Q3 2012 Earnings Call

Company Participants

- Daniel dos Santos, Mining Director
- David Salama, Executive IR
- Geraldo Maia, Commercial Mining Director
- Luis Martinez, Commercial Officer
- Unidentified Speaker, Unknown

Other Participants

- Andres Pinheiro, Analyst
- Ivano Westin, Analyst
- Leonardo Correa, Analyst
- Rodrigo Barros, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, I would like to welcome everyone to CSN's Third Quarter 2012 earnings conference call. Today, we have with us the Company's Executive Officer. 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 section and, 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 flick through the slides during the conference call. There will be a replay service for this call on the website. We would like to inform that due to the number of participants, the Company will answer only up to two questions per participant with no right to reply and, therefore, we kindly ask that all the questions are made at once as soon as the line is opened by the operator.

Before proceeding, let me mention 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 will turn the conference over to Mr. David Salama, CSN's Executive Investor Relations officer, who will present the Company's operating and financial highlights for the period. You may begin your conference, sir.

David Salama {BIO 17456021 <GO>}

Thank you. Good morning, to all. Thank you for participating in this CSN conference call to discuss our results for the Third Quarter of 2012. Participating with me in this presentation is the management of CSN.

Let us start on slide 3, where we give you the consolidated results for the Third Quarter of 2012. Our net revenue amounting to BRL4.3 billion in the Third Quarter, is 3% higher compared to the Second Quarter of 2012, the highlight going to record sales in the steel segment. Gross profit in the Third Quarter reached BRL1.2 billion, the same level of the Second Quarter. The EBITDA for the Third Quarter was BRL1.1 billion, 4% down vis-a-vis the Second Quarter. This could be due to lower (R&R projects), partially offset by higher steel sales. The EBITDA margin for the Third Quarter was 25%.

The CapEx in the Third Quarter reached BRL892 million. And we highlight investments made in Steel, BRL257 million; Mining, BRL190 million; Cement, BRL58 million; and Logistics, BRL290 million. In the Third Quarter of 2012, the Company's net income reached BRL159 million.

Let us now look to slide 4, where we see the EBITDA evolution. The EBITDA of BRL1.1 billion in the Third Quarter of 2012 showed a 4% decrease, compared to the Second Quarter. The positive effects on the EBITDA were; more steel sales, 13% up compared to the Second Quarter; higher volumes of iron ore sold, up 8% quarter on quarter; a reduction in the unit cost in the steel business, basically stemming from the lower transportation expenses and the sale of byproducts; and the result of other segments where the Company operates.

On the other hand, the following factors negatively impacted EBITDA. One of the lowest iron ore prices, down 24% compared to the Second Quarter. And a higher nominal mining COGS.

Let us now go to slide number 5. Here, we have the net revenue and EBITDA of those segments where CSN operates. Steel accounted for 67% of the net revenue. And 50% of the total EBITDA of CSN in the Third Quarter. Mining accounted for 22% of net revenue and 35% of EBITDA.

We are now moving to slide 6, where we give you detail on the result of the steel segment. Let us start with the chart on the left upper-hand corner. In the Third Quarter, the volume of steel sold of 1.6 million tonnes was a record mark for CSN, representing 14% growth compared to the Second Quarter, basically due to more steel sold in the domestic market, following the Company's strategy to prioritize the demands of the domestic market where we highlight the following industries; automotive, white line. And civil construction.

Of our total sales, 79% were in the domestic market, 19% were sold through our overseas subsidiaries. And 2% were exports. It is worth pointing out that steel sales in the domestic market reached a record mark of 1.3 million tonnes, 21% up compared to the Second Quarter of 2012.

Here on the top right of the slide, to the right now, we see that the steel segment net revenue reached BRL2.9 billion, a 10% increase vis-a-vis the Second Quarter of 2012, basically as a result of the higher sales volumes.

Now on the bottom part of the slide we have the EBITDA. In the Third Quarter, the EBITDA for steel was BRL567 million, a 20% growth compared to the Second Quarter of 2012. And the EBITDA margin increased to 19%.

