

Q2 2015 Earnings Call

Company Participants

- Benjamin Steinbruch, Chairman and Chief Executive Officer
- Daniel Santos, Mining Director
- Gustavo Henrique Santos de Sousa, Investor Relations Officer, Member of the Executive Board
- Luis Fernando Barbosa Martinez, Commercial Officer
- Paulo Rogerio Caffarelli, Executive Officer, Corporate Areas

Other Participants

- Alan Glezer, Analyst
- Ivano Westin, Analyst
- Leonardo Correa, Analyst
- Leonardo Shinohara, Analyst
- Marcos Assumpcao, Analyst
- Thiago Covre, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the CSN teleconference for the presentation of CSN Second Quarter of 2015 Earnings Conference Call. Today, we have the Company's executive officers. This is being recorded and all participants will be in listen-only mode during the Company's presentation.

Immediately after that, there will be a question-and-answer session with specific instructions shall be informed. (Operator Instructions) This is being simultaneously webcasted by the Internet at the site of CSN, www.csn.com.br/ir. There we shall have this information. A slide presentation may be downloaded from this website and feel free to flip through slide and feel free to flip through the slide during the conference call.

Before proceeding, we'd like to inform you 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 the beliefs and assumptions of CSN management and on information currently available to the Company.

FINAL

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 affect 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. Gustavo Sousa, CSN's Controllershship, Tax Planning and Investor Relations Executive Officer, who will present the Company's operating and financial highlights for the period. Please Mr. Sousa, you may begin your conference.

Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Thank you very much. Thank you for being present in one more conference of the results of CSN. So, slide number 3, there we have a summary of the objectives of the Company. To expand competitiveness and to recover cash recovering, we have three fronts; one, operating efficiency front; one, delivery of projects where we highlight the number one in competitiveness [ph] in the first quarter and forecast for the third quarter of number two.

And in addition to this, in the delivery of these projects, we are working in addition [ph] in power efficiency and also changing our Coke batteries. At the end of this thing, we shall have to talk about the financial management.

Slide number 4. Here we see our segments. In steel, we highlight high competitiveness in terms of cost, high capillarity in Brazil and growth of our distribution capacity. In mining, we have world-class asset, production chain integration and this give us a possibility to face any different types of scenario and we'll see then some cost reduction actions in mining.

We're expanding our productive capacity. We are going to show you some slides on this topic. And also we'll say that all these segments are integrated in logistics and power is supplied by our own means. These are, number four, consolidated results, our net revenues have a total of R\$3,687 million [ph]. Our adjusted EBITDA reached R\$801 million [ph], a reduction of 12% in relation to previous quarter. We have a certain stability of about 20% and our net profit loss of about R\$615 million.

In slide number six [ph], we see a summary of our net results build-up and we see and show the end result of the period, our adjusted EBITDA of R\$100 million and negative financial results of 223 million, these are operating expenses. And we have losses for preferential shares of R\$89 million. So, between financial results and financial revenues, so we have a negative financial results of R\$772 million [ph] and a total of these factors led us to net loss of minus R\$615 million.

Slide number seven, we start to explain the steel performance in each segment. So, steel performance. In this slide, we see that the increase of volume of sales abroad increased our total level. You see that our sales abroad responded of 23% of our total sales in the first quarter of 2013.

Bloomberg Transcript

FINAL

In the last quarter, this went up to 40% of total and specifically, in the internal market, we have a drop by 20% and a smaller drop than the one we saw in our peers and this was a 27% result.

In slide number eight, we can see here the steel cost competitiveness that we have in steel. The slab production cost was at \$538 in the first quarter '13, up to \$320 [ph] in the second quarter '15. So, CSN is one of the most competitive steel mills in the Company. This cost competitiveness is very important for competitors, both domestically and abroad.

Slide number nine, we see the mining performance. And we see a higher volume and have reached a record in the second quarter 2015. Casa de Pedra produced 6.2 million tons and we can see in this orange column there was a change in the operating business model. We see the different path level as of December last year and this operating business model now is concentrating on iron ore of better quality. It's a more concentrated type of product. Higher volume and lower cost were able to have an increase in EBITDA of 228 million.

