Q2 2006 Earnings Call

Company Participants

- Jose Marcos Treiger, Director of Investor Relations
- Juarez Saliba, Director of Mining Business
- Marcos Leite Ferreira, Manager of Investor Relations
- Otavio Lazcano, Finance Director and CFO

Other Participants

- Daniel Altman, Analyst
- Eric Ollom, Analyst
- Maghili Bimm, Analyst
- Polina Kurdyavko, Analyst
- Snehal Amin, Analyst
- Unidentified Company Speaker

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the CSN Second Quarter 2006 Earnings Conference Call.

Today, we have, with us, OtÃ¡vio Lazcano, CFO; JosÃ© Marcos Treiger, IR Director; Marcos Leite Ferreira, IR Manager; Eneas Garcia Diniz, Production Executive Officer; Isaac Popoutchi, Institutional Executive Officer; Juliano de Oliveira, Affiliated Companies' Executive Officer; Marcos Leite Ferreira, Infrastructure and Energy Executive Officer; Pedro Felipe, Procurement and Corporate Executive Officer; JoÃ£o Audi, Exports Director; Jorgemar Almeida, Controlling Director; Juarez Saliba, Mining Business Director; Luis Martinez, Domestic Market Director.

(Operator Instructions)

We have a simultaneous webcast that may be accessed through the 'Investor Relations' section of CSN's website, www.csn.com.br/ir. A slide presentation may be downloaded on this website. Please feel free to flip through the slides during the conference call. There will be a replay service for the 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. Marcus Leite, who will open up our conference call. Mr. Leite, please go ahead.

Marcos Leite Ferreira {BIO 4716101 <GO>}

Good morning, everyone. And thank you for taking part in our conference call. With us, today, we have our new Investor Relations Officer, JosÃ© Marcos Treiger, who is no stranger to us. And has headed our IR Department between '96 and 2002; and our new CFO, OtÃ¡vio Lazcano, who has been in charge of our Financial Department for 10 years.

About myself, I will be shortly changing my position from the leadership of IR team into the Management of CSN's Investment Analysis Department, reporting to OtÃ¡vio Lazcano. I will now hand the floor to JosÃ© Marcos Treiger, who will comment on our Second Quarter results and recently announced investment projects.

JosÃ© Marcos Treiger: Good morning, ladies and gentlemen. It is a pleasure to be here with you today. And also it is a pleasure to be back at CSN after four years.

Well, I would like to begin by presenting the slide number two, which shows the highlights for the quarter just ended. CSN's prices in the Second Quarter of 2006 remained stable over the previous quarter. The difference between price behavior on the domestic and export markets was due to normal timing delays in aligning and passing on international price increases into the domestic market.

Another point worth noting is that the share of higher value-added products in our total sales reached 52% in Second Quarter and 55% in the first half of the current year. It is important to mention that in the Second Quarter of 2006, CSN has reached its record in sales allocation for the domestic market. We registered 75% of sales in local market combined with market shares of 29% of the civil construction sector and 37% of the distribution segment.

In terms of results, the highlights were the EBITDA and the net income levels obtained. Second quarter EBITDA totaled 924 million Reals in the Second Quarter, as I've said, 2.4% less than in the First Quarter of 2006 and 1.9 billion Reals year-to-date. Nevertheless, net income for the quarter climbed 20% over the previous three months.

Other highlights included dividend and interest on equity payments totaling 802 million Reals to our shareholders. The announcement of the merger proposal between our US subsidiary and Wheeling-Pittsburgh, which is an important step forward in our internationalization process.

The Board of Directors' approval for the revision of our Cement Project, which will absorb investments of $185 million. And our Long Steel project, which will absorb around $113 million. In the mid-term, these investments will enable CSN a very sound, a very strategic position to meet the expected boom in the construction sector, fueled by Brazil's massive housing and infrastructure deficits and pent-up demand.

Now, let us move on to slide number three, please. Here, on slide three, we are showing that CSN's consolidated sales and revenue performances by market. As we can absorb, in the Second Quarter, domestic sales volume increased by 14% over the previous three months and reached, as said, the record level of 75% of sales allocation in the Brazilian market.

On the price front and as of July, the Company increased its hot and cold-rolled bands prices by 8% and its galvanized coils prices by 12%. In August, we raised tinplate prices by an additional 9%.