On the next slide, we will have the same analysis. But this (one) for mining. Again, let us start with the chart on the left upper-hand corner. In the Third Quarter of 2012, iron ore sales of CSN and Namisa reached 6.6 million tonnes, 8% up compared to sales in the Second Quarter of 2012.

It is important to highlight the fact that in addition to sales to our clients, CSN consumed in the Third Quarter 1.6 million tonnes of iron ore, a volume not included in this chart.

Still on the top part of this slide, now to the right, we see that net revenue in the Third Quarter reached BRL937 million, impacted by lower iron ore prices, which reached in this quarter $82 per tonne vis-a-vis $109 per tonne in the previous quarter, following the downward trend for iron ore prices in the international market.

Let us now analyze the mining EBITDA on left-hand corner at the bottom. In the Third Quarter of 2012, EBITDA totaled BRL398 million, with a 42% EBITDA margin, primarily impacted by the reduction in iron ore prices, as I previously mentioned.

We are now moving to slide 8, where we see the evolution of our net debt. The net debt of BRL15.6 billion remained stable quarter on quarter, with a gross debt of BRL30.2 billion. And a substantial cash balance of BRL14.6 billion.

Despite the fact that the net debt remained stable in this quarter, at the same level, some offsetting factors deserve to be mentioned. On one hand, the following contributed to an increase in the net debt; the CapEx, which totaled BRL800 million. And debt charges which reached BRL500 million.

On the other hand, the adjusted EBITDA of BRL1.1 billion. And BRL100 million reduction in working capital. And other accumulated effects totaling another BRL100 million, brought the net debt down to the same level of the previous quarter.

At the end of the Third Quarter of 2012, the net debt over EBITDA ratio was 3.3 times, (resulting in) an EBITDA of BRL4.8 billion in the last 12 months. Of the total gross debt at September 30, 64% of the debt was denominated in reais and 36% foreign currency denominated, particularly in US dollars. (inaudible) 93% of the debt is long term and 7% short term.

This basically ends our presentation. We will now start to the questions and answer session. Thank you, very much.

Questions And Answers

Operator

Thank you. We will now start the Q&A session for investors and analysts. (Operator Instructions) Thiago Lofiego, Bank of America, Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

My first question, if you could tell us a little bit about your commercial strategy. You have gained market share vis-a-vis other players. And basically you have lost a bit in the domestic market. But looking forward, what should we expect from your commercial strategy? Have you increased the price. And also the premium on certain products?

A - Unidentified Speaker

Hello, Thiago. The fact is, Thiago, what is happening, our commercial strategy -- in fact has always been CSN's commercial strategy to generate cash, reduce costs. And maximize our profitability.

Now what is happening today in the world is making things more difficult in the equation of supply/demand. Today, we practically have idle capacity in the steel world, over 600 million tonnes of steel in the world of idle capacity, with a production of 1.7 billion tonnes. And this is a factor which puts a lot of pressure on us in the sector Brazil.

When you go to Europe. And the situation there is no different. And in Europe we practically have some 35 million to 40 million tonnes idle in Europe. And 27 million (trucks) in production. And China, for five or six years now, is a (bit scared of the) (inaudible) of producing again. And with the slowdown of the Chinese market looks like being a problem.

So we want China to do very well. And they have a great domestic market. It's impossible to compete with China with incentives or subsidies or everything we have to do here in Brazil. And it's difficult to export to China.

When we talk about exports, the situation is still difficult. In the last quarter, in the Third Quarter, the importation of flat steels went up 20%, growing to 472 million tonnes in the Second Quarter. There was a slight drop in the year of 9%. But importation still (provides) and continues to be important for us to manage.

And also, a point I would like to highlight is to do with China. The problem in China is not profitability but employability. And China is worried about keeping jobs. So they will produce at any cost.

Here in Brazil today, well in Latin America generally speaking, particularly Brazil, for each $1 million of products in the metal mechanics chain which are imported, there is a loss of about 46 to 64 jobs, direct jobs. And this will show you how difficult our situation is regarding the metal mechanic structure. This is something that we have to follow very closely.

