Y 2014 Earnings Call

Company Participants

- Daniel dos Santos, Mining Director
- David Salama, Executive Investor Relations Officer
- Geraldo Morais, Commercial Officer for Mining
- Paulo Rogerio Caffarelli, Corporate Executive Director
- Unidentified Speaker

Other Participants

- Alan Glezer, Analyst
- Correa Leonardo, Analyst
- Ivano Westin, Analyst
- Marcos Assumpcao, Analyst
- Milton Sullyvan, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to CSN's Fourth Quarter and Year of 2014 Earnings Conference Call. Today, we have with us the company's Executive Officers. 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 question [ph]. At that time, further instructions will be given.

(Operator Instructions) We have simultaneous webcast that may be accessed through CSN's Investor Relations website at www.csn.com.br/ir. 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, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of CSN management and on information currently available to the company.

They involve risks, uncertainties and assumptions, because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of CSN and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. David Salama, CSN's Executive Investor Relations Officer, who will present the company's operating and financial highlights for the period. Mr. Salama, you have the floor.

David Salama {BIO 17456021 <GO>}

Good morning to everyone. Thank you for participating in CSN's conference call. With me, we have the Directors of the Company and I would also like to take advantage of this opportunity to welcome our new Directors, the Directors that are strengthen our team. I would like to talk about Paulo Rogerio Caffarelli, Corporate Executive Director; and also Ciro Gomes as President, Director of Transnordestina; we have Pedro Brito; that is our new Board Director.

So we will start on slide number three, where we present the consolidated results of the fourth quarter of the year 2014. In the fourth quarter, the net revenue of BRL3.8 billion presented a drop of 2% vis-a-vis the third quarter of 2014, mainly due to the lower revenue in the mining segment.

In 2014, the consolidated net revenue was 16.1 billion, 7% lower into what was registered in 2013, due to lower revenues in the mining and steel segment. The gross profit of 921 million in the fourth quarter was 5% lower than the third quarter of 2014. In the year of 2014, it was BRL4.5 million [ph], 7% lower than 2013, mainly due to the lower results in the mining segment, partially offset by greater gross profit in steel.

In the fourth quarter, the company registered a net profit of 67 million, reverting a loss of 250 million verified in the third quarter last year, mainly due to greater gross profit and lower financial results. And now, in the accumulated of the year, we have a consolidated of 112 million, consolidated net loss. The EBITDA adjusted of the fourth quarter was BRL1 billion, a growth of 3% vis-a-vis the third quarter 2014, mainly due to the contribution of the steel segment.

Now, the EBITDA margin adjusted, 25%, very important and increased 2 percentage points vis-a-vis what was registered in the third quarter. In 2014, the adjusted EBITDA reached 4.7 billion, 12% inferior registered in the year and due to lower revenue in mining. It is notorious the impact of the price of iron ore. The EBITDA margin adjusted, 27%, was 1 percentage point inferior to 2013.

Now we're going to slide four, where we will present our investments last year. In 2014, CSN invested 2.2 billion in the expansion of their businesses. We would like to highlight the investments of 699 million in mining, geared mainly toward the expansion of the production capacity of Casa de Pedra Mine and 565 million in steel, 506 million in capacity expansion of cement production and 423 million in logistics.

Now we're going to slide five, where we will present the results per segment. We will start with the upper part of the slide, where we will talk about the net revenue, in 2014 totaled BRL16.1 billion; 65% from steel, 23% from mining, 7% from logistics, 3% from cement and 2% energy. Now in the central part of the slide, we can see that the yearly adjusted EBITDA reached BRL4.7 billion, with 58% of share in the steel segment, 28% in mining, 9% in logistics, 2% cement and 3% energy.

Now, on the fourth quarter of 2014, the steel EBITDA reached 723 million with an EBITDA margin of 27%, mining was of around 200 million with an EBITDA margin of 24%, the logistics 119 million with an EBITDA margin of 37%, cement 30 million with an EBITDA margin of 27% and finally, energy 28 million with an EBITDA margin of 30%.

Now, we will go to slide six, where we will detail the steel segment. We will initiate, by the chart on the upper left side, on 2014, the total volume of steel sold was 5.2 million tonnes, a drop off [ph] 50% vis-a-vis the year 2013.

