Q4 2004 Earnings Call

Company Participants

- Lauro Rezende, Investments Managing Director, IRO
- Luis Martinez, Commercial Director
- Marcos Lutz, Infrastructure and Energy Managing Director
- Otavio Lazcano, CFO

Other Participants

- Daniel Altman, Analyst
- Dennis Parisien, Analyst
- Mark Cartlidge, Analyst
- Unidentified Speaker

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to CSN's Fourth Quarter and year 2004 results conference call. Today we have with us Benjamin Steinbruch, CEO, Lauro Rezende, Investments Managing Director and Investor Relations Officer, Marcos Lutz, Infrastructure and Energy Managing Director, Nelson Cunha, Engineering Managing Director, Otavio Lazcano, CFO, Jorgemar Almeida, Controlling Director, (Luis Martinez), Commercial Director, Marcos Leite, Head of Investor Relations. (Operator Instructions) We have a simultaneous webcast that may be accessed through CSN's website, www.csn.com.br. The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call. There will be a replay service for this 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 beliefs and assumptions of CSN management and on the information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to the future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of CSN and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference call over to Mr. Lauro Rezende, who will present CSN's operating and financial highlights of the Fourth Quarter and the year. Mr. Lauro, you may begin your conference.

Lauro Rezende {BIO 1959027 <GO>}

Thank you. Good morning, everyone. Thank you for joining our conference now. We will begin our presentation commenting on some highlights of the 2004 results and slide number 2 please.

The 2004 highlights. Once again, CSN produced a record crude steel production of 5.5 million tons per year, due to continuous productivity improvements. Net revenues grew by 40% compared to 2003, reaching BRL9.8b. EBITDA totaled BRL4.8 billion in 2004, representing a 6% growth and a 6percentage point increase in margins. And margin has reached 49%.

CSN reported consolidated net income of BRL2 billion in 2004, almost doubling the 2003 results. The performance allowed a reduction in the net debt as planned and the year-end net debt level was about 1 times EBITDA.

On slide number 3, we can see also the sales breakdown by market. In the quarter, sales volume totaled 1.04 million tons, a 15% decrease when compared to the Third Quarter. This reduction can be explained by the December performance.

On the export front, reduced demand in the United States led to a build up of (inaudible) towards the service centers. And the last sales were adversely affected by shipment difficulties at the beginning of December, due to the negotiation of freight prices in Brazil. It was not possible to recover these losses had in that month, December, due to the client's (collective applications) starting December in Brazil.

Decreasing sales in the Fourth Quarter led to a drop of 256,000 tons in sales volume in 2004 when compared to 2003. Nevertheless, net income grew by 40% in (inaudible) and 28% in the Fourth Quarter compared to the Fourth Quarter of 2003.

This year, the Company directed 69% of the volume sold to the domestic market, an 8percentage point increase when compared to 2003, as a result of the recovery in the Brazilian economy basically. In the quarters of last year's revenue, where 75% of the total expressly recovering domestic prices when compared to international prices throughout 2004.

In slide number 4 we can see the total volume by market, unit and product. The amount of annual sales and breakdown by product shows that its share of high value-added products, such as tin plate, galvanized and pre-painted[ph] material represented 50% of the total sales volume when compared to 39% share in the previous year.

This reflects the good performance of our international operations, CSN U.S.A. LLC and Lusosider in Portugal. And increased introduction and sales of CSN Parana and the start in the second half of 2004 of full production at GalvaSud.

In 2005, with GalvaSud operating the full year at a high production pace. And with increasing sales of (galvanized) and pre-painted products, both of CSN Parana, the share of high value-added products may still be won. Sales by market really did not change significantly, given the balance of the Company's sales by sectors.

In slide number 5 we have the production cost breakdown for the parent company. The total production costs went up by 32% in 2004 compared to the previous year, with coal and coke explaining 57% of this increase.

The positive impact in costs resulted from reduced consumption of (household oils) from (inaudible) price. Basically, 82,000 tons in 2004, (142) less than in 2003. The portion of the result is only the cost increases from 36% to 46% and the participation on the cash cost to the Company.

