production even though the growth is not at the levels that we expected from the past.

Steel production has been consistently growing in China. And Australian steel is also increasing production having an impact on price. Now we're going to do adaptation in the market, our ton and we expect the price or the index should be around $100 per ton by year end.

The start up of the new port during the ramp up process is being followed up. The expansion of domestic mining in Brazil as we don't believe there will be a ground impact on our product. Several competitors in the domestic market, small players in Brazil what we see in that due to their cost and the margins again, due to the sales prices today, the margins were slightly complicated because smaller operation tend to have higher cost. So, today we feel that there is a retraction in terms of the iron ore availability not due to export of grains but due to the prices that our competitors will have, prices ranging from 90 and 100

So additional capacity of the port or competitors we don't believe this will have an impact on our export, like David said before, we're working on several confidential program. So we are comfortable with our volumes by year end and also for next year.

Operator

Our next question comes from Thiago Lofiego Merrill Lynch. Please go ahead sir.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning everyone. I have two question. Well going back to Martinez. Perhaps, Mr. Martinez, could you elaborate on the premium of 11 to 16% for domestic steel compared to imported steel, is there any risk that the premium will be rolling in the current scenario? Or you saying that this a fair situation?

My second question goes to David, could break down the volume of other operating expenses, you said you have significant cost reductions in the quarter, could you have to elaborate on what was positive and what was negative in the negative 30 million in other expenses? Thank you.

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

Hello, Thiago this is Martinez. Well the way I'd see it is the premium of 11 to 16% is permanent. Obviously, uncertainty and possible dollar exchange rate in stability in coming months makes this premium possible to happen which we believe that the premium will remain flat in that range, in the third quarter.

Now looking forward it will depend on what I usually say. Cost dropping competitiveness of the change, the raw material is stock the dollar exchange rate, market situation which is also very important and (inaudible) and we expecting a third quarter to be better by year end, or the markets are little bit more stable, we believe that by year end we should finish with a positive outlook that is a premium today let's say 11 to 16% we believe go on it, particularly for finished materials where CSN has a significant market share.

A - David Salama {BIO 17456021 <GO>}

This is David, regarding the question about other operating expenses, well there is an usual growth variation among the quarter because in this item we have secured, and it is basically a adjustments to provision, that we make in the company and we look at all suites of provision. We include fiscal provision, law suites, provisions, the legal claim and the balance for this quarter and this is an ongoing evaluation work of these provisions. We do work constantly with the August rates so that we can have the most accurate provision by the end of this quarter.

And indeed we had a reversal of about a 120 million inquired or about (inaudible) environment issue, that impacted the figure for the quarter and was a positive factor. And the results basically very similar to the other numbers.

I think that this is the number that I mentioned this is the one to be highlighted. How recurring is, as I mentioned 120 million positive with the negative process growth, that contributed to $30 million negative that you reported, so I want to understand how recurring is the negative factor.

Well what I can tell you is, that has been recurring quarter-by-quarter has been something ranging from 30 to perhaps 50 million this we could call a recurring factor in this figure.

We are talking about one time of adjustments, adjustments that we have to make along the way but there is nothing recurring quarter-after-quarter. Thank you.

Operator

Our next question comes from Mr. Marcos Assumpcao from Itau BBA. Please go ahead.

A - Marcos Assumpcao {BIO 7474402 <GO>}

Good morning to all. My first question goes to Fernando regarding marketing. The iron ore sales guidance -- 37 million tons in the first half, first quarter you get 13 in the first half, the remaining would be 24. But you've said you are going to maintain the guidance. Should we expect an average volume of 12 million a month?

A - David Salama {BIO 17456021 <GO>}

Yes. Like I said, the port as of July will be operating at 45 million tons a year and with that we expect to have 20 million tons and to reach a good amount in the end of the year.

A - Marcos Assumpcao {BIO 7474402 <GO>}

The net for the port revenue, a week ago, or two weeks ago, there was a value [ph] auction, a recent value auction and considering the current iron ore prices, the auction, the winning bid was lower than the prices. Do you think that this will be a new trend, if the iron-ore prices remain at $100 as you said?

