

Q2 2013 Earnings Call

Company Participants

- Daniel dos Santos, Mining Director
- David Moise Salama, Executive IR Officer
- Geraldo Morais, Mining Commercial Director
- Luis Martinez, Executive Officer, Steel Products Commercial Area
- Unidentified Speaker, Unknown

Other Participants

- Carlos de Alba, Analyst
- Juan Pedro Hernandez, Analyst
- Kevin Cowan, Analyst
- Marcelo Aguiar, Analyst
- Marcos Assumpcao, Analyst
- Paolo Velati, Analyst
- Pedro Angstimon, Analyst
- Robert Kesadino, Analyst
- Rodolfo de Angele, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

(interpreted) Good morning. And thank you for waiting. Please welcome to the earnings results call from CSN for the earnings results disclosure for the Second Quarter of 2013. We have with us today the Controlling Executive for the Company. I will inform you that this event is being recorded and all participants will be in a listen mode only during the Company's presentation. Right after that we will start our Q&A session when further instructions will be given. (Operator Instructions).

Today's webcast is also being simultaneously translated and broadcasted and you can have access to it through CSN's investor relations website at www.csn.com.br/ir where you will find the presentation. The slide will be controlled by you. There will be a replay service for this call on the website right after it's finished. We'd like to inform you that due to the number of participants the Company will answer only up to two questions per participant with no right to reply. Therefore, we kindly ask you that all questions are made at once as soon as the line is opened by the operator.

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Before proceeding let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on beliefs and assumptions of CSN management as well as on information currently available to the Company. They involve risks, uncertainties. And assumptions because they relate 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 impact the future results of CSN and could cause the results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. David Salama, CSN's Executive Investor Relations Officer who will present the Company's operating and financial highlights for the period. Please Mr. Salama, you may begin your conference.

David Moise Salama {BIO 17456021 <GO>}

(interpreted) Good morning, everyone. Thank you for participating in this conference call from CSN so that you can talk about the results of the Second Quarter of 2013. With me here I have other executives from the Company.

Let's just start from slide number 3 where we have consolidated results for the Second Quarter of this year. The net revenue -- consolidated net revenue for the Second Quarter BRL4.06 billion has increased 11% vis-a-vis the First Quarter due to higher revenue in the mining and steel sectors. Comparing the Second Quarter 2012, there was an increase of 14% due to higher sales volumes for steel products.

We have sold a record volume of 3.1 tonnes, an increase of 15% vis-a-vis the First Quarter of 2012. Gross profits consolidated reached BRL1 billion for the Second Quarter, 32% above the gross profits for the First Quarter of 2013. Comparing the Second Quarter 2012 we increased 18% the net income, reached BRL502 million, an increase of BRL486 million vis-a-vis the First Quarter of this year.

Investments in the Second Quarter totaled BRL606 million, BRL207 million for steel products, BRL147 million mining. And BRL226 million logistics. The adjusted EBITDA reached BRL1.095 billion, 21% above vis-a-vis the First Quarter of 2013, especially due to the contribution of the steel mining and logistics areas. Adjusted EBITDA margin was 24%, a 2percentage point increase vis-a-vis the First Quarter of 2013.

Now let's check slide number 4 where we see the results per segment. We have here in the slide the net revenue and the adjusted EBITDA by segment from CSN. The participation of the steel segment represented 69% of net revenue and 53% of total EBITDA for the Second Quarter of 2013. Mining reached 21% net revenue and 34% of EBITDA.

Slide number 5, we'll have details for steel. Let's start with the top left chart. In the Second Quarter, the steel volume, for sales was 2% above the one in the First Quarter of 2013. The volume is aligned was the volume served in the First Quarter of 2013 when CSN has

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reached its record of sales from total sales 27% were in the domestic markets, 20% are in subsidiaries abroad. And 3% were exported. It is still on the top part of the slide. Now to our right we have the net revenue for steel. That also has reached a record of BRL3.2 billion with an increase of 7% vis-a-vis the First Quarter of 2013. The average net revenue was of BRL1.944 billion, an increase of 4% vis-a-vis the First Quarter of this year. It is important to highlight that net revenue of BRL6.1 billion in steel for the First Quarter is also a record.

Now, bottom part of the slide, we will analyze the EBITDA. The adjusted EBITDA for steel in the Second Quarter was BRL619 million, an increase of 17% vis-a-vis the First Quarter of 2013. And adjusted EBITDA margin of 20% increased 2percentage points vis-a-vis the First Quarter of 2013.

In the next slide, we do the same analysis for the mining sector. So I've to start once again, the top left corner, in the Second Quarter sales volumes for mining (inaudible) reached 6 million tonnes, 45% more than the First Quarter of 2013 from the total of 3.1 million tonnes were sold by CSN and 2.9 million tonnes by NAMISA. It is important to highlight that besides the sales for our customers, CSN has also used 1.5 million tonnes for (inaudible) clients in the Second Quarter.

If you see on top part to our right, which is the net revenue for mining in the Second Quarter at BRL984 million, an expansion of 32% vis-a-vis our prior quarter. That is due to larger volumes partially offset by lower prices that we had in the First Quarter. The average prices for CSN reached \$89 in the Second Quarter and the First Quarter they were at \$103. There was a reduction of around 40%. It is important to remember that in the Second Quarter, the average was \$126, a drop in 15% vis-a-vis the First Quarter of this year.

Now let's analyze the mining EBITDA in the bottom left part of the slide. In the Second Quarter the EBITDA totaled almost BRL400 million, an increase in 22% vis-a-vis the First Quarter. And the adjusted EBITDA margin was up 40%.

Let's go to slide number 7, where we will see the EBITDA evolution. The EBITDA of BRL1.1 billion in the Second Quarter was 24% above the one from the First Quarter, impacted the EBITDA, higher sales volumes in steel, also more sales in mining and iron ore. We had a reduction in mining prices also there was an increase of costs of mining considering our volumes.

Finally, we will go to slide number 8 where we will show you the net debt evolution. The net debt of BRL16.9 billion at the end of the Second Quarter of 2013 had an increase when compared to the First Quarter of 2013, a growth of BRL32 billion with a balance of BRL13.1 billion. The CapEx of the Second Quarter was BRL600 million, the disbursement debt charge BRL500 million. Interest on equity BRL400 million. And increase on the working capital almost BRL300 million, both contributed to the increase on the net debt. And they were partially offset by the EBITDA of BRL1.1 billion. At the end of the Second Quarter, the ratio of net debt to EBITDA reached 3.9 times the EBITDA of BRL4.3 billion in the last 12 months.

The total of the gross debt at the end of this quarter was, in reais, in 44%; 30% mainly in American dollars. Of that 90% of the debt is of long-term and 10% short-term debt.

That basically concludes my presentation. So let's now turn to our q-and-a session. Thank you.

Questions And Answers

Operator

(interpreted) Thank you. Now, let's start the Q&A session for investors and analysts. (Operator Instructions) Questions will be addressed in the order they are received. We would like to ask you to pick up the phone when you ask your question, this way we can ensure the best sound quality. Also, we would like to remind you that due to the large number of participants, the Company will answer only upto two questions per participant with no right to reply. Therefore, we kindly ask you that all the questions are made at once, as soon as the line's opened by the operator.

Thiago Lofiego, Bank of America/Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(interpreted) Thank you for the results, I have two questions. The first is about the purchase of slabs in the first-half, close to 170,000 tonnes. And I'd like to understand and if you could give us a bit more details about the reason why you are buying these slabs from the market even after two quarters of buying slabs from third parties?

Second question, to Martinez, about steel prices in the domestic market. How do you view the current premium? Do you believe prices may go up. And could you give us an idea about the competitive market of steel in Brazil, considering perhaps more aggressiveness by the competitors to gain market share? And what do you have to say about imports? So if you could give us some more details on that?

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

(interpreted) Thiago, thank you for your questions. I'd like Martinez to please help me in the answers.

A - Luis Martinez {BIO 7187744 <GO>}

(interpreted) Hello Thiago.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(interpreted) Good morning, how are you?

A - Luis Martinez {BIO 7187744 <GO>}

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(interpreted) First question, about the purchase of slab. First, let me highlight that in the Second Quarter our crude steel production has already increased 8%, 1.506 million units compared to 147 million in the First Quarter. Unfinished product also had an increase in its output; 1205 gross products compared to 1089 in the First Quarter. The conclusion is that our production has picked up.

As I said in the first call, we did have production issues in the First Quarter. They have been solved. And our production is back to usual levels we have become used to at CSN.

Also important about slabs is also related to market opportunity we are looking into, that is aligned to a strategy to add value to our products. And have a more diversified product mix. It was interesting to buy the slabs. Second important reason, we have a clear build of our slabs inventory unprecedented (inaudible) so that CSN is fully prepared for a better market. We believe the second-half of the market we will have better demand and also early next year.

Regarding cost. So as to give you some more color to the purchase of slabs. If you look at our pie charts looking at costs, we are talking about a number BRL1.7 billion. Our total cost of production for this quarter, this BRL1.7 billion, 11% will be slabs, BRL190 million approximately. Now if you take 1772 and divide by the projection of rolled products, our cost of slabs from third parties is BRL1,429 per tonne compared to the First Quarter 2013, we've had a drop of 7%, which shows that even purchase of slabs from third parties we've been able to reduce our production cost by 7% or 8%.

Today, also let me highlight our current cost of slabs with the ore, the price is around \$450, (\$2.23 \$2.25) and the ore costs \$400. And CSN is already fully prepared for the competition on the market, be it in the domestic or on the international market.

Also interesting to look at the (CPP) which we publish quarter-on-quarter. Despite the purchase of slabs, it is stable. So I believe that your question about the purchase of slabs from third parties has already been answered at least partially. And let me say that in the Third Quarter we will still have slabs we purchased in the Second Quarter. And I will continue to look into market opportunities for that.

Operator

(interpreted) Ladies and gentlemen. please bear with us. We will soon reconnect the call. Please remain with us. You may proceed.

A - Luis Martinez {BIO 7187744 <GO>}

(interpreted) Okay, I'm sorry, we lost the connection. But now everything is back. So Thiago, going back to your questions, I believe in terms of slabs, just going back to our last sentence. From the Third Quarter we will still have a remainder, a carryover of slabs we purchased in the Second Quarter. And obviously we will still be analyzing all market opportunities related to that. That may be interesting to CSN to add value to our slabs and be able to sell more to the market, especially selected products.

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Your second question about the market prices, current prices. And premiums, first thing. When you look at prices, I always say that it is a function of supply, demand, costs. And the competitiveness of our supply chain. Since CSN is always paying attention to these elements -- also it depends on how much each one of our clients depends on steel, some of course are more vulnerable to steel variations small or more significant.

Now regarding prices, our strategy is very clear. Our strategy has remained the same in the last three years. We focus on cost reduction, much stronger now. Our cost will continue down. Our slab cost is around \$400, we'll continue to work to bring this cost even further down with lower price of feedstock, (inaudible) privilege our higher value added mix, which represents (33%) of our sales today. I believe we have an opportunity of getting up to 50% as we posted, about two years ago. And extract the most of our product portfolio which is complete compared to the market.

Now first to increase profitability there are two things, either we generate more wealth or we reduce cost. So regarding higher margins, we will increase our margins by adding value to our mix and reducing cost. This is our strategy. So sell more processed products and keeping a strong commitment with our clients in the domestic market today.

Going back to your question about premiums, our premium today is around -- I mean, in the case of hot rolled products let me refer to my numbers here in case of hot rolled products -- just a second. In case of hot rolled products premium around 2%, right? If you can imagine a starting price, size 44, hot rolled products, this is FOB. And in case of galvanized, starting price of \$110, the premium would be around 7%. This is the premium we see being practiced today, \$230.

So, back to your question in providing more details, the conclusion is we will increase our profitability by improving our mix, focusing on the domestic market and reducing costs. Regarding the market, we spoke about the competitive markets.

Now, what do we see on the markets today? Our GDP prediction for Brazil, I mean I don't really want to be ambitious to talk about Brazilian GDP. But it would be around 220 to 270; so \$2.2 trillion to \$2.7 trillion. The industrial GDP, which matters the most to us, 1.2 and 1.45. We have some bad news because the processing industry in the Second Quarter came down 2.5%. What does that mean? It means that the steel market is not really growing. I mean, the flat steel market, despite all that it is still favorable for mills, because imports are down. And CSN is also working towards full capacity.

Now, when you look segment by segment, I don't want to extend myself but we view opportunity to improve. We are watching the sales of rebars, slab steel and cement from very closely, we still have room for improvement, we have got things in the pipeline, the white line had a significant growth last year. This year, it will grow, of course not 12% as last year.

Automotive, despite the negative headlines of the last few days, it will grow significantly this year; light vehicles may drop a little bit. But this is going to be offset by trucks and buses.

Then, packaging and distribution, it will follow the market. So the market on the second half will be bullish, Third Quarter will be good and Fourth Quarter will focus probably be very favorable. Now, regarding our current consumptions, 2011 gives you an idea (inaudible) consumption was 13.8 million tonnes; 2012, 13.6 million tonnes. And this year IABR has projected a 3% growth. We believe it's going to be around 14 million tonnes approximately.

Finally, regarding imports and that is very relevant data. The bad news is that indirect imports have grown. Today we have more than 1 (CSN) coming to Brazil in terms of processed product or finished product; 7 million tonnes a year, this is the current rate of import which is very harmful for the country.

Regarding indirect imports, as I said in the last call, I believe the number will be around 1 million tonnes. And in the first half we had a 28% drop already. So basically this is the market scenario CSN today, 97% of our sales in the parent company are in the domestic market. Sales of higher value added have grown 26% quarter over quarter. And we want to get -- come to (50%), today it's around 43% for the product. So thank you very much, Thiago.

Operator

(interpreted) Marcelo Aguiar, Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(interpreted) My first question is about NAMISA and NAMISA's negotiations. I would like you to tell us a little bit in how the deal is going on. We should have a conclusion of the profit in the very short term. And also I have a question about your liability, if you analyze your balance sheet, you have a liability close to BRL13.6 million and you mentioned that you were successful because you were able to reduce BRL6.3 million of this amount. Is that a final decision? Is that -- the Company cannot go back to the decision about it? That's what I would like to ask about this tax (inaudible).

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

(interpreted) Thank you, Marcelo for your questions. I will address both of them. First, about NAMISA, what I can tell you is that negotiations are ongoing. As you know, the negotiation is very complex. It involves several topics. But we have seen a good development of the process and we still believe that we are going to come to good agreement in terms of this new way of working and mining. And that this will give us important gains of synergies. We will have an important synergy in the mining sector, gathering all assets a strong cost reduction. Therefore we still focus ourselves on all the topics and we do believe that we will conclude that very soon.

About the second question, really we did have -- we were successful in May of 2013 in a trial here in Sao Paulo. And the decision was favorable to CSN, canceling out a notice of infraction with NAMISA. So, (technical difficulty) that's a very significant value.

And after that we appealed. And that is going to be judged by (CASA). But this was a success for the Company. It was a victory for us. So, it shows that we will be able to decrease all processes that have been classified as possible in our balance sheet. And if you add all those actions in the different areas in the federal, state. And municipal areas, those represent 13.5. So, it does have an importance for us. And we are doing a good follow-up on the process and we believe that we'll have good results as well.

Operator

(interpreted) (Lenore), Credit Suisse.

Q - Unidentified Participant

(interpreted) Congratulation on your results. First question about mining. You published total volume (inaudible). Please let us know the output volumes of CSN and NAMISA in the First Quarter, this would be my first question. Second question, about CASA, I would like you to tell us about the current status of negotiations. And if you have a deadline for the conclusion of these negotiations? Thank you.

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

(interpreted) I would like Daniel dos Santos, our mining director to answer the first question and then I'll answer your second question.

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

(interpreted) As we always say, we show our consolidated output, that means at Casa de Pedra and all purchases. That is the number we show in our reports, showing a significant growth back to the same levels of productions. We had 6 million tonnes as we posted in the Second Quarter. Its resumption is thanks to some action we implemented in the First Quarter to solve operational problems we reported in the last call. Now we have been able to pick up our credit production level.

And we are going through phases of happy opportunities the market has offered in ore purchase, as I said already. As we did not have the additional capacity entering the markets, small and medium sized producers in the south and the (inaudible) and clear at the south. Today they have a production which has been our approach to CSN and to NAMISA, that is we have been very successful in the negotiations with them, which has helped us in our growth plan.

And this is also showing in the results as of this quarter. This really consolidates CSN's position in the south; that is we prevail on those markets where we have this acquisition and it has also helped to use our port capacity. And that BRL45 million project we announced early last year has materialized, it is a reality today, it's been fully implemented. And now we are starting operations, that is we started operations a month ago. And we've been very successful in the start up of this additional capacity. So we will be able to deliver the BRL45 million project coming to BRL5 million up to year end, as we announced last year and early this year.

In addition, we have been positively surprised by the Chinese market and we can even talk about that a bit more, where we have been able to place project there at a price even higher than we expected, than we planned for production this quarter.

And now answering your second question, actually I'd rather not make comments about specific transactions. Let me only let you know and also let the market know that CSN is continuously looking at potential operations that may add value to our shareholders. As we speak, I can tell you there are no transactions or agreements already executed so that we would be publishing relevant fact or material fact in addition to what has been previously announced.