So slide 10, this is the conclusion of our mining cost competitiveness, the reduction, so even with the reduction of the iron ore. Slide number 11, we see the cost reduction of the iron ore that was delivered to China. In addition to this cost reduction, this change in the operating model, we had an improvement in the quality of the product. In the first quarter 2015, we reached content of iron ore, which is above 54% compared to 63% that we saw last year. This cost reduction was due to a very much concentrated work in reducing logistics and reducing administration cost in mining.

With all this, we can see slide number 12 that CSN is positioned in the best cost mining company all over the world. In slide number 13, we can see the cement performance, which is a solid performance even with the slowdown in Brazil's construction industry. We have an increase 10% and an EBITDA growth of 13%.

Slide number 14, we can see, this is the flow chart of delivery of our cement project. Right now, in the second quarter, we conclude the building of the Grinding Mill Number 1 at Arcos and we increased our production capacity by 3.3 million tons. In 2016, we are going to conclude another kiln expansion at Arcos. And also in 2017, we are going to have a Grinding Mill and we are going to have a production capacity, which is going to be over 5.3 million tons.

Slide number 15, we see our -- the makeup of our revenues and the synergy that we're able to obtain with all our different business. Now, let's go to slide number 16. Now, Paulo Caffarelli is going to talk about financial agenda. Paulo, you have the floor.

Paulo Rogerio Caffarelli {BIO 7429811 <GO>}

Good morning, everyone. (Technical Difficulty) two points. The first was the decrease of iron ore cost and also the internal (Technical Difficulty) cash management. It's important to say that's very important to us in the current times to have strong cash. Our cash today is

Bloomberg Transcript

about R\$8 [ph] billion and we as of July last year, we are bringing in our revenues abroad and improving our financial results.

Another point that's very important is cost reduction and working capital, and we are concentrating on reducing costs and to improve working capital. Also management of liability is to extension of our debt for the years '16 and '17 and also to find funding instruments that can allow us to improve cost and better maturity in our operations.

And the most important point in this agenda, in this front that we are putting together is to review our asset portfolio and also divestments mainly in those assets that are not part of our core business.

On page 17, I would like to talk a bit about the work we are doing in term of working capital. It's important to say that our company is very well known about our operating excellence and we have assets that are very competitive, such as steel mining and mining that we have record after record in terms of production and quality of its product and in adverse situations such as currently we go through, we are ready to make good contributions even when we put all these business together and we are working in our corporate area, trying to reduce our expenses.

In this full effort together, we are doing our best and concentrating in trying to reduce R\$100 million per month in our operations. It's very important to say that right now we are concentrating in adapting our stock levels, adjusting them and elongating our payment maturities. We already listed more than 2,000 suppliers in terms of payment maturities and we have renegotiated more than 300 contracts in terms of its scope and price.

As to page 18, about our debt. Our major objective is the elongations of our payments for 2016, 2017. These have been already approved by our financial department and this elongation is going to give us tranquility to sell some of our assets. And at the same time, we work heavily changing the profile of our debt, trying to work with lower cost and better deadlines.

And I would like to say to you that these operations do not intend to increase our debt. What we want is just change our profile. For instance, what's going on right now. We are exporting minor [ph] ores to Japan, 10 billion tons. And right now, we are working on a securitization process with the most important Japanese banks. In September, they are going to come here to visit Casa de Pedra.

And also, in realization [ph] to our financial agenda, on page 19, just to prove what we see here, our concentration is our core business, our steel, mining, cement and also we are divesting. The Company has decided to divest some assets, for instance today (inaudible) and today we have a participation, a share or excess shares with MRS in our energy business, some small companies in Brazil, and also our share at Usiminas.

Right now, we've separated some assets to be reduced (inaudible) some of the first assets, we already hired some banks that they are going to control the business and we are immediately initiating this selling process. That's why we're saying that elongating the

installments [ph] for 2016, 2017, so that our sales will continue to be very normal. And I'd like to say that we are going to sell all the necessary assets to improve our leverage. Thank you very much. So I would like to say a words before starting our Q&A session. Now I'll give the floor to our Chairman, Mr. Benjamin.

Benjamin Steinbruch {BIO 1499059 <GO>}

Good morning, everyone. Usually, I'm not involved in these presentations, but I decided to speak in this presentation and among my officers, my colleagues, I'd like to decided to say what we intend to do in a very short period of time. The idea is to control cash and to give a continuity to our operating efforts.