Now, let us go please to slide number four. Slide number four with the title 'Production Costs' shows a breakdown of the parent company's production costs. The variations, you can see, were largely due to the accident of our Blast Furnace #3 and its subsequent stoppage for most of the Second Quarter.

However, it is important to note that the blast furnace has been already up and running in full operation, since June 23 last. It is relevant to note that the very reentrance of our Blast Furnace #3 increases the relevance of coke and coal cost. Presently, our average inventory cost was $126 per ton for coal and $217 per ton for coke.

The main consequence of the shutdown of the Blast Furnace #3 was that we had, obviously, to acquire slabs from third parties and at an average cost of $380 per ton CIF Sepetiba. This explains the 33% increase in our total production costs over the First Quarter.

If you look at the year-on-year comparison, you can see that our costs fell by 3% due to the reduction in output. Later on, we will be commenting on the accounting and cash impacts on our consolidated results related to the insurance provision and payout for earning losses from business interruptions.

Now, let us have a look please at the slide number five, which has a title 'Consolidated Net Income Second Quarter '05 versus '06.' On this slide five, you can see a brief chart showing CSN's net income variation. Despite the accident in the First Quarter '06, net income in the Second Quarter remained very much in line with the Second Quarter '05. And this was due to several factors, including; first, the booking of the provisions for earning losses due to business interruptions, which impacted our operating expenses line.

Second, the 196 million Reals reduction in provisions for income tax and social contribution, due to the reduced earnings in the period and lower negative impact from the effect of the exchange variation on the shareholders' equity of our offshore companies.

Third, to a healthier financial result, essentially due to bigger gains from treasury operations which had a positive impact of 113 million Reals on the Second Quarter of this year. However, all of these positive effects were largely offset by the 778 million Reals reduction in the Company's gross income in turn caused by the reduction in sales revenue due to the shutdown of Blast Furnace 3.

All in all, CSN reported Second Quarter net income of 409 million Reals, very much in line with the same period last year. Now, please, let us have a look at another quarterly comparison, which is shown in our slide number six.

In slide six, we can see together and on the brief chart, which shows a 69 million Reals increase in net income between the second and the First Quarters of the current year. This difference was due to the booking of 493 million Reals in provisions for earning loss in the Second Quarter of 2006 versus 177 million Reals in the First Quarter of 2006.

As you can see, operating expenses fell back to 175 million Reals. Due to the reduced earnings and few exchange losses on the shareholders' equity of our offshore companies, the lower income tax and social contribution on the Second Quarter results have a positive impact of 102 million Reals -- both of them.

All of these positive factors were largely reversed by the 300 million Reals reduction in gross income caused by the biggest volume of slabs purchased from third party. As a result, the Company ended this quarter with a net income, as said, of 409 million Reals, 20% more than the 340 million Reals recorded in the first three months of the year 2006.

Now, let's move on to the slide number seven, please. On slide number seven, which has the title 'CSN and Wheeling-Pittsburgh,' we have these following comments. We are, in fact, very pleased and optimistic with the substantial progress we are making with the Board and executives of Wheeling-Pittsburgh regarding the combination of our respective US steelmaking assets to create a much stronger competitor.

Together with Wheeling Pittsburgh, we are looking at this merger from a better market perspective and our rigorous analysis has shown that the deal makes perfect sense from both industrial and economic point of view. CSN will provide Wheeling-Pittsburgh with a long-term slab supply contract and a capital injection, not to mention a series of very feasible synergies, all of which make the transaction ever more attractive, then also with a pre-assured market allocation.

CSN is a long-term investor in the steel industry. And it is our intention to transform the combined firm in the US into a truly world-class company with low production cost and capable of competing with great success both regionally and globally.

Well, moving ahead, let us move to our slide number eight, where we have a few comments on our new business, CSN Cement. The Board of Directors has approved the revision of CSN's Cement Project. And its CapEx budget is now of $185 million.

Our Cement Project includes installation of our 3 million ton per year grinding mill in Volta Redonda, in the State of Rio de Janeior. And 825,000 ton per year clinker furnace in Arcos, State of Mnas Gerais, scheduled to begin operations in the final quarter of 2007 and 2008, respectively.

The plant's main raw materials will be slag, a byproduct of pig iron production. And limestone from Arcos already used in our steel production, which will be transferred into clinker, obviously.

Our ready access to these raw materials and the fact that Volta Redonda is close to Brazil's three biggest cement consuming regions -- we have talked here about the Greater SÃ£o Paulo area, the Greater Rio de Janeior. And the Metropolitan Region of Belo Horizonte -- plus the logistical advantage of having access to all of these regions by rail will result, we believe, in a company with very low operating cost and, therefore, highly competitive.