Of the total sales, 72% were sold to the domestic market, 25% to foreign subsidiaries and 3% exported. Moreover, in the upper part on the right-hand side, the sales in fourth quarter were 1.2 million tonnes. I would like to highlight that the sales on the offshore market reached 386,000 tonnes in the last quarter, 9% above the sales of the third quarter last year and this is precisely due to the company's strategy due to increase the volume of exports.

Now, of the sales on the offshore market, the subsidiaries have responded to 320,000 tonnes, 173 tonnes sold by SWT, 77,000 tonnes by Lusosider, Portugal and 70,000 tonnes, CSN LCC, the United States. Direct export of the company totaled 66,000 tonnes and a growth of 94% vis-a-vis the third quarter.

Now on the lower left hand side, we will see the net revenue of steel that reached BRL11.5 billion, a drop of 7% compared to the year 2013, basically due to lower volume of steel sold, but partially offset by higher prices throughout the year.

Now on the fourth quarter, the net revenue in the steel segment reached BRL2.7 million [ph], 2% lower vis-a-vis the third quarter of 2014, and basically to the seasonality effect and sales in the domestic market, because we know that the fourth quarter is a quarter where we have lower sales. In 2014, the average net revenue was BRL2,174 per tonne. This is the average throughout the year.

On the next slide, we will analyze the EBITDA of steel. In 2014, the EBITDA of BRL2.9 billion of the segment grew 20% vis-a-vis 2013. This is due to the increase of the gross margin and the increase of the prices of steel and costs throughout the year. We will detail this throughout the presentation.

Now, on the left chart we have an EBITDA of the fourth quarter of BRL723 million, 10% above the third quarter, due to the reduction of sold product cost. The EBITDA margin reached 26% in 2014, 6 percentage points above what was registered in 2013. Now, in the fourth quarter, the EBITDA margin 27%, 3 percentage points above the third quarter of 2014.

The next slide, we will do the same analysis per mining segment. In 2014, the sales of iron ore CSN and Namisa totaled 28.9 million tonnes, 13% above the sales of 2013, out of which 19.8 million tonnes from the mine Casa de Pedra and 9 million tonnes through Namisa. Practically all the iron ore sold was exported. On the chart side, we can see the quarter evolution of sales of iron ore. In the fourth quarter, the sales were 7.5 million tonnes, that's a drop of 2% [ph] compared to the third quarter.

In the year of 2014, the average net revenue of mining reached BRL4.1 billion. This is a drop of 22% compared to the last year. This is due to lower prices that are practiced in the market.

In reality, throughout the average of the year, the prices reached $98 in the year 2013, and 2014 $64 per tonne, a significant reduction. Now, on the lower right chart, the net revenue of mining 831 million in the fourth quarter, 9% lower than that of the third quarter of 2014, according the trend of the price drop of iron ore. Now, the shipments of iron ore totaled 32.8 million tonnes in 2014, representing a growth of 14% when compared to 2013.

Now let's go to our next slide, where we will analyze the EBITDA of the mining segment. Now we will see the upper left-hand side. In 2014, the adjusted EBITDA of the mining segment reached BRL1.4 billion and a drop of 45% vis-a-vis the year 2013, mainly due to lower prices in the market.

Now the chart that side, we can observe the fourth quarter, the EBITDA was of BRL199 million, representing a drop of 2% in comparison to the third quarter of 2014. Now, in the lower part of the slide, on the left-hand side, we can see that the EBITDA margin was 35%, 14 percentage points below the margin that was verified in 2013. Now the EBITDA margin of the fourth quarter was of 24%, grew 2 percentage points compared to the third quarter last year.

Now we go to slide 10, where we will present the result of the cement segment. In the upper part of the slide, we can see that the sold volume was of 2.2 million tonnes of cement in 2014, exceeding the 7% of what was sold in 2013. This was a record, this is a company record.

The net revenue of 440 million was the greatest quarterly net revenue registered by this segment and it was 6% above that of the third quarter. In 2014, the EBITDA registered was of 116 million, 15% above the EBITDA of 2013, and this is also a company record.

Now, the EBITDA margin, that was adjusted, increased 2 percentage points in the third quarter of 2014, now reaching 26% and this is the greatest margin that has been registered in the cement segment. And we can see that the margins of the cement segment have increased.

Now we can go to slide 11, where we present the EBITDA evolution. The EBITDA of BRL1 billion on the fourth quarter was 3% higher than that of the third quarter of 2014. This increase was contributed to the -- we had lower cost of steel mills and mining and greater volumes sold of iron ore and this partially offset the lower prices of the iron ore and the lower volumes sold in steel.

