Q1 2013 Earnings Call

Company Participants

- Daniel dos Santos, Mining Director
- David Salama, Investor Relations
- Luis Fernando Barbosa Martinez, Executive Officer
- Unidentified Speaker, Unknown

Other Participants

- Andres Pinheiro, Analyst
- Carlos de Alba, Analyst
- Humberto Merieles, Analyst
- Ivan Fernandes, Analyst
- Ivano Westin, Analyst
- Leonardo Correa, Analyst
- Natalia Corfield, Analyst
- Renato Antunes, Analyst
- Rodolfo Angele, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

(Interpreted) Good afternoon. And thank you for waiting. Welcome to the earnings results call for CSN for their results regarding the First Quarter of 2013. Here with us today, we have the top management of the Company. We would like to inform that this call is being recorded and all participants will be on listen-only mode during the Company's presentation. Right after that we will start our question-and-answer session when future instructions will be given. (Operator Instructions).

Today's call is also being broadcast via internet and you can track it at www.csn.com.br where the presentation is available. The slide selection will be controlled by you and the replay of this event will be available as soon as the call is over.

We'd like to remind you that due to the large number of participants, the Company will address at the most, two questions per participant with no right to reply. Therefore, we would like to ask you to make all questions as soon as the line is open.

And before proceeding, let us mention that forward-looking statements made during this conference call regarding CSN business perspective forecasts, operating and financial targets are based on the beliefs and assumptions of the Company's management as well as on information currently available. Forward-looking statements are not a guarantee of performance and involve risks, uncertainties and assumptions as they refer to future events 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.

Right now, we would like to turn the floor to Mr. David Salama, Executive Director for Investor Relations and he will carry out the presentation for the operational highlights as well as financial highlights for CSN during this next quarter.

Please, Mr. David.

David Salama {BIO 17456021 <GO>}

Good afternoon, everyone. Thank you for participating on our call to discuss the results of the First Quarter 2013. Here with me, I have our other directors.

(Let us start) on slide number three, with the consolidated results for the First Quarter. The consolidated net revenue of the First Quarter was BRL3.6 billion and it was 18% lower vis-a-vis the Fourth Quarter of 2012 reflecting a lower sales of iron ore. Vis-a-vis the First Quarter of 2012, there was an increase in 6% due to higher sales of steel products. The consolidated gross income was at BRL720 million (sic; see presentation "BRL790m") in the First Quarter, 22% lower vis-a-vis the consolidated gross income in the last quarter.

Consolidated net income was BRL16 million vis-a-vis BRL93 million in the First Quarter of 2012. On the other hand, investments in the First Quarter totaled BRL509 million -- (background noise) in the steel area, BRL97 million mining and BRL184 million logistics.

Adjusted EBITDA in the First Quarter was of BRL902m, 26% lower than the Fourth Quarter, essentially due to the contribution of mining, steel, logistics and energy segments.

EBITDA margin of the First Quarter was of 25%, 2percentage points below the Fourth Quarter of 2012.

Right now, let us check slide number four where we have results per segment. And next slide, we have net revenue and adjusted EBITDA per segment. The steel segment represented 72% of the net revenue and 55% of total EBITDA in the First Quarter of 2013. Mining was 18% of net revenue and 34% of EBITDA.

On slide number five, we will go into the details of the steel sector. Let us start by the top-left corner. In the First Quarter, the total sales volume for steel was of 1.6 million tonnes, a record for CSN in the First Quarter that was the second best quarter for CSN in terms of steel sales. And it represented a 3% increase vis-a-vis Fourth Quarter 2012. In terms of sales, 77% were in the domestic markets, 21% in our overseas subsidiaries and 2% export.

Now on the top-right corner, we have the net revenue for steel which was BRL2.9b, 4% higher vis-a-vis Fourth Quarter 2012. And that was basically due to the higher volume and sales.