A - David Salama {BIO 17456021 <GO>}

No, like I said before, in the value auction, the last that ended up being sold even with the start up of the new port, this will not necessarily impact our export prices or our service for that matter. We believe that our sales are independent of that. And for the prices of product services, there will be more supplies that might have an effect on the product service prices.

So we believe we will be in margin relatively.

A - Marcos Assumpcao {BIO 7474402 <GO>}

Perhaps the last, the recent value auction will be a good reference price [ph]?

A - David Salama {BIO 17456021 <GO>}

Well, our procurement departments has been signing some agreements to buy or -- thanks for port services. Our price will not be enough to share with following value performance. Some agreements we've signed a while ago, for prices that were even better than the value prices. The value price or the stock price in a market conditions will be priced close to 90.

To show a great influence as I said in the value auction. But looking more towards the long term, we believe the prices will be a little higher (Technical Difficulty) the parties keep on negotiating and actually analyzing all the alternatives available. So we expect the parties to come to an agreement by late September. As we think, we keep on searching for an alternative as to the end of September. Now I'll ask Daniel, Daniel can you help me answer the question about mining? Yes please. Can you hear me?

Operator

Yes, I can hear you please go ahead.

A - Daniel dos Santos {BIO 6218699 <GO>}

Let me break your question in three processes, first of all the mine, the plan and then the expansion. For the mine we bought a fleet, a new fleet last year. It came to us by late 2013. And then we do the handling, assembly equipment are fully operational. In terms of mine equipment, we already have everything right into our own. When you increase the handling capacity of the mine, you need areas for installment because we process cement type and high grade products today.

So the areas for vis-a-vis a disclosure, we're also operational at their venues. Obviously they were previously licensed. And in the mine, in the first half of the year and by late last year and the beginning of this year, we also had three mobile crushing units that are greatly contributing to improve our production phase and also helping to do the core capacity.

As to the plan, we've been working on an extension for quite a while now with additional eight lines out of which two are already operating since May.

We will be delivering the other two lines by December and the remaining four lines in the first half of next year. And then we have shipment, they have to take all the material to the port. So the mine were produced at the plan and we have to ship everything to the port. Now we are in the handling phase of the work.

We expect to have the peak of the work in the first half of next year, the first quarter to be more of precise, so we can deliver a railway shipment capacity which to be 24 million tons, so we can match our expansion plan to carry [ph].

As a result, if you add like -- asked what we did in the first half with the pace that we can see the port, now we're 45 million for the second half of the year at a increasing production of that we experience right now it has a dependent 35 million tons can be available for us.

Q - Unidentified Participant

Okay thank you very much. Just a follow question if I may. Coming back to David, David what about net debt over EBITDA? This quarter it was close to 2.7 times and even considering now the buyback are you being more aggressive now at CSN, 600 million were involved in the buyback and you also have higher cost due to net financial expenses, so what about the limit of net debt over EBITDA, and maybe you could also comment on this limit that you decide to run your investment. Thank you.

A - Daniel dos Santos {BIO 6218699 <GO>}

Actually it's good to go back in a time little bit, in reality, one year ago our net debt over EBITDA ratio was 3.9 times. As now we've been giving our efforts in order to lower this ratio, taking into account all the investments that we have to do and also our cash use.

Our expectation in reality to closely lower that 2.5, that is our expectations. And we will be working to do that. Taking into account, the whole CapEx required to expand.

Now a couple of words on our buyback program, this is a sign by our management, our board of directors that our shares are closer at a lower level considered to be the fair value. In addition, for remaining share holders we have a higher potential dividend for future pay out. Thank you.

Operator

Thank you. The next question comes from Ivano Westin from Credit Suisse. Please go ahead.