Now we'll go to slide 12, where we will present the evolution of the net debt. The net debt BRL18.9 billion at the end of the fourth quarter represented an increase of 1.3 billion in comparison to the 17.6 billion of the third quarter. Now the ratio of net debt/EBITDA, calculated based on the adjusted EBITDA of the last 12 months, was four times higher when compared to 3.2 registered at the end of third quarter of '14.

We would like to highlight, we had investments in fixed assets of 700 million, we also -- cost of the debt of 600 million and extraordinary payment to -- 500 million that we had to pay in taxes. So in the fourth -- we had to pay BRL500 million basically and the increase of working capital was 500 million, basically due to our stock turnover and accounts payable and the affect of the exchange variation was of BRL200 million. Now the EBITDA of 1 billion in the fourth quarter, offset partially the effects.

Of the total of our gross debt, 55% is in res [ph] and 45% in foreign currency, mainly in North American dollars disposition. 91% of the debt is of the long-term and 9% in the short-term debt.

Yesterday, you saw that we announced important news, very good news regarding the certification of our reserves from the mine Casa de Pedra and Engenho. I would like to ask Daniel dos Santos, our Mining Director to continue with the presentation and he will detail what the certification is all about.

Daniel dos Santos {BIO 18101925 <GO>}

Thank you very much, David. Good morning to everyone. I'm highly satisfied to present to you the excellent results that we obtained in our resource and reserve certification. In 2012, we initiated a project to review the geological model of Casa de Pedra, engineered to update the last certification that was in 2007. Throughout the year of 2012 and 2014, we carried out a number of adaptations to international standards, so that we could present real geological work and that the result of the campaign in Casa de Pedra to be certified.

So when we created a geological model, we counted with the contribution of international companies that work together with CSN. On slide 14, we present in a summarized way the role of each one of these companies. Here we have the participation of SRK Consulting in Brazil that supported CSN in the preparation of the estimates. As you know, the one in Denver also, they gave technical support from the partners of Namisa, because we were integrating the assets in Namisa in Casa de Pedra. And Snowden, the auditor company hired by CSN for certification.

On slide 15, in a summarized way, you can see the review processes of the geological model. Here, we have a drilling campaign. We had 107,000 meters of drilling and 40,000 were in the review. Everything is new.

I believe this is one of the greatest drilling campaigns carried out in Brazil in the past five years. Now this has started with -- here you can see on 15, here we did the geological mapping.

Now we have the sample of the drills with physical and chemical analysis and the drilling is done in such a way that they're aligned, we can create sections. The vertical sections, they appear here.

They are combined with slide 16. And the topography, the surface of the terrain, the local land updated is placed in this model. So here we're able to create a 3D model. Now as of this 3D model, what we do is, we break out in different blocks the model. In counting these blocks, we can see the size and the level of certainty, allows us to classify our resources and reserves. That's how was international started.

By and large, we can say that mining is what shows, is the resource part that shows us if it's economical -- economically feasible. Here we can have the result.

On the orange bar, here we can see the total resources calculated for Casa de Pedra are of 6.5 billion tonnes. In the 6.6 billion tonnes, 5.3 billion tonnes were certified according to the code, that is the international standard and 1.3 billion tonnes were considered as potential resources with rework and with other technical studies we can incorporate them to the certified resources.

Now, the blue bar, that is very important here, what we want to highlight, these are the total reserves that we have. So we were able to calculate around 3 billion or over 3 billion tonnes that were 100% certified.

Now on slide 18, we can see the story of these statements, and here we can see, on the left hand side and on the right hand side, the resources in blue and reserves in orange; that CSN replaces reserves in an operation with more than 100 years.

And here we can see a production plan. This also shows us how important the iron ore asset is what we have in Casa de Pedra. Today we can say that Casa de Pedra Mine is our best asset. 19 gives us more information, according to the categories. And here, it comes from the high quality of Casa de Pedra and Engenho Mine. Casa de Pedra Mine will complete 102 [ph] years of operation in September 2015 and throughout this period, we were able to use all the iron ore that was exploited here.

We can observe here, on slide 20 that we had 278 tonnes. We were able to replace this and we increased 85% over what was certified in 2007. The increase of reserve of Casa de Pedra are above -- slightly above 100%, but we incorporated 1.631 billion tonnes in our reserves of Casa de Pedra. This is an excellent piece of news and it is very good to share this piece of information with you.

Thank you very much, Daniel. So now we will have a Q&A session.

