FINAL

Bloomberg Transcript

Q3 2017 Earnings Call

Company Participants

- Benjamin Steinbruch, Chairman and Chief Executive Officer
- David Moise Salama, Investor Relations Officer
- Denis Camillo de Almeida, Executive Director
- Jose Eduardo de Lacerda Soares, Director
- Luis Fernando Barbosa Martinez, Executive Officer, Sales and Logistics
- Marcelo Cunha Ribeiro, Chief Financial Officer
- Pedro Gutemberg Quariguasi Netto, Executive Officer
- Unidentified Participant
- Unidentified Speaker

Other Participants

- Carlos de Alba, Analyst
- Gabriela Cortez, Analyst
- Ivano Westin, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Thanks for standing by. Welcome to the conference call of CSN's to present the results for the 2015 and 2016 balance sheet and for the first three unaudited quarters of 2017. Today with us are the officers of the company. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation.

After the company's remarks are over, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions). We have simultaneous webcast that may be excessed through CSN's Investor Relations website at www.csn.com.br/ir and the IQ platform www.mziq.com where that presentation is also available. The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call. There will be a replay service for this call on the website.

Before proceeding, we would like to make clear that some of the statements herein are near expectations or trends and are based on the current assumptions and estimates of the company's management and the future results, performance and events may differ materially from those expressed herein, which do not complete its projections.

In fact, actual results, performances or events may differ materially from those expressed or implied by these forward-looking statements. As a result of several factors such as general and economic conditions in Brazil and the other countries interest rate and exchange rate level future rescheduling or prepayment of debt denominated in foreign currencies.

Protectionist measures in the US, Brazil and other countries, changes in laws and regulations and general competitive factors on a global, regional or national basis.

Now I'll turn the conference over to Mr. Benjamin Steinbruch, CEO and Chairman, who will present the company's operating and financial highlights for the period. Please Mr. Steinbruch, you may begin your conference.

Benjamin Steinbruch {BIO 1499059 <GO>}

It is another one we are here to present the balance sheet of 2015 and 2016 and the first three unaudited quarters of 2017. I would now like to open the conference saying that we had during the period the cooperation of everyone here at the company in order to complete the balance sheet, so that they could be audited as you can observe considering everything that has been audited, we found no problem, no accounting problems or any problems of any kind.

What happened was a different interpretation of our fiscal statements that had a higher impact on the balance sheet. And some of the decisions made by the audit team about five or six years ago. And we have to understand those changes and criteria and express the main points.

Related to all those periods in which our balance sheets were pending. And the company included this process without any verification of abnormalities in relation to work is done by the executives and officers of the company.

Considering 2017, yes, we have presented the balance sheets of 2015 and 2016. We are working on our businesses, in March and April we were surprised by political impact that we thought that the market recover it. And there has also been a drop in interest rate that we had expected to be done more quickly and we also expected stronger and quicker recovery of the economy.

However, it's important to mention that we continue to opening the information related to May and in June, the month was quite positive. There was a recovery in the third quarter and the fourth quarter is expected to be better than this third one.

As this was -- will be commented -- commented on with you and we have been noticing that the internal market has been hitting up. And we are also considering there will be an improvement in the pricing strategy in relation to fuel and the fuel industry. As for mining, we have seen that prices have improved.

So, in relation to pricing, I could say that the situation is very positive and effective, considering all markets. In terms of cost, we are working very hard since last year and we have been making all possible reductions. And our management has been very tough, considering all the operations, and we have managed to reach a significant improvement in our current capital.

In terms of deadlines of sales and purchases. And in the operational aspect we are delivering what we had proposed last year. And in March and April, we have impacted by politics and the market has been affected by that. And we have faced greater difficulties than we had expected. We also have the possibility to make our fixed cost lower and so that we can operate in a market in a more effective manner.

And we also have seen the possibility of reducing our indebtedness because the second quarter was not as good as we had expected. There was a reduction in the indebtedness which was lower than we had proposed and what we had disclosed to you in our previous calls. And we continue moving along this lines, so that we believe that this are comfortable figures as we have adopted for the company. In terms of asset sales, we have been making contacts and we have been discussing with all those interested in our assets.

And I could say that many of the negotiations have been successful with concrete proposals and considering what we believe that was good for the company, we believe that we have to wait for the right time to make the next move.

And I believe everybody agrees that there is a trend of improving prices in assets for the next year. So, 2018 will be a positive year with negotiations already made and some of the negotiations have made headways in terms of sales of assets. In relation to interest rates that we used to believe that this would have a quicker and stronger reduction.

We see that the results in operational numbers, there is still room for interest rate reduction, and therefore the credit will improve or a better way to operate in a market. So, I could say, that we are working on those fronts, both in the reduction of costs, we are working hard on improving prices and the revenues.

It's also important to mention to all of you that we had revenues of about 15 billion in 2016, our revenues amounted to 16 billion and in 2017 revenues will be 28 billion, different from what is happening to most of the companies whose revenues have been decreasing along those past years.

And our idea is that by the end of the year, our EBITDA will be close to 5 billion, with the ratio, debt/EBITDA close to 5 and with a significant drop in the beginning of 2016 from eight times and a half to six times. We are not happy considering to what we had planned to do, but it's important to highlight all those points that we serve, so that by selling assets, we managed to maintain our debt stable, and even we were able to make a drop and we can say that it's not what we had expected, but it's positive, and this is what we were able to do.

For all of you who are following historically our performance, and you will agree with me that the margins are returning recovery. And if everything goes according to what we expect, I do believe that we are going to deliver what we had proposed in terms of debt reduction.

But, in fact, we are going to be very close to what we had expected, may not completely, but in terms of margin, we are going to be very successful.

I'm going to turn the call over to David for him to discuss the presentation, and then we are going to hear the officers commenting about the results and then we are going to open the Q&A session.

David Moise Salama {BIO 17456021 <GO>}

Good afternoon to everyone. We are going to start our presentation on slide number three. Well, first of all, I would like to clarify a few topics related to restatement of our financials of 2015.

This is a very technical and complex issues that might lead to misinterpretation. And so -- actually, the company decided to change its financial statements of 2015 because of the detailed review of the business combination or business merger that took place in November 2015, in which the company's mining activities were restructured and concentrated would be the main company called CSN Mineracao or CSN Mining.