Just to add a few numbers, present value for the Cement Project is estimated to be of US$255 million, the internal rate of return for this project is of 19%. And the payback is of 10 years.

Let us move ahead, now, to the next slide -- slide number nine, where we are making a few comments on our new Long Steel Project. On August 8th, the Board of Directors approved investments of $113 million to install a 500,000 tons per year plant in Volta Redonda to produce rebars, wire rods and profiles with completion period of approximately 18 months from the time the work is contracted out.

The investment is complementary to the unit we have -- the very large unit and facilities we have in Volta Redonda, since it will use the buildings, warehouse and bridge crane of the current and idle foundry that we have over there in our steel mill. These installations along with the electric blast furnace will be both revamped and upgraded.

The present value for this project exceeds $200 million. The number I have is $202 million. The internal rate of return in a very conservative figure would exceed 30% or so. And the payback is of eight years.

Let us move, now, to slide number 10. Here, we have a few comments about the outlook for our industry in Brazil, for the segment locally and internationally. In fact, CSN expects a continuing and steady demand in the second half of this year on both the domestic and international markets. We believe that prices are expected also to maintain their upward trajectory throughout the Third Quarter of 2006.

And based on this scenario and on recent events, the Company has maintained in 2006 its guidance virtually unchanged regarding the main drivers that affect our results, as can be seen in the chart on slide 10 that we are supplying you in this slide presentation. We believe that the very maintenance of our beginning of the year guidance is a very strong indication of the good health of the national -- I mean of the good health of the national and international steel industries.

With all this said, I would like to thank you again for the opportunity of speaking to you again. I hope to be again with years of -- I mean with friends of several years to work together in the near future again. And I would like to hand over to -- hand back this conference call to my colleague, Marcos Leite. Marcos, please?

Thank you, Treiger. I would like to thank you all on behalf of CSN for participating on another conference call. And now I would like to open the Q&A section in which our executive officers here present will be delighted to answer any question for you.

Questions And Answers

Operator

(Operator Instructions)

Your first question is coming from Marcelo Aguiar of Merrill Lynch. Sir, please go ahead, your line is live. I'll check that line. Your next question is coming from Daniel Altman of Bear Stearns.

Q - Daniel Altman {BIO 1855515 <GO>}

Hi. It's Daniel from Bear Stearns. First of all, congratulations to both OtÃ¡vio and JosÃ© Marcos. Welcome back to CSN. Questions -- I guess the main question I have this quarter is on the insurance.

So your receivables now are obviously building up, what are the prospects that you have to be paid this year. And at what point do you start to take lower provisions in the event that you're not fully paid back for this point?

A - Jose Marcos Treiger

Daniel, first of all, this is JosÃ© Marcos. I am very glad to hear you again and to participate in the conference call. And thank you for your kind words. I'm passing the question now to OtÃ¡vio here by my side. Please, OtÃ¡vio.

A - Otavio Lazcano {BIO 4999009 <GO>}

Hi, Daniel. The most relevant news that we got over the last few months on the insurance companies was really their formal recognition that we have coverage for the accident that we had in our main site right in the beginning of 2006. So there are no restrictions and we have a limit of $750 million, which we believe will be enough to offset all the losses that the Company will face during this process of -- I mean, adjusting production, coming back to production and so on.

We got already $75 million advanced payment from the reinsurance companies. In order to get additional payments, we need first to make public the numbers of the Company. The insurance policy that we have gives us protection for margin loss value. So we first needed to make public the numbers of the Company so that consultants, accountants, lawyers, research companies and CSN and its advisors can calculate what is the real margin lost derived from the accident.

So now that we made public the Second Quarter results, a new request for another advance payment will be submitted to reinsurance company's analysis and no question that additional payments will be made. Our expectation is to recover the bulk of -- to collect the bulk of the cash payments until the end of this year, again given that we've got their formal communication that we have protection for everything embedded in our insurance policy.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Just a follow up on that. The amount of slabs, I think, at one point you mentioned you'd bought 1 million tons. I think you'd now used about 600 or 650, should we see the last remaining slabs and that's the insurance charge in the Third Quarter?

A - Otavio Lazcano {BIO 4999009 <GO>}

The insurance policy gives us protection for margins lost. Inventories used by the company -- I mean strategic inventories used by company in order to minimize losses, okay. And other things like power supply, additional inventories accumulated in the iron ore mine and so on.

