Y 2015 Earnings Call

Company Participants

- Caio Marcio Araujo, Accounting Manager at NAMISA
- Daniel Santos, Mining Director
- Guilherme Alves Hernandes, General Manager, Investor Relations
- Paulo Rogerio Cafarelli, Executive Officer and Investor Relations Officer
- Unidentified Speaker

Other Participants

- Alan Glezer, Analyst
- Ara Quill, Analyst
- Caio Ribeiro, Analyst
- Humberto Meireles, Analyst
- Karel Luketic, Analyst
- Leonardo Shinohara, Analyst
- Marcos Assumpcao, Analyst

Presentation

Operator

(Starts Abruptly) Q&A session, when further instructions will be provided. (Operator Instructions) Today's event is also being simultaneous webcast and can be accessed on the company's IR website, www.csn.com.br/ri and there, you will also find the respective presentation. Slide selection will be controlled by the participants. The replay of this event will be available soon after its closing.

Before moving on, we would like to let you know that any statements made during this conference call relative to CSN's business outlook, projections, operating and financial goals are based on beliefs and assumptions of the company management and rely on information currently available. Forward-looking statements are not a guarantee of performance. They involve risks, uncertainties and assumptions since they refer to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of CSN and leads to results that will materially differ from those in such forward-looking statements.

Now, we would like to turn the call over to Mr. Paulo Rogerio Cafarelli, CEO and IR Officer of CSN, they will make the presentation of the financial and operational highlights of CSN in the period. Please Mr. Cafarelli, you may go on.

Paulo Rogerio Cafarelli

Good morning, everyone. Thanks for joining us. We are going to start our presentation with the main highlights of the CSN of 2015 on page three. We generated an EBITDA of 3,251 million, EBITDA margin of 20%. Our net income was disclosed at 1,616 million. Record iron ore production of 28 million tons and 31 million tons between sales and transfers of iron ore. Delivered of iron ore in China at $33 per ton during the fourth quarter '15 compared to the $53 in the fourth quarter of '14 with a decrease of $20 per ton. The decrease of 33% places CSN among the five top companies in the world in terms of costs. It's still with a volume of approximately 5 million tons of steel sales in the year.

On the next page, page four, we show you our strategy in enhancing our competitiveness and recovering cash generation. We have three pillars there. Operational efficiency, projects delivery and even more deliberate project discipline and financial management. And later on, we are going to talk about each of these items.

On page five, we show a bit of what we are. We are a diversified company, extremely integrated which enables us to have superior quality in the segments in which operate. Highlight here is still mining.

On page six, we have the achievements of 2015. One, it was the conclusion of our business combination with the Asian Consortium with mining rig wells and forth, which brings us new clients and opens new markets. Also, I would like to highlight the extension of our debt of 4.8 billion with maturity in '16-'17 to '18-'22. What we've started which is a beginning of a disinvestment process. We already talked to the bank about selected assets and also the cost reduction in the steel and mining business. For 2016, we want to continue to expand our sales, reduce operational and administrative costs, continue with a strong working capital reduction, and also a CapEx reduction, also a reduction of leverage and debt and also the cement operation ramp-up.

On the next page, consolidated results. We show net revenues in 2015 of 15,332 million. Generated EBITDA of 3,251 million, 20% EBITDA margin and net income of 1,616 million. The EBITDA net debt ratio went to 8.2 times from 6.6 times, because of a lower generation of EBITDA in 2015, because of the exchange rate and also the business combination as we know that we had the dividend payout and also the acquisition of CSN of 4.16% of the consortia (inaudible).

On the next page, we have the build-up of the net results for 2015, and here we highlight the effect of the business combination. You see that out of this 3,413 million, that's basically comprises 1,059 million of the variation of the fair value of the share of 60% of CSN in Namisa and 1,154 million in the settlement of pre-existing contracts. We have the income tax of 528 million and we have a net result of 2,825 million, which is in our VRN [ph].

On the next page, page nine, we have the financial results in the perspective of IFRS and also managerial with all the details. On the next question, here this is a very important point to highlight as also referring to the business combination with CSN in the payout of dividends received 3,239 million and part of that, that is 2,726 million were used to acquire 4.6% of Congonhas Minerios. Two important points are still to mention on this page are the proximity of our managerial NIFS [ph] views and also consolidation of 100% of Congonhas Minerios, considering 87.62 that is an expressive share of CSN in this operation.