And so this combination took place after we first published our financials, and we were discussing back then in terms of the grains [ph] that were assigned to controlling and non-controlling partners. So according to our review that are -- it's based on the assumption that we used in determining the fair amount for Namisa and also CSN Mineracao.

So these assumptions are a maritime freight, the discount fees in the networks reports also the review of the settlement of a pre-existing deletion. And also the cost of the investment agreements that determine the merger of certain assets that were part of the transaction and also a railway freight assumptions.

And I would like to emphasize it in all those cases, there was no over evaluation or assumptions. There were fair and accurate assumptions in terms of valuing assets. The same financials of 2015, the company had a balances in a deferred tax credits, deferred [ph] income tax and social contribution, thereby offsetting the positive and negative aspects that were part of its maintenance. It refers to projections for future result and also tax losses in the past business year in accordance with accounting standards.

In this manner, the company decided to keeping its assets, the amount of its losses, equivalent to 30% of the deferred taxes of the period. So, in this manner, the total credits (inaudible) difference went down, and they were part of other stock of credit of tax benefits for the company for later use.

So, in this manner, it is an accounting entry that is reversible without any operational impact in the company, and you may consider all the details of this operation both in the explanatory notes of our financials that have been already filed and also in the earnings release of 2016.

Now on the next slide, you can see the consolidated results of 2015 and 2016, the net revenue BRL17.1 million in 2016, a 12% growth as compared to 2015 and basically because of price adjustments of steel products, whereas in mining, the increase was because of a larger volume or iron ore that we sold, especially with the increase that we saw in international prices of the ore.

The gross profit is 4.5 billion, a growth of 28% comparing 2015 to 2016 EBITDA margin is 26.3, therefore greater than 2015. In 2016, EBITDA was 4.1 billion with a margin, adjusted EBITDA margin of 22% especially because of the best results of mining.

We should also highlight the losses in 2016, it's 853 million. It's a significant production, if we compare to 2015, and this is basically due to operational performance and also financial performance of the company.

The gross debt in contract dropped by 11% whereas the adjusted net debt went down by 3%. It's important to highlight that in the end of 2016, the net debt over adjusted EBITDA went down to 6.3 times, and this dropping trajectory remained along 2016 and 2017.

Now we go to the next slide number six where you can see the main operational and financial highlights. First, we have the net revenue of steel increased by 11% year-to -- first nine months of this year as compared to the same nine months last year. The average net revenue increased also. We have had a significant growth of 46% in the sharing -- automotive share and auto parts share, with a direct impact in average prices that we corrected. And after the scheduled downtime of our ore blast ovens and also in the second quarter of 2017, we had a significant reduction in the second quarter in costs that went for (inaudible) to 1,287. The EBITDA increased by 28%. EBITDA margin went from compared to H2 46%. Average prices of iron ore in this period have gone up by 37%, therefore above the valuation.

In cement, I would like to highlight that we have reached a significant market share of 15% in the Southeast region and in this manner see us very well positioned to grow both in civil construction and in infrastructure markets that they pick up growth. There has been a significant reduction in our working capital in the third quarter of 2017, more than 660 million, with the highlight for the reduction is into accounts receivable and also the increase in the balance of suppliers. Just to highlight, operational cycle went from 88 to 73 days.

Now, on the next slide. The net revenue until September 2017 has reached 13.5 billion, a growth of 7% as compared to the same period in 2016. And it's important to highlight that the net revenue of steel has increased also during this period. Gross profit is 3.6 billion, a growth of 11%. And considering many actions that we are implementing to reduce the company's operating costs, accumulated EBITDA until September was 3.4 billion and EBITDA margin of 24%, therefore greater than 2016, with the highlight to the price of iron ore. The net loss in the first nine years was more than 200 million. And in 2017, the Company has generated a positive cash flow before funding activity. The net debt in September 2017 is 25.7 million, a slight reduction as compared to September 2016, whereas the net debt over EBITDA continues its dropping path.

Now, on the next slide. And here, you can see a summary of our performance per segment. In the past nine months of 2017, it's 13.5 billion. And 74% [ph] comes from steel, 23% from mining, 9% from logistics, 3% from cement, and 2% from energy. So on this slide, you can see the accumulated EBITDA on the first nine months, which is 3.4 billion, with 39% market share in steel, 44% in mining, 14% in logistics, and 2% in energy. So these are the main numbers.

Now, I would like to turn the conference over to Luis Fernando Martinez who is going to continue the presentation.

Luis Fernando Barbosa Martinez {BIO 7187744 <GO>}

Good afternoon to everyone. I now continue on slide number eight. There's something interesting news to share with you according to what Benjamin and David said.

First of all, the quarter was -- it's been the best quarter since the first quarter 2015. We have reached 1,200 billion tonnes in sales. Another very important point is our sales in the domestic market in the third quarter compared to the second quarter have increased by 23% already, capturing the good timing in the Brazilian economy, especially in the automobile and manufacturing industries. Another important piece of information, our mix has gone from 52% domestic market to 62%. And we also have a upside of it already going back to CSN's landmark of 85% in the domestic market. So this is a great opportunity for us. Also generating revenue for the Company, both in terms of our new added and recovery in the domestic market.

On slide number nine, talking about the value added in domestic market, I always reinforce our participation in coated products. And here, once again, you can see that 60% of our sales, they are related to flat steel. And in spite of a very challenging year, we had kept 70%, obviously, to some exports here. But the main challenge today is to -- and what I used to enforce to our unit in the US, so that this steel is more directed towards the domestic market, which is a significant gain in terms of value added for the Company. So the strategy focusing on the domestic market in value added is doing very well. On the lower right hand side, you can see the value strategy for tackling slightly more the manufacturing industry more directly. It has produced good results. Our increasing automotive industry is representing 14% to 21% in home appliances from 13% to 15%. And there has been a reduction, even though small, in distribution because of the measures that we used directly. And upper right hand side chart is showing what I always say, which is how diverse our portfolio is. And so, I'm -- in almost in every industry, we have hot rolled products, cold rolled products, tin plates, long steel, and so on.