Questions And Answers

Operator

Thank you very much. And we will initiate Q&A session for investors and analysts. (Operator Instructions) The first question from Thiago Lofiego from Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning to everyone. I have two questions. One would be the cost performance in mining. If you could break down, what is your cost today of FOB in mining and what is the average freight price that we can expect for CSN in 2015 and if you could break what is freight export, what is contract, how are these variables going to evolve throughout the year? Do you have more space to cut costs? And volumes of third parties, will there be drop regarding 2014 and if you could quantify this it would be excellent?

A - Unidentified Speaker

Thank you very much, Thiago. I am going to divide the answer between Daniel and Geraldo Medeiros. Well, Daniel?

A - Daniel dos Santos {BIO 18101925 <GO>}

Now, regarding our costs, CSN in its culture already has a tradition of reducing cost constantly. Moreover, in this scenario, we're strongly working to reduce these costs and something that we've seen since 2013 when we realized that there could be a change in the market and you have been able to see this in our results throughout this period.

Now, we deployed a number of actions of cost reduction both in Namisa and Casa de Pedra in order to increase the competitiveness of our operations. Today, we can say that we have a level of competitiveness and compared to one of the biggest mining companies, so our cost levels are compared to the third greatest mining industries in the world, but we continue striving to lower our costs and always trying to optimize our costs and to improve our operation.

Something that we recently did was we transformed Namisa, where we implemented a strategy, where we replaced the supply of standard for concentrate. So due to the possibilities that we have to integrate the operation of Casa de Pedra and Namisa, we can leverage our potential of competitiveness.

And in terms of quality, I believe we have a differentiated quality, we can place differentiated products in the market. Now regarding the production, Casa De Pedra is producing at full capacity. We still have installed -- additional installed capacity that still will be used.

The Port is completely finished and we are finishing the construction work to ship iron ore and we also have the expansion of Casa De Pedra for 2016. For this year, our guidance for the Transoceanic market is around 27 million and 28 million. If you compare it to last year, due to the drop of prices and because many players (inaudible) the difference that there is in comparison to last year is based on our strategy to buy iron ore. Geraldo?

A - Geraldo Morais

Now, regarding maritime freight, it was of $20 in 2014 and at the end of the year. The freight today is around $10 per tonne.

Now, our schedule of the shipment is contemplating a number of vessels with contract prices and the freight is being renegotiated with the customers. Due to these changes, these negotiations currently are taking place and are based on market reference and there has been a significant drop in our freight, especially based after the second quarter.

As I said, now we are negotiating contracts. But as of the second quarter, we will -- we are able to have a significant gains in freight. This is something -- in the past weeks, we have started these debates.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you very much.

Operator

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

Q - Correa Leonardo

Good morning to everyone and thank you very much for the opportunity. I have two questions. One would be possible disinvestments of the company. Could you give us some guidance regarding assets that may be considered to be sold in order to lower the leverage?

And second place, if you could also tell us how you see the premium in the domestic market with the exchange rate and if you believe that there is a possibility to increase prices?

A - Unidentified Speaker

Thank you very much for your question. Paulo will also talk about the investment.

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

Good morning. Now regarding the premium today, going straight to the point, if we see the Chinese market, around 395 to 410 FOB, the premium that we have today regarding the national import product is the premium that varies with the dollar from 315 to 2% to 5%. Therefore, we're talking about an FOB price that is the worst price we consider iron ore $55, 315 [ph], a premium of 2% to 5% and hot rolled.

Cold rolled products, this premium is very similar. Now zinc rolled products, in the last call, I said that this premium was higher. And in reality, it is narrower, because today the spread of zinc and cold rolled has opened in other markets. So this is around 2% or 3% as well.

Now regarding nationalized imported products, from the CSN point of view that was highly impacted in the imports last year. Well, last year, in the Brazilian steel market, the apparent consumption, that was 13 million, 2 million was of imported steel. Of these 2 million, 1 million tonnes were zinc steel, which reflects -- which directly reflects the portfolio of CSN products.

So when we analyze the strategy of CSN in the market, it is very positive for the year 2015, because our strategy has been -- was to deliver added value. Now today, 40% of our portfolio of our sold products are coated products. With the drop of this premium, I expect that this import drop, the drop that was 20% in 2014 to drop 6%, 7% in 2015 or even lower. Another important point here that we already realized is that direct imports also start dropping of finished products, which also gives us better figures.