Slide number 6 shows the evolution of the EBITDA margins since the end of 2003. It's worth mentioning the continuous increase of the EBITDA and EBITDA margins since the last quarter of 2003. EBITDA in 2004, as already mentioned, has reached BRL4.8b, compared to BRL3 billion in 2003, a 60% growth. Margin has increased from 42% in 2003 to 49% in the full year 2004.

It's worth noting too the 55% margin for the last quarter of 2004. It's improved in absolute terms, as well as in margins. But that's not only the point of the cycle on the steel market. But it has too the improvement in sales mix and operational efficiency of CSN.

In slide number 7 we have the financial highlights in the quarter. To highlight the numbers in the Fourth Quarter, we were affected by the consolidation of MRS and Itasa and by the reassessment of these cost impacts of these ventures. Further information on those issues may be obtained from our Investor Relations team.

Gross profit has reached BRL1.4b, compared to BRL800 million in the same period of the previous year and BRL1.3 billion in the Third Quarter of 2004, a 77% and 7% growth respectively.

Gross margins have increased by 15percentage points compared to the Fourth Quarter 2003. And 7percentage points compared to the previous quarter. The improvement in the annual comparison is mainly the result of high prices and better sales mix throughout 2004.

The EBITDA margin has reached 55% in the Fourth Quarter 2004, a 19 and 6percentage point increase respectively when compared to the same period in 2003 and the Third Quarter of 2004.

If you disregard the effect of consolidation and (inaudible) taxes, the increase in gross margins would have been 11% and 2percentage points respectively. And the increasing EBITDA margins would have been 14% and 1% respectively in the same comparison basis.

The net income in the Fourth Quarter was BRL531m, a 68% growth when compared to the same period of the previous year.

On slide number 8, net revenue has reached BRL9.8 billion and is the highest ever in the Company's history. This reflects a far superior (distribution) in 2004. Growth rates of gross profit and EBITDA were higher than revenue growth, which means better sales mix and a better cost efficiency measure within the Company. Change in actual result sustained by MRS and Itasa consolidation, whose financial performance started to impact all income statements (out) of the equity line result only.

Higher tax expenses are due to higher tax on net income and increasingly (inaudible) to compensate those taxes. That performance was reflected into a record BRL2 billion net income, a significant growth of 92% when compared to 2003 figures.

On slide number 9, we present the effects on the net income 2004 when compared to net income 2003. First of all, as the main part of the contribution, we had a higher gross profit, mainly as a result of higher prices. However, the increasing production costs, affected mainly by raw material prices, offset part of this gain.

Another part of the contribution was the non-recurring effect arising from the tax assessment reported in Fourth Quarter 2003, as a consequence of fiscal losses compensation over the 30% limit.

And the net contribution we have, first, a lot of non-recurring effects related to official credits from legal resolutions benefiting the Company due to the understatement placed on the consumer price index in 1989, our (deferment) plan (confirmed thereof). Second, high expenses with income and social contribution taxes, due to lower fiscal prices and higher profits.

Finally, higher financial expenses, even with the low average debt volume. The average cost was high in 2004; it was 84% of the CDI Interbank rate, when compared to 50% in 2003.

Others changed too, to a negative BRL31m, mainly due to high SG&A expenses, lower acting company results within the MRS and Itasa consolidation. Partly offset by lower foreign exchanges losses and by lower operation and sales expenses, as a consequence of a low (RP), lower volumes sold in 2004. The sum of this contribution resulted in an impressive increase of BRL951 million in 2004 net income, when we compare it to 2003.

New slide, number 10. Now I see the same gross and net debt over the last quarters. From December 2003 to December 2004, if you exclude Itasa and MRS consolidation effects, the reduction on consolidated net debt would be BRL629 million instead of the BRL200 million reported, with the average costs of 13.4%.

EBITDA growth and better financial results were partly offset by income and social contribution taxes; by higher working capital, mainly due to the increase of raw materials and finished goods inventory; by shareholder dividends and value adjustments, including in those numbers the acquisition of the 49% stake in GalvaSud that was around BRL300m.

Compared to December 2003, gross debt is down by BRL480m, which was at the end of (2004) equal to BRL8.47b. During the year, CSN has raised a total of BRL563 million from (inaudible) issuance, with maturity terms from 8 to 11 years and yields between 7.4 and 10% per annum. Those resources were directed to the working capital needs and contributed to increased debt maturity and reduced debt average cost.