On slide -- on the other slide, the next one. You can see which -- the growth of CSN in the automotive industry actually. We made the most of a good time on your automotive industry, which was increase in exports. So more newcomers in the domestic markets, that has increased by 10%. And the increase in manufacture of cars, which will close the year at 27%. So in this manner, CSN has captured this increase of the automotive industry, increasing its sales as compared to the same period last year by 46%. Along the same lines, in the manufacturing industry, machinery and equipment, and OEM. And the highlight also for home appliances, which had been having negative results over the past four years. So home appliances in the past year has recorded a growth that is significant, which is also captured by CSN.

In terms of distribution, as I had said before, has presented a drop in CSN sales that in my understanding is positive, because we migrated to industry or manufacturing industry directly. And today, we are expecting stability. And we will capture the opportunities that are present in end-market.

In terms of the construction, CSN is well positioned, because we are working with cements and flings. In construction for the first time in three years, the expectation has been relevant. And we observed the level of activities, the purchase of input. And the level would be higher than 50%. In a way, it stopped getting worse and showed some signs of growth. We have captured 9% -- and we are going to provide details about Cements. And long in terms of last year, considering that we have produced more, growing by 42%. And there are some opportunities that I'm going to provide more details on the next chart is the metal packaging, which was the fourth sector with high value added. And we are going to capture it through the domestic markets. Basically, this is an overview of the industry at present.

And on the last chart or chart 12, I'm going to provide information what we are doing. There is a summary of the opportunities of 16 million EBITDA that we are going to go after by the end of this year and the beginning of next year to make it clear when this is going to happen. In the first bar, that shows BRL200 million, this refers to what exactly? This is basically an increase in the automotive sector that is going to be at least 25%. So we are targeting 30% in fact. And we also expect increase in tin plates that has been earlier announced for December of 31% and then increase in the distribution, the civil construction that had -- realized in October and 5% in November. And also, to add to all those results in a way is for long steel. Since July and October, we had value accumulated that on annualized basis we will deliver BRL210 million.

The second bar is related 130 million. This is what I am doing and bringing tin plates down that I used to send to the United States. And we're going to have a trade-off. And I'm going to bring to the domestic market with a better margin. And this is an opportunity for a company of 130 million for the year, which would be added to our EBITDA results. And the bar of 140 is an additional volume of material that is imported at present by clients of tin plates that is going to be converted into the domestic markets as well that on an annualized basis will come to 140 million. Those actions will amount to 480 million for the year. Would like to remind you that nowadays, to put in perspective, our margin is about BRL500 and BRL600 per tonne. 750 in tin plate is about 1,500 per tonne. This plan has three major pillars is the recovery of CSN in the domestic market going back to the normal level of CSN; maximize the added value; and recover prices. There are factors that have had no adjustments in prices. And this commercial strategy is what we aim to implement.

And now, I'm going to turn the call to Pedro Gutemberg who will talk about the Industry opportunities.

Pedro Gutemberg Quariguasi Netto {BIO 19803245 <GO>}

Good afternoon, everyone. We can see on slide 13 that we had the first quarter late low, which is much higher and, in fact, was very strong in terms of raw material prices, coke, mine. And we can see on the graph below, we show the importance of all those inputs in our cost, cash costs. And the good news is that in the third quarter, we've managed to reduce this through different actions. We did not expect to the raw materials to drop, but we did different actions, improving the operational stabilization in the furnaces. And we then need to optimize coke and now they are back to the prices. We had a higher volume in the production of steel. In summary, a number of actions to offset the increase that we had in the prices of raw materials. As you can see on the graph to the right that since August and September, the operating costs were was much lower and the cash cost is below that.

On the following slide, we can provide more detail, showing some highlights of our short-term perspective to improve the production of coke this year. And this is very important. We know that there is an arbitration of coke, making the production of coke being ever more important. So we are working hard on this. We are focusing on this. We improved the production. I can say that we are going to improve this in the future. And same with the furnaces. We have been increasing efficiency. And there was a reduction of 33 kilos per tonne that is going to impact by 70% in terms of cost for this period. And we also increased the slab production in the third quarter compared to the first half. And also, the last important action that we would like to mention is that in our products, we are trying to get more efficiency in the production so that no work [ph] would be necessary for the product that we're delivering. So we managed to reach a reduction in quality problems from 5.91% to 4.82%. We can see the impact, which is quite positive. And some of the actions are also going to provide an effect for the quarters to come.

And on the last slide related to operating factors, we can see that there are two actions in order to strengthen our strategies in the steel industry. We improved our strategy for the efficiency of coke. We have program with CapEx invested in the next four years. That is going to impact the cost by 3% or 4%, depending on the coke price in the market. And next year, we have planned, mainly retrofitting of our furnaces. And we're expecting an increase in efficiency by 15% that is going to strengthen our market recovery when the market will operate more strongly in these segments.

Now, I'd like to turn the call over to Mr. Denis, our Executive Director of the Company.

Denis Camillo de Almeida

Good afternoon, everyone, all of you for attending this conference. And before providing details on the numbers provided on the slide, I would like to put you in the context.

In the first month of the year, the demand has been heated, resulting in a strong growth in that segment. Additionally, we had been very stringent in reducing pollutants. The strong demand resulted in increase in the price of steel. We also observed that there has been increment in demerits and (inaudible). And you can see in the first slide the performance of the mining. Mining had solid results along the first nine months of 2017, among which we would like to highlight the net revenue of 4.4 million, an increase of 6% in relation to the previous year. Adjusted EBITDA was 1.6 million, an annualized growth of 28%. The drop in sales volume to 24.4 [ph] was impacted by the lower purchase volume because there's higher selectivity in terms of that purchase products, higher drop of 3.6% due to the search for higher -- products of higher quality, with a drop of 20.3 in comparison with 24.4 of the previous year.

And revenue shifts will be 1.5 million. It remains first month was $54 [ph] up 37% year-on-year. In the same period, we had included 35% due to a higher exposure that reflects the arrival of shifts when the market was heated. And there has also been an increase in -- now, as mentioned, we'll will be talking about 2017. This will be marked by a structural change in the domestic market. It's important to emphasize that production costs have always been points of success.

Now the quality is a very important factor for us to maintain our results. We ever since the beginning of the year in mining have focused our efforts implementing actions that will make us comply with new market requirements. We want to assure profitability and competitiveness of our products in the market in order to buy the best iron ore possible. We are going to show the most significant projects in the mid and long-term.