Now from the market point of view, CSN has -- we believe that -- of course the automobile industry is a bit more hostile with greater stocks, with shutdowns, but my portfolio has been distributed machines, civil construction and other industries. I'm not only dedicated to the automobile industry. So I have different markets that are less susceptible to market variation. Our focus on this domestic market doesn't change.

On the other hand, we will look more and more through our complete portfolio of products to hot, cold rolled zinc products profile -- I will try to pulverize and try to sell steel per meter, per kilo, and in the major customers to deliver a solution that is more than a service solution. We want it to be an integrated solution that basically is a logistic operator of these customers.

So this is the added value strategy, when we go into the foreign market, for example, and here I believe this is very interesting, the (inaudible). I want to summarize steel in dollars, because I have a unit in the US and I can operate in the US market with this unit, not as an adventure but as a local player.

Therefore, our plan is to double our sales through our unit in the United States. Today, our Company were, in 2014, with a level of 300,000 tonnes. My idea is to place 600,000 tonnes this year. And today, in LLC, as we are committed to create value, 86% of what is sold of LLC is of coated product and fines products. So today, I can sell in the United States zinc materials of $950 in the United States.

Now, if I consider the integrated margin offering BK and Brazil and they produce in the United States and adding value, well, this total margin integrated will be of around $230, which is practically $70, $80 below what I have in the domestic market. From the integration point of view, I have a great exit to capture this opportunity and to be able to sell in dollars. Therefore, it is an important opportunity to add value.

Now, from operational excellence of point of view, we will not stop working. We will always work for and all the reports are clearly showing our results in cost and you have been able to see our cost results in these reports. There is still something to capture. We are finishing the refurbishment of our coke battery.

Now, from (inaudible) we can see everything that has to be done in the plant, it will be 300,000 in 2015. And from -- and modernizing our assets, we can process 30% of the steel that we produce in CSN with an increase of capacity in our distribution. Therefore, the strategy here is very clear.

The creation of wealth, creation of value to take advantage of the domestic market with the drop of import, to sell steel per kilo, to see the United States as an opportunity and to participate in the market, not as an adventure, but yes, as a local competitor.

Now answering your other question regarding the leverage, now in reality, these are questions that I have continuously received in the past months. And I can say that this is a very important point and we are highly concerned regarding leverage. And we have seen all the possible alternatives in order to drop this leverage.

Specifically, this could undergo de-investments, but this wouldn't be something that I would highlight at this moment and what is important also is to verify signals that are given by our Board.

Now, one of the first things, we had a very important drop in the dividend paid flow. You can see dividends that were paid last year were better than what was paid the other -- past years. Within our budget, we also had a balanced review of our CapEx of 2015, trying to carry out important investments of the year in maintenance and postponing some things that are not considered as important.

Now, throughout the last quarter, you will realize that we also carried out a number of important disbursements, like for example, BRL500 million of (inaudible) that is important. And, of course, this type of thing strongly impact our leverage capacity. But I would like to say that we are focused and we are analyzing all the alternatives to drop -- to reduce the leverage capacity of CSN.

Operator

Our next question from Marcos Assumpcao, Itau.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good morning to everyone. Well, regarding mining, if you could tell us what is the level of profitability of your mining industry with the current price of the iron ore, 58 per tonne and CapEx as well, if you could tell us what is the CapEx, breaking out between the different businesses of the company?

And in addition to CapEx, if you could talk about the leverage and what the company is doing to lower the leveraging, what is the level of leveraging that you believe you will have at the end of 2015?

A - Unidentified Speaker

Thank you very much Marcos for your question. The first question will be answered by Daniel regarding mining and then we will talk about leveraging.

A - Daniel dos Santos {BIO 18101925 <GO>}

Thank you very much for your question. Well, mining, mining due to the quality of our assets and how we manage costs and productivity, it continues -- highly competitive. When we compare it to the players in the current scenario, our position is much better than our competition in the market. Our costs, they are costs that are comparable to costs of the main producers in the international market.

We are at the same level of competitiveness of the big players. The quality of our products allow us to carry out less adjustments and quality and price, sometimes we're able to capture important premium, especially when we sell in the domestic market. This is something that we've done recently.

And so, in terms of competitiveness, we continue together with the big players. Now, of course, the scenario is a scenario that demands caution. We have restructured fixed costs, and we've seen other opportunities like maritime freight where we have tried to capture opportunities. From the competitiveness point of view, I believe that we are amongst four or five big players of the world.