On page 11, we show our net revenues, EBITDA margin and EBITDA in the fourth quarter and the share of each of the segments that comprise CSN. On to the next page, we have a yearly view also highlighting the share of mining and steel in our company. Specifically talking about steels on page 13, sales volume of 4,990,000 in 2015 is in line with the volume of 2014. Net revenues also in line as you can see on the top right corner, despite the reduction of EBITDA and EBITDA margin, much because of an adverse scenario. We didn't have the best margins -- we did have the best margin among our steel peers in Brazil.

On the next page, I would like to highlight today for the coated product, especially galvanized product and metal sheet that's already comprised 45% of the domestic market and 53% of the total sales. If you take a look on the right, the increase of sales in the foreign market was correct. Because of a reduction in demand in the country, we had growth of exports of 39% in the year.

On the next page, still talking about steel in terms of cost reduction, we have the cost of $276 per ton that places us in the first quartile of top steel companies in the world.

In mining, page 16, again a picture of our record production in 2015, practically getting to 28 million tons, an increase in our EBITDA margin despite the reduction of the Platts index and that shows the success of our strategy, be it our commercial strategy or operational strategy that were applied along the year of 2015. So about mining, we had an exercise to bring in this presentation, the reduction of Platts, and even with the reduction of Platts, we can preserve our margins. You see in this example, when you reduce $8.20 in the index, Platts index, our margin dropped to -- our revenues dropped by $2 and our margin by $1. An example of that is that for each $5 of Platts variation, EBITDA varies about BRL400 [ph] million, for each $0.25 of exchange rate, EBITDA varies about BRL150 million, just for you to have an idea of this volatility in the market.

On the next page, we're still talking about mining. We have the evolution of cash costs at China in delivery, as we mentioned the fourth quarter of '14, we had a cost of $53 per ton and we got this result of $33 in the fourth quarter of '15. I'd like to record here that is very important that in the $33, we are already included (Technical Difficulty), this is very important for the analysis. Another very important issue was productivity that grew by 34%. As you can see on the corner, right corner below, and that again places as amount to main players in the world.

As far Congonhas Minerios on page 19, we have an information, how the business combination that created Congonhas Minerios operated. Here, we have the investments and the entries of Namisa and CSN. And we have the consequence of this event that is

Namisa's cash payout, the restructuring of Congonhas Minerios, the acquisition of extra stake in Congonhas Minerios by CSN. Remember that in the final design, CSN is placed with 87.5% and the Consortium with 12.5%. Cement, also very important for the company, it's important to record that the sales volume was basically the same of 2014, even with the cement market dropping in the period by 9%.

On the next slide, show the evolution of our production capacity, it's starting with Volta Redonda with capacity of 2.3 million tons. In 2015, we had also Arcos with 4.3 million altogether and into 2018, we can guess to a volume of 5.3 million tons and that insert CSN again among the main players of cement in the country.

Going to our port, the Sepetiba TECON with regards to the TECON terminal, revenues in 2015 were 213 million. EBITDA margin of 30%.

And next, on page 24, we grade down our CapEx for 2015 2,170 million, 27% allocated to steel. In highlights here, we have the renovation of our TG20 that will enable us to increase thermoelectric energy with a reduction of 130 million a year. 45% in mining, the highlights here the undertaken of some acquisitions that were expected for this year and were performed in 2015 because of good operating profit, and after the volume of the cement ramp-up.

In terms of our financial agenda on the next slide, we have cash management, we have our liabilities, we have costs and working capital, and also our partnerships and divestment. With regard to cash management, the name of the game is liquidity at this point. In terms of debt management, on page 26, we show you the debt profile. So there you can see that 53% of our debt are in foreign currency against 47% in domestic currency. Likewise 49% of our revenue is in the foreign market and 51% -- 56% is in domestic market -- sorry 51%. And EBITDA, 44% in the domestic currency and 56% in foreign currencies. That shows the balance of our currency exposure.

On the next page, it's still about debt management. Once again we have extended debt that would be the debt from '16 and '17 to '18 to '22. This is a crucial point in the movement that we are making in terms of the divestments of assets and also the reduction of advanced obligations with clients after the business combination of Congonhas Minerios with a volume of BRL9.3 billion. On the right, we have a comparison, a picture of the schedule by amortization of our debt what it was like and what it is today. You see that now we have a reason of time in terms of the year of '16, '17 to do what is necessary to do for us to have our deleveraging. So on this page, we have in the bottom, the average debt maturity, the average debt cost maturity 7.6 years. The domestic currency cost is 107.5% in CDI and the average cost of the debt in foreign currency 5.79%.