Let me also reinforce our commitment. If we have a transaction, it will not compromise our current leverage and it is going to be done in a very prudent fashion. Also CSN will immediately (technical difficulty) any transactions that may happen. Actually this is in compliance with our disclosure policy.

Operator

(interpreted) Marcos Assumpcao, Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

(interpreted) First question about mining. You sold in the first half of the year close to 10 million tonnes. I would like to understand we still are forecasting that for the year 13 million tonnes for export due to the results that you have in terms of port capacity and so on. Also from the 6 million tonnes that you manufactured with NAMISA, can you break that down, how much was that the production of NAMISA and CSN. Thank you.

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

(interpreted) I will address both questions. And I am Daniel Santos. Yes, we manufactured 10 million tonnes on the first half of the year, as it has been this informed. This last year we are increasing our port capacity, increasing capacity in mining and part of the problems we had in the First Quarter and they were already overcome and we are back into our regular condition. And we do have in the second half of the year a major challenge of bringing in very significant figures.

I would like to remind you that we have a record of shipping in June with over 3 million tonnes for exports. So that capacity is there, it exists. And we do have production and shipping capacity and we do have a few opportunities that are being worked on, those are better opportunities than we had last year in terms of mining purchase. We are keeping our guidance of 29 million tonnes because we are at a stage in which we are increasing capacity. And also starting up units that have been implemented, for instance this month we have opened two new production lines in one of NAMISA's unit, which is (inaudible).

We have there the ability of producing a concentrate with 66% of iron, that is a fine concentrate. And with that we can produce mass of material (inaudible) product as well.

And with that we can add. And this ability of doing a blending is single to CSN, especially due to installations we have in NAMISA and Casa de Pedra as well as because of the port in the logistics circuit of MRS.

So since we do have this competitive advantage when we bring in a line with an additional capacity for a richer or better material that brings us good condition or a good possibility to purchase from third parties ores and that's something that our competition is not able to do. So we are able to blend the material and therefore bringing in synergy for products (inaudible). We are still working on our expansion in Casa de Pedra, as you probably have seen, we have been mentioning since last year and we expect to be able to have all production lines working in the beginning of next year and those will also contribute to the growth.

But along the second half of the year we will have the benefit of some additional lines coming in that will help us follow the guidance we have forecasted. We are operating a new area in the mine, an area that is close to Casa de Pedra, that is a new mining front and then we have dedicated work to implement some projects of -- some reclaiming projects of them, those (enterprises) were considered waste. And now those ores make sense to be placed in the market. And therefore, we have advanced work being done so both in NAMISA as well as in Casa de Pedra we will have extra volumes due to the recovery of them and that is going to be done as soon as possible.

Operator

(interpreted) Rodolfo de Angele, JP Morgan.

Q - Rodolfo de Angele {BIO 1541593 <GO>}

(interpreted) Question, I'd like to hear from you what is the Company's view about the debt, your indebtedness level that is still going up. Now do you believe it is still acceptable, is it going to fall. And now following Thiago's question about market, you mentioned that the drivers are a better mix and cost reduction. Now, could you be a bit more specific? I mean do you view stable prices in the domestic market, does that mean that? These are my questions, thank you.

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

(interpreted) Thank you, Rodolfo for the questions. And I am going to answer the first one. And I will ask Martinez to answer your second question.

First, actually first I mean, first of all I'd like to tell you that CSN, as a whole will have two big growth in the second half of this year. One is the focus on cost. We will pay close attention to reduce cost. We have already detected some opportunities for us to have gains in terms of cost reduction which will have a significant impact in our profitability in the next quarter. We will be very focused on these opportunities to materialize these gains.

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Second -- secondly, we will focus on the Company's leverage. We are aware of our current indebtedness but we also (technical difficulty) Company will naturally, as of now we will naturally grow our operating results.

And this is going to generate a very favorable impact on our leverage. We keep the same goal, which is to reduce the net debt EBITDA ratio to 3 times, because we believe this would be an interesting level for us, especially considering all the current CapEx projects we have. So I believe that working on these two (inaudible) trying to reduce cost on the one hand and improve results on the other, this process will be gradual. However, the focus is very clear growth in the Company. So, one more time let me summarize the second half of the year, our number one focus will be cost and leverage.

Now, can you help me Martinez with the second question.

