Q3 2015 Earnings Call

Company Participants

- Benjamin Steinbruch, Chief Executive Officer
- Gustavo Sousa, Executive Officer, Investor Relations
- Luis Fernando Barbosa Martinez, Executive Officer, Steel and Cement Products Commercial Area
- Paulo Rogerio Cafarelli, Chief Financial Officer
- Unidentified Speaker

Other Participants

- Carlos de Alba, Analyst
- Eduardo Lima, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Rodolfo De Angele, Analyst
- Unidentified Participant
- Victor Penna, Analyst

Presentation

Operator

Welcome to CSN's Conference Call for the Presentation of the Results provided to the Third Quarter of 2015. We have today, the officers of the company, I would like to inform you that this event is being recorded. And all participants will be on listen-only mode during the company's presentation. Next we will initiate the Q&A session when further instructions will be provided. (Operator Instructions) Today's event is also being simultaneously broadcasted online and it can be accessed through CSN website, www.csn.com.br/ir. The slide presentation will be available through that website and will be controlled by you. The replay of this event will be available right after the call is concluded. Before proceeding let me mention that forward-looking statements that may be made during this conference call related to CSN business projections and financial and operating targets are mere assumptions and beliefs of the company as of information currently available. Future considerations are not a guarantee of performance as they involve risks and uncertainties and assumptions because they relate 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 as such could leads to results that differ materially from those expressed in such forward-looking statements.

Now I would like to turn the floor to Mr. Gustavo Sousa, CSN's Controllership, Tax Planning and Investor Relations Officer who will present the company's operating and financial highlights for the period. Please Mr. Sousa, you may proceed.

Gustavo Sousa {BIO 17683157 <GO>}

Good afternoon everyone and thank you very much for participating in CSN's conference call for the results of the third quarter of 2015.

And now, jumping straight to slide number three. I have here summary of our strategies to expand competitiveness and recover our cash generation. This strategy is based on three pillars. Operating efficiency which comprises the total integration of our assets. Generating synergies, allowing us be leaders in most part of the segments. And if look at our projects, our investments are focused on cost reductions and volume increase. And more particularly, we will talk about the migration for the cements area and after that we will have the presentation by Mr. Caffarelli, our Corporate Director who will talk about the financial aspects of the company.

Now jumping to page four. Here we have a market overview in the different segments where we operate.

In terms of steel mining, we had a very unique portfolio with a very good focus on cost which has allow us to be very competitive abroad. In terms of mining, we have a world-class assets totally integrated as for cement. We will see how this segment is growing in the company and we will have further growing stages in this area and we also get some highlights on the logistics side of that containers in all of the segments have good assets that allow us to have self-sufficiency in terms of energy generation.

In the next slide, we have our main target and consolidated results, our EBITDA was 853 million, a 6% increase vis-a-vis the same quarter of the year before.

Our EBITDA margin is 20% and keeping with the second quarter of this year and a net loss of 533 million. Our gross debt was BRL35 billion, net debt of BRL23 billion and the net debt over EBITDA ratio of 6.6 times. The next slide, we have a graphical representation that shows the evolution of EBITDA of 853 million and also the results posted in the period with a special highlights to our financial results.

Here we show how we went from the financial result according to IFRS, which is at red bar at BRL1.5 billion to the financial result in green. And then on slide seven will give you more detail. In the third quarter, our financial result according to IFRS was BRL1.549 billion which result one added to the financial revenues from our associated companies to joint-venture status a relevant cash position and therefore our proportional financial results trends to be 779 million.

Well comparing the fact that Namisa is a joint-venture does not allow for consolidation. So in terms of the proportional financial results, we just keep the parity with Namisa results in terms of asset [ph]. Now in the next slide, we have the goals per segment -- segmented.

We will start with the steel performance. In the last quarter, we see a growth in sales in the four market more particularly in the third quarter reached 42% of sales in the current market when compared to the total volume. Our net revenue was BRL2.7 billion and our EBITDA is BRL376 [ph] million and an EBITDA margin in the steel area of 14%.

Next slide, we show the performance in the last past year in terms of our mix of products and we privileged products with the higher added volume. In the last part of the chart, we see that the coated steel products had an increase of 49% in the total sales volumes jumping from 49% to 52%. Next slide, we have some cost numbers for the steel industry. We were able to promote a cost reduction both in dollars and in real, which was good in the first quartile of our cost position. Now going to slide 11. Now we have the beginning -- we have information on mining and this quarter there was a growth in the production volume of 17% when compared to the previous quarter reaching 7.94 million tons during the period with a special highlight for Casa de Pedra 4.7 million which is again another production record in that mining sector.

Our net income grew 39%, our EBITDA grew 74%, reaching BRL395 million with a margin of 42%. And this is the highest margin ever posted in the mining segment since the first quarter of 2014. Page 12, we see that even with a reduction of 58.4% in Platts and in the third quarter $54.9 even with that reduction in Platts we were able to keep our per ton OB revenue and we also promoted cost reductions which allow us to have a $17 cost margin per ton and $19 per ton of cash margins.

Slide 13, shows us this cost performance has been gradually improving and this improvement was generated through some measures related to cost reductions promoted by our mining team. Slide 14, we see that the result of our guidance see if any, it's really well positioned. If you look at the overall scale of cost amongst all mining companies in the world. In slide 15, we see the performance in our cement industry, cement area.

There was a slight reduction in net revenue a slight reduction and there was also an EBIT reduction caused by a non-scheduled stoppage in Volta Redonda and our maintenance number was 37 days which generated a reduction in EBIT and EBITDA that the activity has been resumed and things are normalized.

On slide 16, we've been showing this slide to the market because it shows the evolution of our cement project, in the second quarter, we had already show you the level of productions of the grinding mill at Arcos. In the fourth quarter now, we are projecting now the grinding mill number two and for 2016 we will have the start-up of our new clinker kiln at Arcos. Now going to slide 17. Now we have here the breakdown of the performance from our container terminal Sepetiba Tecon that made revenue when comparing the third quarter of this year with the same quarter the year before. The net revenues grew 54% of EBITDA when compared to the second quarter of this -- this year were 145%.

Therefore the margin in the second quarter is 37% and all of that happened due to improvements in the main volume metrics at Tecon with the 44% growth in the volume of containers, 38% growth in the steel volume and almost 100% increase in the general cargo volume.

Page 18, we see that this performance is a consequence of an increase in our regular routes portfolio. Especially now we launched a new line to Asia for import and export of containers with this new routes. Tecon becomes the main container terminal from Rio into other countries and we also have a new regular routes to the United States particularly in Houston, Mexico and Central America through the Gulf of Mexico.

In the third quarter, also we were able to consolidate the operation of the first regular projects for general container. So we are connecting accountability (inaudible) to the automobile area of Rio de Janeiro and Sao Paulo.

In slide 19, we have the breakdown of the results of the company by segment and the highlight goes to still the few area accounting for 65% minus 44% in all districts accounting for 15% of our EBITDA.

So still 41, mine 42, but this will just expected.

The next page we have the nine month to-date numbers and we reached BRL1.7 billion in CapEx and the highlight goes to some anticipation related for a very strategic for the company and the first anticipation was for the acquisition of new mining equipment where we see the benefit of the current conditions of the iron ore markets to be able to buy equipment and machinery at attractive prices and also the three plants that we bought at very favorable conditions and all of this puts us in a scenario already producing some good results (inaudible).

And we accelerated the develop of Arcos we wanted to also to anticipate part of our Arcos project as previous demonstrated in previous slides when I referred to our cement projects. Now going to page 21. We have our financial agenda and then we will give the floor to Paulo Caffarelli, CFO.

Paulo Rogerio Cafarelli

Thank you very much and thank you for participating. I would like to refer to our financial agenda for this quarter. It's made of four items. I'm on page 21 I would like to say that the with the order here is reducing net debt over EBITDA ratio or leverage. At CSN we focus on liquidity, which is BRL11 billion and in the third quarter, taking advantage of the depreciation of this exchange rate we had a percentage that if you invest above CDI our new revenue will be an increment of about BRL600 million

On item two, when we look at the liability management, we were able to have an extension with Caixa Economica and Banco do Brasil of 4.8 billion. We are constantly looking for the best cost and the best payments. In terms of cost reduction and working capital requirements there is a very strong focus in the reduction of working capital, inventory and the drastic reduction of cost. And finally maybe what is more important at the moment is that in terms of divestment and the sale of some selected assets all the banks are already received a notice to already know that we are selling some assets.

On page 22, now, we see the result of the extension that we did with Caixa Economica and this refers to some operations for 2016 and 2017 until 2022 for five years and Banco do Brasil that has also extended for the years of 2020 and 2022. So why they would do that, we will have a better way to work in the sale of our selected assets and pay more a stringent way in terms of more attractive funding we are now conducting some negotiations with some Japanese banks to securitize some R&O sales to Asia at a more attractive costs. And here in the domestic market there is some incentives lines like Sinapi and also BNDES.

Next page, when we talk about working capital management and cost reductions, we are focusing on managing the inventory intermediary inventory and in terms of steel, we are looking for a constant modernization of our steel mill operation, and also we want to reduce energy consumption in terms of mining with the constant improvement in the quality of our products and also the optimization of the mine planning, processing, cost reductions and reductions in our overhead. In terms of processes and in expenses control, we are applying readily and so we are monitoring our expenses very closely. We were also getting an extension in the payment terms with our vendors and renegotiation of the agreement we have with them and we are looking for most competitive assets.

So last item of this financial agenda on page 24. We have more details about our business, we reinstate therefore, that we keep the focus on our core business which is still mining and cements and also here we have some other available assets that will allow us to divest. And at firstly, we elected some assets in the US, we had 14% stake in (inaudible) Tecon, we have more than 20 companies interested in the assets and their proposals will begin to come in early December. We also have some participation in MRS, a stake at MRS and Itaipava and Igarapava.

I would like to say that all of the banks are already working towards that end, Bradesco and Banco do Brasil in terms of MRS, it's Banco do Brasil and energy assets, Banco do Brasil and others in Credit Suisse.

I would also like to refer to the potential capacity of our company, particularly I know that particularly related to our iron ore record production which has been constant in the past few months. We also promoted and having cost cuts, reduced EBITDA and I know the $38 per ton and this places amongst the best companies in the world We are very competitive and worldwide terms the prices, well today we also have a very strong evacuation capacity, therefore and I refer you to exports.

In the past, this is 90% in domestic market and only 10% abroad today is half and half. We sell half to the foreign market and this just shows how adapted we are and however, we can adapt to the challenges in the market.

Thank you very much. Now I give the floor back to Gustavo. Before we jump to the Q&A, I would like to give the floor to Mr. Benjamin Steinbruch for remarks.

Benjamin Steinbruch {BIO 1499059 <GO>}

Good afternoon. I also have a few comments related to the recent past, the present and the future. In terms of the company last year, we suffered an impact as well as the entire economy was impacted. We had the carryover inventory and also the productive chains also felt an impact of the economic downturn last year. We also experienced a weaker year, but as of September, we started doing campaign and also gearing our steel mill in production to focus on the export market. That was a difficult task because we were mostly concentrated in the domestic market, but now we are beginning to see the results, which were more apparent in the first quarter of this year. We work in a different way now.

We are no longer operating to trading companies, but to now our own team in geography, considering each country as an internal market. It takes longer for you to see results but token we have a better sale price and lower cost, and we want to sell products with high added value. I would also tell you that February the economy was stagnated and as they stagnated all over, particularly starting with the industrial sector, the average inventory time was three months and the economy CAD is almost half that to intermediary stocks, inventories at each chain has had to turn inventory of six months.

So that from February to September, there was almost no replacement purchases, but we then consumed all of the inventory with a very minor replacement factor because we were delivering company. we geared the steel production to its exports and we believe that the Brazilian market fell by 40 and we then geared our production to experts and we maintain our production by the same token we reduced cost so as to allow us to go into the desired market. Always focusing on products with high added value, we want to sell quality brand, this is our challenge and this is what we are pursuing. Then we were able to see the best [ph] results in first quarter we were able to get a better product mix and the sales volume comparable to our production. We end the third quarter, we weren't yet able to experience a full inventory reduction or the reduction that we expected. But we will continue to work hard to that end, our EBITDA was 14% in the steel area, which in my view was slow and this was not related to cost because we were able to reduce cost, the slab is a $178, but I think we will get to $115 soon in terms of prices

But prices were under pressure in the domestic market. We are increasing prices by 8% and probably in the first quarter of next year we will see, I mean they will be seen end of first quarter of next year. And this in fact in terms of cost replacements.

We are working at (inaudible) to reduce cost, increase prices and improve our sales mix. And this is what we are doing in this steel area, we want to sell quality and to sell it at a differential. And for more segment at the steel areas in terms of market, clients and products. The more successful we will have in pursuing this policy. So in terms of steel generally this is what I have to say.

The market is very challenging, the entire Brazilian economy is down. And so, we anticipated ourselves and focused on the core market, and now with the consumption of intermediary inventories, we now have 60% of handling which is being consumed and this is moving to productive chain and I believe if nothing goes wrong in terms of the economic policy of the country, the situation tends to improve domestically.