You are going to be able to see that we are already working on this and we are achieving successful results in terms of cost reduction. And we are controlling our cash expenditures, we're controlling our liquidity and we are improving the performance and delivery of our production, be it in steel, iron ore or cement. We didn't stop our production. We continue to work at the same speed to reduce costs and offering full coverage to our customers from internal point of view and geographical point of view.

Our objective is (Technical Difficulty) During all this time, we have collected many assets (Technical Difficulty) many cost and also the drop of the iron ore in the internal market, (Technical Difficulty) mining ore and cement, we are going to make it visible on our assets. We have hired banks that are going to help us to implement this proposal and we hope that this heavy work, trying to control our cash expenditure, to reduce costs and to have a better positioning of our products to improve our image and selling our assets.

With all this, we are going to be able to change the profile of our level of debt and to achieve good results in our EBITDA. As you well know, the market is quite challenging right now. It's not easy. It's not easy locally as well as abroad and we are trying to -- we have a diversification of mining products, steel products and we also are going to be able to improve our capacity in cement. And with these three fronts, we are going to achieve the desirable EBITDA to be able to implement our project.

From the international market point of view, we're trying to look for opportunities all over the world and our objective is to work to reduce our working capital, to improve our cash flow, also to improve our management, spare parts and raw material, we're are going to work in all fronts and we are fully concentrated.

And the whole company trying to preserve our cash, to reduce indebtedness and to improve our EBITDA. This is our commitment and this is what I wanted to say in this results statement, the earnings presentation, so that you could listen from me. This is my full commitment and I want you to be sure that we're going to be quite successful in the implementation of all these measures that have been announced.

Thank you very much. Thank you for my own colleagues and they're going to be available to answer any questions that you might have. Thank you very much. Have a good day. So let's start the Q&A session.

Questions And Answers

Operator

Thank you. Now we shall start the Q&A session for investors (Technical Difficulty)
(Operator Instructions) Our first question is from Mr. Shinohara from HSBC.

Q - Leonardo Shinohara {BIO 18788974 <GO>}

Thank you for your questions. Talking about investments, I know that there is a flow chart, there are many phases that are going to take place but do you have any outlook or any -- something that you intend to do this year? Second, in terms of iron ore, there was an increasing price of iron ore, so do we -- the situation is going to continue like this? You're going to invest in quality. And one more question about steel. Are you going -- intend to increase your exports for the second quarter -- for the second semester, I'm sorry?

A - Paulo Rogerio Caffarelli {BIO 7429811 <GO>}

Caffarelli speaking Leonardo, good morning. Talking about divestments, it's important to say, as I said before, we are starting right now, precisely this week, we're implementing this process. So, as the Chairman said, that our excellent assets, we have already some people that are requiring some are interested in some of these assets.

The total amount of assets that are going to be sold, it's going to take -- it's going to take a little time because we have to see the documentation and all but we have already sold some assets. We are going to start divesting right now.

A - Daniel Santos {BIO 5990682 <GO>}

Good morning. In terms of the quality of iron ore, before the crisis, we were certified according to the reserves we have at Casa de Pedra. We certified 3 million tons between last year and this year and this allowed us to optimize our ore and this improvement of quality is the consequence of this technical work that we developed to help the yields. It was timely, because it was precisely before the crisis.

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Luis Martinez, and he is going to answer the question as about steel exports.

A - Luis Fernando Barbosa Martinez {BIO 7187744 <GO>}

Leonardo, good morning. As to exports, it's important to point out what I usually say. Our strategy, the strategy of our company, as Benjamin has just said, is based on product diversification and added value products and also to work regionally to be present regionally and trying to understand what each production chain is working on.

In exports, specifically, what we are trying to do is to act specifically in some more markets where we are already present. The American market that is being recovered, under recovery right now in some sectors such as civil works, automotive sector and the

consumer sector, we are present in the United States through our company, our headquarters in the United States.

And in the last two instances, we were -- didn't bring us good results to Brazil because Brazil suffered anti-dumping in the hot rolling plates and cold rolling plates and since we were always concentrated on added value and diversification, today, our sales abroad represents 65% of covered material. These are products that I do not have today and they are not subjected to anti-dumping. So this is a very good result.

And now a strategy of course is adapting to the internal market. And just following step by step what's going domestically is to increase the number of coated products in foreign markets.