The insurance policy is something created to protect the cash flow of the Company and these shareholders, it was not -- the company didn't bought the insurance policy to protect the management of the company. Something really to protect the shareholders of the company against any negative impact derived from an accident.

So again we have protection for margins lost, if strategic inventories use it over the last few months to minimize those losses and other things like power supply, additional logistic cost, even iron ore inventories accumulated in our mine. Okay. And being specific on the slabs, the slabs that we acquired, I mean that goal here to minimize the losses for the company and again there is coverage in case we face any kind of negative impact derived from this decision.

The reinsurance company will always well-informed by what the company was doing in order to keep losses well under control if not to minimize that.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Thank you. And just one other question. Can you explain the logic of these monthly dividends that we've seeing? Obviously, the company has ambitious CapEx plans and also relatively high net debt. So why continue to pay dividend on such a frequent basis? Thanks.

A - Otavio Lazcano {BIO 4999009 <GO>}

It's accordance with our dividend policy to distribute back to all the shareholders whatever excess cash we may have over time within our company. We still have $1.9 billion in cash immediately available. You know that from the steel business we have been reporting $2 billion EBITDA not to mentioned our sky high free cash flow.

The company expects to improve those metrics with the expansion of its iron ore business. So again everything in accordance with the dividend policy that we made public a few years ago, which is to distribute back to all the shareholders whatever excess cash we may have in the future, now and in the future.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Thank you.

Operator

Your next question is coming from Eric Ollom of ING.

Q - Eric Ollom {BIO 4374335 <GO>}

Yes. Hi. Good morning, everybody. Could you comment on about the plans or possible joint venture with Baosteel? Also, in the long steel and the cement projects, can you comment on the sort of your average price that you use to develop your present value in IRR calculations?

Q - Unidentified Company Speaker

Eneas, can you please help us with the question on Baosteel and the long products? I'll pass you on to Juarez Saliba.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay.

A - Juarez Saliba {BIO 16483817 <GO>}

Hello. Regarding the Baosteel relationship with CSN, we would like to tell you that we have a MOU signed with Baosteel to develop the (basic) project and feasibility study for (Ittawai) project of slabs. This feasibility study is basic project is scheduled to be finished in October-November this year. And our relationship with Baosteel is only for this purpose.

After the determination of base project and the feasibility study, CSN and Baosteel together we have decided if CSN will go alone to develop this project or Baosteel will follow CSN. I would like to emphasize that CSN has the right to go alone and Baosteel will follow CSN only if CSN decides to take this decision. That's the only relationship we have with Baosteel. In other words, we have a relationship to develop the Basta and feasibility study of Ittawai project.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. Is it anticipated if you go alone or if this project is done either way that there will be a long-term supply contract with Baosteel.

A - Juarez Saliba {BIO 16483817 <GO>}

It depends on the results of the feasibility study.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay.

A - Juarez Saliba {BIO 16483817 <GO>}

We haven't taken a decision up now and we'll make this decision only when we finish the feasibility study and basic project.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. Fair enough.

A - Juarez Saliba {BIO 16483817 <GO>}

As to your question on the long products, our decision to product long products, the Company produced the long products in the past. And we have several equipments required to produce long products. And we also have access to raw materials.

So in accordance with our responsibility to always create economic value to all the shareholders, we have currently invested roughly speaking $100 million in the development of this business to produce 500,000 tons of long products and commercialize everything. So it's a project with high returns of 30% internal rate of returns, NPV above $250 million, no question about it.

And it's in accordance with our responsibility to always create economic value to all the shareholders. Again, we had equipment required to produce it. We have access to raw material. And it's our decision in order to continue to create economic value to you all.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay.

A - Juarez Saliba {BIO 16483817 <GO>}

And as to your question on Cement Project, I will pass you on to Marcos Leite Ferreira. He is the officer of the Company who is responsible for the development of the business.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. Well, just before we do that, just on the long steel, I mean can you give us a sense of what sort of price projections you are using? I mean net cycle, high -- I mean just, you know -- I mean we all -- you know, you can't expect steel prices to remain, although we would all love to see it happen to remain at their current levels forever.

A - Juarez Saliba {BIO 16483817 <GO>}

We are expecting to have cash cost per ton of roughly speaking $200 per ton. And we have embedded in our model that we'll have as to brought assumption we have -- we are looking with long-term cycle.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. Thank you.