Net debt to EBITDA ratio closed at the end of the year at 0.98 times. Therefore it's slightly below the target announced in the end of 2003, between 1 times and 1.5 times. And the Company expects to maintain its ratios by 2005.

On slide number 11, we present the outlook of 2005. The Company will be in 2005 even more (inaudible) in the domestic market, capitalizing on the good performance of the Brazilian economy. We expect to increase our total sales volume, reaching in the end of 2004 5.3 million tons.

Average share price is expected to be higher, both in the domestic and international markets, although some markets, especially (inaudible) slight reduction on international prices by the second half of 2005. We definitely believe that will be fundamental for the outlook on prices in 2005, will be how the raw material prices will behave through this year, especially iron ore, coal and coke.

Like 2004, we don't see a pressure on coal prices due to much better supply conditions this year. The Company expect an average price of the third party coke we acquire to be between $250 and $280 per ton of coke. Due to this (inaudible), we expect the Company to increase the EBITDA margin and reduce its debt throughout 2005, achieving again a record year.

These were our comments on the Fourth Quarter of the year and 2004 results. The team is now able to take your questions. Thank you, very much.

Questions And Answers

Operator

(Operator Instructions) Your first question is coming from (Mark Cartlidge) of ING.

Q - Mark Cartlidge

Good morning. Hi. I just wanted to ask a question about the dividend. Obviously it increased significantly from 2003, a payout ratio of over 100%. Should we assume the same kind of ratio going forward? Or what would you guide us to expect?

A - Lauro Rezende {BIO 1959027 <GO>}

Mark, our dividend -- it's Lauro speaking. Morning. Is -- our dividend policy was always to pay as much -- as most as we can, taking into account the future investment the Company needs. What has changed from the last time we talked was basically our, let's say, view on the market. Then we still (inaudible).

There are a lot of people that had predicted last year that steel prices would start to fall by the beginning of this year or mid this year. It's not our view of the market as of now. Coupled together with the recent increases in iron ore prices, that will have a very -- a big impact on our coming mining project. So those 2 are generating a lot more cash and profits than we once anticipated. So that's why the Company had to pay out this year a much higher dividend than we have been paying for the last two years or three years.

Going forward, we should maintain, as always, our very good dividend yield, I think. But is -- yes, I can't tell that to be the same ratio, because it's (inaudible) to see the same ratio. But due to the capital structure and profitability CSN has, I believe this Company will be for quite a while a very good dividend payer.

Q - Mark Cartlidge

So if we assume that net debt to EBITDA will be below 1 and you have given a guidance for CapEx, then obviously it's down to our forecast for cash flows. But we should be able to work out from there what you expect the dividend payout to be.

A - Lauro Rezende {BIO 1959027 <GO>}

Yes.

Q - Mark Cartlidge

Okay. You did vaguely mention there Casa de Pedra. I noticed there was no announcement in this conference call regarding the expansion or the contracts. Can you give us any update on what stage we're at on Casa de Pedra?

A - Lauro Rezende {BIO 1959027 <GO>}

I will let Marco Lutz, he is responsible for mining logistics, to answer your question.

A - Marcos Lutz {BIO 6779636 <GO>}

Hi Mark. This is Marcos Lutz. We are basically -- we are actually finalizing contracts now but we still are not going public. We have an agreement with our clients that they will have to authorize this announcement. For them it's very critical at this point because we have a very tight market in the iron ore sites. So this is 1 thing that we really don't -- it's not only in our hands.

In terms of the implementation of the project itself, we are (already) shipping by the end of this year the first cargoes in Cepadiva[ph] port. The increase in production, as you know, it was a little delayed. But not -- we are still with the schedule that we presented a couple of weeks ago; I'm trying to remember if you were there. But we had many meetings with investors. We presented a final schedule after all the negotiations with our suppliers.

And basically that's it; we are on schedule in terms of the environmental side and we are on schedule in terms of the deliveries of the trucks for Casa de Pedra, which is a big constraint in the international market nowadays. So basically we are going for it.

There were some raises in the budget. But very small compared to all the increases in the revenue side we received. So the project is going -- is doing really well in terms of (first active).