Now, talking a little bit more about Brazil. In fact, in the Third Quarter, we had a price increase of 3.5% to 5%, which came into force on September 1 in distribution, accounting for 30% of our portfolio. And part of this increase will be felt in the next few months.

And another important point is our revenue increased 10%, our total net revenue. And the price is pretty well stable. What has led to the price to drop a little of about 1.3%, 1.4% in the domestic market, is because we sold 39% of galvanized materials, compared to 43% in the Second Quarter. So (there's not a little) to hold the price stable.

What we are seeing in the market, Thiago, is that the market continues to be difficult. Brazil had a automobile chain, which is okay, white line improved 15%. And assembly plants will go up as well. And we still have capital goods and packaging. So there's still a lot of room to grow. The problem in Brazil is it's difficult to obtain more profitability.

What we want to do in CSN is work hard on this cost control. We're not sure what the price in the market is going to do. So this result is very important.

Regarding the premium; today the premium of imported material was from $530 in China. If you take this metal and import it. And rationalize it. And compare it to domestic market, the difference is 6%.

And in the hot rolled products, it's almost nothing. In the cold rolled products, it still attracts a premium; it still varies. And in (zinced) products, even more. The premium (ranges) from 10% to 20%. So this is something we have to be very careful about.

The anti-dumping question in Brazil has been rejected. And now, our claim is that both cold rolled products and others be included in this unit of products that the Government should be analyzing by the end of the November, (inaudible).

So basically then, this is just an overview of what is happening in the market. And then, I can complement this with more details, should you need it. Thank you.

Due to the large number of participants, the Company will answer up to two questions per participant, without a right to reply. Thus, we would like to ask you that all the questions be made at once, as soon as your line is opened by the operator.

Operator

Rodrigo Barros, Deutsche Bank.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Two questions. First, I would like to hear from you more about the projects of consolidation of the plant in Transnordestina. And the debt, perhaps you can give us the details. And an update regarding the mine and port capacities, particularly port capacity. And can you have this before the expansion of the mine -- can the port expand before the expansion of the mine?

A - Unidentified Speaker

I will answer your second question. And (Daniel) will answer the question about mining. And then, I'll come back regarding the question the (planned consolidation of Transnordestina).

Regarding your question and the port capacity; in the case of the port, we are working with (this). The First Quarter next year, we will complete this project. We will have an additional capacity ramp-up next year. And coming to full capacity in the second half of the year.

We are much aware of this, because in mining, the market is quite difficult. The situation of the market we have most of the Company cost control. And the mining more specifically, with the improvement of some of the products to increase our competitiveness. This is mainly in Namisa and this has been implemented in the last few quarters and has been giving us good results. And we hope to improve even more the quality of our products.

And regarding the mining, we have some production mines projected for the beginning of next year. We have the recovery project of the Namisa package, a couple of mines. And this will happen at the end of the drought period.

And during this rainy period, we will do some work and, at the end of the cycle, we shall start an electromechanical facility, which will bring about an increase to complement this expansion of the port.

The (Casa de Pedra) expansion, which is the most important, is ongoing and we've started to do, as we said on the last call, the information on the expansion of the Casa de Pedra.

The line installation, well, some lines will be installed in the second half of next year. And this will start generating some product also to follow the growth of the port.

Besides that, CSN and Namisa has been very strong in the area where there is a concentration of ore. We are competitive there. But we have high quality, high grade ore, at quality necessary or required by the market. And this has been growing too.

We have greatly increased our participation in the market because the drop in the price of the ore also came as an opportunity for us to renegotiate some contracts and increase (premium) because we were able to offer better terms.

So generally speaking, this is a very tight schedule. But we are in line, or we're trying to keep our capacity in line, increasing the port, our own production. And also the mining activities in the region.

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

Rodrigo, I'm going to answer the question regarding the Transnordestina. This is a project which had the original budget of BRL5.4 billion already approved. This was extended until the end of September (BRL3.7 million).

We already see that this investment will be a little bit higher than that. And because of this, we are negotiating with the Ministry of Transport, seeking a more responsible way to make this project viable and feasible. It's a long-term project, as you know. It is a project which, in some ways, will bring a significant impact on the north eastern region of Brazil.