A - Juarez Saliba {BIO 16483817 <GO>}

You're welcome.

A - Marcos Leite Ferreira {BIO 4716101 <GO>}

So again talking about the cement price that we use in the model. Normally, Brazilian prices in cement is around $65 to $75 per ton. And they are using the model a value between of 50 to 55 being very conservative in the model and then

Operator

(Operator Instructions)

Your next question is coming from Snehal Amin of TCI.

Q - Snehal Amin {BIO 6232026 <GO>}

Hi, just have a follow-up question the long-steel business. Should we expect that you would continue to expand on this business or is this the only project you have there in long steel..

Q - Unidentified Company Speaker

I'm really sorry. There is lot of noise on the phone call. Can you please repeat question?

Q - Snehal Amin {BIO 6232026 <GO>}

Maybe, this is better. I was just wondering whether were expected to expand in long steel business or whether this project is the only project but we sticks that you're having a long steel

Q - Unidentified Company Speaker

For now that's the decision that the company made. Okay in order to benefit from the equipment that's we have I mean five and excessive raw material but in case we face good market conditions or good margins and makes economic sense, no question that the company will be -- are now serious considering a full expansion of this business, again, to deliver to the shareholders additional value. But for now that's the decision that we made.

Q - Snehal Amin {BIO 6232026 <GO>}

Okay, thanks.

Q - Unidentified Company Speaker

Okay.

Operator

Your next question is coming from Polina Kurdyavko of BlueBay Asset Management.

Q - Polina Kurdyavko {BIO 4315416 <GO>}

Good afternoon, gentlemen. My question is regarding your funding strategy. Your leverage the last quarter has increased to 1.3 from 1 time. Could you give us a guidance on what is your target numbers going forward.

I understand that you wanted to keep a certain amount of debt on the balance for tax purposes. So the guidance on the overall leverage would be quite helpful. And also are there any changes that we should expect in the debt structure? Thank you.

Q - Unidentified Company Speaker

There are no changes at all in the debt structure. And we're not planning to do anything different there about we haven't been doing. Actually, you all know that we were in the process of extending the life of all our existing indebtedness. And this is the reason why you us, for example, issuing several Euro bonds over the last two or three years. In terms of the funding strategy, we believe that at the very peak of the investment cycle, our ratio of net indebtedness to EBITDA will be close to 2 times. But our goal is really to be keep it, I mean, within the 1 time ratio that's the goal.

Q - Polina Kurdyavko {BIO 4315416 <GO>}

I see. Actually, are you planning to refinance any of your long-term bonds given that they plenty, they are trading at a high cash price.

Q - Unidentified Company Speaker

No. not all, we don't have call options embedded in those in indentures. So we aren't planning to buy it in the secondary market. Unless we face good opportunity, you won't see us out their issuing debt instruments unless we face a good opportunity, you won't see us out there.

Q - Polina Kurdyavko {BIO 4315416 <GO>}

Thank you.

Q - Unidentified Company Speaker

Welcome.

Operator

Your next question is coming from Daniel Altman of Bear Stearns.

Q - Daniel Altman {BIO 1855515 <GO>}

Hi. In terms of the iron ore business now that you've seen IPO of MMX. I wonder if that makes you more or less inclined to go forward with plans that you discussed in terms of listing a percentage of Casa de Pedra?

On a similar note, can you talk about when you'll start delivering on the contract, the 5 million ton contract that CVRD received using their rights, is that still expected to be starting in the second half of this year or is that postponed to the next year.

Q - Unidentified Company Speaker

Daniel, it's (inaudible) again. I will answer your first question. As to the plans to sell a minority stake from our mining business to the public market, or strategic investor, it's for real. We are working on the structure of the transaction, we're analyzing it.

We even hired CFSB as a financial advisor, you all know this, to help us in this financial transaction. So it's for real and again our management and the company believes there is a huge hidden value within our portfolio of assets, not recognized by financial markets and it's our duty again to help the markets to and educate the markets to understand what is the economic and the strategic value of Casa de Pedra in our business.

A - Juarez Saliba {BIO 16483817 <GO>}

Daniel, this is Juarez Saliba. I'm going to talk about the contract of CVRD. What I can tell you is that we were prepared to start the deliveries of theis contract this year. But we have some discussions with CVRD regarding technical points of the contract and we decided to go to an arbitration in ICC in London. And that we already started this arbitration and we don't know to -- we don't now how long it will take but something between now and the end of this year.