Q - Ivano Westin {BIO 17552393 <GO>}

Good every one. Ivano speaking. Just a follow up question about the extension of mining, if you look the earnings release and the exploration of projects in progress, the capacity of both Casa de Pedra, you have the conclusion in 2014, '15 which are also expected to continue in '16 what about the installed capacity for Casa de Pedra in 2016? What about car capacity, and what is the cornerstone in CapEx necessary?

The other question is about ramp up of the long steel plant, could you give us a guidance of the sales volume in the second half of this year and next year? Thank you.

A - Daniel dos Santos {BIO 6218699 <GO>}

Ivano, thank you for your question. If you may, I'll ask Martinez to answer first your question about long steel product and then Daniel dos Santos will answer your second question about our expansion schedule for mining. Great, thank you.

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

Ivano, the guidance for the long steel plant we expect to see about 60,000 to 70,000 tons for the second half, virtually rebound and the majority of the bond. And nearly 20% for viaducts. We're still working on the approval of the price, it's a legacy product we're approved for higher thickness, for having engineering and infrastructure work and in the second half we'll be concluding the approval process of more thinner products used for light for the construction. Sales, total sales in the second half, brought [ph] in way remained low because it was just the approval.

For next year, it's too early to say anything about volumes growth, to working on the features. But production capacity is 500,000 tons I believe that by next year constantly the second quarter we will be having full capacity. Daniel, can you answer please the second question?

A - Daniel dos Santos {BIO 6218699 <GO>}

Good morning, Ivano. Today the installed capacity for rail shipment is 24 million ton of (inaudible) we're working in the mine and in the plans. In the mine we have already doing most of the work and we're implementing additional line so we can meet the full capacity.

The next half or the second half is the mobilization and handling our work to expand the rail shipment and therefore reach the level of 40 million tons of plan. You asked about 2016, right? When we work in our plan on a midterm basis, for 2016 our projection is in store capacity because in this case you have to take into account that some of these works will be to with the ramp up stage in the first half 2016 and late 2015.

We expect to deliver a production capacity of 37 million tons accounted capacity.

Q - Ivano Westin {BIO 17552393 <GO>}

Clear. What about the cost capacity, Daniel?

A - David Salama {BIO 17456021 <GO>}

The cost capacity will have the full installation for 45 million with the ramp up process for the cost and it depends on loss on what we achieve or what we did in the past for mining particularly in Casa de Pedra and also our relations with suppliers. But we already have the full equipment and installed capacity into account for 45 million.

We have another project approved by the board and now it will be arrival on the next budget, so we expect to have the project concluded by year end.

Q - Ivano Westin {BIO 17552393 <GO>}

It's clear. Thank you Daniel, thank you Martinez. With that, if I may, can I just have another question? It is not so clear the merger between Casa de Pedra and Namisa. Could you make additional comments on the current scenario of the negotiation? And what about the timeline or the deadline, it was September, right? Do you maintain this deadline?

A - David Salama {BIO 17456021 <GO>}

As I said, a while ago, last week we've had another round of negotiation. After the negotiations are quite complex involving several groups, but may can tell [ph] in our negotiation. And we are considering all the alternative possible in terms of a merger. Our expectation, our deadline comes in December of this year, so by late September, we expect to see or to have a definition about it.

Q - Ivano Westin {BIO 17552393 <GO>}

It's clear, thank you.

Operator

Our next question comes from Mr. Marcelo Aguiar of Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you for taking my questions, I would like to go back to that cost discussion mentioned in the beginning of the Q&A. It is not common to see a steel company posting 9% of volume drop and the cost per ton falling for in the low capacity cold prices in terms of following the end of the first quarter and stay at around $120.

Normally there is a turnover of the inventory of 3 to 4 months. So I would like to understand the deal. With the high consumption of finished goods, that you had in your inventory and then your cost return was very low, because you also had selling products that were produced at somewhat lower cost because it's really interesting to understand your cost performance, that is my first question.