And as soon as we have all the data and all the final elements of this negotiation, we will be presenting this to you.

A - Unidentified Speaker

Now I would like to call your attention that the Company will be very careful regarding its investment. All our investments will be carried out with responsibility.

We find ourselves at the moment where the market volatility is high. But we can take considerable care in the execution of our projects. And this does not apply only to the Transnordestina but, in fact, to all the Company's projects. We should analyze them. We must grow. But carefully. So do not expect to see anything different from CSN in this way.

Operator

(Andres Pinheiro, Itau BBA).

Q - Andres Pinheiro

My first question is about the global steel market. And the question is to (Martinez).

What do you expect to be (steel) price on the international market First Quarter; you had an inventory shortage in the Third Quarter. But if the Chinese production continues to grow that might put pressure on prices.

My second question is about the other businesses, particularly Cement. Could you elaborate on the Cement business as to the market growing? You say in the quarter, the results of the Company have been improving but I would like you to give us an update on those other businesses. Thank you.

A - Luis Martinez {BIO 17456025 <GO>}

Andres. Good morning. Okay, (inaudible), this is Martinez again. As for prices in the global market, for the First Quarter of this year, $520/$530 (FOB). This is because the price range we're working with. (To adjust) the premium will be close to that I mentioned, 2% to 6% by the end of the year.

Obviously, we don't know what's going to happen next year. What will determine that the price remains at this level, or to be slightly higher, will be the strength of the Chinese market. And that's the scenario that we are working with.

Your second question was about the Cement business. David will comment after I speak. The full capacity of (inaudible) 2 million tonnes a year, around that approximately. I do have some data that I would like to share with you regarding our Cement business. In the Third Quarter, we had a production of 516,000 tonnes; sales of 558,000 tonnes; a revenue of BRL195 million; and operating costs of BRL110 million; and (on the way) we reached an EBITDA margin of 22%. The Cement business continues to grow in Brazil. It is a segment for which we have announced an expansion plan. The (inaudible) expansion plan which the Company made, diversify its operations for the comings years (indefinitely).

Operator

(inaudible)

Q - Unidentified Participant

My question goes back to the price of steel in the domestic market; I would like to understand two points. In the Third Quarter the performance with the performance of the domestic market, did you see clients in the distribution business bringing payment forward? Could this have an impact in the Fourth Quarter because these purchases were made in advance?

And in the expectation of increase in purchase of the automotive business, has this been passed on to the automotive business?

The second question is about iron ore. I would like to understand better what would be the expected mix between the (mine) and Casa de Pedra?

In practice we have (the numbers) of volume have been growing a lot and the Casa de Pedra volume will be reduced compared to 2011. So what could we expect in terms of the mix between mine and Casa de Pedra, looking forward?

A - Luis Martinez {BIO 17456025 <GO>}

Hello, this is Martinez again. Actually, your question related to distribution, the 20% growth in sales in the domestic market, that is related to a couple of factors. The increase in a number of the main segments that consume steel; automotive; white lines; and civil construction, which improved in the last quarter. The packaging and capital growth are still lagging behind. What's happening is actually two simultaneous phenomena as the demand increases.

Value chains upstream buying more materials. In addition, there is a re-composition of inventories, not only of distribution. But of the industrial block that have worked since last year with very low inventories, sometimes causing downtime in some segments; white line; automotive; auto parts. So two phenomena; increased the amount in re-composition; replenishment of inventories.

To your second question, I will ask our Commercial Mining Director, (Geraldo), to answer your second question about the mix.

A - Geraldo Maia {BIO 21888368 <GO>}

As for the product mix between CSN and Namisa, we are focusing on optimization. And because of the resources that we have at hand, we have tried to adjust our product to market demand. With that, we have managed to tap into some opportunities that have presented themselves using our revenue because of the benefit quality of products that we offer in the market. For example, in the Chinese market we have a different price index for different qualities of product. So we've started optimizing our product so as to reach a quality product that has a higher price. So we are putting quality control in our production. It has been our focus in terms of product mix between the two companies.