No, no I don't believe that it will spend more than three or four months from now. But in any case, we have a -- there is no discussion about the contract. The legal contract, they adopt a contract. We have some technical discussions but they are easy to be resolved. But in fact, we have a 10 years contract and as soon as we have the decision of this arbitration we will start the deliveries and we will deliver for 10 years. I cannot tell you when we will start but for sure we are sure that next year we'll be delivering the contract as we signed with CVRD.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Other than that 5 million ton contract has the company been able to procure any other export contracts for iron ore?

A - Juarez Saliba {BIO 16483817 <GO>}

Yes. The point is, we are in touch with several other customers and we will have some not final agreements because after we've finalize it that means you have to sent to CVRD. But we didn't start the process to send these agreements to CVRD because we want to be much more clear about the start-up offer, the first phase of the port. As soon as we have the clear view about the start-up of the project of the port, we will be sending some new agreements to CVRD in order to exercise or not their right.

Q - Daniel Altman {BIO 1855515 <GO>}

And do you expect the timeline for that to be in 2006?

A - Juarez Saliba {BIO 16483817 <GO>}

Sorry.

Q - Daniel Altman {BIO 1855515 <GO>}

Do you expect that last timeline that you referred to, do you expect that to happen this year or sometime next year.

A - Juarez Saliba {BIO 16483817 <GO>}

Well, there will be start-up of the project of the port, will take place between the end of our December and the beginning of January. So we need one and a half month to get the exercise of CVRD or not. On that (inaudible) we also have some other customer. So we have the intention to send to CVRD these options, let's say, beginning of October. That's our main target. We will delay -- we will make some delay in this relationship with CVRD. If we have some delay in the port operation. But we don't believe in that. So you can consider that we will be sending these agreements to CVRD in October.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Thanks again.

A - Jose Marcos Treiger

You're welcome.

Operator

(Operator Instructions)

Your next question is coming from (Maghili Bimm) of Deutsche Bank.

Q - Maghili Bimm

Yes hi. I have two questions. First I'd like to know how much of increase in CapEx for the Cement Project was due to inflation of the treatment in order cost inflation andow much was due to higher capacity level?

A - Jose Marcos Treiger

Maghili just a second okay. Thank you.

Q - Unidentified Company Speaker

The original CapEx was $42 million and now it's $185. The difference in increasing the production in the grinding station from 1 million to 3 million. The new plants have clinker facility of 0.8 million tons per year.

Q - Maghili Bimm

Right. And how much of the increase from 42 million to $185 million was due to the increase in capacity?

Q - Unidentified Company Speaker

Sorry. Everything is only CapEx -- sorry CapEx increase. The CapEx increases only because of capacity.

Q - Maghili Bimm

And second question is returning to the dividend question, what can we expect to be the schedule of these payments going forward? Is it a schedule we can work with?

A - Otavio Lazcano {BIO 4999009 <GO>}

If I understood correctly, Maghili, you are asking if there is schedule for dividend payments in the future. Is it the case?

Q - Maghili Bimm

Yes.

A - Otavio Lazcano {BIO 4999009 <GO>}

Okay. There is no schedule at all. You know that the company has been paying huge dividends to all the shareholders over time and again it's in accordance with the dividend policy that we made public a few years ago. As long as we continue to generate a lot of free cash flow and as long as we do not stress to merge our benefit, no question that this company will be paying back to the shareholders dividends.

Q - Maghili Bimm

Okay. Thank you.

A - Otavio Lazcano {BIO 4999009 <GO>}

And there's no schedule at all.

JosÃ© Marcos Treiger: You're welcome.

Operator

(Operator Instructions)

There appear to be no further questions at this time. I would like to turn this call back over to management for any closing remarks.

A - Jose Marcos Treiger

Again this is JosÃ© Marcos Treiger speaking. It was a pleasure having you all participating and one conference call more from CSN and I would like to thank you for your time and interest and also I would like to extend my thanks to all of my colleagues here that are helping the IR team in promoting this conference call.

And I would like to invite you for a next one for sure, to be held immediately after the results of the Third Quarter and in due time I'd like to inform you the proper deadline, the dates and et cetera.

Thank you, again therefore to -- for your participation and I'm very pleased that I'm back here at CSN. Bye-bye.

Operator

Thank you. This concludes today's CSN conference call. You may now disconnect your lines at this time.