Also, we intend to sell sheets, steel plates in Latin America. We are working in this area. We are expanding our sales force, both in the American market as well in the Latin American market and we are working together with all our people as if we're one single chain. Our major objective is not to use commodity products. We are using at most our added value products. In domestic market, we see that we are facing a very difficult year, quite challenging. All production chains in general are suffering. You know what's going on in Brazil, everybody knows.

But in spite of all this, we can already see that there are some stock adjustments that are taking place. Imports are contained, are restricted. We believe that we are going to face a reduction by 13% in comparison to last year. And exchange rate, this R\$3.50 exchange rate is favorable to us. It's good and it makes imports unfeasible. So, summarizing, the strategy is to increase exports in markets we are already present with products with high added value, coated products and domestically, we are going to monitor the growth because our major priority is to expand in our local market.

Q - Leonardo Shinohara {BIO 18788974 <GO>}

Thank you.

Operator

(Operator instructions) Our next question is from Mr. Thiago Lofiego, Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning. First question is about the leveraging and your cash flow. You spent R\$1 billion in cash in our quarter. Are you comfortable, because you spent 6 to 7 times your EBITDA for two or three years. Suppose you were not able to sell your assets and your objectives do not reach the multiple that allow you to do leveraging, maybe, there is one asset that you might sell or not and you're going to change the EBITDA.

So I'd like to understand how comfortable you'll feel in this high leveraging scenario for a longer period of time? And also what is the expected CapEx for the next few years and in asset selling, specifically would you consider the selling of long steel business?

FINAL

A - Paulo Rogerio Caffarelli {BIO 7429811 <GO>}

Well, in terms of leveraging, I want to stress once again something which is very important to us right now. It's our cash, 2 billion. This cash give us good mobility so that we can elongate our debt for 2016, 2017. This gives us the possibility to sell the assets as soon as possible, and concentrating on our interest and not on the interest of those who are buying the assets from us.

So, what we are doing right now is that we have good outlook and at some business that we can conclude right now. So our leveraging is going to be reduced from the point on that we are going to sell these assets. So we are going to go through a period of time, we are going to coexist with the leveraging, which is above what we considered ideal. But the most important point is the attitude of the Company trying to reduce leveraging.

The buzzword today is to reduce leveraging and in order to do so, we're going to do everything we can, trying to reach a good leveraging level for a company such as ours. In terms of results, we are optimizing all our activities that give us better return. So, right now, we are optimizing the CapEx that is concentrating on steel and mining.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Caffarelli, could you give us a CapEx figure?

A - Paulo Rogerio Caffarelli {BIO 7429811 <GO>}

Thiago, let me tell you, one of our strategies due to the -- we are not giving you the CapEx but you can think that we know what the CapEx (inaudible) We are trying to avoid mentioning figures, okay?

Operator

Our next question is from Mr. Ivano from Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Good morning. Thank you for your questions. I'd like to talk about steel and steel mills and talking about price today, what's the outlook for a possible increasing prices? How do you see future demand for the second and third quarter? And if prices are going to be stable in the third quarter and since the scenario is difficult, do you intend to gain market share or you're going to have good returns on the third quarter? What do you expect to sell this year?

And rights for you to talk about profitability and exports today, what is the margins unless you have today? And also, the industry development in Brazil and outside Brazil, do you are going to have an anti-dumping procedure against some contracts abroad?

A - Paulo Rogerio Caffarelli {BIO 7429811 <GO>}

Martinez is going to answer the question. Martinez, you have the floor.

Bloomberg Transcript

A - Luis Fernando Barbosa Martinez {BIO 7187744 <GO>}

Good morning. First, give you an outlook of the sector, the industry, of course, after continues drop of our industrial production, what we see now that we have any stock adjustment and all these adjustments have already been concluded. This is very positive. Because today, all productive chains in general, the automotive sector, when you talk about steel, they all have been adjusted. This was a problem two or three months ago. Now, it's becoming better. But I believe that we are still going to face problems in terms of the white line and automotive sector in terms of consumption.

And also the exchange rate. When R\$3.50, R\$3.55, the import risk at this exchange rate is controlled. Today, for instance, the hot rolled steel in FOB price of 340 [ph] the premium for a R\$3.40 exchange rate is 4%, 3%, which is quite low. So, at exchange rate of 3.55 [ph], there is no premium at all.