Q - Mark Cartlidge

Okay. Thank you, very much.

A - Lauro Rezende {BIO 1959027 <GO>}

Thank you.

Operator

Thank you. Your next question is from Daniel Altman of Bear Stearns.

Q - Daniel Altman {BIO 1855515 <GO>}

Hi. Good morning. Just 2 questions. First, on the last page of your press release you provide a table of net sales per unit. And I understand that was affected by a change in how you record, I guess, sales taxes. I wonder if you have a table or you could provide details of what the numbers would be taking out that effect. And if your First Quarter price increase was implemented as planned.

And the second question is on Casa de Pedra. I understand you can't reveal the names of the companies with whom you have contracts or hope to have contracts. But can you give us an idea in terms of the tonnage of potential contracts that are already close to being signed? Thanks.

A - Lauro Rezende {BIO 1959027 <GO>}

Okay. Well, we can provide the table and we can post on the website this table later on, for everyone to see.

Regarding the price increase, I will ask Martinez, the Commercial person, to answer the question.

A - Luis Martinez {BIO 7187744 <GO>}

Okay. First, I would like to reinforce that we are fully committed with local markets and we are planning to have in 2005 75% of our total shipments instead of 70% to 2004.

Lastly, CSN could be considered a very strong company and one of the most innovative companies in coated products because we are very, very well committed with the local market. And we have a very strong position in tin plate, in hot dipped galvanizing. And we are interested in increasing our capacity and our shipments to (inaudible) and pre-painted products, mainly to the auto industry and the white lines.

And regarding to the price increase for the First Quarter, we are not ready -- we had 4% of -- in the hot coils price increase in February. And we are not forecasting any price increase for the Third Quarter -- for the first half of the year. Okay?

And what else? Other plans for 2005. We are interested in increasing our shipments to the auto industry via GalvaSud and increasing our share in the white line and home appliances industry.

Q - Daniel Altman {BIO 1855515 <GO>}

You said 4% in the First Quarter?

Q - Unidentified Speaker

Yes, we have 4% in the First Quarter in the hot coils alone. Okay Daniel?

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. And the price for hot rolled coil?

Q - Unidentified Speaker

Sorry?

Q - Daniel Altman {BIO 1855515 <GO>}

What is your price after the 4% increase in dollar terms for hot rolled coil?

Q - Unidentified Speaker

We are aligned with the European spot price, in the range of US$660 per metric ton.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Thanks very much.

A - Marcos Lutz {BIO 6779636 <GO>}

And Daniel, regarding to volumes. At this point I can assure that everything we have we'll be able to sell, usually in the -- especially in the Asian market. So our main effort is actually to put more tonnage in Europe. So it's not having idle capacity our concern. The concern is actually having to sell everything to Asia.

In our business, 70% increase in the prices, all these actually are very profitable markets. But in the long term we have to focus our strategy in increasing our European share.

Our contracts that we have in hand at this point are basically up -- a little less than half our production increase, basically 3 or 2 thirds of the total production of Casa de Pedra. But then including the local market as well. The fortune to reinforce -- enforce that, the local market, our local clients, basically (Galva Seminas) and Cogipa[ph], those are also paying a price that are -- is in arbitrage when you consider the (fuel war).

So for us, in terms of profitability of the project, shares of the local versus international market share makes no difference in terms of the profitability of the mine.

Q - Daniel Altman {BIO 1855515 <GO>}

I'm sorry. The actual number, when you said 2 thirds, my math is not great. Is that about 8 in total?

A - Marcos Lutz {BIO 6779636 <GO>}

2 thirds of 40 million is what we have in hand when you consider the local market and the international market that we have projects in hand. But not signed contracts. I mean the negotiations that have finalized into final terms.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Got it. Thanks.

Operator

Thank you. (Operator Instructions) Your next question is from Dennis Parisien of Standard New York.

Q - Dennis Parisien

Hi gentlemen. Congratulations on the very high margins. I'm wondering, is it going to be possible to obtain -- I know you've provided some information on the press release for annual figures that allow us to correct a little bit for the consolidation of Itasa and MRS. But on a quarterly basis is it possible to obtain some balance sheets and income statements so we can do a pro forma for the quarterly. So we have comparisons that are apples versus apples and what not?

A - Lauro Rezende {BIO 1959027 <GO>}

I think it will be possible, Dennis. I think we can provide mark up in our comparison quarter by quarter. And in MRS. I think we have that already (in the Q). But going forward we can provide you with the same.

Q - Dennis Parisien

That would be great. And can I ask, in terms of strategy I saw stories in, I guess, Bloomberg and local press recently that talked about no longer seeking to build new capacity in Portugal. But is the strategy still, as I understand it, to build the brownfield or greenfield slab capacity in Brazil and acquire rolling processing capacity in North America and Europe?

And can you give us a clear picture of what the CapEx should look like in 2005 and 2006, including, of course, increased expenditure at Casa de Pedra and on the ports?

A - Lauro Rezende {BIO 1959027 <GO>}

Okay. Well, we actually never had a plan to -- we haven't dropped the plans to build in Portugal because we haven't actually had a plan to build in Portugal. It was a lot of press speculation or rumor. But we never had a plan to build our greenfield facility in Portugal.

What we have, you're right. We still think that is a good route for the Company growth to grow either brownfield or greenfield (inaudible) slabs in Brazil. And acquire the rolling (capacity) either in Europe or in the United States, you're right.

CapEx to that, indeed the CapEx for the construction in Brazil; we talked about (LLC's); we talked about the new platform in (inaudible). The projects (inaudible) platforms than before. We are talking about $800m. And we talk about $2.5 to $2.8 billion for a brand new plant in Brazil that will have a capacity of around 5 million tons.

If that corresponds (to the dollar), we'll have capacity of around 2.5 million tons.

Q - Dennis Parisien

Are you going for one or both? And if you're going for one, which way is the Company leaning now?

A - Lauro Rezende {BIO 1959027 <GO>}

Well, I think at some point in time this Company will have both. But it's simply (improper) to build both at the same time. We're going to need to choose one. We haven't made a decision yet because which one to choose will depend on which kind and which size of capacity we will acquire in United States or Europe.

We have talked with a lot of people. There is a difficulty basically. This point in the cycle is not the best point to acquire new things right now. But the plan still remains. If you have (inaudible), we are looking for the opportunities that present in the market. But we don't have an announcement to be made soon or something like that. But that is still the plan for the Company going forward.

We intend to have much more international companies than we have right now. We think with that profile we will be able to get a much higher profitability than we have today, with a much better distribution in terms of sales, profit and risk profile of the Company. But unfortunately, we don't have anything to announce right now.

Q - Dennis Parisien

So can we -- in terms of the CapEx this year, can we count on the CapEx going towards rolling out the brownfield expansion (pretty cautiously) or --?

A - Lauro Rezende {BIO 1959027 <GO>}

If we make the decision this year, let's -- even if we make the decision especially this year, that's not (linear). I don't think we will start spending money this year on either of those 2 problems. If we spend -- even if I decide national on an expansion like that, if there is any expansion this year it will be fairly small.

So you can count on our yield investments around the $500 to $520 million this year. And that's including everything. That's including CapEx maintenance on the (new) and the production (units), plus a new cement plant, plus the investments needed for the mining projects that include mine, ports, transportation and the position plant.

Q - Dennis Parisien

Great. If I might -- let me let other people ask questions and I'll come back. I have more questions but let me pass it on to other people.

Operator

Go ahead sir. Mr. Parisien, you may go ahead.

Q - Dennis Parisien

Thank you. I'm just wondering, the large amount of cash that you've been carrying on your balance sheet, given the very high cash flows. Obviously you've already discussed the large dividend payout ratio and the increase in CapEx for 2005. But what does the Company see as being an efficient level of cash to carry in the balance sheet and what are your plans going forward? What should we expect on that front going forward? Thanks.

A - Otavio Lazcano {BIO 4999009 <GO>}

Dennis, it's Otavio speaking. We were in the process of extending the life of our position (in debt finance). And guess what, we ended up leaving more cash than what we need.

I believe that this Company will always have as a (washout) cash position at least equivalent to $600m, maybe $700m. Brazil is still a volatile country and we know all the competitiveness of CSN and its (position) in Brazil. But guess what, we will never allow anyone to pull us off the wall. So this Company will always have a cash position at least equal to $600m.

And regarding the cash position that we had at the end of 2004, our idea is to pay back all the short-term debt that will come due in the next few months. You probably will not see us in Capital Markets for at least six months. Okay?

Q - Dennis Parisien

That's great. Thanks very much.

A - Lauro Rezende {BIO 1959027 <GO>}

Thank you.

Operator

(Operator Instructions) Your next question is a follow up from Mark Cartlidge of ING.

Q - Mark Cartlidge

Hi. Just a couple of further questions. On Asia in general, or Chinese demand, are you seeing any slowdown at all in demand for imports into China?

A - Lauro Rezende {BIO 1959027 <GO>}

Can you say it again please?

Q - Mark Cartlidge

Yes. Are you seeing any slowdown in demand from China for steel as opposed to iron ore?

A - Lauro Rezende {BIO 1959027 <GO>}

We are not seeing a slowdown in China as of now for steel. We sell (very little) to -- we sell (little) to China these days. But the exports is going well. The only place that actually have seasonal, let's say, slowdown in demand was in December in the United States throughout the end -- to the end of the year.

I tell you why, it was a little slow, mainly where you sell, let's say, for climate issues and so on. And we have experienced a slow market in December, January but February was well again. And the orders which we have for March is already -- we are ready to achieve normal levels.

Regarding to China, we haven't saw any slowdown at all. We need to remember that we have a difference between flat and long steel and we haven't seen any downturn in flat. We don't sell -- we don't either produce or sell long. So we haven't seen any slowdown in flat.

Q - Mark Cartlidge

And just to follow up on pricing, the expectation is that China will become a net exporter at some point this year of flat product. And do you think that's going to have an impact on global prices and what impact do you think it will have on global prices?

A - Lauro Rezende {BIO 1959027 <GO>}

Well I really -- well, at least we're surprised if China starts to export in flat this year.

Q - Mark Cartlidge

You're surprised?

A - Lauro Rezende {BIO 1959027 <GO>}

(inaudible) opportunistic view or opportunistic conditions at that point in time. But demand has remained very strong in the United States, in Europe and the rest of Asia. So if China starts to export a little bit, we should have a very limited price impact this year, if any. Coupled together with the increase in raw material that we saw throughout the production chain, that (was) too limited a loss, the capability of companies to bring prices down.

Q - Unidentified Speaker

Also in China, in January we went down by 32%.

Q - Mark Cartlidge

Sorry? What went down by 32%?

Q - Unidentified Speaker

Export of steel products from China went down by 32% in January.

Q - Mark Cartlidge

In January?

Q - Unidentified Speaker

Yes.

Q - Mark Cartlidge

Okay. Okay, the other question I wanted to ask was just on the cement plant. Can you give me -- or maybe refresh my memory on the CapEx, the capacity and the partner that you're building this plant with?

A - Lauro Rezende {BIO 1959027 <GO>}

Well, we're doing -- this is a plant we are doing by ourselves. Exactly (unwinding) plants. So you buy (inaudible) clinker and grind to the other one without lag. And that should be about 1 million metric tons a year. CapEx is around $40 million -- $42m, sorry, to be exact. (inaudible) will be $42 million in CapEx from plants.

Q - Mark Cartlidge

And what's the expected start of production?

A - Lauro Rezende {BIO 1959027 <GO>}

It will be about June 2006.

Q - Mark Cartlidge

Sorry, to Second Quarter 2006?

A - Lauro Rezende {BIO 1959027 <GO>}

Yes. By the end of Second Quarter 2006.

Q - Mark Cartlidge

Okay. And can I just -- sorry, just push you for 1 more question on pricing for cement in that region of Brazil?

A - Lauro Rezende {BIO 1959027 <GO>}

Well, pricing for cement on regional (line) in Brazil is around BRL200 per ton of cement. That translates in dollars to something like $70, $75 I think.

Q - Mark Cartlidge

Okay. Thank you, very much. That's great.

Operator

(Operator Instructions) Your next question is a follow up from Dennis Parisien of Standard New York.

Q - Dennis Parisien

Hi, guys. I apologize in advance if you guys already mentioned this. But I didn't hear you talk about the freight bottleneck that you had in December. Is that all resolved and should we see inventories decline significantly in the First Quarter after the build up in inventories in the Fourth Quarter? And what about overall working capital for the First Quarter? Thanks.

A - Lauro Rezende {BIO 1959027 <GO>}

Okay. Yes, you are right. The bottleneck we experienced has been resolved. We should be back to normal levels. Maybe not in the First Quarter alone. But for the first half for sure.

And you know expectations for working capital for this year have been a further reduction in working capital, mainly for 2 reasons. We are probably going to have lower prices and lower stocks of -- in the place of raw material, coal and coke basically. And a lot less inventory of finished goods. So we are probably going to be able to get back between $100 and $200 million of working capital by mid-year.

Q - Dennis Parisien

Great. Thanks very much.

A - Lauro Rezende {BIO 1959027 <GO>}

Thank you.

Operator

Thank you. Your next question is a follow up from Daniel Altman of Bear Stearns.

Q - Daniel Altman {BIO 1855515 <GO>}

Hi. In terms of the coal guidance in your press release, you mentioned FOB. What is the cost component, the freight component to take it to a CNF basis?

A - Lauro Rezende {BIO 1959027 <GO>}

Well, it's probably $20 to $24. I'm sorry; it depends where you're taking it from.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. And you have a guidance in terms of total third party iron ore sales in 2005?

Q - Unidentified Speaker

Daniel, we will be selling -- in 2005 we will be selling for sure 6.5 million tons. The additional volume will be actually stocked by the end of the year, until we start shipping. So we were having to form inventory in the ports at the end of the year to start shipping. So we will be selling this year something from 6.5 to 8 million tons of iron ore.

Q - Daniel Altman {BIO 1855515 <GO>}

That's the additional net over 2004 or the total net?

Q - Unidentified Speaker

No. This is pretty much close to the number of 2004. The additional production will be reflected in 2006 mainly.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. And you mentioned earlier about some of the costs increasing for the iron ore project and obviously it pales in comparison to the revenues. But can you give us an idea? I don't recall seeing the presentation you gave a few weeks ago. Can you give us just an update in terms of what you're thinking on the port costs, the (power) plant and total cost?

Q - Unidentified Speaker

Daniel, we have some increases but we also adjusted the project and we try to basically manage all the changes in especially steel, which is the main raw material for the whole project and the whole plant. At the end, we are working with numbers close to the lower digits in terms of changes in final price.

With regards to the mining equipment, we are talking in numbers close to 15%, 20%. We haven't disclosed it yet because we have to -- we are going to put in our board the whole project readjusted. Obviously the payback and the internal rate of return skyrocketed but we have to re-approve everything. So we will be disclosing the final numbers after it but the guidance is close to that.

A - Lauro Rezende {BIO 1959027 <GO>}

So in the end, expectation is that the total project, instead of being 782, it may have another run of 10%.

Q - Daniel Altman {BIO 1855515 <GO>}

A 10% increase to the 782?

A - Lauro Rezende {BIO 1959027 <GO>}

Yes.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. And when -- you're still planning to do a (power) plant? And what's the timing on that?

A - Lauro Rezende {BIO 1959027 <GO>}

Yes, we are going forward with the (power) plant. The (investiture) is already done. And we'll probably want to go with that to the market this quarter.

Q - Unidentified Speaker

But Daniel, the (power) plant, because the highest demand we see in the market, if I say in China, is for balanced sheet, which is totally different from our perspective three years ago. three years ago, balancing was a product that you basically had to have a (balance) plant to be able to put it in the market. And now it's probably the product we have most demand in. And what made us somehow -- being stressed, the schedule in the (power) plant.

But as Nelson has mentioned here, we are putting in the market this year to be running it in 2.5, three years from now.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Thanks again.

Operator

(Operator Instructions)

A - Lauro Rezende {BIO 1959027 <GO>}

Well, ladies and gentlemen. thank you very much for attending our call. If any other information is needed, please don't hesitate to call us, the IR team is ready to take all your questions.

Thank you, very much. Goodbye. See you on the next quarter.

Operator

Thank you. This does conclude today's teleconference. You may now disconnect your lines and have a wonderful day.