Operator

(inaudible).

Q - Unidentified Participant

My first question is related to (inaudible) in the steel segment. We observed an 8% decrease quarter on quarter. And the unit price per tonne reached BRL1,582 per tonne in the Second Quarter. In the Third Quarter we see a cost of BRL1,462. So I would like to know (if this factor has) led lower cost in the mix of metallurgic carbon that you are using.

The second question is related to investment. We observed an increased investment in Mining in Casa de Pedra (inaudible). So I would like to know, is this a trend? Could we expect it to continue in the coming quarters? Thank you.

A - Luis Martinez {BIO 17456025 <GO>}

Hello, this is Martinez again. Just to give you an idea, our slab costs (with coal) the cost was $564 per tonne in the First Quarter, to currently $466 per tonne in the Second

Quarter. So (we remain) in the Fourth Quarter with a stability of about $456 per tonne. Obviously this reflects the cost of coal with the (plans) that we have.

It started with $315 in the first two quarters. And increased to (inaudible) $222 for the First Quarter. And coke is relatively stable, a slight decrease at $460 per tonne. So basically, what we have is a cost stability of about $456 per tonne, which makes CSN very competitive in the international market. When I said that the Chinese are selling at $520, you imagine that they are selling it at that price without remunerating their investment; they're making no money. This is a clear situation that is happening in the world. And it will only be solved with increased sales in the Chinese domestic market.

It would be very hard to have the Chinese (reverting) all of their production now, that they are accumulating now. And revert to exports to other countries because there are no markets in Europe; Europe is closed. The only oasis is Latin America. And that's where investments are coming to, not only in Brazil. Recently, (inaudible) the Association of Coal Production in Latin America, has shown that the industrial GDP of Latin America economies has dropped from 23% to 14%, with a consequent reduction of jobs in all of the metal mechanic chain.

Certain times you will hear people talking about protectionists. But actually what they need to do in Brazil is to value the jobs of Brazilians. So we don't want to be protectionists. Thank you.

A - Unidentified Speaker

And I would like to complement Martinez's answer saying that today the Company is very focused on reducing production costs. Our expectation for 2013 is to have a decrease in the main raw materials. We've seen this happen with the price of scrap. And our expectation is that the price of ore will remain at current prices between $100 and $120. Just to give you an idea, coal in the (power) region, the price of coal had a significant reduction in prices that we will see in the beginning of 2013 will be the result of our actions now. We're talking about a price of about $140 per tonne; and if you add all the costs the price will reach $160 or $170. That should have a substantial impact on the Company's results.

In other words, we work with basically a very strong discipline, like I said previously, regarding investment. So very quick, cost control as well; we are controlling costs very closely, very carefully, throughout the Company; particularly at the beginning of next year, we'll have a margin and EBITDA recovery. Daniel will answer the question referring to mining.

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

As for the trend that you observed in the execution of CapEx, it was more than a trend. As we informed in the conference call of the Second Quarter this was not expected to be observed as of the Third Quarter. And as I mentioned, it is a strategic part of our business plan.

We will have a greater investment in mining, because this is linked to the additional port capacity that we are installing. As had been planned in the previous quarter, we will be increase in the mining CapEx. Please expect that; it is part of our plan.

In addition, as we said at the beginning of today's conference call, you have to look at the world scenario, to assess the world scenario. And although we would be willing to be implement as quickly as possible, once it is more profitable for the Company, (discipline) and investment in CapEx execution can only (inaudible) for the Company. Now we have to find a balance between the CapEx and the need to supply the port according to investments made there. But still investments are growing according to our strategy, in very carefully, with a lot of responsibility.

Operator

(inaudible).

Q - Unidentified Participant

I wanted to know about iron ore products and the Casa de Pedra production, which is similar to the Second Quarter. But a few tonnes below, first. So I'd like to know whether you are expecting an improvement in the next quarter. And elaborate a little bit on this question.

A - Unidentified Speaker

We maintain the -- the objective is between 27 million and 29 million (inaudible) tonnes. And the split between the Companies, well, it's variable according to the market demand and the quality requirement of each one of the steel mills or the plants who are buying the ore. So we keep that guidance of (21).

Operator

Rodrigo Barros, Deutsche Bank.

Q - Rodrigo Barros {BIO 5851294 <GO>}

I would like to know about the development of the port capacity from (28 to 29). What will it be in 2013 and 2014 with additional capacity?

A - Unidentified Speaker

As from the First Quarter of next year, we have the second (inaudible) (dumpers). And this will bring an installed capacity of 45 million tonnes. Obviously, this capacity has a curve regarding loading. And we estimate that the middle of the second half of the year, next year, we will reach full capacity.

The 60 million tonne capacity, which is the second step of our expansion project for the port, should occur at the end of the Fourth Quarter of 2013 -- the end of the year of 2013, with the completion of the installation of the necessary equipment. And the necessary changes and alterations. And the balance for 84 million tonnes will be towards the end of 2015.

Q - Rodrigo Barros {BIO 5851294 <GO>}

And investing in this capacity before the mining, are you considering to shelve, perhaps, the port installations to third parties?

A - Unidentified Speaker

According to our plans here for the next three years, we are seeking the -- we are also going to increase the capacity of the mining. And also producing the (commercial) field. And then coming into (steam on some) new lines at the Casa de Pedra. And also the strategy of the purchase of ore in the region, we have a dominant position. And we have a capacity of buying ore from the mines in (inaudible) or in (inaudible) where the Casa de Pedra facilities are found. And other (inaudible) installations. Because we can produce high-grade ore from our mines. And this helps us to maintain our supplies and a good position.

Operator

Leonard Correa, Barclays Bank.

Q - Leonardo Correa {BIO 16441222 <GO>}

I would like Mr. Martinez (to answer). The first question is the volume, which has drawn our attention, the (absolute) increase of volume where competitors have said there has been a drop in volume. I would like to know when you think that this level of volume, even excluding -- if it is sustainable. And can be compared basically to (pre price peaks), 1.3 million, 1.4 million tonnes. This has drawn my intention. So I'd like to know, perhaps in this quarter, you have consumed some inventory. So I'd like to understand a little bit more about the level of sustainability of these volumes. That's my first question.

And second, the assets of (CSA) it was public that you might have a possible interest in this. And perhaps if you could tell us about your interest, if there is any interest in buying the two assets, or do you have a more focus in CSA? So what is the rationale. And what are the alternatives for financing? So perhaps you could give us a better idea regarding your possible interest in these assets?

A - Unidentified Speaker

Well, Leonardo, I will ask Martinez to help me with the first question. And the second, regarding CSA, I'll come back and answer later.

A - Luis Martinez {BIO 17456025 <GO>}

There is a question here, asking whether what we have done in the Third Quarter is sustainable for the next quarters. And the next years. The truth is. And I want to clarify a point here, there's no way out. We have our production today. Our focus is in the domestic market. I have been saying for more than three years now, that our ambition is seek more value-added products. And not put all our eggs in the same basket. I want to work with all different kinds of markets, automobiles white lines, capital goods. And add value.

Our objective today is not so much the question of volume. Sometimes I read reports of market share -- some people had a question on market share. What we have, in fact, in the case of CSN is a search for selling what is being produced. Our production is (inaudible) and so we want to sell what we have. Is it sustainable or not? I think it is. Although, we have to also build up our stocks again for distribution and for our industrial chain.

But on the other hand, the question of the IPI being reduced for cars. And also the white line is good. The scenario is good regarding volumes. I think we have been through the worst. Our forecast for the First Quarter next year is positive. And I think that the volumes are sustainable. We have to improve the equation of profitability. We can only do this generating wealth and reducing cost. If you can do the two things together, better still. So this is an important point.

And another point here in our report is the distribution. We have transferred the increase, yes. It has been transferred to distribution to 4.5% to 5%. And this should improve our price level a little in the next quarter, the Fourth Quarter.

A - Unidentified Speaker

Leonardo, regarding the question of CSA, I have been asked several times about this. And I have also seen some market comments, etc. I can tell you that there is nothing concrete regarding this. And if we have anything that's referred to a more effective intention of buying the assets, we will disclose this fact, using legal means, to inform you all.

Operator

Ivano Westin, Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Daniel, you talked about the possibility of shipping 28 million tonnes a year; in the beginning of the year the guidance was a lot higher. In the capacity in the port of (Londrina) I understand there's a bottleneck now affecting the mine. So I would like you to elaborate on what were the problems, or what are the problems that are happening at the mine? What is your expectation (inaudible)?

My second question has to do with CapEx for mining. In Q3, you had a CapEx of (BRL29 million) in Namisa. I would like to know, is the Namisa CapEx agreed upon with the partners. And what would be the CapEx for Casa de Pedra for the years of 2013 and '14? Thank you.

A - Unidentified Speaker

Okay. You all know that, in the beginning of the year, we had strong rainfall in the region where the mine is, some situations where some cities were in a condition of emergency. And all of the companies of Vale included were in the (inaudible) in the end of December and beginning of January. We had a very atypical rainy season extending until the month of June. Normally, that's the beginning of the dry season. And that's when mining companies start to prepare to prepare what happens in the previous rainy season and preparing for the next rainy season. But a longer rainy season impacted all the players.

You are all aware of that, the impact of that on prices. Now it was something (inaudible) that we had and we've been trying to deal with it since the beginning of the year. Obviously, the rainfall in the First Quarter brought along the operating problems to everyone; it impacts the logistic grid for everyone. But this has been dealt with.

Since September we've been hitting record over record of production at Casa de Pedra. And (has strongly offset) the performance of the first half of the year. And we expect to have a very good performance in the end of the year. And that's why we are estimating that number for our port.

As for the investment Namisa, I'm not sure I understood your question. All of the investments are discussed with the partners, according to agreements signed. And things (I'm told normally), I don't see any issues there. It is my official obligation to take some investments depending on the amount for (inaudible) and they discuss with the partners. In addition, we are in daily contact with our technical team and representatives of the shareholders.

I would like to complement giving you some information about our strategy, particularly for the end of 2012 and for the year of 2013. You have followed. And I have seen some comments about the Company's debt. I would like to say that CSN today is very focused on its debt. We had a stable net debt in the quarter. But we had a decrease in our EBITDA, which made the net debt over EBITDA ratio to increase a little. We are dedicated to maintain this ratio stable.

At (a certain) level we expect this ratio to start decreasing and this will happen through a number of measures. First, in terms of investment, as I mentioned, the Company will make investments in a very responsible fashion, which means that the Company is going to be very careful very selective. Investments will be made for sustainable growth for the Company without impacting the debt level of the Company.

We are convinced. And we are working hard on the cost reduction. And this is not just a moment of higher volatility, controlling cost is a regular practice in the Company; we've seen this quarter on quarter. And that's why we also expect a significant cost reduction for 2013, particularly because we expect a reduction in prices for the main raw materials. I've just mentioned that we've seen this in the drop in the price of scrap, a decrease in the price of coal. And all of that should impact the Company positively, in addition to all the work that we continuously do to reduce cost in the Company.

(Inaudible) as Daniel mentioned, the market is not easy. But with all of those measures, the Company will start to see a rally in its EBITDA and a recovery of margin. And we expect the Company's debt level to remain at what we believe is an acceptable level for the Company. Plus the Company has planned a number of investments.

We will focus on maintaining our debt level; we are not going to do anything that will hurt the Company or that will substantially leverage the Company in the coming years.

Operator

Thank you. We are now closing the question and answer session. I would like to turn to call back to Mr. David Salama, CSN's Executive Investor Relations Officer, for his closing remarks. Mr. Salama, please?

A - David Salama {BIO 17456021 <GO>}

I would just like to thank you all for joining us in this conference call. I would like to say that the CSN IR team is available to answer any further questions that you might have, or questions that you did not have an opportunity to ask. Thank you, very much and have a good day. Thank you.

Operator

Thank you. that concludes today's CSN earnings conference call. You may disconnect your lines at this time. Have a good day.