So in Engenho Minas [ph], we started in July 2017, we have Casa de Pedra to move the cost reduction with 300 million tonnes providing a significant impact in our quality. CMAIs magnetic concentrator implementation of two concentration plants the IV and B-V dams, the main impacts are increasing, the 1.5 million tonnes in concentrated less production of weight. The first phase was -- now in September, the second phase will be in October 2018.

Filtering. On the next slide. Construction of two filtering plants for waste, in a sense, CMAI expanding the life of the dam for tailings. Fernandinho, we are starting again the operations of Fernandinho with implementing a high intensity magnetic concentration to process tailings from Fernandinho's tailings piles and dams. It's important to emphasize that Fernandinho mine was audited by 78 million that will be explored in the future.

Dry production, one of the most important projects in terms of productivity is focusing on better prices. It's a logistic reducing 55% of the dry production thereby representing a global reduction of 18% in the production flow of our mining operations. It's going to start up in July 2019 Cayman. So it's an iron ore deposit with great potential for sinter feed production enhance potential reserve for hematite and (inaudible) in excess of 200 million tonnes according to preliminary study.

On our next slide, ERSA, we consider, ERSA, the diamond in Rondonia that needs to be polished. It's final projects is sustained, the price of this ore is at very high levels. It's a complete structure, already scaled for the production of Tin. It won't require too many resources. This production line is expected to be self-sufficient and we are going to double production, in order to best serve the market. So we are going to have the first probing at Tins and we'll be talking more about ERA in the future results.

And it's very favorable for the good potential we provide in terms of iron. And we're going to play full attention to this unit. So the next six months require close attention and hard work to adapt to the new reality. I would like to emphasize that we had high quality assets that place us in a differentiated position in order to get structural change that the mining industry going through. We are looking at the movements in the market as a good opportunity. Thank you all very much.

Now, we are going to continue talking about cement with Martinez.

Luis Fernando Barbosa Martinez {BIO 7187744 <GO>}

Now going back to the cement. The Brazilian cement market had gone through a drop of 20% over the last two years. So, this market will close 2016 will be 54 million, a drop of 20% as compared to 2015.

CSN has grown from 2015 to 2017, 60%. So we started in 2015 with 2.8 million tonnes, and we will close this year with something around 3.6 million tonnes, 3.7 million tonnes. So in spite of all the difficulties in the market, the CSN strategy was to position itself in the markets and to be active in the actions where we have plans.

So our sales in the quarter, we have grown 32% quarter-on-quarter and our focus on cement is to sell a little too many customers actually what we have wanted maximum polarization, and so we have worked strongly on our customer base to base. CSN has in its basis more than 10,000 customers of hardware store, construction store, and every year we have the goal increasing more and more the customer base.

And also market coverage is very important. The number of series that we have been setting, has been growing at 28% a year. The other important part of cement which was a big setback this year was related to the profitability. Over the past few months CSN has been able to recover 24% of prices in the area. Operations [ph] I would like to make here just to show you a little bit of this business.

Today cement is sold in Brazil, it's $45 per ton. I think that Brazil is not different from the world. Today in the US, just to give you an idea, cement has sold its more than $110, $120; in Europe, 90 or 100 and in Colombia just next door $100 and in Mexico maybe 170.

So what I mean here is that Brazil is going through, and I just meant an accommodation, and the trend in my understanding is that the time goes by the capacity will adjust and this industry is going to recover its profitability, this is yet to come.

So on the next chart, I'm going to turn the call over to Eduardo who will talk about the opportunities we have looking at a long, medium and the long-term scenario.

Jose Eduardo de Lacerda Soares {BIO 19277796 <GO>}

Good afternoon, everyone. As Martinez has just said, our Cement business has being affected by the dropping consumption and as a consequence the increase and the idleness of the players. CSN has been carrying out actions to improve results.

As we can see on the graph to the left, the pricing actions that we have already adopted as Martinez has already said. He mentioned the recovery of 24% in terms of prices in the semester, and we are going to continue this trend and because our prices have been below the market, even in a very challenging scenario that we face nowadays.

On the third bar, we can see that we are able to improve our volumes in the short term in next year. More specifically the end of this year, in the beginning of next year, considering that we are in a phase of consolidation and a stabilization of line to Arcos projects that started operating in October last year.

With this, we are likely to capture an increase in volume in terms of cost reduction, we have been making efforts to reduce our cost in a smart way. We managed to reduce by 18% our cost relation to 2016, we continue to focus on the reduction.

And we have already started the process of permitting our long projects in Arcos that will decrease our dependence on imported coke and with an additional reduction from 7% to 10% in the cash cost below of what we have been operating in the past few months.

With the start of operation of furnace 2, which is the largest furnace operating in the -- that amounted to six times -- 500 tonnes per day and we are the -- we have the most competitive operations in Brazil. So CSN is very well positioned and well prepared to face up the recovery that is likely to happen in the years to come. Thank you. I'm going to turn the call over to Marcelo Ribeiro, who will discuss the financial aspect.

Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

Good afternoon, everyone. We are going to talk about the financial indicators. On page 25, you have the information. We have perspectives of shorter term. There was an increase of 22% of -- quarter-on-quarter a 23% drop in relation to last year.

In a longer perspective, we can observe that investments dropped significantly due to two reasons. The one is, the closure of the extension cycle of our cement business, and also due to the strategy of deleveraging of the company that has led to a higher selectivity of our projects.

Continuing discussing our main indicators on page 26, we discuss another indicator, which is quite important, which is working capital that in third quarter had a significant contribution to our cash generation. Quarter-on-quarter, we have freed up almost 700 million with positive evolution and the main indicators as mentioned by Benjamin.

We believe that the trend is sustainable, and we believe that there's operating cycle of about 70 days is sustainable, and we are going to work hard, so that this can continue improving.

On page 27, we discuss our leveraging aspects and adding to what David had already said, we can see a quick and continuous drop of this leveraging. This drop was the result of a debt that not growth, even without the need to sell assets and also because there was a growing increase in the EBITDA from 8.7 times in the beginning of last year to 5.5 times our days.