A - Luis Martinez {BIO 7187744 <GO>}

(interpreted) Yes, Rodolfo going back to your question, I will try and be more practical in the answer. But I also want to explain to you what is going on in the market. So regarding the supply today, the market has oversupply actually. Because you have new players coming into the Brazilian market with new equipment, let me be more specific Gerdau, Usiminas is also focusing the domestic market as a priority. And furthermore we have open doors for imports after the recent change in the tax from 25 down to 12.

That is, the supply is not a problem in Brazil today, now the demand, although we have read some pessimistic headlines the steel demand is still (technical difficulty) that of the year will have a strong demand because we have seen a drop in imports, already a significant drop. And in the case of CSN this drop is stronger and higher value added products that is. So I will be able to grow my market share, my domestic market share in high value added products.

Now, cost today is a must for us today, because there are only two possible ways either you generate more revenue by improving your product mix and by improving your product portfolio and the other task is cost reduction. So we will continue to focus on cost reduction. We've seen a 7% cost reduction already in the first half. And we will continue in the same lines. = The exchange rates, 2.3 to-date is favorable for us to be able to increase spreads, if a little bit under market. But the other important thing is that we took quite some time to eliminate the direct imports of steel in Brazil. But CSN is still very careful when looking at this level of imports. Today, it's more important to work with a better product portfolio, higher value added (technical difficulty) to work on prices because you may go wrong and imports may grow again in Brazil. Interested in what's going on in Brazil. But as I want to have more competitiveness in the automotive line, white line, civil construction and our commitment is of course with the Company but also we are committed to the growth of the country that is we look at all of these factors. So our scenarios for the Third Quarter is a margin improvement by reducing cost. That is, if you want me to be very straightforward this would be my answer.

Operator

(interpreted) (Paolo Velati), Banco do Brasil.

Q - Paolo Velati

(interpreted) My first question is about the long carbon steel project. Can you tell us a little bit about the agenda? When you have that available in the domestic market? And also I would like to know if you have regular tax rate for income tax return. And how is that going to be for the next quarters? We believe is that a regular tax rate for income tax from our model would be around 20%, something that you can forecast for the long-term. Of course that will have a fluctuation from one quarter to another. But for our model that would be the closest model considering the long-term. Now, can you help me with the long carbon steel?

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

(interpreted) This project is being delayed, I mean, it's delayed. But I can assure you that we'll start up the plan in September of this year, obviously September, October and by the end of the year we will be working with the approval of the products that have to be manufactured. We do have some legal standards to work about the rebar and we will be then consolidating all approvals. And by the next year we expect to be operating a total speed with this plant both for rebar as well as wire rod. That's going to be important for CSN because our cement production in the southeast now is completely at full speed, we are selling 2.4 million tonnes here in the southeast. So the knowledge that we already have in the (inaudible) market, will surely leverage our sales for long carbon steel in the market especially rebar. This project did take long, today it's a project that has good features of equipment. We are working on our action in the market. And CSN intends that it could be a very high added value product in market. We do not intend to work with margins that are lower than the ones that we have in the market. This is going to be a product with high added value for CSN as well.

Operator

(interpreted) (Pedro Angstimon, CPN Investments).

Q - Pedro Angstimon

(interpreted) Congratulations on the earnings. First question is about CapEx. I like you to give us a bit more color regarding CapEx. The First Quarter 2012 was BRL800 million, First Quarter BRL500 million, Second Quarter BRL600 million. So, when can we expect to have review whether this investment will have a return for the Company? Second question is about leverage. How do you plan to go below three times as you announced in today's call. How do you plan to go below 3 times? Because if I do some basic math here, I find it difficult to come down to this number you have announced. That'll be my two questions. Thank you.

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

(interpreted) Pedro, thank you for your questions. Let's begin on CapEx. Actually you are right, we had a CapEx of about BRL500 million First Quarter this year. The Second Quarter, BRL600 million. And now we're talking about BRL1.1 billion for the first half. Our

projection for the second half and I will include maintenance there. We will have a total BRL1.9 billion for the second half of the year. And let me give you a breakdown on this.

We are talking about BRL280 million steel including maintenance. Then mining BRL570 million, BRL210 million for cement. Now the trans northeastern or Transnordestina which is currently being consolidated and our number is BRL800 million. And next we add other smaller projects, we're talking about BRL110 million approximately. So, the number amounts to BRL1.9 billion for the second half, totaling something like BRL3 billion in 2013.

Now, of course when we talk -- these investments, the time to return would be in the medium and long term, that is for the very nature of the Company. It couldn't be any different. But we can already see some results that Daniel mentioned. We have attained a growth in our shipment capacity at the port. Martinez also spoke about the long carbon steel products. So this is something which has materialized and it will show in our results. This is relevant because the trend is for EBITDA growth, earnings growth because we are growing our revenue and also we have a relevant cost reduction. So now going into your second question this is (technical difficulty) get to this level of 3 times. We view an interesting potential in terms of generation of earnings in the next quarters. So this process is going to be only natural. Revenue growth, cost reduction. And also leverage in the next quarter.

Operator

(interpreted) (Robert Kesadino), Bradesco Bank.

Q - Robert Kesadino

(interpreted) I am still very optimistic about the Company and your segment. My question is aligned with several others, it's about leverage. Because it's still a topic of attention for investors; therefore, what I believe in criteria (inaudible), using the acquisition of (inaudible) that is my question.

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

(interpreted) As I said specifically I would not like to comment upon any transaction. But I can assure you that we are committed to maintaining and looking for our leverage target any transaction any analysis we carry out here is done in a very precarious way and we take into consideration our current investment levels so if we put together a structure for a possible acquisition that is going to be done in the way that we still can have a leverage target in the short and medium term.

Operator

(interpreted) Carlos de Alba, Morgan Stanley.

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

(interpreted) I think you have a real pool of people trying to understand how much was the production of iron ore, not the shipment but the production of iron ore in Casa de

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Pedra, the production in NAMISA. And how much tonnage did you buy from third parties during the quarter. And I would really appreciate if you can answer that and also give us your guidance as to how do you see it for this year and next year this mix of actual production in Casa de Pedra, actual production in NAMISA. And third party purchases for reselling purposes. That's the first question.

And then the second question is if you can focus a little bit about how you see the growth in iron ore volumes production volumes in the next few years. And have you finalized the revision of your Casa de Pedra expansion plan because you've said (nothing on that thing) for quite a long time, thank you?

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

(interpreted) Carlos thank you for question. Daniel is going to answer both of them.

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

(interpreted) About production, we (inaudible) announced production in a consolidated way, Casa de Pedra, NAMISA plus ore purchases. We keep the same guidance, 29 million as I have already mentioned. This year we have had some issues in the first half of the year but they have been overcome. Now we are ready at normal operating conditions and delivering our output as planned.

In regards to our projects we have a few projects in the -- some of them in the final phase of delivery that is there already contributing in production or sales which is the case of our port, some NAMISA projects. And actually announced in the last call and also last year we provided more details when we present project by project, company by company but some of them are ongoing in 2013 they will begin to contribute with results in the second half of 2013 and 2014. One of them is the duplication of Casa de Pedra capacity which is today in a very advanced stage of construction. I believe we are now at the peak of this construction work, we have three large companies working with us there at the moment.

Companies which are (technical difficulty) is one of them, providing support to the engineering aspect of this construction work, they have a local company (inaudible) during the erection and we also have an erection company (inaudible) which is operating the construction with us. But it is so we can deliver this project to double our capacity. Now this specific project it is the most important at the Company right now, it will increase Casa de Pedra capacity which is today 20 million tonnes. And in the end of 2014 -- apologize, yes, in the end of 2014, it will be 40 million tonnes, that is it will double its capacity. Our output growth as of late 2013 will help us get to a capacity of 40 million tonnes by the end of 2014 only in Casa de Pedra. But NAMISA also has a few projects in their final phase of delivery two lines that have already been added to the current (technical difficulty) they have also helped double our concentrate production at NAMISA. And we also have the recovery of our (teaming then), which will now also contribute for the output.

These projects will help us reach the capacity in the second stage of growth, 16 million. And together they will be able to use this additional capacity that will be added next year. So today our port only we had an installed capacity which has started operations last

Bloomberg Transcript

month but as we are all ready experimenting some benefits of the new facility to come up to 45 million by year end.

Now in the end of next year, we will come to the 60 million tonnes. The project will be already quite advanced. And we will be able to fill in the capacity with these projects coming from the mining segment, especially the one I mentioned which is to double the capacity of Casa de Pedra.

Operator

(Kevin Cowan, Employer Pedra)

Q - Kevin Cowan {BIO 18674770 <GO>}

The first question is the leverage goal of 3 times contemplate any potential asset sales and/or issuance as common equity? And then the second question is, is an investment grade rating strategically important to the Company, thank you.

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

(interpreted) Kevin thank you for your question. As I said before we are strongly focus. And that focus has been happening since the beginning of the year but we do have -- we are more concentrated now on the leverage of the Company. We are aware of the levels we have reached but we also have a scenario in which we foresee from now on a natural increase of our operating results. And those will bring leverage back to the standard that we consider reasonable for a company that is at the peak of its investment. It's always good to remember that we are doing really large investments. I just described around BRL3 billion investments along this year. And these investments have their term, they take some time to bear fruit. But we do foresee the results and the outcome. And the Company will be able to reduce leverage. And in natural ways will be able to improve its rating by the main risk agencies also.

Operator

(interpreted) (Operator Instructions) (inaudible).

Q - Unidentified Participant

This is Andreas from UBS. Can you hear me all right?

A - Unidentified Speaker

Yes, we can hear you.

Q - Unidentified Participant

Two questions from me. Thank you for hosting today's call. Just going back to the target leverage question, given the fact that you have got still pretty aggressive CapEx plans and given the fact that there is a fair amount of consensus out there who think that iron ores prices are going to fall over the next couple of years on account of high supply, what

kind of iron ore price are you assuming when you basically give us your target leverage of 3 times?

So that's my first question. And my second question relates to taxes, basically you are saying that we should model 20%, which is significantly below the average tax rate of Brazil obviously. Can you just highlight why we should use 20%; is that because of deferred tax assets going forward? Thank you.

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

(interpreted) Thank you for your question. Now, regarding the tax rate of income tax, of course we consider a consolidated tax rate. So considering also tax credit that we may obtain in time our projections show this is the average tax rate considering all of our operations. And the current tax status of (inaudible) today. Let me now ask Geraldo, our mining commercial director, to give us more details about long-term iron ore prices.

A - Geraldo Morais

(interpreted) Now, before I start talking about long-term iron ore prices I'd like to talk about the short-term and what you mentioned that is (inaudible). In the short-term we see prices at 133.5 in the Chinese market. This price is completely off the consensus we have been tracking at least in the last 12 months. The market expectation is in general that prices should be much lower than they are actually. And going on into the future, the Chinese output although it is growing slower, I mean, the Chinese production is still growing very strongly as the (inaudible) are closer to exhaustion, they are less competitive. So if their production will not be feasible at these high levels in the long-term. So quite a lot in the future, I believe that yes, the market will tend towards price equilibrium, perhaps a bit lower than the levels we see today. But in general terms, we expect that in the next three to five years, the prices will still be close to current levels so that the drop will be much slower than what the market has anticipated.

Operator

(interpreted) (Juan Pedro Hernandez), Credit Suisse.

Q - Juan Pedro Hernandez {BIO 18385137 <GO>}

(interpreted) I would like you to talk a little bit about the CapEx for the Transnordestina for the next year. And your expectations for the future. And the expectations for the conclusion of Transnordestina.

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

(interpreted) Thank you for your question. You may know that now in the first half of the year, we have invested around BRL250 million in the Transnordestina project. That if we consider all financial sources and financing sources. We expect that you can see here actually and the second half of the year is close to BRL750 million. So, we should end the year close to BRL1 billion and the Transnordestina project for this year, 2013. It's important to highlight that today we are consolidating 100% of the project within our balance sheet and also 100% of the (debt).

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You also know that we are negotiating and you know that these are advanced negotiations with the federal government, where we were going to have a new model for the Transnordestina project. We are now in the stage we -- in which we are planning documents and assume -- as we conclude that we should communicate the model of this new project of Transnordestina from now on. So, you can expect a very positive impact in the balance sheet of CSN. And that is going to make feasible other funding to conclude the project.

Also there is going to be something very important, the visibility of the return investment capital. So, that's very important so that you can understand from now on we can have a structural change within CSN balance sheet regarding CSN or Transnordestina project. As soon as we conclude that execution stage here, we are going to do a formal communication about this new project.

Operator

(interpreted) Now, if we don't have any more questions, we'd like to give the floor to Mr. David Salama, IRO, for his final consideration.

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

(interpreted) Hello, I'd like to thank you all for participating in this earnings conference call. I'd like to say that our investor relations team is open for your questions, questions that may have remained. Thank you. And have a good afternoon.

Operator

(interpreted) Thank you. The earnings conference call CSN is now closed. You may disconnect your lines. And have a very good day. Thank you.

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