A - David Salama {BIO 17456021 <GO>}

Marcelo, as I said, this is the result of a number of factors and things that are happening in the company. In May, there was a drop of the cost of raw materials, I gave you an idea of the price levels at which we are negotiating our steel stock. And in addition, the product link that we are focusing on cost reduction and efficiency gain. I do not see any abnormal movement in terms of the (inaudible), that could not explained, impact of the cost of production in the quarter. So in your opinion the cost performance is 100% recurring and in the case of cold starting at 110, or are you buying at a 110 or are you consuming it at a 110 in the second quarter?

Actually as of now, we are buying it, at this range of 110. Now obviously you have to add the other cost, so that you can have the call in the plan. But like I said this is an ongoing work that we are doing and we believe it is sustainable for the future quarter.

Q - Unidentified Participant

My other question would be regarding working capital, your working capital has been substantially increasing. 55 to 75 and basically all of the segments, I just want to say, there is a company making only effort to try that have include the management of the company's working capital do you have any guidance regarding that.

A - David Salama {BIO 17456021 <GO>}

Actually our working capital in this quarter was impacted by the growth of the (Technical Difficulty) our finished growth, we can work at the inventory suite and raw material, you think with a nasty inventory growth there. And this somewhat in keeping with what Martinez said, i.e., the company is getting ready to supply up figure demand in the second half of year.

We are expecting a rally in demand and so CSN will be well positioned to meet the supply. Marcelo the secret of any business is to sell at a high price and at a low cost.

In the second quarter we maximized the freight cost equation because I didn't have any electricity in the demand by volume. On the other hand, we are taking advantage of this lower cost model to increase my inventory at finished product. So our cost is at critically by 180,000 tons of finished goods in the end of June since the number increased to 300,000. So we have material manufactured at even extremely low price.

In the position, second half of the year, this is our crystal clear strategy

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Yes, and one last question in mining, if you can very clear that you have the ability for mining. I would like to understand regarding your contract for especially from the third parties, I just want if you're going to meet your goal for volume, for this year and next year, how many contracts do you have and what would be maturity of these agreements? Are they six months, 12 months, three years, I took one together you're buying them of sales expectation because you're building up your volume based on purchases from third parties.

A - David Salama {BIO 17456021 <GO>}

Marcelo, I will ask Daniel dos Santos to answer your question. Daniel over to you.

A - Daniel dos Santos {BIO 6218699 <GO>}

Well, Marcelo, we took advantage of the beginning of the year where we had very favorable provision to renegotiate our agreements and contracts. We were expecting that the second half will be compounding by well in terms of the market so, we've felt always some importance of negotiations and so for those critical constraints, we set a schedule of negotiations which ended in June, July and we were able to close an agreement with the most important supplier of all.

Contracts that we considering long terms two to three years maturity and we are able then to ensure that volume are winning for this year and next year in terms of our purchasing or that's not an issue, what we seen happening and we (inaudible)because we will need to redistribute our volumes with regarding to port services with all the last leg, the recent auction which shows that they were only able to sell one out of two lots. So this is something we are headed to.

We are working on the priciest of port services so to our surprises in the future and to maximize our gain in the foreseeable future. Thank you.

Operator

Our next question comes from the Carlos de Alba from Morgan Stanley. Please Mr. Alba you may proceed with your questions.

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

Thank you very much. My first question is has to be with the share buyback, could you explain to us why management or the company's board of director has decided (Technical Difficulty) buyback when they could have reduced net debt, right now the company is spending above 1.2 billion in interest expenses per year so, just I wanted to understand you can talk about the technology. The second question is regarding an impairment of available process you would be added back in the cash flow statement, R$52 million in the second quarter, can you talk about that is that related to Namisa shares and in what line those it appear in the income statement because it was added back to the cash flow to many for the period. And then finally regarding the negotiations with Namisa, does the company that CSN would offer shares to the Namisa partners or CSN as a whole or the negotiations are exclusively limited to the iron-ore business? Thank you.

A - David Salama {BIO 17456021 <GO>}

So we have two questions coming from the Carlos, one is referring to the share buyback programs. The second question deals with an impairment that we had in our investments and adjustments to our investments in the last question you will ask for more in detail regarding negotiation with our Namisa partners.