Operator

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

Q - Ivano Westin {BIO 17552393 <GO>}

Good morning to everyone and thank you very much for answering questions. One would be Casa de Pedra, you said that there was the dilution of the consortium. I would like to know if this announcement of the reserves, is this is part -- if this is something that you agree with the conception?

Now, regarding mining, what can you say what is going to happen with Namisa's cash flow, because now you have a new structure, and if you could talk about the sales volume in the domestic market, what is your forecast for this year, if you could compare this year to last year?

A - Unidentified Speaker

Ivon, thank you very much for your question. Before answering your question, I'll go back to the question of Marcos Assumpcao that I didn't answer. So in the year 2014, we invested BRL2.12 billion. Now, our CapEx for 2015 is to prioritize investments of greater returns, focusing on maintenance of our assets and postponing our other investments. This way our calculation is that we will have BRL1.3 billion in terms of CapEx.

Now, in steel, will be 327 million, in mining we're talking about 710 million and cement 200 million and other added investments would be 97 million. Therefore, in reality, this adds up to 1.3 that is considered an adjustment to this economic scenario.

I prefer not to commit myself right now, due to the volatility that we've seen in the market and I do not want to assure what the level of leveraging will be at the end of the year. This is why I prefer not to say anything, but I would like to say that we're extremely focused on lowering the leveraging level of the company.

This is a very important point, daily discussed in the company. We're analyzing all the possibilities in order to be able to drop the leveraging level of the company.

Going now to Ivano's question, number one, the announcement of new reserves does not change the deal with our consortium partners. This basically will not impact the deal that we have with our consortium partners.

Now regarding Namisa's cash flow of around $12 billion, $300 million have already been distributed in the first quarter. So -- this is highly connected to the business plan. We are in a stage where we are creating our business plan and this will be submitted to our Board in the upcoming weeks. And after it is submitted, we will see where the cash necessity will be for the company and we will have a balance that will be distributed to the shareholders of Namisa.

And Daniel will answer the last question regarding the domestic market.

A - Daniel dos Santos {BIO 18101925 <GO>}

Ivano, thank you very much for your question. Historically, we have sold in the domestic market to complement the steel mills that work in the (inaudible). Now with this new price scenario in the market, many of these players are no longer competitive and we are taking advantage of this opportunity and we are replacing this volume for our volume.

Therefore, we know that in (inaudible) region and in other regions many people shut down their operations due to a lack of competitiveness. And as we have a differential, we are taking advantage of this position. It's difficult to say what is going to happen due to the price scenario, because it is quite uncertain, but I believe that we will have a significant volume supplying to the steel mills.

I believe I wasn't clear in my question. It's about steel. If (inaudible) could talk about.

A - Unidentified Speaker

(inaudible) isn't here. Ivano, what we expect in 2015, we're talking about our guidance of 6.2 million tonnes for 2015 and 5.2 million tonnes in 2014 vis-a-vis.

Now out of 6.2, around 70%, 72% in the domestic market. This is what we expect, there is a growth of the sales of LLC from 300,000 to 600,000 tonnes, also a significant growth in long, because last year we had 60,000, 70,000, then to 300,000, there is an increase in SWT of 800,000 tonnes.

And in cements, cements that also is an important business for us that delivers 26%, 27% of margin, and is growing. We will have a volume of 2.8 million tonnes for the year 2015.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you very much.

Operator

Our next question from Mr. Milton Sullyvan from Brasil Plural.

Q - Milton Sullyvan {BIO 19085202 <GO>}

Good afternoon. Thank you very much for answering my question. My first question regarding working capital, within our stocks we can see an increase of stocks in raw materially, if you could talk about this line, why there has been an increase?

And if you could talk about the future of working capital, and also the demand of the offshore markets. We have seen higher levels of exports in the galvanized market. So I would like to know how you see the volumes of future export or if you have specific product that you intend to export?

A - Unidentified Speaker

Milton, thank you very much. I'll ask Marcelo to answer your question and then I will talk about working capital.

Well in the first quarter, we will be highly focused, until the internal market doesn't take off and we have a positive view in the internal market for the second semester, due to the drop of imports. We are going to bet on exports.

We have a unit in the United States that operates and I can operate as a local player, I have knowhow, I have a team, I have good people working there and I have a product portfolio that is very specific. I work with high-resistant zinc products and fine products, something that very few players manufacture in that market.

