Q3 2014 Earnings Call

Company Participants

- David Moise Salama, Investor Relations Executive Officer
- Unidentified Speaker

Other Participants

- Ivano Westin, Analyst
- Marcelo Aguiar, Analyst
- Monica Loh, Analyst
- Renato Antunes, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen. Thanks for waiting. Welcome to CSN's conference to present the results for the third quarter of 2014.

Today we have with us the Company's executive officers. We would like to inform you that this event is being recorded (Operator Instructions).

Our event is being simultaneously webcast via the Internet; it can be accessed via www.csn.com.br/ir where you will find also the presentation. The slides will be controlled by you. And the replay service will be available after the call.

Before proceeding, let me mention that forward-looking statements that may be made during this conference call are under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on beliefs and assumptions of CSN management and information currently available to the Company. They involve risks, uncertainties, assumptions because they relate to future events, and therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also impact the future results of CSN and could cause 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 may begin.

David Moise Salama {BIO 17456021 <GO>}

Good morning, everybody. Thank you for attending the CSN's teleconference call. Together with me, we have other executive officers.

Initially, I would like to say a few words about the segment that we work at. The world production of steel reached 1.2 million tons in 2014, an increase of 2% regarding the same period of last year. We have an excess of installed capacity, and in September we had a raise of 75.1, a drop of 2.6% vis-a-vis the same period of last year. For 2014, we project a 2% growth in steel consumption. The domestic production of steel is around 5 million tons from January to September 2014, a 1% reduction vis-a-vis the same period of last year.

Whereas the production of rolled steel is 1.7 million tons, a drop of 5% vis-a-vis the same nine months of last year. Apparent consumption in 2014 reached 9 million tons, a drop of 3% regarding the same period of last year. And internal sales were 8% below in '14.

The import of 1.3 million tons of steel increased in 2014, steel exports presented a reduction of 3%. India has reduced its projection for 2014 with internal sale of products; the first projection was 27 million, now it's 31.7. And the apparent consumption was reviewed, it was from 27.2 million tons to 25.3 million tons.

The reduction of the demand in steel resource is a consequence of economic situation, which reached the main industry where we operate, the automotive market, capital market, white lime and so on. In mining, by the end of the third quarter, the price of iron ore drop was $78 per ton compared to 135 in the beginning of 2014, 42% drop.

And the prices still kept on dropping in October, November, today reaching $75.5 per ton. With the expansion of production capacity, the price of oil was impacted by demand factors, like the performance in China, low availability of credit for steel, and a high level of iron ore in Chinese inventories. In this scenario, we see an average of $90, a reduction of 12% vis-a-vis the average of the second quarter of last year. The quality went from 145, 170 for each 1 percentage point of the sale iron ore. The freight from Brazil to China was $31 per ton, an increase of 3.7 vis-a-vis the average of the second quarter of this year, the third quarter, Brazilian exports of iron ore totaled 92.5 million tons, an increase of 9% vis-a-vis the previous quarter.

Let's go to slide number 3, where we are going to see the consolidated results for the third quarter of 2014. The third quarter shows a net revenue, consolidated net revenue of BRL3.9 million, 4% below the second quarter. This is due to lower prices of iron ore in the international market. And the gross profit was 971; adjusted EBITDA was 977, 25% below the previous quarter due to lower contribution of mining and steel, whereas EBITDA margin reached 23%.

Now, let's go to slide number 4, where we have the investments made by the Company. In YTD, the Company invested BRL1.5 billion to extend its business. We highlight the investments in steel, (inaudible). The production of the cement 22%, and 279 million in logistics.

Now, let's go to slide number 5, where we'll see the results per segment. Let's start by this first row. The net income in the third quarter was BRL3.9 million, 65% from steel, 21% mining, 9% from logistics, 3% from cement and 2% from energy. In the middle part of the slide, you see that the adjusted EBITDA was 61% by steel, 19% mining, 13% logistics, 3% cement and 4% energy. In the third quarter the EBITDA (inaudible), BRL668, a margin of 24%. mining 206 million, 26% logistics, 142 million, EBITDA margin of 38%, cement BRL26 million, 22% EBITDA margin, and BRL47 million for steel, an EBITDA margin of 48%.