Now, in the bottom part of the slides, we have the EBITDA information. The adjusted EBITDA in the First Quarter was of BRL528 million and the EBITDA margin 18%, 2percentage points lower vis-a-vis the Fourth Quarter of 2012.

In our next slide, we have the same analysis but now, for the mining sector. Once again, let us start with the top-left corner and the First Quarter. The sales of iron ore CSN NAMISA totaled 4.1 million tonnes, 35% lower than the 4Q'12. It's important to stress that besides selling to our customers, CSN used additionally, 1.3 million tonnes of iron ore in the First Quarter.

Still on the top corner but now to the right, we have our net revenue for the First Quarter, BRL747m, 43% lower vis-a-vis the prior quarter. That was due to the sales of iron ore and partially upset by higher prices in the First Quarter. And I also would like to highlight that our average price now in the First Quarter was of $103 vis-a-vis the $88 that we have in the Fourth Quarter of 2012.

The EBITDA for mining is in the bottom part of this slide. For the First Quarter, EBITDA totaled BRL326 million and the margin was of 44%, the same level of the Fourth Quarter last year.

Slide number seven brings our net debt. The net debt of BRL16.2 billion at the end of the First Quarter of 2013 was BRL500 million higher vis-a-vis the Fourth Quarter of last year with a gross debt of BRL40.3 billion and cash of BRL14.1b. CapEx for the First Quarter was BRL500m. The debt charges disbursements also BRL500 million and the dividend payment was of BRL300 million and all those contributed to increased net debt.

But those were offset by the EBITDA of BRL900 million in the First Quarter. At the end of the First Quarter, that ratio meant that EBITDA was of 3.75 times the EBITDA of BRL4.3 billion of the last 12 months.

The total of the gross debt at the end of March was of 65% in real, 35% in foreign currency, especially in North American dollars. 91% of that is long term and 9% is short term.

With that, we conclude our presentation. And now, we will open the session for questions and answers.

Questions And Answers

Operator

Thank you, we will now start our question and answer session for investors and analysts. (Operator Instructions)

Our first question is from Mr. Renato Antunes from Brasil Plural. Please go ahead.

Q - Renato Antunes {BIO 17439917 <GO>}

(Interpreted) Good afternoon. Thank you for the opportunity. My first question about iron ore, if you could please talk about the performance in the quarter, the sales dropped strongly compared to the last quarter as you have mentioned in the first conference call. But if you could help me understand what in this decrease was your own production and what might have been offset or not yet offset with purchases from third parties and how we can expect that to be in the next quarter. That is my first question.

And my second question is about production as well but the steel production, I would like to understand -- this is the Second Quarter that you buy slabs from third parties. And the production in Volta Redonda went down and it has been strong quarter on quarter every year. But I would like to understand what is going on. Is it an economic issue to acquire slabs from third parties that has changed over the last year, is it part of the strategy and what can we expect? Should we continue to expect you to purchase slabs from third parties over these coming periods.

A - David Salama {BIO 17456021 <GO>}

(Interpreted) Renato, I am going to ask Daniel dos Santos, our Mining Director to answer your first question. And right after that, Martinez will answer about the steel question.

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

(Interpreted) Good afternoon, Renato. In the beginning of January, actually the end of January, we had an event with the reclaimer. One of the two pieces of machinery that stay in the yard at Casa de Pedra and the ore and the railway products that are sent to the port. One of those machines collapsed at the end of January so we had to stop that operation as I explained on the last call, because it was a critical situation for the integrity of the equipment and the people at the site.

Throughout the quarter, we started allocating the resources we have for operation at Casa de Pedra, allocating the resources to replace the capacity of that piece of machinery. The majority of the resources were allocated and in the end of April, we already started to present some recovery. So now, we are starting a production rhythm pace very close (seasonality) and from now on, we will be able to reach what was projected with the expectation that in the second half of the year, we will have an additional gain to offset some of the losses of the First Quarter.

We acted in two fronts. First is NAMISA and the other is in the mine; I'm sorry, the other one is the yard. At the mine, we opened a new front in a region called (Mascati) and it's such a large mine that it has different municipalities. So this is a neighboring municipality, still a mine with Casa de Pedra. We have a very high quality of the ore and it allows us to allocate in that region and that's what we have done some pieces of equipment for grinding that allows for the production of high quality ore that may be loaded directly into the train so it doesn't go through the processing plant. That's one of the things that have been implemented is the use of one of the components of the recovery production so that we can reach our objective, our goal for the year.

Aside from those opening up of new front -- mining front in a very ore-rich area and installation of these pieces of equipment, we have also anticipated some mining equipment that were planned to be acquired in the three-year period but we anticipated these pieces of equipment that are being allocated to Casa de Pedra to reduce (liability) and guarantee the high quality of the product which will also be able to achieve better prices and presenting better results than expected.

The second front that we worked on was in the yard where the machine operates. We implemented a series of loader sets and some devices that we call hoppers that feed the conveyor belts to replace the -- those machines in the concentration plant and we also have a device to feed it directly in for part of the production. With all these, we increased a lot of our capacity in our processing plants and therefore our production. This is implemented, it's ongoing. We'll start realizing the results of that at the end of April and now in May, we already achieved good results for those actions.

Aside from that, we are taking advantage of the good moments or the good period in the region for the oil supply because we all know that the producers were encouraged to increase production in the region because of the port capacity that has been announced and didn't come true except for CSN that is moving on at full speed with the second generator already on conditioning phase.

But with that, we are taking advantage of that situation at the moment and this has been helping us offset some of the losses. So in terms of purchasing ore and the use of alternative capacity, things are moving well. We are very optimistic. And we are able to meet our goals in the second half of the year with the arrival of the reclaimer, we shall exceed slightly our capacity and then offset part of the losses that we experienced for the First Quarter.

We are maintaining the pace in the exports at around 29 million and 30 million tonnes, exported at the port. This number has just been reviewed and considering the timeline and the arrival of what I just explained and we're very confident that we will be able to maintain this level with this recovery that has been occurring since the end of April. And it will be continuing throughout the year with the inclusive capacity in the ports and the entry of these resources that have been and are being allocated to mining.

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

(Interpreted) Hi, Renato, it's Martinez, about the purchase of slabs, just to make it very clear to you what has happened, there are two different moments that we had for purchasing slabs. And the Fourth Quarter of last year, 2012, this condition of slabs was related to maintenance that was a planned maintenance at the plant in Presidente Vargas.

So it was a planned maintenance that the (closure of) the plant for the Fourth Quarter was planned due to the maintenance that was going to take place at the mill or the plant. And that was what was done.

In the First Quarter, we acquired pretty much the same amount. But as Daniel said, we had two important events. First was the reclaimer, we ended up increasing the ore performance, delivery and the amount of ore with the (inaudible) growing and they would need a greater amount of coke in the blast furnaces and in that First Quarter, the cost -- our cost per plant -- our own production costs per plant was high because of the two events I have mentioned, the reclaimer that was a problem for mining and the quality of the ore itself.

So in the First Quarter, of course, in order to be able to have a better cost and to serve the market as well, we had an expressive sales volume in the First Quarter. The Company made the decision to acquire slabs from the market and of course, we have to -- we must consider the cost of purchasing slabs in the market at every time and if we have new acquisition opportunities, of course, we will be watching.

And initially, the problem with maintenance at the Presidente Vargas unit is completely solved. The reclaimer is back. The level of quality of the ore is better and -- our Second Quarter will present probably a slab cost of around $500 and this is our historic cost for slabs.

So at this point, I don't see new slab acquisitions from third parties in the Second Quarter unless there is an opportunity to meet the market and the relationship between cost and performance is beneficial. So that is basically the explanation for the slabs that we had in the Fourth Quarter and in the First Quarter.

Operator

Our next question comes from Mr. Leonardo Correa, HSBC. Leonardo, the floor is yours.