Our strategy today is to sell this product, a very high added value, it's sold at $1,000 in the United States and our strategy is to sell raw material to manufacture this product in the United States, practically half of what I'm mentioning.

And the other half will be sold here ready to commercialize it to different customers in the United States. We are increasing our base in the United States. We are highly focused.

We are opening new points of sales where we want to sell zinc products. In civil construction, there is -- we are accounting with integration and logistics that we will create in service centers in the United States and of course, we also per house -- we will probably increase zinc, more zinc products in the United States.

Although we have interesting costs, if you see integrated margins today, the zinc products that are being sold in the United States is a result of the raw material from Brazil. At $440, this generates $230 of integrated margin with CSN. With the dollar of 3.15 is a margin that is very similar to what I have in the domestic market.

I would dare to say with the dollar at 3.20, 3.25, it's very indifferent to sell in the domestic or the foreign market. So our strategy is to recover the internal market in the second semester to continue focused on our chains and to bet on the growth of the US market that is not -- according to our position -- and this is a position that we have since September last year, that is no novelty.

In reality, we can be different like others, because we started exporting in August-September and everybody was still focused here. What we started doing in August-September, well, we are seeing the results now and this is why -- this is one of the reasons why our working capital increased a bit, because our stocks -- they are throughout the process, they are in the port and then the United States, but they are ready to be sold and to become -- to turn into money. So this is the strategy that we have for the first quarter in exports.

Now, regarding other markets, we already have a strong export position in metallic sheets in Latin America. We export 15 million, 16 million tonnes in Latin America and the average price is $1,300. We are trying to increase this base in Latin America, but I would say that we should make the best out of our privileged situation in the US.

Now, regarding working capital, we can see that our stocks from 3 billion and 3.3 billion in December. Now, the variation wasn't in raw materials. In raw materials, there was a slight increase. It's not very significant. Now where we see a difference in growth was when we see stocks of finished products. This is connected to what Martinez just mentioned. Our strategy continues to work at full capacity. And we are considering the competitive advantages that we have regarding our costs. And we have the lowest steel cost in the world. Therefore, we can compete in other markets and other fronts.

Now this started last quarter and last year and we will start seeing the important impact after the first quarter. So this is something that is within our strategy.

Q - Milton Sullyvan {BIO 19085202 <GO>}

Thank you very much.

Operator

Now (inaudible) Citibank.

Q - Unidentified Participant

Good morning to everyone. I would like to go back to iron ore. Today, you reported the EBITDA per tonnes was $12 or slightly below $12 per tonne. And the price that we see is $58 or $16 below the average of the fourth quarter. What is the price level in the international market that would make exports unfeasible in your opinion?

And at last, David, if you have an update regarding Usiminas. You had a request -- you requested something to CVM for (inaudible).

A - David Salama {BIO 17456021 <GO>}

Well, thank you very much. Daniel will answer the first question and I will talk about Usiminas.

A - Daniel dos Santos {BIO 18101925 <GO>}

If you consider the Brazilian players and you see the main player here that has a different performance in the market when you consider the markets from the north and Southeast market, we can compare ourselves to this player in the Southeast region. When you compare mine for mine and the competitiveness of each one of them, this is no news, there are a number of analysts that have already published this cost analysis. And we are highly competitive and we are the last to turn off the lights when it comes to dropping prices of the operations of the Southeast region.

Now regarding our mine position, Usiminas, as you know, this is a financial investment of the company, we always try to maximize the result of this investment. Now in reality, our thesis is the same, be it CVM. Basically, we have a clear view that there was a change in the parent group and as minority, we are reclaiming our rights, we are going to different fronts to the CVM and Justice, to the antitrust also -- agency.

Operator

(Operator Instructions) Our next question from Mr. Alan Glezer from Bradesco Brasil.

Q - Alan Glezer {BIO 17508681 <GO>}

Good afternoon. I have two questions here. The first one would be the steel mill cost. We had a flat carbon cost. Was the exchange rate depreciates itself and there are other components are dollarized. I would like to understand how you see the pressure on cost, because there is a depreciation of the currency.

Now would be regarding steel mills, I would like to know what happened with your product mix. I don't know if this is related to the drop of revenue per tonne, something that we have observed here. It will be basically my two questions.

A - Unidentified Speaker

Thank you very much, Alan for your questions. In reality, I'm going to try to convey to you what we -- something that we call operational exposure with the variation of the exchange rate. And what is interesting is that the company, if you add steel and mining, in reality, you are positively exposed in dollars, $450 million, $500 million. So these are the revenues of iron ore.