Slide number six now, where we'll see a breakdown of steel. So, on the upper left corner, in the third quarter, the total volume of steel sales reached 1.2 million tons, 1% above the volume for the second quarter. In terms of sales, 72% were in the domestic market, 25 in subsidies abroad and 3% exported. The net revenue reached BRL2.8 million, 2% below the second quarter of this year, this was basically due to the mix of product sold. In the third quarter, the net revenue was BRL2.130 million [ph]. So the adjusted EBITDA was less 17% vis-a-vis the third quarter this year. The margin was four percentage points below the second quarter of this year.

In the next slide, we're going to see the mining sector in detail. So we are going to start on the upper left corner. In the third quarter, the sales of iron ore reached 7.7 million tons, 7% above the results for the second quarter of 2014. Sales volume 2.6 million, was sales at Namisa. In addition to the sales, we also had 1.5 million tons in iron ore in the third quarter.

It's important to highlight that year-to-date, we reached a record of 26.3 million tons, 19% above the volume for the same quarter in 2013. From these volumes, 7.1 was traded by momentum. Iron ore reached a record of 24.4 million tons, an increase of 23% over the same period in the previous year.

Now on the upper right corner, we see that the net income totaled BRL914 million, 18% below the results for the second quarter. This is mainly due to lower prices for iron ore, which reached an average of $55 per ton vis-a-vis $63 per ton, which was the price in the second quarter of this year. This was partially offset by larger volume of shipments. In the third quarter, we had the adjusted EBITDA 203 million, 54% below the previous quarter; EBITDA margin was 22%, a reduction of 18 percentage points.

Now, let's go to the next slide, where you see the track regarding EBITDA. EBITDA of 977 in the third quarter presented a drop of 23%. The reductions were due to lower prices in iron ore and the prices for steel. The offset is larger volumes of steel and iron ore sold.

Now, slide number 9, where we're going to show the evolution of the net debt. The net debt at the end of the third quarter presented a growth of 900 million vis-a-vis for second quarter. The ratio, net debt-EBITDA calculated on the last 12 months, adjusted EBITDA reached 3.2 times the total of gross debt at the end of September. 57% was in real and 43% was in foreign currency, based on North American dollars. 87% of the long-term debt and the rest is short-term.

We must highlight the devaluation of real vis-a-vis the dollar in the third quarter. This had an impact on our final results. Additionally, the realization of BRL600 million in fixed investments and the onus of the debt in our program to buy back share with total BRL300 million. In fact, we are offset by the EBITDA of BRL1 billion and a reduction of 100 million in the working capital of the company.

So, this is basically what I had to tell. Now, let's open for questions.

Questions And Answers

Operator

Now, we'll start the Q&A session for investors and analysts.(Operator Instructions) (inaudible) with the first question.

Q - Unidentified Participant

Good morning, David. Good morning, everybody. Thanks for the opportunity to ask questions. The first one is about the volumes for iron ore for the future. Can you give us some color on the work for mining expansion?

If you can give us a breakdown, you talk about the rail yard and why -- how you're seeing CSN service expansions? And what do you expect for 2015 and 2016 and the impact on volumes?

And the second question, we saw you're discussing with Tagalong issue again. Do you have any vision about CCM361, because you bought more than one-third of (inaudible). So I'd like to have some color on that?

A - Unidentified Speaker

Thank you. And I'm going to ask Daniel, our Mining Director to answer your first question. And then I'll talk about USIMINAS. Regarding the expansion for Casa de Pedra, you asked two questions about the rail yard and other BPO. So actually we think the expansion work for Casa de Pedra, for (inaudible) and now we are focusing on the yard.

When we talk about yards, we are talking about the product loading yard and the duplication of our rail area in Casa de Pedra. This s ongoing. We are focusing on that exclusively right now. And in 2016, we hope to have all the works concluded. And at this point the plans will be to produce 40 million tons. In terms of the (inaudible) last year we closed an important deal for the mid-round. We are now helping to finish this work of -- we have opened the -- the way we have projected is a structure work and it's ready to operate in the last four, five years without any restrictions. So, the problem is -- has been overcome.

Regarding the second question, USIMINAS, we are on the look-out seeing the movements that are happening. And if we challenge the last -- actually we're first concerned that we had already noticed. So, our investments will be monitored. We'll see how the situation evolves and we want to prove it (inaudible) was final, that's why we are trying to talk to the regulating agencies to challenge their decision.

Operator

Our next question comes from Thiago Lofiego from Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

I have two questions. Can you give us some color on the Namisa [ph]negotiations which is not clear to us, as far as we see there is still an extension of this one to be discussed. So I'd like to know what implication is for you to reach the 40 million tons? I think it's a (inaudible) of additional 10 meters, that you're prepared. I would like to understand what is happening and what the implications are for you to reach the full capacity?