So, but the increasing sales in domestic market is stable. So this is connected to the purchase of imported material and this tends to drop. Today, we have a retraction of the first semester (inaudible) of 13% in imports and when compared to the same period of last year first semester. And the coated material, where CSN retains 40% of the market today, also suffered some drop, some reduction, imports went down 25%, 30%.

So, we believe that we are going to have a situation of reduction of imports, which is beneficial to our sector. Theoretically, this is going to be captured by local mills and CSN is going to work with coated products. The local productive chains we are controlled and if the exchange rate keeps its level, some customers we have might consider exporting.

So, the environment is not totally negative. We are entering a slightly positive situation in terms of exports.

And dumping, as you mentioned, the hot rolled product is not going to be a problem this year. What we saw this year is not going to affect our figures. As I said before, the cold rolled products we sell very little of this product. In terms of coated material, we do not have anti-dumping problem.

So, our strategy right now is quite simple. We intend to make good use of the domestic market to capture imports that are going to (inaudible) to work with added value to diversify.

And another point is that we were concentrated in the southern south eastern region of the country. Now, we are concentrating in other regions of the country. There is a pulverized type of consumption in other locals, in cities of the country, in other places.

Another important point is to use our distribution chain to use our coating capacity that we have in our operations here in Sao Paulo and Rio de Janeiro and to be present and working in trying to add value to the market. This is our current strategy to local market and also foreign market. The margin in the foreign market, our operation in the United States is very much concentrated in (inaudible) with high added value. So, this market is

about \$1,000 per ton. So regardless of the raw material price, we have efficient cost that can be competitive in the American market, with imports and exports of products in Brazil and also local production regardless of the dumping that we're suffering in the United States.

In terms anti-dumping process, the Brazilian industry is paying attention to the situation. We're talking to group and we working together with the steel industry in Brazil. We are having some hearings to see what's going on in this dumping process and we have to see that we have operations in the United States. In 1990, POSCO [ph] was outside the dumping process because they had an operation in the American market. So, CSN has hopes that we are not going to be involved in the process, because we do have operations in the United States. So this means that we can continue to work with raw material here in Brazil.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you. One follow-up question to Caffarelli. Of all these assets that are going to be divested, Usiminas and the other one, we are concentrating on this divestment. I would like to understand, if you give us some guidance in terms of the total amount of money that's going to be divested with these assets and in terms of cash in Brazil, with this new strategy, what is the new cash structure? What would be the total percentage of cash in reais and foreign currency?

A - Paulo Rogerio Caffarelli {BIO 7429811 <GO>}

I'll give you this Thiago [ph], but just to make it quite clear, to be quite transparent, in 2015, we went to close with 1.3 billion in just concluding the projects that we have going on. Next year, with more operating efficiency and our financial (inaudible) we have a CapEx of 1.5 billion [ph] in this process of budget reduction. So, this is going to give us better return, okay. Now I'm going to give the floor to Ivano.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Ivano, we are talking to you and giving it to you some of the assets. So, strategically to us, it makes no sense at all to talk about value of assets, because we're just starting our negotiation with a potential buyers. So if we have a volume or if we specify practice for those assets, we are going to start a fragile process in -- we are going to start this negotiation in a weak position.

So TECON for instance, we have a long list of potential buyers with some offers that are really above what we are asking for. So, this is strategic to us under many different points of view. So that's why we're not disclosing the amount to you.

As to the cash, the Company has this possibility of establishing the amount of money that's going to see abroad and the amount of money that's going to be in the country and there is a problem of exchange rate. We have debt in dollar due our bonds. But of course, we also have the possibility of bringing resources to Brazil. And the CDI, at the price it is today, is quite favorable to us. So we can have extra revenue in our planning due to the exchange rate of the CDI. Thank you.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you very much.

Operator

Our next question is from Mr. Alan from Bradesco.

Q - Alan Glezer {BIO 17508681 <GO>}

Good morning. Thank you for this opportunity. I have two questions and two questions are related to cost. First question is to the mining sector. We saw that EBITDA per ton in mining went up \$3 per ton every quarter, even prices are going to go down at \$4 per ton. So there was a cost improvement even with the increase of shares of Casa de Pedra in the mix of the sales. So, is this cost drop is sustainable? And specifically at Namisa, what are the expectations in the freight costs for the next semester? And there is a question also about cost of steel mill. The real cost per ton is about 5% in steel mills. I'd like to know how much of this is coal and what is energy? These are my questions. Thank you.