So let's take that step-by-step Carlos. Martinez begin with your question the share buyback program.

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

Actually as I said before this was a clear decision by our board of directors. The projection is that there is an important training to be derived, given the current price of CSN share, they have been traded today at a certain time and the awarded as directors, this prices will slow the share value and that it should increase. And this is considering [ph] so, and if the necessary investment at this point, which is (inaudible) results to our share holders regardless of our debt level.

Our investment level has been managed, we've already focused it, a reduction in our net debt over EBITDA ratio and the effect to end the year with less than 2.5 times.

The second question, we have principle of mark to market, our investments in using enough shares, this position is essential quarter. So our last 70, 75 this year prices dropped to 692. And that is why we've had this impairments of 52 million in our results.

This is an impairment of the (Technical Difficulty) impact. And finally, the third question regarding the negotiations (Technical Difficulty) all of the alternatives are on the table, well at this point I cannot make a correlation with the share buyback program.

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

I never said that. No, just the follow up question on the 52 million impairment, I would like to understand where that 52 million charge was booked in the e-commerce statement?

A - David Salama {BIO 17456021 <GO>}

In the line of other operating expenses.

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

Alright. Thank you very much.

A - David Salama {BIO 17456021 <GO>}

As said before our corporate expenses that where we focus that charge.

Operator

Hello, Mr. Roy, you can proceed with your question.

Q - Unidentified Participant

Thanks. Yeah, I have a couple of questions, one is you have in the search that you have the bond maturity in this January and have a local currency debenture that's due I think the end of March next year and they total about well, $640 million. So how do you intend to address those? And then can you guide me on how you intend to get leverage to 2.5? It's 2.7 now, if I annualize this quarter it's 3.2. My expectation is that EBITDA could fall year-over-year over the next two quarter and our leverage is going to go up.

So one, how do you address the debt maturities of US dollar bond and the local bonds and then how do you bring the leverage down to 2.5? Thank you.

A - David Salama {BIO 17456021 <GO>}

Well, you asked two questions. The first question is about the maturity that you have already next year. In reality, right now, we're still working on to redefine the best option for the company as we speak about your second question is also about leverage or net debt over EBITDA. And how we could come through 2.5 by year end. Basically, this is also due to our outlook for EBITDA growth that quarter is the last quarter. As I mentioned before we expect to have improvement by the end of the year and as a result, we expand to have an impact on the company's EBITDA.

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

If I can follow up, it is possible?

A - David Salama {BIO 17456021 <GO>}

Would you mind repeating your question, please?

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

Yeah, as I can follow up if I assume that net debt is confident 16.7 billion, okay what I need is an EBITDA for the full year of about 6.47 billion and year-to-date is 2.7 billion which means I've got to have about R$4 billion of EBITDA in the second half of the year. So about 2 billion each quarter so that seems to be difficult.

A - David Salama {BIO 17456021 <GO>}

I and again how we would be able to achieve this, to a specific EBITDA in the second half. In reality I'd rather not to work on EBITDA projections but I can tell you is that we're doing our job and our goal is to close the year with this ratio at 2.5 and this will actually by increasing our EBITDA. If I may I'd rather not work on any projections on the numbers.

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

Okay. Thank you.

A - David Salama {BIO 17456021 <GO>}

So this is the management of the company --

Operator

(Operator Instructions) Thank you. There are no further questions. I would like to give the floor back to Mr. David Salama, IR officer for the closing remarks.

A - David Salama {BIO 17456021 <GO>}

Today we could share a couple of things, great effort in order to lower cost and also improve our efficiency. When it comes to mining our port is already running at 40 million tons, and by year end we expect to have more improvement, improving our sales, the government has already started to implement a series of incentive to our economy as we expect to have positive impact so we can close the year with even better results. So now we would now like to thank you all again for joining us at this conference call. Please don't hesitate to contact our IR team for any questions that are can be or any questions that you might have in the future. Have a good day. Thank you.

Operator

This conclude CSN's conference call. You may disconnect your lines now. Have a good day.