And the second, according -- about the iron ore, I would like to know about the average content of iron ore and silica and purity as we discussed it you had in the quarter just to understand the prices.

A - Unidentified Speaker

We are going to address the first question and then Geraldo, our Commercial Director in Mining, will answer the second question regarding iron ore prices.

So, Thiago, first, let's see what the product of this (inaudible) that has been operating for more than 40 years. The mine has been operating for more than 100 years. This is with respect to, which is not very different from the other ones, as you see, in other mining plants in Brazil and around the world, (inaudible).

But what we are doing right now is we finishing the work, that allows us to operate in the mid-range. What we've talked about is expansions regarding the moves that you have around. Yes, we have a number of periods for the -- regarding this raising the height, in constructive method, so we have these stages of raising the height. This requires public consultation and other things, we have already one of our one of all these stages, now we're starting the discussion for a second phase to give us some breathing space, so we will increase the height. This is a regular process, it's normal, it's current, in Minas Gerais, there was the disruption of a structure. But this has nothing to do with our dam or with other ones of -- other mining companies. It's a much smaller structure, different from the one we have here.

So what we've been doing is to meet all the tactical parameters, it could be a (inaudible) in terms of safety, which has always been our attitude, so much so that we have never had any accidents and we have a very qualified team.

We have auditors monitoring the process, independent auditors and consultants at the international level and then I'll tell you that everything is running smoothly in the most adequate way. And we have some inspections, then we need some specific licenses and very strict ones. We have different phases in these processes. So the first one is the fire license. You have to consult the local community and now, everybody sell down to [ph] stakeholders and then we have equity first licensee. Then we have the licenses for installation.

So each project will have a specific process to gain a license. This is going very well. We have report from the agency that are responsible for keeping track of this in four mining companies is safe, so regarding the tailings dam, and we have statements to be effect that we have been following everything to the letter. Our dam is one of the reference dams in terms of technical parameters and construction (inaudible).

So in order to produce the 40 million, we are very much at ease with that. The work had been concluded. We are finalizing the work, we are planting grass, we have increased the pillars, we are cleaning some areas, and for the expansion, we have another phase, which will follow the process normally, the licensee process.

And the second code, it is required because the people who are most interested in putting this operating well in the company itself. Can you help me out with the second question?

Regarding our mine, our ore, with the great success we had the last month, we've been focusing on reducing cost and trying to improve the aggregate value of new products. Casa de Pedra provides good quality ore, this is history, this is something that we have always seen [ph], it is a fact. In terms of quality, we are trying to differentiate our products from the products of the rest of the market. We are competing with the Australian products of 57%, in China the difference is $10. So we need to find out further quality, so when we get better returns for the quality, we'll try to extend our customer portfolio for people who are outside China, because the Chinese market has an excess of supply.

Operator

Our next question comes from Marcelo Aguiar from Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

I would like to go back to the dam issue to make it clear then, you said that the dam is available to produce for four five years, but it would be very important to increase its height. So what's the deadline to have a preliminary license to extend the dam another 10 meters, so that you can go on operating after four or five years? With that we could have a better idea of the risk of the dam and see if there is a problem if the (inaudible) the project and those things.

I would like to know a little bit about your delivery rates, that's it; and also to talk about the iron ore prices that you just talked about, if you could give us an idea of how much your selling is at the spot market, what about the quarterly contract, because the gap of your realized prices you said is $53, the price is about $91.65. So, I would like to know what the realized price will be for the next quarter.

Finally can you also tell us little bit about the purchasing of third-party products, you are at a volume internally and externally it represents 66 million. I think that the projection will be for year 2013, 2014 so the price is very low. I think this means the mines won't have the same operating results as the last quarter.

A - Unidentified Speaker

Let's go back to the dam. We have the previous license for all the phases until the commissioning of the dam. Now each (inaudible) increase phase requires an installation for the (inaudible). So we ended up the construction of this stage that will ensure five years of production. This is an additional good method that all the companies, all the mining companies use and this the licensing process for all the mining companies in Minas Gerais. Next phase of hike in increase is already ongoing, it's into the process of installation. It's in Minas Gerais, public hearings have already been made.