Now speaking about mining, we had a very good quarter. Our EBITDA margin was 42% as explained before, this margin in my view will get at the end of fourth quarter and I will not be surprised if our margins reached approximately 50% at the next quarter because the price has been given. The sales for the fourth quarter have already been concluded and therefore, all of the shipments are guaranteed and we are constantly pursuing cost reductions, our cost today is around $19 to $20 I mean on the ship. So we were able to get a very -- to have very competitive cost then we are very pleased to say that it's around $10, our railway cost is about $5 MRS and Port around $4. We believe that this $19 cost can be reduced further by 10% to 17.5 to a lot of hard work in the mine and also to a better fair [ph] negotiations.

We believe that we will have a production of 3 million tons a month a year 3 million tons a month and our production is anticipated to be 36 million next year and we believe that this continues effort from Ben and his team to promote further cost reduction certainly prices are among the five most competitive companies underworld. I would also like to talk about Cement.

We are investing as you know, to increase our production. We have this first grinding of Arcos already in place and we are now starting up with the second grinding we had problems with the Volta Redonda grinding which was partially, I mean that production interruption was replaced by the grinding one at Arcos that we are working diligently for that by June of next week we will have the clinker kiln operational and this will improve our EBITDA margins.

Our flag movement is expensive and this was at a cost and that's why our EBITDA was very low. We believe that in the fourth quarter, we will have a much better performance because we have new equipment, the logistics, the cost is very competitive and with the two grinding in addition to the new clinker kilns our cost will be much more competitive in markets where we already operate. Now as the working capital, I would like to mention that unlike what we wish we could do there was an increase in our working capital increase about 595 million and basically this is due to accounts receivable and inventory, but like I said before our export oriented policy which is performed by ourselves. This is a normal extension in the term considering or billing and sales is the point of destination. At the end of the day, both accounts receivable and inventory levels are increased. I wouldn't say this is desirable without a natural consequence of the policy we adopted in order to improve our prices, our margins with the unique mix of top of value-added products that we were searching for.

So it is not justify because working capital for us is something critical right now. We are working heavily to lower the numbers, but I am confident that Q4 will bring good news in that regard. And CapEx -- our CapEx, our investments amounted to 1.700 billion. I know with my -- you might find weird, still market analysts might find it weird, but you were aware how tough and how hard it is for us to cope with credit and cash today. So I'd like to say that basically these were investments in mining, 473 million basically purchase of equipment of growth amounted to $150 million.

And that was a business opportunity we had and we can be sure there'll be a cost reduction because now we have larger, higher yield pieces of equipment with fewer people involved in the operation. So cost reductions that we begin to see over two, three is partly due to the startup of new pieces of equipment. And that's why we you can see this improve and also anticipation of CapEx. I would say that in terms of results, this is fully justified. As to rail and logistics I don't have any too many comments. EBITDA was 40%, which is quite extractable. Likewise, the same goes for port, 37% EBITDA in logistics increasing revenue. Since we are focusing our attention on management to the port of Tecon in Sepetiba and also via export and also due to the largest member of consumer line. So certainly, these activities of railway logistics and port logistics. We do have a huge potential (inaudible) and growth in EBITDA. Regarding the outlook for the company, with the last quarter of the year Q4, rest assured that our EBITDA -- will be over 1 billion, within our home [ph]. In mining, in field. So it's almost getting that we will have EBITDA levels over 1 billion.

With regards to efforts to lower our working capital, we have an important item and we were not successful yet in reduction, but this relates to over inventory, have 2.7 billion in this inventory level and I believe we can lower this easily, at least at 1.5 billion which contributes to our liquidity and our cash. We have given everything we can in order to better manage this item.

Net debt over EBITDA, this is critical and we're focusing our efforts and attention. Like we said before, we are working with the disposal of assets, but maybe this is the most important item and I would like to say that when we analyze net debt over EBITDA ratio. As we know, we look backwards one year vis-a-vis the EBITDA. The current EBITDA of the company greatly improved compared to previous months, thanks to the measures taken.

I believe we should expect to see 350, 400 EBITDA and therefore net debt over EBITDA ratio considering our efforts for working capital. If we added altogether, certainly, the numbers will go down in Q4. To conclude, I would like to say that we are going to be very stringent with zero base budget starting January 1. We are getting ourselves ready to start everything from scratch, OpEx, CapEx. We are also going to scrutinize and making effort to manage these contracts. With regards to CapEx I am confident that we are only going -- we're going to focus on the essentials. We have the conclusion of the clinker kiln, Volta Redonda, coke oven plant and some efforts in shipments from mining. Since we have a production capacity that is how we're today, we are ready to deliver more, the friction is with shipment. So in order to increase our sales for the half of the or for mining, to improve our margin vis-a-vis the two mill because the coke plant is critical for us, in terms of quality and generation of gas to produce energy, which then lower our cost, this will be top priorities for CapEx.

As to OpEx, which today is, where we have even more margin. We are going to be very stringent to really have huge sales and achieve the results expected in a shorter timeframe. The company is under control, the hardest part is over and this change in order to ship production which was really fall in the domestic market shifting to export but in a smart way. In order to have the better mix possible with higher value added products in better market, working at full capacity without reducing production that's quite a challenge in this fuel industry.

But we overcame the toughest debt and for now onwards we want to reap the fruit. As to mining, this is what we have already started to do in the past. In other words we have a commercial issue, very active in sale and purchase of iron ore. We no longer buy from third-parties it's only in house production, and also oriented to quality and cost. In other words CSN in every products, all products are always related to quality and low cost.

We want to be unique, in qualitative terms, in our products and in terms of cost, we are focusing our efforts to lower cost. I'm not trying to be bullish about the fourth quarter. However, we are realistic, these are the conditions and efforts have been made unlike I said I'm confident that we'll be delivering great results in the fourth quarter.

The economic recession will continue but I believe that in our mode of operation we'll keep on working at full capacity and we'll keep on trying to reduce our expenses, selling unique products with more competitive prices. So this is it. Thank you very much and I'll be also ready to take your question.

Unidentified Speaker

Thank you, we're opening now the question and answer session.

Questions And Answers

Operator

Thank you. We're starting now the Q&A session for investors and panelists only. (Operator Instructions) The first question is from Leonardo Correa from BTG Pactual. Please go ahead sir.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon, everyone. Thank you. My first question is about price. You mentioned 8% increase in price. Basically early next year so just to have some color about acceptance or about implementation. Do you think you could have 8% on top of basically all line or anything more specific for distribution processes. Is any thoughts for us because there are some negotiations that are slightly apart, automotive for instance. Sometimes if top, and also some industrial players. So what about the increase of 8%.

How do you classify it and what about the ratio and the impact. And could you also comment on the premium in the domestic market today and if you consider, the results of the third quarter of other competitors that was a lot of discounts taken place. So I wonder if you provide any discount in the third quarter or a renewal rather than an increase in net price. So what -- just like to better understand the equation of price considering a challenging demand scenario and a recession in 2016.

My second question is about CapEx. It was crystal clear, during the presentation, Benjamin what you said about CapEx and trade-off. They need to spend a little bit more in the short-term to reap benefit in terms of cost in the long run. So the equation for net debt over EBITDA or leverage is far from simple and the ratio is growing more, CapEx is higher than the market for us, imagine. So just to have more color, what is the plan for 2016? So what about the level that has cut down CapEx by half if necessary to try and go back to free cash flow, which is positively generated and what about CapEx for next year? So if you could give us some numbers, that will be really helpful.

And just to conclude, Casa de Pedra, still about CapEx. For some time now, you have been working to that standard and considering the recent interest and unfortunately, we had a tragedy of some Arcos too [ph]. What about the raising of the dam to expand Casa de Pedra? Could you give us more detail? Thank you.

A - Unidentified Speaker

Thank you. Martinez is going to answer your question about price in-field.

A - Luis Fernando Barbosa Martinez {BIO 7187744 <GO>}

Hi, Leonardo. Martinez speaking. First about premiums. Hot banks today considering the price increase, the premium ranges from 6% to 8%. The code coil between 0% and 2% and galvanize 0% to 2% with the announcement of 8%. We have already taken over part of 5% or 6% increase in distribution and civil construction and now we are negotiating with companies, while line, car parks and OEMs. The focus will be on selling more and more. Clearly announced to more customers to enrich CSN mix in coated products.

Benjamin talked a lot about value-added products. Just to give an idea of the magnitude, mining [ph] 39% to 42% coated products. And for coated products for CSN as a whole from 39 to 45, so what you do next is to maintain the same strategy. Domestic market focus on value-added products, galvanized products and increase the level of service delivered to these clients.

As to the outlook for the domestic market, what we see today by the way another point that was not mention before, imports went down 52% for products in which CSN already participate, which is quite significant, direct imports. And indirect, the drop was 13%. These events are very powerful, if you believe that penetration of imports in the markets were around 2 million and think it will go down to 1 million, 1 million in the domestic market on our lap and part of it will also be on CSN because part of it is material that was coming in goldenized and please then plated. Another golden points that is also happening on Benjamin the production change stream by and large are out of stock. So there are three drivers that will be in our in the fourth quarter and first quarter of next year, drop in the right inputs, drop in indirect products on next imports.

A - Gustavo Sousa {BIO 17683157 <GO>}

Thank you, Martinez. Gustavo speaking now. Answering your specific question about CapEx and net debt over EBITDA. I could give you more detail on the investments and mining equipment. In addition efficient to acquisition price of the equipments and the markets conditions and financial conditions that ae very favorable. This standard investment is suggested in terms of mining cost for 2016, and which levels will be fully operational vis-a-vis 2016 there will be a reduction (inaudible) in mining cost.

And in 2016, our production will be at least 10% higher compared to 2015. So your point is clear, you think about daily which is CapEx and investment and in fact our net debt over the better opportunities there we can operate in the operations that has excellent results like mining. As to the outlook of investment for 2016, the numbers have not been closed yet. We had announced to the market our vision is BRL1.5 billion at 2016.

But naturally, the anticipation we visit the number, possibly it would be zero based budget and we'll be working on essential products that are underway. Now -- Daniel is going to talk about the Dam.

A - Unidentified Speaker

Good afternoon, Leonardo. We were concerned with the accidents in Mariana. Second part is a very good and we'll have different realities each mine is different, each mine operates, it's dam slightly different from the rest, earnings are also different. In Casa de Pedra, our dam is very secure and safe, you asked about it, right, it is very secure will have stability to typical issued in compliance with the environmental regulation for the dam in the state and this weak we had an inception team right after the accident Mariano. Two days ago more specifically, everything is okay.

As to the raining of the dam that you act we are -- our environmental license and permit is on schedule and we expect to have an business as usual as planned.

Q - Unidentified Participant

Thank you.

Operator

Our next question is (inaudible) from HSBC. Please go ahead, sir.

Q - Unidentified Participant

Thank you, good afternoon, everyone. My question regards the consequences of the tragedy in Samarco. And also the demand by fine products. Tell about the volume of fines and premiums. Do you see the numbers will increase. That's my question, my first question.

Second question, I would like to have an update about the merger between Casa de Pedra and Namisa which is expected to happen in the coming month. Could you give us an update? That would be really helpful. Thank you.

A - Gustavo Sousa {BIO 17683157 <GO>}

Thank you, (inaudible). Gustavo is speaking now. Answering your second question. We are in the final process. It'll be concluded in December this year. So far there are no problem and we expect to meet the deadline that we mentioned before.

A - Unidentified Speaker

Martinez [ph] now speaking. About demand for fine products. If you believe that might be a window of opportunities in the short-term. More specifically it was not Samarco that was affected and another competitor company was also affected. And constantly the portfolio of products maybe supplied by ourselves. We decided to speed up some engineering studies in some projects to check whether at the right time, if there was an opportunity to really come up. We cannot lead and supply this considerable demand in the market.

Q - Unidentified Participant

Okay. Thank you.

Operator

Thank you. Our next question is from (inaudible) from Credit Suisse. Please go ahead, sir.

Q - Unidentified Participant

Can we have some guidance about the reductions, to what extend it was due to the exchange impact or effective cost reduction efforts. Could you give us additional guidance about how much you expect the reduction to happen, over 10%.

A - Gustavo Sousa {BIO 17683157 <GO>}

I'm sorry to interrupt, currently we did not listen the first part of the question, there was a problem in the connection. Could you mind repeating, please.

Q - Unidentified Participant

Sure. You report a substantial reduction in mining comp. Can you breakdown or give us a guidance, how much was an exchange effect and how much was due to cost reduction efforts and could you give us some guidance about how much is exchange and how much is exchange and how much is efforts to rolling costs in the future and maybe could you quantify or give us some color about working capital going forward considering all the improvements you've been making? That would be really helpful. Thank you.

A - Unidentified Speaker

Regarding mining costs, naturally the exchange rate was favor both to us, thank God. And price and also cost because of our costs are denominated in Real, not in dollars. But we have a real effort of reduction in Real, which is constant.

This year, you can say that -- let me just check my notes. Reduction result significant going down approximately BRL5 per ton quarter-on-quarter. So that's the effort we are making.

Whenever we cut down our cost, the impact is on Brazilian Reals in order to have sustainable long-term reduction in Reals. The idea is to have a long-term impact on oil fields, with the exchange rate. But we don't have the perfect rate now. But from the second to the third quarter, we had a reduction, 9%. And percentage wise, it is the same order of magnitude, also around 9%. Thank you.

Operator

Our next question is from Thiago from Bank of America.

Q - Unidentified Participant

Good afternoon. Thank you for taking my question. My first question is about iron ore shipment for coming years considering reduction of third-party purchase and Casa de Pedra achieving 36,000 tons next year. So what about the expectation for volumes 2016 and going forward?

Second question, maybe just to clarify. Cost in the steel segment. You quantified the cost reduction, could you repeat the number, please? And explain the main drivers that would lead to this cost reduction, that would be great. Thank you.

A - Unidentified Speaker

Thiago, this year we expect to have 28 tons and next year the production of 36 million tons, we expect to be around 30 million about our guidance and we have to see what we haven't report services and third-party services next year, but our own production, we're working on the estimates and going forward depending on the investments in Casa de Pedra shipment which is (inaudible) production today and may be block the system as a whole. We might have a higher volume for 2017.

Q - Unidentified Participant

As to the cost of this lot are going to be in reals and dollars?

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Just bear with me for a second please, we are checking on it. So the price of the was $320 and in reals was BRL984 or BRL979. This reduction was due to all of our investments and revamping to see the investments in the coke plants and also further efficiency improvements in that processes (inaudible) we don't explain.

Q - Unidentified Participant

Thank you.

Operator

Our next question from Rodolfo Angele from JP Morgan. You may proceed, sir.

Q - Rodolfo De Angele {BIO 1541593 <GO>}

Good afternoon. I would like to take the opportunity that Benjamin is also participating in this call. And ask you whether you can tell what shareholders could expect in terms of dividends in the next coming years because in the plastic [ph] company, payout a lot of dividends, what should they expect during seasonal --

A - Benjamin Steinbruch {BIO 1499059 <GO>}

As I've answered during the conference call for the results of the previous year's quarter, the dividend payout now is secondary to us, considering our current priority and efforts to reduce our leverage level. I think that what can be done in operating terms. So as reducing cost, improving revenue and improving EBITDA is an ongoing effort and we already seen in the results. I -- which we had a better third quarter, but it was a transition quarter and in the fourth quarter, that when we will see a more apparent improvement in our EBITDA -- more in keeping with what we anticipate. In terms of our indebtedness, we are also taking all the possible measures. Our EBITDA improvements are now being undertaken in terms the sale of assets with our leverage level.

And certainly, we knew that you would take at least six months meaning that we are now receiving -- we are about to receive the first proposals because all of the banks are already working with these known assets. So demand are very promising for these assets. And we believe that we will be able to see some more concrete results in both next quarter and the fourth quarter. So what's up to -- to us do is being done and all of our efforts to improve EBITDA. They are ongoing and they continues in the company.

Now in terms of leverage, our net debt over EBITDA ratio, we are negotiating our debt position. We want to reduce our indebtedness by selling assets and any assets that will be sold will certainly bring more cash to the company.

And then we will be able to have more reserves that will be paid out in the form of dividend. I believe that next year or about next year we will payout dividend. But all of the other factors have to be in place for us to be able payout dividend.

Operator

(Operator Instructions). Our next question come from Victor Penna from Banco do Brasil. You may proceed.

Q - Victor Penna {BIO 16384328 <GO>}

Good afternoon, everyone. I would like to know what is the debt percentage that you were working with the milling segment, and I think that the sale of assets is higher than what has been anticipated by the company? And terms of our industrial capacity, I know that you were working towards optimizing costs, et cetera. The second question about the roll out of the debt and whether the company is working with another organization or whether you are looking at the -- that matures in 2016?

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Victor, thank you. I will start with your second question about the debt. The bulk of the debt matures 2016 and 2017 and we already initiated the rollout. And in this case, we could achieve further improvements in '17. But most part of our homework is done. Could you repeat your first question because it's very difficult for us to understand?

Q - Unidentified Participant

My first question is about your percentage of utilization of capital and in case your sale of assets makes concrete with your considering the appreciation as what happened to the some other peers in the industry. And how do you want to work with your operating expenses?

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Okay. Thank you for your question. We are working at full capacity in our Presidente Vargas knew our strategy as we said is to use our competitors both domestically and abroad. I mean gold exports, then we have a consequence with where they can benefit abroad. Given our cost differential, we are still operating in sales both in the domestic market, but we are also privileged in export, the export market. Thank you very much.

Operator

Our next question from Eduardo Lima from HSBC. You may proceed.

Q - Eduardo Lima {BIO 15412259 <GO>}

My question is about (inaudible)

A - Unidentified Speaker

Eduardo, I apologize. I cannot hear your question.

Q - Eduardo Lima {BIO 15412259 <GO>}

I'm sorry, so I'll repeat. My question is about what have we done in the (inaudible) or there is a loss within the environmental fear and also Atrium of contact that may hinder the operation of the plant. What is the status of that case and what are the other implications stemming from their process?

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Thank you. There is a subject that was covered by the press recently and this is an important subject currently in all of which we are operating in both (inaudible) and we are doing everything we can to overcome that issue. We are in the final stages of negotiations with the authorities in Rio de Janeiro and once the situation is settled the market will be notified.

Operator

Okay. Next question from (inaudible). You may proceed.

Q - Unidentified Participant

Good afternoon and thank you. I would just have to have an idea. You had over 58 million this quarter. It went to 184. What is that referred to and what is the timing?

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Thank you, I will have to get back to you. You're talking about related parties and there is difference from one year and another, it's part of our cash management and we have to consider CSN in Brazil and abroad, there a several companies, so I will have to get back to you, giving more specific details. That would probably help clarify your question. Thank you.

Q - Unidentified Participant

Thank you.

Operator

Our next question comes from Mr. Carlos Alba from Morgan Stanley. You may proceed.

Q - Carlos de Alba {BIO 15072819 <GO>}

Yeah, thank you very much. I just had couple of questions. The first one is, if you can give us a rough idea of the EBITDA per ton that you are making on average on your steel export. And secondly if the big effort (inaudible). Would that in any way reduce the lack of mine of the inflation or how should we think about any potential impact on the long-term? Thank you.

A - Luis Fernando Barbosa Martinez {BIO 7187744 <GO>}

Carlos, this is Martinez. The net margin we have in our export sales were the organized products. For the full market is around 12% to 17%, that's approximately. Could you please repeat the second part of your question, please?

Q - Carlos de Alba {BIO 15072819 <GO>}

Sure, yes, it's just about the potential impact that the cost reduction efforts that we are doing in Casa de Pedra could have on the life of mine of the operation. And how we should think about that?

A - Unidentified Speaker

(inaudible) As I had several times in the past. We do not do high grading all of the improvements are related to the high quality of our asset. We still have a great amount of product in the port and that's why our mining plant, our long-term mining plant is very favorable and it favors a qualitative production and high production and we are also deploying great improvements in our processes. We just introduced a new re-agent unit for protection [ph]. We also improved the magnetic separator. So we are investing a lot in processes.

So having high quality or with the uptick steel plant with new properties, with all of that we are eligible to continue offering high quality products. At Casa de Pedra we have many processes and all of these processes help us transform the ore into high quality products and that we can keep our exploration at sustainable levels, and costs which are continuously being reduced into our efforts to reduce expenses and high productivity, we are keeping at this speed.

Operator

Our next question is from Marcos from Itau BBA. You may proceed.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

(inaudible) is about your cash position, it was $1.2 million last quarter. And so, I would like to know, what will be the strategy of the company vis-a-vis your operation abroad and your position?

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Thank you. We are in the third quarter, we managed $1.2 billion in investments abroad for Brazil. And the closing position in September, our cash position in dollars was $1.1 billion whereas 70% of our cash position denominated in dollar. And Namisa accounted for $995 million. We put together a complete hedging structure and efficiency structure for that nationalization up to this point is the matter of 1.2, that was part of our plan. But we have no guidance concerning the (inaudible) what will happen in the fourth quarter. Thank you.

Operator

As there are no further questions, I would like to give the floor back to Mr. Gustavo Sousa, Controllership, Tax Planning and IR Executive Officer for his final remarks.

A - Gustavo Sousa {BIO 17683157 <GO>}

Thank you all very much for joining this conference call this afternoon. If you have any additional questions, please speak to our IR department. Thank you very much.

Operator

CSN's conference call is now over. I wish you all a very good day. Thank you.