Talking about cost reduction and working capital, the main focus is to manage our working capital. We want to reduce our inventory of about R$1 billion and also very strong focus on reducing 35% our fixed expenses. This is important to mention that these account for 30% of our costs today. Later on, we have the assets that we pre-selected for a possible deleveraging and here, I would like to mention that we are not selling in a hurry, sometimes the market wants to pressure us, we want to sell our assets with best quality, because our assets are quality.

On the next page, our operational strategies for 2016. The highlights here is a reduction of our CapEx. We said that in 2015 was 2,170 million and this year, it's going to be up R$1.3 billion. So this is a focus on sustaining a high capacity product that will enable us to produce better results. On the last page, we conclude by talking about our sustainable actions and integration in the communities in which we operate.

Well, this was our presentation for today, and now we are going to open for questions. Thank you very much.

Questions And Answers

Operator

Thank you. We'll now start the Q&A session for investors and analysts. (Operator Instructions) Our first question comes from Marcos Assumpcao from Itau BBA. Please Mr. Assumpcao.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good morning, everyone. My first question is about financial expenses we saw. If we exclude the exchange variation, you had a drop of R$500 million third quarter. If we do an annual account and divide by the gross debt of the company, I got to a cost of debt that was very low in Brazilian reais. Could you explain, if this number is sustainable please?

And the second question is about iron ore, what is your expectation for the purchase of iron ore by third parties by 2016? We saw that the volume dropped a lot in 2015, it was probably responsible for the drop in volume of sales of CSN in 2015 although the production went up. Thank you very much.

A - Unidentified Speaker

Okay, Assumpcao, thanks for your question. I'm going to answer the first question. Guilherme is going to answer the first question, our IR manager and then Daniel is going to talk about the iron ore purchases.

A - Guilherme Alves Hernandes {BIO 19680772 <GO>}

Hello, your comment is correct. In fact, when you take a look at the financial expenses that today this number is about R$3.3 billion a year and the number that you mentioned of about R$500 million was impacted this quarter by the write-off of production -- of provision, I'm sorry of about 170 million related to Namisa. So before the business combination, CSN was provisioning this amount. After the completion of the business, we've rolled up those amounts with an non-recurring expense. I'm going to Daniel now.

A - Daniel Santos {BIO 5990682 <GO>}

Hi Marcos, your comment is correct. Although we had a record production for CSN 28 million tons last year, the iron ore market did suffered a lot, several high cost producers shut down as some are temporarily, others for good. So the supply of iron ore in the Brazilian quadrilateral region has been below historical levels.

So we do have some contracts that have already been signed for this year and next year and we have some commitments that led us to estimate the volume of third parties to 6 million tons. So our guidance for next year is an even higher production despite the records of 28 million last year. We are going to produce 30 million tons for this year out of the 30 million, 5 million is going to go to Volta Redonda, 25 million to that port and 6 millions of third parties, direct purchases and port services that we are going to have.

So shipments of about 31 million tons, which is quite relevant number and a very good number if we consider this scenario.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Well, thank you. Just to add to that, if the iron ore price continues at this level that we see today, do you see a risk of this number growing up for the purchase of third-parties and port services a bit higher and this total number going up. And just as a follow-up very quickly, in 2015 you had the acquisition of new equipment for the mine and that led to a raising capacity, at that level, is that the 30 million or can you go up?

A - Daniel Santos {BIO 5990682 <GO>}

Okay. Little by little, your first question. Platts has been surprising, it's been a bit above the expectations of everyone in the market and that still leaves us in a very privileged position because many went down last year, but we did our homework. We can talk even a bit more about that later on, but we are in quite a competitive position and we do have the name to increase even more perhaps by means of some partnerships to seize this window of opportunity this year and next year with partners in the region.

The dynamics is going to be a bit different than previous years. Very hardly those high cost producers that shut down are going to go back to the production they had before. Most probably, we are going to have some kind of partnership or long-term business with some producers. There are many left in the regions but the iron ore is still there, the opportunity is there and we do have the name to capture the opportunities. So I do think, we do have the capacity to even have a higher volume for this year.