In the last quarter, even with the EBITDA dropping in the 12 months slightly. We maintained the -- that in dropping because we were able to generate cash, we had a contribution growth on EBITDA, and also the working capital reduction of debt and also reduction of interest rates.

So looking ahead, we expect to continue this trend considering all those factors that will continue. We are also going to count on the reduction of interest rates. And our target is to reach lower than this 0.5 times, that we believe to be feasible in 12 or 18 months. This also considering the sale of assets as Benjamin mentioned.

In relation to our debt, we can see the amortization schedule, the growth total debt of 29 million with 85% is in the further long term and only 15% is related to the short-term.

This short-term debt is concentrated in a healthy way as bank debt. With whom we have had historical and positive relationship along the year, and we have been managing to maintain negotiation to re-profile the debt. And this has been positive, and we were waiting for the disclosure of our balance sheet. And we expect that by the end of the year, we'll be able to disclose this new profile in a structural and positive way that will impact positively the cash flow of the company.

And then we will focus on the long-term need and a negotiate on the scheduling for 2019 and 2020 when two of our bonds will mature, and we expect that once we announced the new profiling of the bank debt, we are going to go to the capital markets in the first semester of next year. With this initiative that will allow us to extend this debt profile. And this would be the plan for the months to come in relation to our debt. This is what we had to say in relation to the presentation.

I would like to thank all my colleagues, and now we may continue with the Q&A session. Thank you

Questions And Answers

Operator

We are now going to start our questions-and-answer session for investors and analysts. (Operator Instructions) Our first question comes from Mr. Marcos Assumpcao from Itau BBA. Please Mr. Assumpcao.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good afternoon to everyone. My first question regards long steel prices in Brazil. And you mentioned that the prices have gone up by 21% over the past few months. Can you explain to us what you see the dynamics in the sector of long steel, and it's only in the region where you operate during the spread out through the country? And secondly, in terms of mining business, you have mentioned that your initiatives to increase the life of the tailings dam. So do you expect any new licenses for the tailings dam, and what, how does it compare to your current production?

A - Unidentified Speaker

Hi, Marcos, good afternoon. Actually, long steel is offshore line. There has been two price alignments, one 12% and the other one 15% because prices were quite depressed as compared to hot-rolled products. Now, Daniel [ph] is going to answer your question about mining.

So, as (inaudible) just said that dam. The dam it face will have the license from the Ministry of Mines and Energy all of new licenses that were supposed to have and we conducted preventive maintenance. So, looks like when you change the oil in your car, because of the mileage. And so in terms of the life of our dam, we have this the steel concentrated that increase the life of our dam. This is a modern project with a filtering system that will make it possible for us to take out material from the dam to recover it and then we have dry material that is more noble and in returning it to the dam. Thereby significantly increasing the life of our dam at the level of production that it was today we have.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

So, just following up, how does it impact production cost?

A - Unidentified Speaker

Well, this cost of start-up of production as you know. Classically the cost is higher than working with dams. The most recent movement that we have had in terms of production of dams. So dam costs are likely to increase. So this is a learning process that in which our target once it is stable is to fix the costs that we have always traditionally had in mining.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Thank you very much.

Operator

Our next question comes from Leonardo Correa from BTG Pactual. Please Mr. Correa.

Q - Leonardo Correa {BIO 16441222 <GO>}

Hello, good afternoon to everyone. My first question regards the sale of assets. There are many things at CSN that came with them. We had heard of many assets on your pipeline. So as much as possible, could you mention what are your priorities? What is more advanced? What is your strategy with regards to (inaudible) minas? Secondly regarding your CapEx, we have seen a few projects that have been announced by you in your presentation. Is this all associated to the maintenance CapEx, and what should we expect in terms of the company's investments over the next few years, especially taking into account the whole focus is in deleveraging. And lastly, just one piece of detail, if you allow me, and I apologize for asking so many questions. With regards to quality, late last year, we weren't real sure that this count in the price of iron ore of CSN? And how the market has been dealing and very much based on the penalties, considering the high level of silicon? And what is the current level of discount that we should expect? And what kinds of products in terms of silicon are you selling?

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

Well, with regards to the sale of assets, unlike or differently from what the market sees, we are actively working in the discussion of possible sale of assets, meaning it's not because we haven't done it yet that we are not talking to possible people who might be interested. And we have been doing it quite actively. Till that I can tell you, that's all asset. That on our core assets for the company, we are working on them, we are discussing about them, and we are determining their value. And when the right time comes in terms of cost effectiveness, we will sell them. So we are doing everything. Even though no sale has been done, effectively all assets are being discussed and offered to possible interested parties. The only thing is that we are only going to do when we think the time is right. We are not going to sell our assets, just for the sake of selling. We will negotiate them. But when we find the time is right, that's still we mean that we have had a significant valuation of their shares over the past few months. Just for the whole industry. And certainly, in the same way the preferred shares especially are being -- we are working on them so that when we find that the time is right, we'll make them available to the market, just as other securities that we have in treasury.

And I could tell you that our objective, in concrete terms, is this relationship, debt-EBITDA of 3.5 times. And I can also tell you that according to my expectations, we will end the year of 2017 at 5 times in terms of debt-EBITDA ratio. And this 1.5 times that are still missing for us to get from 3.5 to 5, and this is going to be done because of the improved operational efficiency that we are working very hard in reducing costs and improving productivity and improving sales prices and also margin and also complementing it by the sale of assets. Meaning this when they have time, we will go after it and we will achieve it. And we said 12 to 18 months. I would say that it's much more like 12 months. So we believe that the market will be better. We believe that the prices of assets would improve as the market also improves. And I think 2018 will be the year for us to put the levels at right debt levels.

So as to CapEx within the scenario of better result, cash generation, and sale of assets, this is not inconsistent with a certain increase of CapEx, considering the minimal levels that the Company has reached in 2017. There are good projects. And they will need a still increase by 20% to 30% as compared to minimal numbers that we are having on 2017. And we hope to end at about 1 billion in CapEx this year. So these are discretionary projects, also involving growth such steel project that we mentioned. We will increase volume and with the fast return with a payback within 12 to 24 months. So within the -- and this is the guidance that we are going to mention. Leonardo, as to iron ore and silicon. We at CSN, we work in Casa de Pedra and about 6% silicon. And these are the best products that we buy. And the projects that we showed to you are likely to keep or even improve this content. We are trying lower it.

I would like to compliment by saying that the environmental issue of Minas Gerais especially after the Samarco accident has become quite difficult. It's quite worrisome because, of course, no one works to cause an accident. But we need to put priorities in opening the mines. We need to increase the opening of the mines. And we need a license, we need a permit. And once we have the permit, then we have access to better quality ore. At the same time, the staying of the dam, we are evolving very strongly. And also, I would say in a surprising way, in terms of the gains that we have obtained over the past few months, I think that we have been able to receive 16 environmental permits that were essential for us to continue our work. And it was very difficult for us to get them. In terms of us getting the permits in this manner, this issue of retaining them will take about 12, 18 months. But we are definitely focusing on working and addressing this issue and also in terms of opening the mines. And you know that Casa de Pedra reserve is really fantastic in terms of quality and quantity. So we need to approach it in the right way to obtain this benefit.

A - Unidentified Participant

This is very clear. And thank you very much for your answers.

Operator

Next question comes from Thiago Lofiego from Bradesco. You may proceed, sir.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good afternoon. Could you comment on your plans for 2018 based on what happened this year? So can I understand the demand they expect for next year? And what could surprise us in a positive manner in the segment of cement? And if you could break down into more details and continuing this question, I would like to know what are the negotiations like, given the negotiation with the automotive sector?

Another question, if I may. For iron ore, what is the pricing trend, considering the utility content? If you could provide more detail so that we can make some calculations. Maybe provide us with some breakdown for (inaudible) et cetera so that we can better understand the various price trends? Thank you.

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

Hi, Thiago. I still do not have the scenario for 2018. What I can say is that it's going to be much more positive than the last two years in 2017 basically and in steel, the apparent consumption of steel in relation to 2016 is likely to have a 9% growth. It's likely to cover the year at 10.5 of last year. For next year, obviously, we are looking at a general improvement in the sector, in part has already been captured by the automotive industry. We believe that at least this is going to continue. We believe that household appliances will improve -- the clients or the consumers who have insurance, that will purchase more. However, the big star of this factor is that say whether or not the economy will start operating well again, it's a full construction. I believe that this is where the big question lies. Obviously, there won't be a major infrastructure project demanding a lot of steel, cement, and plain steel. But in commercial and residential construction sector, there is a sign of recovery for the sector that CSN intends to capture. That's for next year for our company.

Something important that I would like to mention is first invited to look at 2015 and 2016. As Benjamin said, we are going to work with a positive effect, because what we would expect for next year is a better result plus million. In 2016, I sold 2,600, exported 1 million tonnes to the United States and also to Portugal. And the big change in my opinion in our strategy is that we are going to go through a level of a stability, that we are going to continue to growing. Now, we'll be able to capture the growth in the domestic market and will also continue moving the American market.

So this is the strategy -- increase the domestic market share and to work with value-added products. CSN has a balanced pricing strategy. About 20% of exports are allocated to Japan and Korea. And prices are decided on a quarterly basis. And we are likely to repeat the averages that we recorded in that period. And the percentage may vary depending on the market condition. 60% will continue and 30% is a mismatch needs to be updated. And this would be basically what we expect in terms of pricing. Thank you.

Operator

Our next question comes from (inaudible) from JPMorgan. You may proceed, sir.

A - Unidentified Participant

Good afternoon, everyone. And thank you very much for the opportunity of asking questions. My first question is related to the renegotiation of the debt that will mature in the next years. And after disclosing the balance sheet, I would like to know what is missing so that we can make headways in that direction, so the banks needs balances to be audited.

Second, in relation to the current capital, we see that the level has been very high for -- in the third quarter. So I would like to understand what we can expect in this line? And is the level that we have seen in the third quarter is sustainable? Thank you.

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

Let me start from the second part, which is more straightforward. Yes, it's sustainable. We stood at 73 days in the operational cycle, and we want to work below that during the year. In relation to the negotiation with banks, there was a period after we discussed the profile. And we have to discuss it further. And we have to have the balance sheet audited, and we are hitting up the turbines, so to say, and audit the balance sheet so that this can be completed as soon as possible.

And you asked me if you need the quarterly results to be audited. This is something that we are only going to know along the process. However, each committee has its own practice. And we are going to be open for discussions and make decisions along the process. And we are always trying to catch up with all those audits. And we want to have all this regulated in the next month. So we are likely to have those two items converging at the end of the year.

A - Unidentified Participant

Okay. Perfect.

Operator

Our next question comes from Ivano Westin from Credit Suisse. You may proceed, sir.

Q - Ivano Westin {BIO 17552393 <GO>}

Good afternoon, Benjamin and other officers. Thank you very much for taking my questions. No questions related to mining. I would like you to make comments on what you expect in terms of volume production and purchase by third parties. And what is the expectation of realization of the cash costs?

And the second point, in your initial comments, you made references to CapEx and the furnaces, with increasing capacity by 16%. I would like to know when this is likely to happen. When do you expect to have this stoppage? And when do you start -- expect the production to start?

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Our production volume has a target. And this is going to amount to 30 million tonnes. And you know that the quality of the ore is a significant aspect. And the guidance for 2018 is to maintain the same level of production. The purchase is a little bit more difficult. We expect to purchase 3.7 tonnes that we are concerned about quality. Prevent (inaudible) which is the bad quality of products, and we also use it for quality. And we're waiting to see what's going to happen in terms of quick change, what are the premium, and quality demerits of iron and understand what are -- how the producers operate. And we are also willing to try to get to the virtual blend. And our strategy for 2018 is to develop some contacts in China and use tools to promote this virtual blend. The accurate figures would be about 31 billion. But as for third parties, it's more dramatic, maybe 4.5 tonnes.

I would like Gutemberg to answer your second question.

A - Pedro Gutemberg Quariguasi Netto {BIO 19803245 <GO>}

Hi, Ivan. So the renovation of our blast furnaces scheduled for September, October next year. We are already manufacturing in excess of that so that once it's done, we don't need to buy any slabs in the market, considering that today the price of this is $100 above our cash cost. So once it's done, we will have all the slabs necessary for us to continue normal production.

Q - Ivano Westin {BIO 17552393 <GO>}

Okay. What is the exact CapEx for this renovation? How long it is going to be down for the renovation?

A - Pedro Gutemberg Quariguasi Netto {BIO 19803245 <GO>}

CapEx is on the slide, approximate 200 million. And we are finalizing numbers. And the period that we believe the blast furnace will be down is for 15 -- 50, sorry, to 60 days.

Operator

Our next question -- you may continue.

Q - Ivano Westin {BIO 17552393 <GO>}

And the cash cost of mining this year was affected by two events, considering the accident we had at the fourth in April. So we had a loss of production in the fourth boarding was delayed and increased the cost of the mine. In another aspect, impacting our cost towards the purchase of ore with those -- with the volume of ore that we bought had an impact in our cash cost. We hope that our cost considering or as projects go live that they will be smaller than this year.

A - Unidentified Participant

Thank you all very much.

Operator

Our next question comes from Gabriela Cortez from Banco Do Brasil.

Q - Gabriela Cortez {BIO 18801371 <GO>}

Hello. Good afternoon for taking my question. And this is more regarding Cement. I know that there has been a price increase based on the economy and the market. My question is, do you expect an increase in revenue just because of the increasing economic performance or is there any specific point that you're working on to leverage in your business? And this in your Cement business -- would it be open for a divestments or sales?

A - Unidentified Speaker

In terms of the business basically, Gabriela, there are two pillars, price costs and obviously opportunities in the market. With regards to price, the Brazilian markets has suffered because of major excess capacity, and still suffering from that, the market had to go way down to the ground to come back. So, the market was very close to the loss from cement manufacturers. And this had to happen for us to recover prices. So CSN has recovered 24% of its prices this year getting to the level of $45. The most important aspect in CSN today is that the business has come to close this deal. We are working at a level of 4 million tonnes a year and as Eduardo had mentioned, we are having cost reductions amounting to 18%. And I could say today that our cost of cement in BRLs per tonne is below BRL100 per tonne, which is quite interesting for the Brazilian market. And this is the scenario of cement, and this is obviously next year, as Benjamin has already mentioned, we are going to work at full capacity which is two new entrants in the market. Today, the market is 54, we are going to have a total market, we're going to have about 10% concentrated a nice healthy minas and real [ph] the two phase.

Q - Gabriela Cortez {BIO 18801371 <GO>}

Thank you very much. And what be an asset that you would be considering for sale in terms of deleveraging?

A - Unidentified Speaker

Gabriela, this year, or in 2018, we are going to leave a nominal capacity of 4800. And we have already bought two plants, as you know, one is ready and the other one is -- in the board embarked with the manufacturers. We think that the market will go -- will consolidate and we want to be one of the consolidators in this market. Obviously, we are open to other discussion, in terms of, association from partnership. And considering our current assets and maybe for -- to implement the two new plants. But we believe the cement is one of the industries that has been chosen by assets core. So we do not see ourselves outside this market.

Operator

Our next question comes from Asset Management. You may ask your question.

A - Unidentified Participant

Thank you very much. My questions has already been answered.

Operator

Thank you. Now, we are going to have questions in English. Our next question is in English and it came from Carlos de Alba, Morgan Stanley. You may proceed.

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

Thank you very much. Apologies if this has been mentioned in the past, but the quality of the -- call is not great. So if you could comment again on what is the status of the tailing dam situation in a gradual [ph] state? What are the plans, the goals, going forward in order to have enough capacity to continue operating at the current rate? And then talking again about asset sales, could you comment on what are the assets that we believe could be sold in the next 12, 18 months because definitely, I think, that you still need to execute those to reduce net debt to levels that are more comfortable? And second, just I think you mentioned you are working on renegotiate with the bank debt that is expiring lease deal next year. Quick, but I need the details, so if you could again please comment on what is the factors and the next step on the renegotiation that would be great? Thank you.

A - Unidentified Speaker

Carlos as to the tailings dam, Casa de Pedra. And this is one of the safest or the world's safest tailings dam. The precaution that we have taken is that in May we started a maintenance work in a tailings dam which will needed to safety -- great that will be well above the standard regulation agencies in Brazil and the Ministry of Mines and Energy are working together with us have approved the goal [ph] of the work and as of January so soon as we complete the works. We will be free to use it for tailing. Brazil, as mentioned -- as Benjamin mentioned because of the Markel accidents there is very strict control and people are paying close attention to tailings dam. And for the dams we need to have new technologies with filtering systems. Precisely, so that once it's out from the production process without them, we still need to use them in mining where we will be continue using them for some time. So Casa de Pedra dam is very safe and we are being supervised by the regulation agencies and they're perfectly safe.

Carlos with regards to your question about the debt, the negotiations. We have a situation which helped us which is the concentration of banking investments in two banks owning, the banks with which the company had already discussing and new profile for the debt. This is not the first time when we have this kind of discussion this re-profiling had already been done in 2015. So it's not new. And this re-profiling we have already completed the remodel -- the modeling for (inaudible) not yet formalized because our financials are not yet audited, once we are done with that before the end of the year, we will complete that.

Operator

Our next question in English comes from Peter Gwinshenko [ph] of Barclays. You may proceed.

A - Unidentified Participant

Hi guys, thanks a lot for taking my question. Can you please help me understand the difference in your reported revenue per tonne in a benchmark price and incentives -- free on board and CFR the differential, I think, year-to-date is about $27 seems a bit high. And second question, I just wanted to understand a little bit more on your adjustments per EBITDA. You took in your timeline for quarter of non-recurring cost, it seemed to be so consistent and also what portion of the EBITDA from JVs is proxy for cash. In other words, maybe like how much of this, I think, 540 million of EBITDA you contribute from JVs is actually in a form of like cash or dividends or something like that? Thank you.

A - Unidentified Speaker

The second part of your question regarding reporting our numbers, if I understand correctly, it regards the portion of our EBITDA coming from our subsidiaries. And you know adjusted EBITDA we reported in this part of the consolidated, most of this EBITDA comes from MRS and this can be considered as a cash proxy because we have quite consistent flow of dividends from MRS similar to our consolidated EBITDA in terms of analyzing the consolidated numbers of the company. We believe the adjusted EBITDA is the most appropriate parameter for reporting. A surprise 60% of CFR and 30% quarterly delayed in especially considering the consortium that it's part of our mining activities.

Operator

Our next question in English comes from Raphael Elliott of (inaudible). You may proceed.

A - Unidentified Participant

Good afternoon, and thank you for the call. Two questions. The first one is what explains the dropping cash since EBITDA grew and CapEx been down. Why are we seeing lower cash level. And the second question just to do with an article that appeared today in the local press implying that Mr. Steinburch might have volume to make some payments to Mr. Paloschi. How that is resulted from the UUC [ph] agreement from all the (inaudible). So how true is that and do you expect any consequences from this article and going forward in terms of volumes or any legal actions in terms of the company?

A - Unidentified Speaker

Hi, Raphael. With regards to cash, the main reason why the cash has adjust is because of our financial cash flow. And so the excess cash been amortized with a consequent drop in growth. These debts are especially local market, yeah, debentures that had been amortized considering the fact that we don't have a balance sheet, we haven't yet renegotiated it. Now that we have our financials. The next step is so that we may have access to this loan, so that we get our cash levels right. As to the first question, I would like to say that the company has that needs the home work and has taken all precautions with regards to that and, Raphael, there is a note, an explanatory note in our financials. Those conclusion that nothing has been confirmed of these possible claims and thereby there is no adjustment of provision in our balance sheet, but anyhow I would kindly request you to read this note in our financials.

A - Unidentified Participant

Thank you very much. Good afternoon.

Operator

Our next question in English comes from (inaudible) of Schroders. You may proceed.

A - Unidentified Participant

Hello, thank you for taking the questions. First one is, if you could clarify the CapEx number to provide those, I think, it doesn't really come out well in the translation. I understood there is something was 1 billion, but not sure of 14, 17 or 18 and then plus 20% to 30%. So if you could quantify -- or clarify that and then also elaborate a bit on how free cash flow could look under this CapEx guidance next year?

A - Unidentified Speaker

You heard that correctly. So our expectations at the end of 2017 is 1 billion and the preliminary expectations for 2018 considering all our projects still at 20% to 30%. Still with this added CapEx, we have all actions in terms of cost reduction, price increases and contention of working capital and for the interest rates may generate free cash flow to reduce the debt after the CapEx.

A - Unidentified Participant

Can you quantify that?

Operator

Our next question in English comes from (inaudible). You may proceed.

A - Unidentified Participant

Thanks very much for the presentation. So we saw the meaning and the (inaudible) that CSN's plan to come to the market again. So, could you please provide on the timing as we wait for the completion of asset sales before dropping the market?

A - Unidentified Speaker

Could you please repeat your question, the connection is not so good, the audio is not so good. Could you please kindly repeat your question.

A - Unidentified Participant

Sure, so my question is regarding CSN's plan to come to the market issue another bond. Can you perhaps list one?

A - Unidentified Speaker

Yes. Once what we've said is that we are going to go to the markets so soon as the conditions permit, conditions for meeting meaning that there is a window. And we have already announced and renegotiation with the banks. These conditions are favorable. Once that is clear when we are going to be out in the markets in the first half of next year.

A - Unidentified Participant

Thank you very much. If there are no further questions I would like to turn the conference back to Mr. Benjamin Steinburch for his closing remarks.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

We at CSN would like to thank you all for your participation and we like to say that we are committed in pursuing the reduction of the company's leverage 3.5 times is in our target we have excellent assets, and they all being contemplated and possible discussions in order to reduce this leverage is an part of our core assets. We would contemplate with the aim of drastically reducing leverage as we wish. At the same time we are working very hard in operational improvement and we have been successful in doing that, both in reducing costs and in gaining productivity and also in improving our prices.

We have been working actively every day based on this aspect which is what we should be do anyway to improve our management as much as we can, so that we may -- may all be translated into good results as we had before. We are working at full and this is how we like to work. This is how we deal with challenges. We are going to keep our production, yes, and we believe that we are going to have a good number and good performance and once we see a more market improvement in the domestic market. We also believe that reduction in interest rates will continue and this will provide us benefit in terms of reducing our financial expenses. At the same time we are working already, and we have been working for more than nine months in terms of having a longer debt of profile as we said before. We have two bank partners that are old partners that understand our company and they are aware of what we can produce in terms of performance. So it's no -- it's not a novelty they are longstanding partners that know very well our company. And I am sure that this will make it possible for us before the end of the year. And I believe in November we will have a longer time once we have this extensions.

A - Unidentified Speaker

We are going to talk to bondholders. And as you know in the market, there has been a very good evolution for our bonds. And I believe that very soon, we are going to succeed. And I wouldn't be surprised if before the end of the year, we attain that. And this would facilitate the conversations that we will have with bondholders in the first half of next year.

The operational commitments that we have is given. We believe that we can continue growing. Some investments have become mature now. Environmental issues have been overcome in general lines. We had good positions in terms of the negotiations with environmental agencies of the Brazilian government, especially with the government of the State of Minas Gerais because of our history. Of course, this all changed because of the accident with Samarco and negotiations became much more intense and tensed because, of course, no one would like to see that sort of accident again.

So, we have resumed our negotiations. We are taking the lead. Just as all other mining companies, we need to work with much longer times because we need to know that after that episode, everything will take longer and everything became more difficult. But we need to change the way at work and we need to start earlier to have more time so that we may appropriately negotiate with the authorities of the State of Minas Gerais.

But I would also like to make -- to say something that in spite of the accidents, the State of Minas Gerais and its authorities have rapidly adapted to the new reality and their facilitators in terms of -- because they understand that jobs wants to continue. So, this is overcome and now, we are ready to going back to full production, so that we may expand the mines and also solve our issues related to the tailings there.

And I would like to thank you all very much. Everyone in the company is assuming our challenges and we are all going to do our best and even the impossible to deliver, what we have said in this conference call. After almost 11 months without published financial statement with all our financial information, bondholders, rating agencies and financial entities that supported us in terms of our investments as all this discussion has come to an end. So the financial statements have been signed for 2016.

We are going to -- we want our unaudited financials to be audited in the shortest time possible. And we are going to face the challenge of being prepared again to grow, invest and generate more jobs.

Thank you all very much.

Operator

Thank you. The conference call of CSN has now ended. Please disconnect your lines and have a good afternoon. Thank you.