All these phases are more direct actually, this is the way it works with licensing. So we have already overcome all these stages of public hearing with the local community and we are about to get the licenses of it, actually we are ahead of the curve of this process. We hope this process will be concluded by the first quarter of next year. Well, the other questions you asked, 13% [ph] of our returns -- 63% of the (inaudible) conference, so these earnings were long-term and the rest is short-term. 25% of our sales are priced in the futures market for fixed call positions.

When you compare two quarters regarding price, there is some projections, assessments that are made, but when you compare the average of last year with our average price, the average index with the average price and you compare this year the same figure. You will see that the dollar price dropped less than the index. So if you were to compare, you need to compare for a longer period of time because quarter-to-quarter you see some variation. So we see longer scenarios, we see that the drop in our prices was less than the drop that you had in the index.

Operator

Our next question comes from Monica Loh from Sofia Bank.

Q - Monica Loh

Is there any news in terms of (inaudible)?

A - Unidentified Speaker

What I can tell you that the negotiations are going on. They have a large group of representatives from the consortium. So the negotiations are going on. And they should go on during the weekend. As soon as we have news, we are going to report to the market.

Operator

Our next question comes from Renato Antunes from BTG Pactual.

Q - Renato Antunes {BIO 17439917 <GO>}

First question regarding leverage. It went from 2.7% to 3.2% of EBITDA. And if we see the depressed scenario (inaudible), so looking forward you would have some cash flow issues if you keep the CapEx above BRL2 billion. So, my question is what's your strategy from now on with a different scenario in terms of iron ore. Do you have any strategy regarding leverage? And do you have any assets that would be perhaps sold to try and minimize the leveraging looking forward?

The second question is for Martinez. I would like to talk about the fuel market. First of all, how is short-term the over bookings for the fourth quarter matching with somewhat you see in the market? I think the first quarter will be more difficult. So, do you see any signs of improvement for the future? You're talking about 1% or 2% increase in (inaudible). I would like to know how comfortable you are with the projection, and also the price trend, premium trends, those that you always give us in the call.

A - Unidentified Speaker

Renato, I will ask Martinez to answer first and then I'll talk about leveraging. Regarding the international coke, I don't want to be repetitive, but what we see is a clear up-turn in the American market, in the NAFTA region; not only the US but also Mexico group about 7% in this year and in the US in spite of a slightly negative first quarter, they are already at 4.6 in the second quarter and they could close the year with 3%.

In the Eurozone, we have a stable market, but in China that we are seeing the most the iron ore scenario loss of capacity (inaudible) closed every plant. They used be a net importer, now they are a net exporter. So in only 10 years they account for 60% of world production. This is what we see in the international scenario. We are consistent in the US and the recovery for us starts now in the fourth quarter, because in spite of fierce competition internationally we have really cut those competitions. First, we are at a traditional (inaudible) in the government, in the administration. So until the first quarter of the year, we were 100% focused on the domestic market. Firstly interesting, we expect a much better scenario (inaudible) will be solved. In the first quarter, we're going to export more and for next year, we're going to work with a dollar of (inaudible) this will be good for exports and this will also be good for the domestic market in order to avoid imports. Another important piece of this, which is more strategic, is that the industrial GDP needs to move with separate economy of the world, and our GDP, industrial GDP is 12.5%.

If you look at the other six largest economies in the world, it's never less than 25%. So I see this as something is an anomaly. And this trade mix to resume its important role in the scenario in Brazil. And then as a consequence, the sell through -- the Company will be benefited.

Give some words with this strategy. We're going to work at full speed, we are going to reduce costs and we have a very broad plan to reduce operating cost. From the first quarter, we're going to see an upturn in exports to the US, which is the only feasible place in the world, the only place we can export to date.

The fourth quarter we should export around 20,000 to 400,000 tons, another important initiative is the total focusing in the domestic market, working to have products of better quality, more aggregate value, summarizing not concentrating and selling per kilo and per meter.

Another piece of data which will help us in our free cash flow is to reduce (inaudible) stock and inventories. And this reduction of finished inventory will be very important in our industry, especially (inaudible) to ensure that the fundamental investment for better production and quality are made.

Another important piece of data, and here I would like to talk about portfolio, because we have just started our portfolio with the production of long ones. So our approval was totally concluded yesterday. We have all the cases approved, and next year we should have 350,000 to 400,000 tons illustrated by a synergy of cement, long and short. Another important thing is that CSN has an important characteristic and this carries requirements of various stages. We are working with the specific assets in each one of the segments to make this change more flowable and to maintain and operating in spite of very negative scenario this year.

In terms of premiums, we would say that the penetration of import (inaudible) in 2014 should be around 20%, which is 2.5 to 2.4 million tons.

If we imagine that this exchange rate will be around 275 and policies will come back in the domestic market, we see that CSN will be focusing in the domestic market, it will have (inaudible) same historic EBITDA margin.

Another important piece of data is, if you net this at 550 and a freight of 45 and if you net it as 550, and they need a premium from 3% to 10% in the domestic market. And in regarding important part of domestic. So in sense of the price that I see today in domestic market (inaudible) at the current exchange rate, not much important. So that is my expectations for 2015. First of all, a better definition of the political economic scenario and we hope that the growth in the sector will be benefit to promote more sales and to increase the productive chain flow.

And then with this scenario with the dollar and with a drop in import, we slowly get -- 2015 will be worse than 2013, it will be much better year according to the first quarter.

The fourth quarter this year (inaudible) fourth quarter of next year, we are going to export very less, that's going to be profitable because we sell it as a player in the local market together we'll have these -- so this is the macro scenario, this is what we see for the fourth quarter this year as the first quarter of next year.

Regarding the net debt, you're right. The ratio net debt-to-EBITDA is 3.2% and it was 2.7% during the first half of the year. It's important to consider the exchange rate variation. The dollar had an impact in the increase in our debt. We also had a reduction of EBITDA with a drop in iron ore prices. So, we are very much concerned about the goal. This is something that's very much discussed in the Company itself. We are going to work strongly to (inaudible). This will be supported by two fronts.

The first one related to performance of investments. Non-core investments, we are going to review the investments. We are going to see the ones that are more profitable. And the processing really in steel and mining to reduce costs. And this will start to bring some benefits to the company.

We saw a very important drop in our plate from 964 to 950, it's now below 900. Also in mining we're working to reduce costs, and also in regards to expenditures and the working capital for the business. In other words, we are adapting ourselves through the economic reality of the times. So we are reviewing contracts, we are gaining in productivity. We have tariff reviews.

So there are several things going on and the results of which are already becoming apparent. Our inventorial funds have increased 7% year-to-year, 10% in the last 12 months. This caused net gain of BRL130 million. We're renegotiating the main deadlines with our suppliers. So far we have managed to be successful in 47% of the cases which translates into an improvement in terms of payments of five days. We are also more keen to negotiate the future contracts and to re-adjust the current contracts. So there are many efforts to reduce costs and we're already seeing the benefits of this. This, of course, will have an impact on our debt; and another important transit of the deck is each clutch or investments for the next year. So we are giving priority to the investments, then it provides the best records, and then other we'll have a positive impact on our deck and we'll bring our leverage to an adequate level. Thank you Antunes.

Q - Renato Antunes {BIO 17439917 <GO>}

Just two clarifications. Regarding Namisa, I don't know if I understand you well. But you said that you're going to go on discussing if you could -- so do you expect a final word in the very short term or do you think this could go on for another two weeks or even months? Just to have an idea of what you're expecting in terms of current basis.

And then you said that you're reviewing the investment goals, do you have any figures to give us in terms of the CapEx?

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

Regarding Namisa, these negotiations have been going on. We will have another round of talks this weekend. We are moving ahead. It's very hard to say what the end lines -- or the end date will be when we're going to have a conclusion. But negotiations are being developed evolving. And as soon as we have news we are going to get in touch with the market.

And this new energy of work is happening. As regard to CapEx, you saw that so far we invested around BRL1.5 billion. Our expectation for the last quarter is to close the year around BRL2 billion. And we are also working with the 2015 budget. But I don't expect for this to be much different from what was paid this year. As soon as we have these figures, we are going to announce it, disclose it to the market.

Operator

Our next question comes from Ivano Westin from Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Good morning, thank you for the opportunity. Looking at the results per segment. (inaudible) EBITDA 30% above the previous quarter, during the same period the reported EBITDA for MIS dropped 36%, what is the expectation? What are the trends? Should we expect a recovery of the results and MIS? I would like to talk about expensing of long steel. What is the volume of sales for the next year? And are you expecting to enter this market, do you expect to gain market from the local competitors to work with (inaudible) projection or it just want to believe to increase demand and then results? Regarding the first question our investment in MIS is made to equity equivalent. So along the year since I'm (inaudible) the balance sheet side has been closed, and the balance sheet for MIS. And there are some adjustments along the year. There are some mismatches which sometimes occur. But usually at the end of the year you have final results which are at (inaudible)

What is the volume of sales for the next year? And are you expecting to enter this market do you expect to gain market from the local competitors to work with (inaudible) production or it just want to believe to increase demand and then results?