As for your second question with regard to capacity, we had investments in the mine, but also in previous years we had investments in the plant. And we have installed capacity to produce above the 30 million tons. We have to complete some investments in the port terminals which connects the production unit to (inaudible). So after we finish this work in the port terminal, we can raise the capacity by at least 20%.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Well, thank you very much, Daniel. Thanks, Guilherme. Thanks, Cafarelli.

Operator

Our next question comes from Caio Ribeiro from BTG Pactual.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Good morning. Thanks for taking my question. My first question is about the price scenario for the domestic market. We saw some articles recently talking about increases of the Platts, it's still 10%, 11%, if you're following these increases and if you're being able to pass on prices. If you have a good situation to increase your product, your prices and if you can also could talk about volumes in the domestic market and how you see your order book in the quarter, if it's better than the fourth quarter '15? What you are expecting in terms of growth of volume for 2016? Thank you very much.

A - Unidentified Speaker

Well, Caio, your two questions are going to be answered by our Corporate Officer for steel commercial part.

Hello. Good morning. Well, very quickly, I'm going to tell you what's happening in the world scenario. In China, just for you to have an idea, the hot rolled coil went from $245 to $315, so we had an increase of $60. In the American market with closing of the market for several countries because of (inaudible) peak it was $420 to $480, again $60 up. And if you take a look at the scenario for May to August, we think it can get to $550. So the world scenario really went up to the hot rolled coils.

If you look at our competitors in the domestic market doesn't mean with dramatic losses and even as a lower in the world with losses, it makes no sense in a scenario like this to bid. So Brazil has everything, raw material, technology, cost, so we are going to increase our prices by 10%. We are going to increase our prices. This is necessary, because the industry needs the increase to continue to have margins and continue to invest. So without the increase, there is no margin, there is no investment.

So today, the margin is not a necessity in terms of premium, just for you to have an idea, the premium over imported meta-lanes material is a negative premium. So today, this increase of price of 10% is necessary for us to go back to having margin and continue to invest. As for the Brazilian scenario in the first quarter, I think that in this utilization in Brazil, it's around 60% in the whole of the industry. Some industries are very much affected like the truck business, automotive, some were little better. But if the government does not make a very big mistake in the equation, employment production and consumption, the trend is for the economy to pick up gradually in the first quarter.

In the case of CSN, what we feel is the following. First, there was a very deep drop in import. Last year, we had imports of about 2 million tons and January, February and March, we are going to have accumulated volumes that's very low in terms of the imports, which is not enough to offset the drop in the market. The current steel consumption in Brazil is going back to levels of 2007-2008. So, this price scenario in the international market and our portfolio that basically has 40% exports and 60% domestic market is quite favorable for the year. And the share of coated product, both in the domestic and foreign markets is going to be balanced.

So the whole of the scenario in the domestic market will enable us to reduced and premeditated inventory, finished inventory, finished product inventory and will practically give us the necessary cash in terms of inventory.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Okay, perfect. Thank you very much.

Operator

Our next question comes from Karel Luketic from Bank of America.

Q - Karel Luketic {BIO 16467278 <GO>}

Good morning everyone and thanks for taking my questions. I had two. First, if you know about the estimate amount that CSN could raise in terms of divestments. And the second question is about your reduction of cost strategy. If you could give some details about timing and the eventual amounts that we could expect? Thank you very much.

A - Paulo Rogerio Cafarelli

Carol, this is Cafarelli. For the sale of assets, we showed you in the presentation, the assets that were pre-selected. The initial approach is to bring assets that are not part of our core business which is the case of the Con, the exceeding part of MRS, our stake in the generation of energy, Metallic another asset that is on sale. But once again, it's very important that these sales take place in a process with their due time at moment of crisis, buyers tend to offer prices that are below what we consider the fair price of assets. So that's why I said that we do have the time and we want to have the sales to be as good as possible with prices as close to the price that we consider to be fair.

As for as the reduction of cost, your question is quite interesting, and why is that. Today, we are working on an increase of sales and we also estimate a dramatic reduction in COGS. When you breakdown CSN's COGS, you see that 70% of COGS are connected to production, and they are induct in terms of the coke and coal for steel for instance.

It is a commodity and we depend on exchange variations. So what do we have left. First, the sale of inventory. So we have less coke and coal because we are going to use parts of our sales with the inventory that we already have, the 1 billion I mentioned before. On the other hand, we have 30% which are COGS not directly related to the production activity. These COGS are COGS we are working on. That is a dramatic decrease of construction about 35%.