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Alan, Daniel Santos is answering your question.

A - Daniel Santos {BIO 5990682 <GO>}

I'm going to try to tackle all the topics you mentioned. Well, basically, in terms of mining costs, there were many different activities that have been implemented in the many different fronts in our production processes. And the only objective was to reduce costs to improve quality of the product, increase productivity, these are the pillars of operational excellency. So this is our homework. We are working on this for a long time. And if you can do this, you are out of the market already.

In terms of costs and mining costs and how these costs affect Namisa's production, at Namisa, we made a deep structural change in the operating model of the company. We changed our product portfolio. Before Namisa would deliver the average of the market. Now, we're offering concentrate that has iron content of about 75%. So this is sustainable.

We are going to keep this like this for a long period of time and both working with Casa de Pedra, we are integrating these assets for a long time. So, in the whole, when we talk about our improved product mix, this is something that came to (inaudible).

This is part of our business plan and we have full support to continue -- we have improved the product in the last few years and this gives better positioning of the product in the market.

In terms of steel mill cost, this was due to our power in Volta Redonda. This has already been programmed, this was the power mill in Presidente Vargas Usina. This is very important because in 2015 [ph], we still have to increase our generation capacity. This is going to be increased in 2015.

Operator

Our next question is from Mr. Leonardo Correa from BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good morning. My first question in terms of mining, could you please tell us in terms of volumes, the volume of iron ore for 2016 in the same, the business unit. How is this going to evolve? We are observing some layer, the high grading of some pits. So we want to postpone the increasing cost, so just to say, if CSN is doing (inaudible) high grading of pits. So this is one of my first question.

And going back to leveraging issue, I would like to talk about sales. In the first quarter, you pay dividends about R\$600 million, it was a dividend, second quarter, you didn't pay anything, and how we are going to reconcile the concentration of the company trying to reduce leveraging, selling assets and paying dividends. How does this mix work together? We are thinking about leveraging for the next six months. How we are going to pay dividends in this scenario?

A - Daniel Santos {BIO 5990682 <GO>}

Leonardo, Daniel San, I'm going to answer questions related to mining. But if you allow me, I'm going to go back to a previous question asked by Mr. Alan of Bradesco in terms of freight prices. Of course, freight prices are going up. This is a problem in the market. We're putting pressure. We have some options that we are using right now and this is a continuous struggle. It's an unfair struggle but we are being able to keep freight prices at a certain level. And we think that this is going to stay so for some time.

As to your question, Leonardo, in terms of volume, Casa de Pedra has been increasing production level, it's growing. We have a production record recently which still intend to have some few good months until the end of the year, because this is a dry period. The rainy season is going to start in September. If everything goes well, as we expect in terms of rain and everything follows the seasonality, we expect to have in Casa de Pedra about 28 million tons business production level and Namisa will be something about 5 million tons, so it's about 33 million in total and deducting what it (inaudible) our business, 6 million to 7 million tons.

The iron ore ratio, of course, this is important, it's not our -- the way we work at CSN, we work to make the mining operation sustainable. We are not working with high grading. We are trying to keep our ratio stable. Otherwise, we are going to have a problem with the mining the following period. This is not -- we have our mine, offer many possibilities. We have four fronts in the mining, which are quite rich in terms of iron ore.

In addition to these mines that we at Namisa, we still have some other options and we do not have -- we have a plan, which is sustainable, but it's suitable to this current situation. And we made plans in the last year to this year and the objective is to improve the quality of our products and also improving benefits.

A - Paulo Rogerio Caffarelli {BIO 7429811 <GO>}

So Caffarelli, in terms of dividends, I'd like to say once again and this is very important to us, I would like to emphasize that what we talked about the company, our main objective is to reduce leveraging. This was decided by the board, by the officers of the company and in this regard, dividends is not part of our agenda right now.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you. Now, Daniel, the outsourced services at the port, at the harbor. There are some harbors that are closing their capacity and they're concentrating mostly in the internal market. At the port, it seems that you have a capacity for 40 million tons. In the calculations of that what is supposed to be exported, you still have some leftovers, some extras, so surplus. So in the (inaudible) so this might put pressure, the tax on harbors, but how do you see about outsourcing these areas?