A - Unidentified Speaker

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Good morning. For long steel, the market, Brazilian market has been experiencing the same variation that you had in France. Your current consumption should close around 11 million tons, 4.5 in bars and 2.8 in (inaudible). This year we should close around 120 tons with the successful ramp up that we approved, all the cases from the largest to the smallest and just -- the end was yesterday. So in both cases, sales and clearance are approved, and we have many infrastructure works (inaudible) products.

Looking at the cement base, because retail customers, and it had some synergies, another important effect; CSN is going to operate in aggregate value in long steel.

And it can be presumed to go in place, in services instead of scrap, as there is a certain value that can be captured by the market that is more than what we have today.

In terms of ramp up, we are projecting a volume of 300 million tons 350 million tons and by the end of 2015 beginning of 2016 we would work at around 500 million tons, 400 bars, and the rest (inaudible). I actually made some modification and work more in the offshore, more for wires than bars which are more of a supplier market and the imports of bars is also strong this year. It is basically these scenarios that we have for this year and for the next year. Thank you.

Operator

(Operator Instructions)

Q - Unidentified Participant

Actually my question has been answered if you are asking me, thanks.

Operator

Our next question comes from Thiago Lofiego from Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Question is, could you please talk a little bit about the premium of the Q vis-a-vis imported? And what would be a comfortable Q3 level to adjust prices in Brazil? In terms of CapEx does it -- you said that you don't expect 2015 to be higher than 2014, is there a chance that it will be higher than 2014 CapEx?

A - Unidentified Speaker

Hi Thiago, regarding premium, I'm starting from a Q of $515 FOB with a price of 45. So the price in Brazil would be 560. So I'm assuming that a premium of 67% vis-a-vis imports and domestic is reachable and so, in the current scenario, it is not worth running the risk. And our (inaudible) price is between 1,800, 1,850.

With an exchange of 240 to 260, more so it's 260, it's upwards in '14. We are working with a devaluation of where we expect an exchange rate of 275, so maybe in the next -- in the near future, we could think about a re-alignment on international prices. But the scenario in the last quarter is stable.

And in the last quarter, we moved to the domestic market it is said -- it's usually very slow because we have vacations and companies shut down. We have the options to export. The exchange rate that would make us comfortable would be around 310 to 290 assuming a premium of 10%. At 275, I am much more comfortable with imports, I will be able to sell in the US because the market there has better prices.

We now also have the possibility of selling more in the domestic market. So this exchange rate opens up for us a different scenario. Drop in imports, more sales in the domestic market and also a possibility of exporting to market it still has a reasonable premium in the US. So 275, I think is a borderline to examine the other aspects, we need to see if the change that is adequate, if the demand is back, if we have consumption and we have demands, so there are other variables that we need to take into consideration.

But if there is an exchange rate that might lead to a change in the scenario, both for exports and for the domestic market.

Regarding CapEx, your other question, we are conducting it at the possible level year-to-date, we had (inaudible) BRL1.5 billion in the last quarter, with an additional BRL415 million (inaudible) that we are going to close the year around BRL2 billion. We don't have specifics on some of these (inaudible) expect something much higher than what we had this year. So around BRL2 billion was the estimate.

Q - Unidentified Participant

Thank you.

A - Unidentified Speaker

If there are no more other questions, I would like to give the floor to Mr. Salama, to give us an apprehensive conclusion remarks.

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

In Q2, the Company expects to work at full capacity. In steel, we are focusing in the domestic market, but also working to increase exports. I also mentioned something regarding cost reductions that has been addressed very diligently by the Company. In mining, we are going to focus on high aggregate value products; the idea is to sell products where we have an edge.

Our quality is better. So we're going to focus in quality, in addition to reducing our working capital. I would say that it is a challenging scenario and to again work through, it's (inaudible). We will keep on working diligently to adjust its operations in the markets where we work, improving operating results, reducing working capital, focusing on more aggregate value of products, adjusting the levels of investment. We are going to adapt to the new economic priority.

I would like to thank everybody for attending the call. The IR team is available for any questions you may have or that may come in the future.

Operator

Good afternoon. Thank you very much. CSN teleconference call has now come to an end. Please disconnect your lines and have a nice day.