The revenues of steel, in terms of what we export, now while we buy iron ore from thirty parties that is connected to the exchange variation. So this is what we do here.

And when we add everything up, it is positive. And we are exposed -- our exposure is BRL450 million, so every 10 cents of variation, we in reality would have an increase of 45 million in consolidated EBITDA of the company.

Now regarding our product mix, our monetary net revenue of the year, if you imagine, we finished 2014 with a unitary net revenue of 2,187 -- of 2,049. So 11.5 higher, without considering fees and COFINS. So we were highly affected.

Number one, we changed our portfolio because of the demand, the domestic demand. And we were affected by the significant import of galvanized products. So in reality, this drop of unitary net revenue was basically due to the product mix. Now, what is going to revert this situation positively in 2015 will be the dollar and the premiums that we have. Cold rolled products and zinc products, so we continue with 40% of our products with coated products. And this is something that will continue.

Operator

Our next question from (inaudible).

Q - Unidentified Participant

Good afternoon to everyone. We have two questions. One would be a follow-up about the profitability of iron ore. I would like to know how you will maintain yourself competitive when you have iron ore at $12 and a drop in the spot market of $14. How will you maintain yourself competitive in this scenario with price drops, and what about the proportional EBITDA of the controlled companies that was BRL200 million in the fourth quarter, three times higher than what was reported in the third quarter? Therefore, I would like to understand how you see this in the future?

A - Unidentified Speaker

Thank you very much for your question, Daniel [ph]. I will answer the second part of your first question. That would be regarding how we will maintain our self competitive. We have been doing our homework for some years. Since 2013, we have had great performance in order to improve the quality of our products and also to drop our costs. That is part of our model to support and there would be continuous cost reduction.

Recently, at the end of last year, when the scenario got worse, what we did was to change our operational model, more in Namisa and in Casa de Pedra, as we already had a highly optimized operation compared to Namisa, but we did it to compete in the near future.

In the case of Namisa, what we did was we basically changed the final product. So we had a product that was standard with 62% of -- now we will sell concentrates with -- we will capture better prices and we are able to have differentiated products. We have fixed costs from Namisa and also we're practically totally integrated with Casa de Pedra. That is the process that we're undergoing this year.

So there are some advantages in operational costs that allow us very quickly to adapt ourselves to new situations. We have a product of better added value, improving more the products of Casa de Pedra. And then throughout the upcoming months, you will see this happening strongly.

Now in the case of costs, when you talked about amounts, when we have stress scenarios where most of the journalists try to work with ranges, calculating a dramatic scenario for the quarter, what happens is that we survive with the big players. And as I said, in Brazil, if we compare ourselves to Brazilian players, in the Ferrifero Quadrilateral and the Southeast region of Brazil, we are the last ones to leave the market. So if we are below $50, we still have a level of competitiveness that is comparable to the big players.

Now what about -- there is another question. I was reading some reports and I said that this matter is creating confusion. What we had in the last quarter was simply a reclassification of our equity income. So we broke out the equivalents line and we started with the different lines, so we started breaking out our equity in results.

Q - Unidentified Participant

And are they requested to reclassify?

A - Unidentified Speaker

So basically we're talking about an accounting adjustment. This has no impact in the EBITDA. The EBITDA would be 200 million, the consolidated EBITDA, the company continues the same. It's just a matter of reclassification, like we did in the third quarter. This is why you saw this big impact of 200 million, but this is just an accounting adjustment. It does not involve any type of non-recurring adjustment as some analysts announced today.

Q - Unidentified Participant

Thank you very much.

FINAL

Bloomberg Transcript

A - Unidentified Speaker

Well, thank you. If we have no further questions, I will like to give the floor to Mr. David Salama for his final comments.

A - David Salama {BIO 17456021 <GO>}

Well, first and foremost, I would like to thank everybody for participating in today's conference call. We would like to reassure that we are focused on cost productivity, we're focused on quality, on return and mainly on reducing our debt. We are going through a difficult economic scenario, but everything that is at our reach, in terms of improving productivity and reducing cost, to an improvement, we are doing and I can say that it is very intense at CSN.

Therefore, I would like to thank you for your participation here and tell you that our IR team is at your disposal to clarify any questions you may have. Good afternoon to everyone.

Operator

Thank you very much. CSN earnings call has come to an end. Please disconnect your lines and have a good day.