A - Daniel Santos {BIO 5990682 <GO>}

The current situation is precisely what you're saying. We have more harbor capacity than iron supply, iron ore supply. And (Technical Difficulty) because the cost is too high. So, they just left the market. If you look at (Technical Difficulty) are facing difficulties (Technical Difficulty) of putting some business together so that we can fulfill our obligations and try to provide harbor services till the end of this first semester.

There are some services, some producers are coming to us, because it's still there is some remains of small producers that they want to export their products to get some cash. We are negotiating and this is also an opportunity to us.

It's something that we -- same situation we had last year. Every month, we have some services that are being provided to third parties. So the dynamics of the market is still allows us to offer services. Because some companies still need cash.

In the long run though we're increasing the production of Casa de Pedra, everything is going on, you saw the production curve. We have monthly historical records in production. There are some that are still programmed till the end of this year. And we are going to occupy the capacity of our harbor till the end of this year. And we are going to have enough margin to propel our business.

We have 45 million tons at the harbor, and we are using this surplus so that we can have more efficiency in terms of costs, for instance. We intend to reduce -- we are improving our railway freight and this helps so that we can increase efficiency in the railway announcing costs. When you have some (inaudible) in one of the situations we change and we work this to our benefit.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you, Daniel. Thank you, everyone.

Operator

Our next question is from Mr. Marcos Assumpcao, Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good morning. My first question to Caffarelli is, if we look at our schedule of your statement, we see that you have 24 billion that is due to be paid in the next four years. Do you have some funding from 2016, 2017 that are going to be eliminated? But if you could explain and talk about this 24 billion for the next five years, how much of it has been renegotiated and at what price? What margin?

Second question to Daniel. In terms of mining costs, you did a wonderful job reducing cost to R\$119 per ton in China. What is your target for the future? We've seen very aggressive targets in other sectors of business? And I'd like to talk about the quality of iron ore? What's the quality today compared to the situation six months ago? Are you being able to improve the quality? What are the measures that you implemented that allows you to reach these results?

A - Paulo Rogerio Caffarelli {BIO 7429811 <GO>}

Marcos, good morning, Caffarelli speaking. First, our major concentration right now is for 2016, 2017, not 2018. So 2016, 2017, everything is already organized and now we need a deadline for the next three years, we will be able the possibilities have a large volume of divestment and the results of this divestments are going to quick some of our operations in the deadline. So we are quite comfortable with our current situations. We are concentrating only on 2016, 2017.

Later, as we said, we are trying to find funding options, funding alternatives in the long run, low cost funding that are going to be suitable to our productive activity. I stress once again that we are not to increase our indebtedness level.

As to the rates that we are renegotiating at, I'd rather not to mention them because we are talking to banks, some banks have specified some rates and I would like not to reveal these rates right now. What I can say as that we are working with the same cost level that we had previously.

A - Daniel Santos {BIO 5990682 <GO>}

Thank you for your recognition. (inaudible) going to be quite pleased with the complement in reducing our cost at Casa de Pedra. We've been working quite hard to do it. In terms of how we achieved it. This cost reduction operation, this is started when we have a steep drop in July last year.

And we know that it depends on the exchange rate and many other variables. And this has been an unfair struggle because our target is a movable target. We established one amount we reach the target, we reached the goal and immediately after we have to do some extra effort to go down once again and the next following -- in the last six months, we've done this three times, changing our goal, our target.

So we are adapting to the market circumstance. Our objective is to ensure the margin that we mentioned to you, we want to be a sustainable without doing high grading or any madness. And we want to be among the five best in the market. That's what we want. Our objective has always been to follow the three major companies in the market, being close to them and to keep our competitiveness.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Daniel, if I can do a follow up, could you please give us makes comparisons between the mining cost compared to the second quarter cost. The cost has been going down. So I would like to know what's going on from now on?

A - Daniel Santos {BIO 5990682 <GO>}

Oh, well I have to get this information here. Gustavo, would you please find me the figure so that I--

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Later I'll give it to you. I'll send it to you by mail. Thank you.