It doesn't mean that we're going to get the discount, but it is a change of permanent scope in the provision of services as seeking for operational efficiencies that is fundamental in a moment that we reduced revenues and we reduced EBITDA. So we have to look in sight and we have to work in a very dedicated way to reduce COGS. The first happening already in 2016 perhaps in the results of the first quarter, we can already show you a bit of our -- a pace of this reduction. Because of us reviewing its scope and really working with the re-education of our contractor and suppliers.

Q - Karel Luketic {BIO 16467278 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Leonardo Shinohara from HSBC.

Q - Leonardo Shinohara {BIO 18788974 <GO>}

Good morning. Thanks for taking my question. I would like to know about sales in the foreign market. You had sales of approximately 45% and I would like to know what exports are going to be like with the anti-dumping measures in the US? And the second question in the same line, I would like you to comment about the news we had about the accidents in the plants I hope people are recovering, and I would like to know if that will have an impact on galvanized product? And one more question about iron ore, if you allow me. There was an increase in the Platts Index. If -- what do you see in the short, mid-term, long-term of the price levels for the Chinese market?

A - Paulo Rogerio Cafarelli

Hi, Leonardo. This is Cafarelli. I'm going to start talking about the accident. Indeed this is something that's mobilized, that's all on the weekend, our first concern at first was to provide all the assistance to the family, the four employees involved are in Copa D'O Hospital in Santa Cruz. Fortunately, thank God, we are following them. There is one at a more critical state, the other three are recovered.

What I would like to tell you with regard to that is that the operation is coming back on April the 10, is going back to normal.

We did not have losses. We have also expense being the reasoning of the operation between 10 million and 20 million. But again, our greatest concern was to measure no efforts to provide assistance to all the employees and their families. And now we're going to talk about sales to the external market.

A - Unidentified Speaker

Hello, Leonardo. Good morning. Of course, these measures that are being posed to Brazil developing anti-dumping and counter-vailing duty are affected. It's actually in the case of the hot roll that we shall send to our company in the US and that we don't think it is correct. We are defending ourselves, this is a process that is still going on. And once at least for those product that we've sent to the US to be processed that we have some kind of waiver or differentiation in our treatment. Of course, I'm not working with the scenario what I have been doing is to focus all our exports to the US in coated products.

So today, we are working with prepainted Galvalume galvanized material and now we have the new steel in the market, which is the metallic sheets. Today in Brazil, we have a capacity of 1 million tons of metallic sheet, metal sheet. We are operating with half the production in Brazil and I'm opening markets everywhere in Latin America, in Mexico. Mexico still has just the safeguard of 15% and with this level of the exchange rate in the dollars and the competitive cost that we have being in the first quartile, I can be very competitive in the market. And another thing, I am not a foreigner in this market. In Mexico, I have offices, I have own employees, I have sales team. In the US, we have a very strong sales teams based in Chicago, New York at LLC. So I am a local player. What we wanted to grow in the US, we are going to grow.

Today we have 45% of our sales focus there and the trend is still grow even more with more value-added product in the US. Brazil has no other way. Export is part of Brazil's business case and this is also true for CSN at least for the next two years, while the internal situation in Brazil does not get better. As I mentioned you, our consumption in Brazil went to levels of 2007. We are talking about the decade ago. So we have to count on exports and CSN is going to work strongly with cart.

We have a very, very competitive plate cart, we have galvanized products. We have the products for automotive and appliance line and this is what we want to work with in the United States, Mexico and Latin America. Now, Daniel is going to talk about iron ore.

A - Daniel Santos {BIO 5990682 <GO>}

Good morning, Leonardo. As we mentioned in previous calls, we have been doing our homework. We have been very judicious in our work with a plenty of dedication in our teams in the company and that led us to very competitive costs since September 2014, we understood that the Platts index was going to grow even further down that people were talking about. We started this additional work and with that we positioned ourselves that we have prepared to any market scenario.

Now, when we have a situation like this, that is slightly even better than we expected, so the exchanging rate with the dollar are bit better. Then, things starts to be even more favorable for the business and the joint effect of those two points multiplying and very favorable to our results. So if we have a simulation considering the production, we are expecting for next year. COGS, as they are today and as we are adjusting the company and $380, $370 and the Platts we see today, we are talking about double the EBITDA compared to the EBITDA we had last year.

Q - Leonardo Shinohara {BIO 18788974 <GO>}

Well, thank you very much. A very good answer. Thank you.

Operator

Our next question comes from Alan Glezer from Bradesco BBI.

Q - Alan Glezer {BIO 17508681 <GO>}

Good morning everyone. Thanks for the opportunity. I have two questions about costs. The first is the cost of iron ore. We saw a drop of $2 per ton between the third and fourth quarters of the cost delivery in China. I would like to know about this $2. What did you see in terms of the drops in trades and exchange rate, and how much came from CSN in terms of reduction of costs? And the second question is about the cost of steel. If we take a look at that cost per ton, it went up about 5% quarter-on-quarter. I would like to know where the increase came from and the increase of tonne in steel, was it because of an increase of your fixed cost? Was it because of the dollar rated import? Where the increase come for in steel? Thank you very much.

A - Paulo Rogerio Cafarelli

Hi, Alan. I'm going to answer your first question. I'm sorry, Daniel is going to answer your first question. And then Guilherme is going to talk about the costs in steel.

A - Daniel Santos {BIO 5990682 <GO>}

So, this is Daniel. Good morning. Well, the homework we have been doing is for true, the drop in Brazilian real was quite significant. Our cost, for your to have an idea went down from $41 -- R$41 per ton in June to R$39 in October. Because again our series of actions that we have been implementing in the different trends. So it's not little work, it's a lot of work we have been working on changes in our operations for differentiated products, products with higher margin, trying to work with lower costs and reduction of costs related to more day-to-date expenses, relationship with our suppliers, discussion of prices, reduction of inventory in the business.

So it is a very broad line of work and we are working in all the stages of the process. We were quite successful in reducing logistic cost and also production costs. The work is not finished. We still have things to do. And just to remind you, the steep rate went down by about $2. So, we are doing our homework, and this will continue along the year. We still have some amounts to capture in all the phases of profits in terms of cost. Guilherme?

A - Guilherme Alves Hernandes {BIO 19680772 <GO>}

Hi, Alan. As for steel cost in this quarter, as we saw we had an increase, basically related to raw materials because of the average consumption of imported costs. Remember that we have imported coke and coal that was about $3.25 for the exchange dollar and now the exchange was $3.65, so an impact in raw materials. And also an increasing maintenance costs in the quarter and depreciation over a lower base of production. On the other side, we have some positive effect looking to the future. We completed the TG20 in this quarter, the turbine that we have just finished renovation has a capacity of 160 megawatt and if you compare the average cost of this energy including burdens in fuel, you're talking about the difference in cost of energy of about R$150 per megawatts and if you analyze the difference, you're talking about the potential reduction of 150 million a year in energy, so this is something that we have been reinforcing because of the maintenance of our operational asset.

Q - Alan Glezer {BIO 17508681 <GO>}

Just a follow up in terms of NAMISA, I would like to understand what's your strategy is for NAMISA in the current price condition? I would like to know if your strategy to increase the volume of NAMISA with the reference that we have today could make sense. Thank you.

A - Daniel Santos {BIO 5990682 <GO>}

Well, since December last year, NAMISA no longer exist. What we have today is an asset that is the merger of the mining assets of NAMISA with the mining assets and iron ore assets of CSN. So based on this reality, what we have is the total integration of this asset and when we have the integration, this is what we call it change in our operational model. We have the opportunity of working in different way and this is what we have been doing. The Engenho mine was a mine that belong to NAMISA was integrated to Casa de Pedra and with that we could reduce our cost and improve the quality of our product.

Some facilities of NAMISA that were high cost are being used to support the production of Casa de Pedra. So for instance, we have a facility that's called Ferry [ph] that we used the full capacity of the terminals shipping iron ore to complete the either capacity of NAMISA with Casa de Pedra, so we are using all the possible synergies that the integration will allow us.

Q - Alan Glezer {BIO 17508681 <GO>}

Okay, thank you very much. Very clear and I thank you for the answer.

Operator

Our next question comes from Humberto Meireles from Goldman Sachs.

Q - Humberto Meireles {BIO 16541842 <GO>}

Good afternoon, everyone. Thanks for the opportunity for asking a question. I have three questions. First, in your balance sheet in terms of intangibles, there was significant increase quarter-on-quarter of R$4.3 billion, if you could give us a bit more color on that? What the reason for the increase in terms of cash flow?

I have a question in terms of credit from related parties, you have a positive inflow of R$3.5 billion. Also I would like to understand what that stands for? Where the credit comes from? And finally, a follow-up in terms of steel cost. I would like to understand if you're going to change the way new accounts for the purchase of iron ore, if it's going after you complete and signed. The quarter that is when the quarter has 100% of the consolidated results of compliance. If you're going to have any change in terms of the account effect?

A - Paulo Rogerio Cafarelli

Well, the two first questions that's for intangibles and cash flow are going to be answered by Caio, our Accounting Manager and then Daniel is going to talk about how we're going to account for cost and prices of iron ore for this still part of the company.

A - Caio Marcio Araujo

Well intangibles for our balance sheet with the significant increase is the spread generated in the business combination operation. A segment that fair price of Namisa, Congonhas and the operation generated those assets of 3,700 million in the balance sheet. As for cash flow, the BRL3 billion, 500 million refer to the dividend that was paid out because of the business combination operation. Namisa had the payout of dividends bid for the operation took place effectively.

A - Daniel Santos {BIO 5990682 <GO>}

This is Daniel. As for the transfer to Volta Redonda, since December it became a sale, until December last year we delivered at cost and now we have sales contract and this Iron ore is sold at market price to Volta Redonda. So just to be clear, so the component of an increase of cost and steel is the accounting effects of this iron ore coming to price market and looking further on, we should expect a higher cost, because you're going to have three months with 100 of iron ore being sold at price market.

Going back to cost on that, we have other factors that are positive. First, we had a maintenance downtime and so we decreased the purchase of coke and coal. We use more domestic raw materials and also we had a ramp-up, gradually the coke batteries are using and that will improve our competitiveness. So we are still seeing capacities reducing the mix and that has been also positive in terms of COGS.

Q - Humberto Meireles {BIO 16541842 <GO>}

Okay. Thank you very much.

A - Daniel Santos {BIO 5990682 <GO>}

Thank you.

Operator

Our next question comes from Ara Quill from Barclays Company. Araquil, you may proceed.

Q - Ara Quill

Hi, thanks for taking the questions. And a couple from my side. I just want to try to better understand exactly what this strategy is to reducing leverage and exactly what the target would be for that year end '16? And am I right in thinking, you are guys are hoping to grow EBITDA through pretty strengthening cost reduction and also to increase volumes and price increases? I'm just trying to better understand, I guess, where you think the traction really comes from, particularly when I put it in the context of very weak backdrop that we have in Brazil and how exactly we're going to get price increases in the order of 10% given current equivalent supply that comes from BRL etc. So maybe we can start there.

A - Unidentified Speaker

Well, so first question was about leverage and also the reduction of expenses basically focusing on our cash burn. So, first it's important to say that when we talk about deleveraging, the first trend is to think about the divestment of assets. Because the sale of assets is the significant point, but we also have a series of other measures that happen together with this drop, such as the increase of sales, as we already mentioned, the search of new markets for us to distribute our products. This is a very important process in CSN. We are reducing expenses, I mentioned a reduction of 35% in our expenses, avoid buying raw material from third-parties, try to optimize production and further on.

So, when we talk about deleveraging, we're talking about a set of objectives and the company in a very joint manner talking about all participants who steel, mining cement, logistics is really engaged in trying to really zero our cash burn. As for your second question which is -- I'm sorry, going back to about expenses, as I mentioned in the past presentation, we think that as of the presentation of our results in the first quarter 2016, you will be able to see the expressive reduction of expenses that we are talking about. The name of the game as I mentioned before is liquidity, but we have to look inside and cut any kind of expenses to try to reduce our cash burn.

Q - Ara Quill

Thank you very much.

Operator

Okay. Since there are no further questions, we are going to turn the call back to Mr. Paulo Rogerio Cafarelli, CEO and IR Officer of CSN for his final considerations.

A - Paulo Rogerio Cafarelli

Well, first of all, I would like to thank all participants in our conference call, thank you very much for your attention. Also, I would like to thank all my colleagues that have been with us to try and have the best possible conference call and answer all your questions. Regardless of that, if you have any more questions with regards to our operation, performance, please do contact our IR department. Thank you very much, and I wish you a good day.

Operator

Thank you. The conference call of the earnings of CSN is now closed. Please disconnect your lines and have a nice day.