Q - Leonardo Correa {BIO 16441222 <GO>}

(Interpreted) Good afternoon, everyone, thank you for this opportunity. First my question is about leverage where you see the level of leverage in the quarter which is almost four times the EBITDA. I would like to know if you have a specific measure to leverage the company with seeing the lower level of CapEx in the quarters and how NAMISA fits to this strategy. That's my first question.

A - David Salama {BIO 17456021 <GO>}

(Interpreted) Leonardo, can you ask your second question now that you please because then we can address both of them. Thank you.

Q - Leonardo Correa {BIO 16441222 <GO>}

(Interpreted) Okay, the second question and I know that it might not be very in the context or may be an early question but we know that the media is talking a lot about the TSA and we know your company is interested in those assets in Alabama and in Brazil so I'd like to understand the rational now what do you see in terms of potential about that asset or is it just a matter of tax advantage, is it any, do you have any advantage in terms of cost, what are the long-term potential of that? So if you can be brief about it and, talk a little bit about that asset, certainly Alabama, what type of synergy you can bring from that I would appreciate. Thank you.

A - David Salama {BIO 17456021 <GO>}

(Interpreted) Perfect, Leonardo, thank you for your questions. I will take this opportunity and address both of them. About leverage you saw that right now in the quarter we are at 3.7 times the EBITDA of -- an EBITDA BRL4 million and something -- BRL4 billion and something and we don't have a sound plan for this year. We would like to recover our result that has been already mentioned about Daniel when he talked about mining, these figures will be very clear to you in the next quarters.

Our steel area is still has good performance and sales and we'll also have the recovery in the steel costs.

So, all these effects put together will give us an idea that our performance will be more reasonable and much closer to CSN's history. That will be very clear to you and it will allow us to close the year and we do have our internal targets. We want to have a ratio of net debt and EBITDA this year below 3 times. We are still pursuing that target in terms of leverage.

And needless to say that this company has always been very conservative in terms of cash and I can assure you that we'll still keep following that pace especially if we take into consideration our investment we have had for the next quarters.

About TSA, we have always been very transparent. The Company analyzes opportunities and everything that is available in the market. But we always do that in a very conservative way and very realistic as well in a way that our final process is related to check if we'll be able to bring value to our shareholders.

There is nothing new since the last call that we had and what I can assure you is that the company will keep on being very conservative. If anything new comes up we will communicate to all formal means that we have available already.

Operator

Our next question is from Pinheiro, Andres Itau BBA. Go ahead Mr. Andres.

Q - Andres Pinheiro

(Interpreted) Good afternoon, David. Good afternoon. I have two questions. The first is going back to mining. You just said with the company maintain the exports of 29 million tonnes for the year. I'd like to clarify how much do you estimate of this volume would be of your own production and how much from purchase from third parties. That's my first question.

The second about the steel market, if you can talk a little bit about the parity of the steel price, if what was announced this year was fully implemented and if there is room for more increases on the short term? Thank you.

A - David Salama {BIO 17456021 <GO>}

(Interpreted) About the export of 29 million we recently reviewed that number due to the allocation of alternative resources and the issue of the machine. We are very confident that we will be around 29 million and 30m. We have always informed these figures in a consolidated way, NAMISA, Casa de Pedra and the purchase of ore.

This year exceptionally we're finding the opportunity -- the unique opportunity to seek more ore in the region and we've been very successful in contracting ore from third parties. I believe that based on all the, conditions, we should be able to deliver the 30m.

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

(Interpreted) Hi, Andres, this is Martinez. First, regarding the markets even though we are seeing pessimistic signs about the market, I see it completely different. The First Quarter was very good to CSN. It was the record for the domestic market and overall, the incentives that we have from the government are driving the investments in the main sectors of the economy and all segments that are connected to steel are presenting growth or they will present growth throughout the year.

If you consider, for example, the sector of machinery and equipment that last year had a very weak performance at around 12%, the estimate for growth this year is at least 8% being able to go high as 12%.

The construction segment last year, we also had great expectations and the growth was of only 1% but this year this should reach around 4% also supported by the increase on construction materials and sales of other materials for construction.

The white goods sector had a very strong 2012, it grew around 12% and the projection for this year is that it will continue to grow at around 4%.

Packaging that CSN is pretty much the only company in the market for the metal packaging, also shows a very good growth compared to last year, we estimate around 5%.

The automotive industry, it's redundant to say that with all the IPI tax incentives, the number of new licensing, even though it's slightly slower, it's still strong, remains strong. And the level that the dealerships have today is slightly smaller than what they had last year.

So if you consider the whole scenario, in the case of CSN, there's no other way -- work on fully throughout the year. We had 1.2 million tonnes in the First Quarter. Our guidance for the domestic market is 4.8m. We reached 1.2 million in the first. And the trend is now to keep improving. We shall close the year with a guidance of around (6.2), basically considering 290,000 tonnes for United States, 250,000 to Portugal. And Germany going back to the range of 800,000 per year. So those would be our volume guidance.

As far as price, even though there's been a slight decrease in the price of oil and the price of slabs, nothing (technical difficulty). And what's happening today with the balance sheets and you've been able to see especially in Europe was there are a few mills have experienced losses. If they experienced losses, either they're going to decrease the price or decrease costs or increase the price or do both. That's what everybody is doing. So I don't see it's an area where steel works can survive unless you realign the prices in the market.

Here in Brazil, in the First Quarter, we felt -- we didn't really feel it so much. We started readjusting in March. That had an impact to the domestic market of around 2% more, considering the consolidated price we're saying 1%. In the Second Quarter we shall see an increase in our average price from between 5% to 8%. And depending on market conditions that in my opinion are very favorable, I believe it is possible for us to consider new price increases for the second half of the year.

To give you an idea, today what bothers the most and sometimes we turn a blind eye is the direct imports of steel of course has been decreasing. And I don't think it will increase as before saying. There's no clarity to do that. The premium over the nationalized imported material is 8% to 10%. And the difference does not justify massive imports to the domestic markets directly.

On the other hand, we're concerned the most on the indirect imports. Our focus for this year is that indirect imports will reach a level of 6 million tonnes or 7 million tonnes and therefore (inaudible) for a country like Brazil (inaudible) and then some worth of products arriving indirectly to the country. And that is -- that doesn't make any sense to a country that needs to produce and generate job positions, etc.

Going back to imports, CSN's policy. And we've learned our lesson about imports in 2010 when we had 4 million tonnes in the country, we will follow the international markets. I know exactly the price of the imported material, we know the premium that we are able to maintain. And I will follow the competitiveness of the production chains we belong to.

So to sum up, what I see is the costs going down, the cost of slabs for us will go down to $500. Our prices will increase 5% to 8% in the Second Quarter, which is a given for all sectors. And the markets will remain strong. So for steel, the worst point of the year was the First Quarter. From here on out, the scenario is a lot more positive.

Operator

The next question comes from Ms. Natalia Corfield from Deutsche Bank. Please, Ms. Natalia?

Q - Natalia Corfield {BIO 6421991 <GO>}

(Interpreted) Thank you. It's about the indebtedness, about the appropriation of your debt. You used BRL14.1 billion cash paid. And in the balance sheet we see BRL11.3b. What is the difference there? Thank you. That was my question.

A - Unidentified Speaker

(Interpreted) Thank you, Natalia, for your question. That's an excellent question. Because you know -- now from the First Quarter of 2013 on, we have started using the IFRS 10 which corresponds to CPC 19 and 11 that corresponds to CPC 36. So according to these new rules, the consolidation method, the proportional consolidation method is no longer allowed from January 2013. CSN is no longer consolidating subsidiaries as a whole, NAMISA, MRS Logistics and CBSI. And right now they are being recorded by the equity results.

So basically we have a change in the accounting practices and in the accounting rules. But for the company's management and as well as for comparison in fact, some figures -- we kept some figures to be able to have a comparison basis to what we have to close in 2012. Therefore we used the same criteria of that proportional consolidation criteria. That of course you can see in CapEx and segment results in the adjusted EBITDA and the adjusted EBITDA margin and in our net debt.

Basically the difference that you are asking about is due to this non-consolidation that -- where we have since January 1 on from NAMISA. But in terms of management, we don't see how we -- there's no change in how we manage the Company. I know you're still informing figures following prior criteria.

Operator

Our next question is from Mr. Ivano Westin from Credit Suisse. Please go ahead.

Q - Ivano Westin {BIO 17552393 <GO>}

(Interpreted) Good afternoon, David.

A - David Salama {BIO 17456021 <GO>}

(Interpreted) Thank you for your question.

Q - Ivano Westin {BIO 17552393 <GO>}

(Interpreted) I'd like to go back to the question of indebtedness that you mentioned the covenant goal to reach end of the year with a net debt and EBITDA around 3 times -- under 3 times. You have loans and financing contracts. And I would like to know what those are and if you can give details. That's my first question.

The second question is about CapEx, NAMISA's CapEx for expansion around BRL2 million for the First Quarter. I'd like you to explain the perspective for CapEx for CSN and NAMISA throughout the year of 2013.

A - David Salama {BIO 17456021 <GO>}

(Interpreted) Actually what we have about this relationship of net debt and EBITDA, as I just mentioned, is that we're working with a denominator, it is very unusual level, much lower than what we consider to be stable. And that we would consider a normal level for CSN operations. What I can tell you is that our expectation is basically to maintain -- or have a maintenance vis-a-vis the gross debt to the end of the year.

And on the other hand, we clearly have a better EBITDA than we did last year and what we consolidated on the last 12 years in the First Quarter of 2013. So this leverage will naturally reach that level that I just mentioned which is we expect to be the end of the year, we expect a number that will be lower than 3 times.

As far as your second question about the mining CapEx, if we combine our mining CapEx and the port expansion, we just review that number, our expectation was something around BRL1.2 billion for the year. And we will see a natural growth over the coming quarters as we have a series of pieces equipment that have already been contracted and are part of our expansion plan. So that we can reach the target of 45 million tonnes at the port and the 40 million at Casa de Pedra.

Operator

Our next question comes from Mr. Humberto Merieles from Goldman Sachs. Please, Mr. Merieles.

Q - Humberto Merieles

(Interpreted) Good afternoon, everyone. I have two questions. First, about the consolidated plans for CapEx in the Company, when and how much are you going to spend in each of the business line in the next three or four years?

And second question is about NAMISA, this relationship between CSN and the consortium, do you have any obligation, what do you have to deliver CapEx or production? If you have any, what are they? And when should you bring about these obligations, in which quarter should you do that?

A - David Salama {BIO 17456021 <GO>}

(Interpreted) Okay, that's perfect. I would like to update you. As I just said, recently we had a review in our consolidated CapEx. So we actually expect that for this year we should have BRL3.6 billion in the Group, consolidated group. And from that BRL1 billion would be steel, BRL1.2 billion mining, cement BRL170m, (inaudible) projects BRL1b. And we have other minor projects such as (Secon) and some expansion figures. But those are smaller projects that totals this BRL3.6 billion that I just mentioned. But on these BRL3.6b, it's important to take away what we have done in the First Quarter of this year already.

About NAMISA, you are right. Originally we do have clauses of coal and, from CSN itself and those are basically related to the acquisition of land, also obtaining installation licenses for some projects that we have in the Company. Basically these should be triggered from the second half of the year on from this year. But it's important to remember. And I believe many of you already know that we are in a negotiation process which has started in the midst of last year with our consortium in which we have a partnership with NAMISA.

Basically the idea is to have a dropdown of assets plan and to have one single mining company with all mining assets including Casa de Pedra, NAMISA itself, Itauguai Port. And also our participation on MRS. Actually this consortium or this pool would change NAMISA's having a smaller participation in a company with all those assets. That negotiation, that asset plan is working and it's coming along in a very reasonable way and as soon as we have anything new about it or further steps, we'll let you know.

Operator

Our next question is from Mr. Ivan Fernandes from Barclays. Please, Mr. Ivan Fernandes, go ahead.

Q - Ivan Fernandes {BIO 22125325 <GO>}

(Interpreted) Good afternoon. Thank you for this call. I have a couple of questions. First of all, to covenants, you have the covenants you maintained for debt maintenance. Do you have a limit?

And the second as just to check about this adjustment of NAMISA and the other subsidiaries that was consolidated before, have you also adjusted debt aside from cash? I'd like this information about that if you could.

A - David Salama {BIO 17456021 <GO>}

(Interpreted) Perfect. Thank you for your questions. About your first question, we don't have financial covenants about investment levels. We have normal, usual covenants for financial contracts but nothing more specifically connected to what you asked about financial covenants and indebtedness limits.

About the second point, basically this happened with change in the accounting criteria where we basically stopped consolidating three companies -- NAMISA, MRS Logistics and CBSI. So these three companies, basically at NAMISA we had one cash and no debt, practically. But for example, for MRS when it's consolidated proportional debt. And then the situation of each company in the relationship between assets and liabilities.

But it's important for you to understand this new regulation, this adaptation of the Company to the new regulation. But as I said, this should not affect or change the way the Company is managed and how the Company considers its numbers. It's important for us to be coherent in terms of criteria and with the way that we analyze our figures. And that's why we've chosen to present the numbers this way.

Operator

Our next question comes from Mr. (Karel) from Merrill Lynch. Please, Mr. Karel.

Q - Unidentified Participant

(Interpreted) Good afternoon, everyone. My question is about mining. What do you expect the impact would be of Casa de Pedra and in terms of cost for mining?

And my second question has to do -- the question is asked to Martinez. You talked about an increase of 5% to 8% in the domestic market in the prices, is that correct?

A - Unidentified Speaker

(Interpreted) The call was not very clear, can you please repeat your question so that we can clearly understand what you're asking?

Q - Unidentified Participant

(Interpreted) Sure. My first question is about iron ore. What do you expect the cost impact be considering the new restructuring of operations in Casa de Pedra because you have the consolidated costs for iron ore?

And second, I would like to confirm the price that Martinez talked about, an increase from 5% to 8% in the next quarter. Is that correct?

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

(Interpreted) This is Daniel Santos. I'm addressing your first question about cost. Obviously we did have an impact which was an important one in the First Quarter cost due to a drop in production, especially due to the reclaimer problem. And our plan is to have an adjustment right now along the next nine months so that we can recover and go back to the level that we have in the beginning of the year. So we are strongly working to do adjustments and the fixed costs along the next nine months. This is going to be an important thing to do. We have started already doing it in Casa de Pedra as well as NAMISA.

The idea is to have, by the end of the year, our targets matched as our original plans state.

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

(Interpreted) Hi, Karel. Just to make your work easier in terms of your models, in the First Quarter we had the hot-rolled from BFL1,550 to BFL1,620 with taxes CIS (inaudible) and cold rolled, BRL1,972 to BRL1,980 also with taxes and charges -- I'm sorry. And metallic sheets BRL3,000 with taxes.

And the Second Quarter is exactly what you mentioned, we should have an average price 5% to 8% higher than our First Quarter of this year. And I still see room to possible adjustments in the second half of the year once the premium on the national imported products is around 10%. And I understand that new changes in prices in the world considering (steel mills') results should happen in the second half of the year.

Operator

Our next question is from Mr. Rodolfo Angele from JPMorgan. Please, Mr. Rodolfo, go ahead.

Q - Rodolfo Angele {BIO 1541593 <GO>}

(Interpreted) Good afternoon. I'd like to go back to the mining discussion since this is the relevant business for the Company's results, I would like to ask -- or to try and quantify, I don't know, you said in April the production started improving. So what level are you producing out of Casa de Pedra? What's the production level there?

And my second question, also about mining, is how will the final solution be? I'd like you to talk a little bit about term, how long it takes to fix or the temporary solution, how much that would cost?

A - Unidentified Speaker

(Interpreted) First, those solutions were implemented and not alternative temporary solutions. They're alternative solutions and they are permanent. We've made investments in those grinding and screening plants. The regular situation, they would be increasing in production. And they remain, for as long as the mine is in operation.

So the actions that I described on the first front, on the mining front. And the opening of the new area with high quality ore, the possible use of the mining equipment, the implementation of those grinding and screening, these are definitive permanent solutions. So they are an addition to production from now on. We don't consider that just temporary. We will not remove those equipment and installations ever, only when the use or life cycle of the equipment expires.

And besides, we also mentioned some solutions that are alternative permanent solutions as well. The installation of the hoppers and the conveyer belt, the direct feeding will become, once we implement the machine, that is replacing the machine that broke, they will become alternatives to increase production and increase the flexibility of the operation. So we only have positive things to gain from these new devices and equipment.

And the other point, okay, the production level. Casa de Pedra in the month of May is at a very close pace compared to what we usually have in the dry season, the very high numbers. Compared to last year, this month of May, we will probably be around 10% below what we did in May of last year. And from here on we will reach the normal -- usual production curve that we've been processing historically.

Operator

Our next question comes from Mr. Carlos de Alba from Morgan Stanley. Please, Mr. Carlos, you may proceed.

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

Thank you, very much. I really would like you to answer a simple question what has happened to (inaudible) so some straight answers would be really appreciated. Can you tell me why is the amount of production of Casa de Pedra or the NAMISA and third-party purchases that you did in the First Quarter? How much you expect those numbers to be this year and next year from a performance basis please? That's what we really need to get a better sense of what the Company will generate. And also if you can tell us where can we really see -- we are going to see any growth in the production of iron ore which is by far your most profitable business?

And then my second question is the leverage of the Company is quite high. And I understand that the there is a put option that we are short and that your NAMISA partners may exercise. It could be anywhere between $2 billion and $3b. And given the performance that we have seen in the iron ore division, I don't see why you would not exercise this put option. So just can you tell us what would be the alternative financing that the Company would use in case that put is exercised? And also can -- you can tell us when the put expires and when -- or not expires -- or when the date they can exercise this put? Thank you.

A - David Salama {BIO 17456021 <GO>}

Thank you, Carlos, for your questions. Daniel will address the first one and then I'll address the question about NAMISA.

In the First Quarter, we mentioned that we have Casa de Pedra and NAMISA and iron ore purchasing. The total was 5.4 million tonnes.

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

(Interpreted) Carlos, about your second question, as I just mentioned, really there is a clause in the contract signed with our partners in NAMISA who -- that allows them this put option in the second half of this year. But simultaneously, we have negotiations, as I just said, that are advanced. And we are looking for an asset consolidation.

Why are we looking for that? Because this will basically represent in our point of view several gains of synergies and that for both companies we would have a very efficient and simple operation. And therefore (inaudible) and CSN would both benefit from it.

Negotiations are happening. And as I said, as soon as we have more information about this, we'll let the market know.

Operator

(Interpreted) Thank you. If there are no further questions, I would like to turn the floor to Mr. David Salama, IR Director, for his final considerations.

A - David Salama {BIO 17456021 <GO>}

(Interpreted) I would like to thank you all for your participation in this call. Also I would like to say that our IR team is available to answer any questions you might have in the future. Good afternoon.

Operator

Thank you. The earnings results call from CSN is concluded. Please turn off your phones and have a good afternoon.