Operator

Our next question is from Thiago from Citibank. Mr. Thiago, you have the floor.

Q - Thiago Covre {BIO 18689223 <GO>}

Thank you. My question has just been answered, so thank you. I'm going to pass.

Operator

Our next question is from (inaudible) from JPMorgan. (inaudible) you have the floor.

Q - Unidentified Participant

I'm sorry. I would like to make a few quick questions. First, I'd like to understand, what happen with your working capital? And we want to consider the opportunity of this new strategy, this leveraging and what happened with the stock?

And second question, that you're including mining in China, I would like to confirm the figure, the CapEx for 2016? I'd like to repeat it, just to confirm, would you please repeat the CapEx for 2016?

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Gustavo. Thank you for your question. Yes, the connection was not good enough. So in terms of the working capital, we have a cash conceptions relating to the working capital. Most of the amount was the result of our strategy of concentrating on foreign market. When you concentrate on foreign market, you'll have a lead time between the

negotiation and the conclusion. This change the stock and there is increase of stock is product coming and this increase the deadline.

And even in the domestic market in order to become competitive to keep being competitive, we will have to change deadlines. We have been following this every day and if the adjustment there is not achieved results. We are going to look for other markets as Martinez has already mentioned.

The second point that you raised was -- I'm sorry, third point was to the CapEx, CapEx for next year is about R\$1.5 billion. If I understood your question, your second question in terms of our metrics. And our EBITDA, we include the most important adjustment, the proportional adjustment of Nacional [ph] Namisa and this debt, there is no consolidation of our indebtedness. So, the metrics that is there does not include any type of consolidation of our debt.

Q - Unidentified Participant

And how much is your debt today?

A - Paulo Rogerio Caffarelli {BIO 7429811 <GO>}

About R\$4 billion.

Operator

Our next question is from (Technical Difficulty).

Q - Unidentified Participant

Good morning, I have question on (Technical Difficulty) (inaudible) cash -- to the internalization (Technical Difficulty) of the operations in iron ore, are you going to have an adjustment of the capital of the company, the national capital of the company or the distribution of dividend? The cash that you are working at Namisa can be the adjustment of capital structures in your business? That's my question. Thank you.

A - Paulo Rogerio Caffarelli {BIO 7429811 <GO>}

Let me see if I understood your questions. In terms of indebtedness, it's from convertible debentures, part was public agencies in a very controlled maturity base. Now, this question is related to cash in dollar. It's important to make to have a historical perspective.

During some years we had a very relevant position of cash abroad and mainly, now, this was right up to now, it was a good point in time to bring this money in with a dollar at this rate. If we had brought dollar in, in the middle of last year, today, we would regret the action. And in the last month, we're talking about the possibility of bringing this money in. So, we are analyzing from the problems of the instruments and instruments of the most suitable tax is structured to bring in this money so that we won't have any tax liability. Today, we have a structure of derivative head account that allow us to make good

FINAL

Bloomberg Transcript

management of this exposure and to bring this money to Brazil without having any other type of tax liability related to bringing in this money.

We already started of bringing this money, which is abroad. And this is going to be informed to the market in the third quarter or fourth quarter, we are going to have variations by that time.

Specifically, in terms of the forecasting our views in the cash of Namisa, we have to -- what's going the merging process, is very important to talk about this process at the (inaudible) consortium. And during some time, CSN implemented many different types of negotiations, we're going to terminate some contracts. We are going to have an integrated mining company, we're going to buy equipment, and we are going to fund this project.

In December last year, we signed an investment agreement. This investment agreement established the terms of this merging negotiation. And this is the joint agency.

Now, we are trying to work in the pre-analysis and see what are the necessary elements to conclude the process and they -- so we're going to have a cash position and a debt position that's going to be defined among the partners and as soon as we reach a conclusion, we are going to inform the market about the situation.

So, anything that comes that's new, we are going to inform the market.

Operator

(Operator Instructions). Since there are no questions, I'd like to give the floor to Mr. Gustavo Sousa, Executive Director of Investor Relationship, for his final comments.

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Thank you very much for your participation. I'd like to say that we continued to be available to answer any of the questions that might have during the day and in the next (inaudible). Thank you very much for your attention.

Operator

Thank you. This teleconference is being concluded, so collect your lines and have a nice day. Thank you for your attention.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect,

incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript