

## Q3 2004 Earnings Call

### Company Participants

- Lauro Rezende, Investments Managing Director
- Otavio Lazcano, CFO
- Vasco Dias, Commercial Managing Director

### Other Participants

- Daniel Altman, Analyst
- Diana Montif, Analyst
- Luiz Mann, Analyst
- Mark Bartlett, Analyst
- Mauricio Peredez, Analyst
- Raphael Biverman, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to CSN Third Quarter 2004 results conference call. Today with us we have Benjamin Steinbruch, CEO, Lauro Rezende, Investments Managing Director, Ricardo Muvial [ph], Manager of Engineering, Vasco Dias, Commercial Managing Director, Otavio Lazcano, CFO. And Luciana Ferreira, Head of Investor Relations.

(Operator Instructions) We have simultaneous webcast that may be accessed through the Investor Relations section of CSN's website, [www.csn.com.br](http://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 information currently available to the Company. They involve risks, uncertainties and assumptions, because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of CSN and could cause results to differ materially from those expressed in such forward-looking statements.

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

## **Lauro Rezende** {BIO 1959027 <GO>}

Good morning, everyone. Thank you, very much for your participation on our conference call. We will initiate our presentation, as I mentioned, in Third Quarter starting with our highlights on slide number 2, please. In the Third Quarter 2004, net revenue was 2.8 billion, a 60 -- sorry a 56% increase when compared to the same period of last year and an 8.5% increase from past Second Quarter 2004.

The results mainly reflect the 68% increase in the average price of tin. Accumulated EBITDA reached BRL3.34b, which represents a 49% improvement compared to last year. In the quarter, the EBITDA margin was 49%, up 300 basis points from Second Quarter and up 700 basis points from Third Quarter '03.

Net income was BRL694 million in Third Quarter of '04 and BRL1.45 billion in the nine months, with a net margin of 20%. The total change in net income will be explained a little bit ahead. It's worthwhile mentioning the improvement in the mix of products sold, since galvanized products share rose 700 basis points compared to the previous quarter.

Regarding the financial position of the Company, the quarter highlights was the issuance of \$200 million 10 and a half year notes with a coupon of approximately 10% run. (inaudible) going forward with the investments for the expansion of the Casa de Pedra mine and expect to announce soon an (inaudible) contract in the international for the customer.

Moving on for the slide number 3, here we can see the analysis of the sales breakdown. And the Third Quarter sales volume totaled 1.2 million tons, an 8% increase when compared to Third Quarter 2003, mainly due to a reduction in the outsourced hot coils. If you compare with the same quarter the sales to the (inaudible) market climbed 40%, due to an increased number of (inaudible) last year and in previous year CSN's market share in the local market.

On the other hand, export has dropped 41% when comparing Third Quarter '04 to Second Quarter '04. In the Third Quarter this year an increased internal demand has shifted sales in the domestic market, which accounted for 76% of sales, as just mentioned. We'll regauge our expectations for the year of our export mix between 25% and 35% exports and with about the same level in 2005. Sales mix by product in the Third Quarter shows significant improvement. Sales of high value added products such as tin plate and galvanized accounted for 52% of total sales volume, compared to 38% during the same period of the previous year, mainly due to consolidation of the Lusosider and our CSN USA LLC and the start-up of CSN Parana.

Compared to Second Quarter 2004, galvanized products increased its share mainly through the GalvaSud (inaudible) that was reached in this quarter.

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On the next slide we present the net revenues by market and the domestic volume by market unit. As you already mentioned in the quarter highlights, net revenues showed a significant increase, having reached BRL6.7 billion in the nine months ended September 2004, BRL230 million higher than the revenues of full-year 2003 and 50% -- a 56%, sorry, increase in domestic revenue when compared to the same period of 2003.

Domestic revenues ended for 68% of the total, same level obtained in the nine months of 2003, as domestic prices recovered and the premium to international markets are only by now being achieved. The distribution by market units represent a 2% growth in the automotive unit when compared to the previous quarter, due to an increase in export demand for the sector. We also point out the construction industry, which has climbed 5%.

Compared to 2003, there is a (20.1%) volume growth. The home appliances unit obtained 11% more, despite not showing change in its percentage chair within our total growth. In the packaging industry we have a 2% increase, 9% in volume in the accumulative for 2004 compared to 2003. And resulting the Company is there, of course, promote the use of the (inaudible) sector.

Slide number 5, we have the quarter financial highlights. Gross income has reached BRL1.339 million compared to the BRL768 million in the Third Quarter 2003 and the BRL1,192 million in Second Quarter 2004, with increase of 74% and 12%, respectively. Gross margin has shown a 1% increase in comparison to Second Quarter 2004. Compared to Third Quarter 2003, gross margins were 5% higher due to an improvement in prices obtained and a higher added -- a higher value-added mix of products sold during this quarter.

The EBITDA margin has achieved 49%, a 3% increase compared to Second Quarter 2004 and 7% increase compared to Third Quarter 2003. Operating income has grown more than the gross income as a result of a lower export volumes that led to reduce the sale [ph] expenses.

Net income levels in Third Quarter 2004 stood at BRL694m, a reduced grow of 242% when compared to the same period of last year. Net margin was 25%, a 14% pp increase when compared to Third Quarter 2003. Compared to the previous quarter, net income increased 64% and net margins were reduced by 8%.

On slide number 6, we can assess in more detail the main variations contributing to the increase of net income when comparing the second and Third Quarter 2004. The financial results provided a BRL431 million contribution -- positive contribution -- due to a reduced net debt cost, which was reflecting the positive exchange valuation net of financial revenues. And that's why under most of the relative results by period.

Gross income grew BRL146m, mainly as a result of better prices. Sales expenses showed a BRL46 million contribution -- price contribution in a year of reduced sales volume. A high income before taxes with a profitable condition of currencies, which had recorded a (inaudible) in the previous quarter, contributed to a high income of social contribution tax expense of BRL317m.

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The net effect -- the net effect is totaled together with other valuations and amounts and an (inaudible) amount of BRL36m, resulting in a growth of BRL270 million in the Third Quarter of 2004 when compared to the Second Quarter of the same year.

On the next slide, number 7, we can observe the breakdown of net income valuations for the full nine months. A higher gross income showed a BRL1.04 billion contribution, due to better prices obtained in 2004 and a better mix of products offered, partially offset by higher raw material prices, mainly coal and coke.

As net income contributions, firstly they are a high income tax of social contribution expense at the amount of BRL189 million in view of the improved income; second, higher financial expenses at BRL75 million due to a reduced net debt average across 2003; and third, an additional sales expenses of BRL35 million due to higher transportation costs as a result of increased tariffs and higher volume export in the same period.

The (inaudible) of the effects added to our negative valuations of BRL6m, resulting in a BRL735 million increase in net income during the nine months accumulated for 2004 when compared to the same period one year ago.

Slide number 8, we analyze the evolution of CSN's indebtedness and cash position during the quarters. The BRL107 million (reduction the same) [ph] and because of this net debt in Third Quarter '04 reflected a high cash generation and reduced financial loss in the period, partially offset by a raise in raw materials inventories, which has increased the working capital needs of the company.

Hence, the net debt in the Third Quarter of '04, at 1.1 times at the annualized EBITDA, with a post-tax figure within our previous forecast amounted in the 2003 (inaudible).

The company is to expect a slight reduce of this (inaudible) by the end of the year. And (inaudible) of this level in 2005. The debt average maturity continues growing to the extent that we are -- we have received the restructure extending our maturity profile, with the issuance of \$200 million of 10-year notes in September this year.

We still have in place a 100% hedge funds for the Company's consolidated exchange exposures. And our (inaudible) derivatives today are nearly \$1b. Sorry, our current derivatives are \$1b.

In slide number 9, you can see our amortization schedule. You can see this is quite stable, as the company today maintains a cash position allowing it to honor all its commitments until the end of 2006. In the following years amortizations are well for us and positions in cash generation by the Company, even with the possibility of a decrease of prices in -- within these 2 cycles.

Our major problems [ph] at this moment come in (inaudible), foreign cash ahead of the reimbursement of 2005 and 2006, approximately \$350 million and \$380 million respectively.

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We would like to finish this presentation commenting about the prospect to look for the remainder of 2004 period. As you can see from Third Quarter figures, CSN has been showing a much better result and we believe these results are sustainable. We have talked about some of our outlook for the remainder of the year and for 2005. We think that the Company will maintain export ratio at around 25% to 30% for the full year 2004 and for the full year 2005. There is no prospect of volume increase. But instead a high value-add mix of products. We will see for 2005 the full effect of the commissioning of the CSN Parana plant and full capacity production at our subsidiary, GalvaSud.

2005 average prices above 2004, even if the international prices drop to a level closer to \$220 per ton by the end of 2005, as you know the forecasts are on CIU [ph]. The Company's (inaudible) envisage a strong domestic product prices. What probably will happen that we're going to regain a premium on the local position and some of the rates -- and some of the rates will fall back to the international currency.

Our costs will be much in line with 2004 -- for the remainder of 2004 for what we have seen for so far 2003, given that anymore of an increase in coal would be offset by more reasonable coke prices. And the economies generated by a continuous (inaudible) in reducing costs. And that includes a prior to our only 1 by now. But it's an injection of natural gas in the gas premises, a higher gross margin and EBITDA margin. Taking into account improvements to the price scenario, we think that we will be able to maintain between 45 and -- sorry, 47% and 50% in 2005.

These are our comments about the performance in the quarter. We remain at disposal for our question and answer session. Thank you, very much.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question is coming from Luiz Mann of Credit Suisse First Boston. Please go ahead.

**Q - Luiz Mann** {BIO 1963758 <GO>}

Yes, hi, everyone. Hi, Lauro, once again.

**A - Lauro Rezende** {BIO 1959027 <GO>}

Hi.

**Q - Luiz Mann** {BIO 1963758 <GO>}

I was thinking about the first conference call this morning. And my question is that you said that even if prices go down in '05, the domestic prices have a kind of protection. My question is really regarding that protection. I would like you to comment on how it is right now the relation among CSN and the clients. You increased prices substantially in '04 for--?

**A - Lauro Rezende** {BIO 1959027 <GO>}

Please I'll let Vasco take an impact of commercial comments due to response, okay?  
Thank you.

**Q - Luiz Mann** {BIO 1963758 <GO>}

**A - Vasco Dias** {BIO 19950371 <GO>}

Good afternoon. It's nice to speak with you.

**Q - Luiz Mann** {BIO 1963758 <GO>}

Yes, Vasco, just 1 final comment. I remembered from the breakfast meeting that you said that clients are getting more global and they accept prices more easily. And I would like you to comment what that means if prices goes down? Thank you.

**A - Vasco Dias** {BIO 19950371 <GO>}

Yes. First, when we say that the average prices 2005 will be higher than 2004, the net -- and the scenario of (inaudible) at the moment a stable price. But if you consider that we have done increases back from July and another increase in price in October, the average of 2005 -- even if you do not do any movement in price -- the average would be higher. That's a full stop exclamation.

The second one -- as you can see, we are more and more (inaudible) the selling of coated products. And we are increasing the sale of (inaudible) coming from the south, while increasing the volume of (inaudible) of the US and Brazil of pre-painted [ph] products. And GalvaSud only started to operate at full capacity in August. I can count a full year next year to sell 400,000 tons of GalvaSud products. That's a high, high despite quality products for the automotive industry.

So if you consider all that, I have no doubt that the average price in 2005 will be higher than 2004. That's the first part of your question.

Second part -- (inaudible) more and more (inaudible) what will the hammer price in automotive industry. But we have that (inaudible) product now. GalvaSud has a higher price due to the extras for the automotive industry. Don't forget that the GalvaSud produced mainly exported parts for the automotive industry. That's a very high heavy-value product. Yes?

**Q - Luiz Mann** {BIO 1963758 <GO>}

Yes. Okay, thank you.

**Operator**

Thank you. Our next question is coming from Daniel Altman of Bear Stearns. Please go ahead.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Hi. Good morning.

**A - Lauro Rezende** {BIO 1959027 <GO>}

Hi.

**Q - Daniel Altman** {BIO 1855515 <GO>}

A couple of questions, firstly on Casa da Pedra. I missed when you mentioned the CapEx requirements for '05 and '06. I wonder if you could review that and also tell us how much you spent in '04? And also just to give us an update if your targets that you laid out earlier this year are still on track in terms of production and contract timing?

**A - Lauro Rezende** {BIO 1959027 <GO>}

Okay. Hi, Daniel, it's Lauro. How are you? Basically, Daniel, these ones -- these expense -- expense requirements include the (inaudible) plans. Okay? The expenses incurred in '04, the expenses itself will be small, will be -- after September will only change in dollars. We're probably going to spend about \$10 million by the end of the year. And the difference on that will be something like more 35, if I remember right, will be some slippage in 2007. I think that we're still going to happen in 2007, beginning of 2007, like in January or February 2007.

Okay, those numbers -- they do include the (inaudible) plans. We still have the same position as we had at the beginning of this year when we presented targets. So we're going to start the first phase by Fourth Quarter 2005 and the final phase by Fourth Quarter 2006. So we'll be able to export at a ratio of 8 million tons per year by Fourth Quarter 2005 and at a ratio of 31 million tons per year by Fourth Quarter 2006. Full year 2005 will be an extra (inaudible) above the 8m. And the first full year in 31 million exports would be 2007.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay. And in terms of contract signing, you've mentioned before by the end of this year--

**A - Lauro Rezende** {BIO 1959027 <GO>}

Yes, we still maintain that. We still have a very, very good chance to convince to the market on long-term contracts before the end of this year.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay.

**A - Lauro Rezende** {BIO 1959027 <GO>}

Thanks.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Thank you. And the other question was, you mentioned -- you used the word "light" earlier on when you referred to changes in -- I wasn't sure if you meant debt or your debt ratio. But I'm just wondering why you would use the word "light" ? Are you not expecting--?

**A - Lauro Rezende** {BIO 1959027 <GO>}

Oh, no, no, sorry. Sorry about that. I think it was a language barrier. During 2005, we may go well below 1 point time, because of cash generation. But there will be the BRL250 million expense (inaudible) later. And we will finance the -- we record it an expense anyhow. So debt will be increased a little bit, the number. So we're probably going to below 1 time, although I do expect by the end of the year we won't be too much below 1 time, like 0.5 or 0.4, something like that, because we have these 34 (inaudible).

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay. And did I understand correctly in your press release that the net debt reduction in the Fourth Quarter may be similar to the Third Quarter?

**A - Lauro Rezende** {BIO 1959027 <GO>}

Yes, you're right.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay, excellent. Thanks very much.

**A - Lauro Rezende** {BIO 1959027 <GO>}

Thank you.

**Operator**

Thank you. (Operator Instructions) Our next question is coming from Raphael Biverman [ph] of BBVA. Please go ahead.

**Q - Raphael Biverman**

Yes. Hi, Lauro. Hi, everybody. Congratulations for the results.

**A - Lauro Rezende** {BIO 1959027 <GO>}

Thank you.

**Q - Raphael Biverman**

If you could just explain to us a little on how are you feeling? Are you already signing contracts in the international market in Europe and the US for 1Q '05. And what is the trend are you seeing from the Third Quarter until 1Q '05 and in these contracts? Were prices going down and then up, or they are still going down?



And in addition, if you could also give more detail in terms of the reduction of sales volume, how non-recurrent that is, I mean if it's going to have an improvement?

And lastly, if I might make a last question in terms of the maturities in 2005, what is the strategy for rolling that over?

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**A - Lauro Rezende** {BIO 1959027 <GO>}

Okay, Raphael, I'm going to ask Vasco to answer the 2 first ones, okay?

**Q - Raphael Biverman**

Okay.

**A - Vasco Dias** {BIO 19950371 <GO>}

Okay. Good afternoon. Concerning price and contracts, we don't have as a policy a strategy to sign contracts. Of 5 million tons that are completely sold normally 75%, 80% is internal markets. And the remaining (inaudible), as we have explained today, is totally allocated to our subsidiaries in US and in Portugal. So I do not see a reason to do a long-term contract.

Price, on today of the year, are stable, as I mentioned before. And the (inaudible) has signs of strong market for First Quarter. So I think the price can even go a little bit higher in the First Quarter 2005. So those are our scenarios for price -- stable, maybe a little bit higher First Quarter next year.

Concerning volumes, that's -- but there is not a (inaudible). What we have done is we've sold much more with internal market, a (40%) increase. And now we transferred a lot of coal to the product for US to benefit from the high price. And due to the lead time, these products only will be sold -- will only appear in our results when the US sells to the final customer. That's going to happen in November and December. So by the end of the year, all these will be adjusted. Clear?

**Q - Raphael Biverman**

Yes. Yes.

**A - Lauro Rezende** {BIO 1959027 <GO>}

And in the maturity and the strategy for 2005, I'll ask Otavio, the CFO, to answer to you, okay?

**Q - Raphael Biverman**

Okay.

**A - Otavio Lazcano** {BIO 4999009 <GO>}

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That's basically 1 points coming during 2005 at \$75 million you would want when we do a major (inaudible) million dollars we would want from due in July. We have \$1.2 billion in cash. And you all know that we were in the process of expanding the (inaudible) the investors of the Company. We can say that you won't see us paying capital markets for the next at least 12 months. And our intention is really to use the cash position of the company to pay back those obligations.

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### **Q - Raphael Biverman**

Good. Thank you.

### **A - Lauro Rezende** {BIO 1959027 <GO>}

Thank you.

### **Operator**

Thank you. Our next question is coming from Mauricio Peredez [ph] of Standard New York. Please go ahead.

### **Q - Mauricio Peredez**

Yes, hi. Good morning, everyone. I was just wondering if you could give us an updated -- and I think this is a follow-up question to what was asked earlier -- a follow-up on, an update on your investment projects and the timing and the amounts that you have for 2005 and 2006? Thanks.

### **A - Lauro Rezende** {BIO 1959027 <GO>}

Okay. The main drivers that we have, as I spoke, it is coming together. These are investments that basically investments are within the new NR [ph] clients. The value for -- or let's say the investments should maintain the quantity and the production that we have on our plants today. These should count for something like \$450 million a year.

Besides that, what you have is Casa da Pedra. Casa da Pedra will have a \$250 million investment in 2005 and a \$280 million investment in 2006. And that's -- the investments are that we are undergoing as of now.

### **Q - Mauricio Peredez**

Okay. Do you have anything in Western Europe going on?

### **A - Lauro Rezende** {BIO 1959027 <GO>}

Oh, no. We are basically -- we intend to acquire rolling capacity in Western Europe. But we don't have anything that we want to be doing soon. We have analyzed opportunities there. There are opportunities to grow via acquisitions or via construction. Today the acquisition route looks better, looks cheaper than construction -- the construction of new capacity. But anyhow, we don't have anything on sight right now. We don't have anything that we think will be able to translate into real action in the short term.

## Q - Mauricio Peredez

Great. Thanks. A second question that I have is -- given the recent share buybacks that you've had, could you give us some color on what is the (TEV) to EBITDA multiple that you're shooting for? Thanks.

## A - Lauro Rezende {BIO 1959027 <GO>}

Okay. We usually don't do that. Sorry about that. But we don't -- that's information that we don't do that. We don't (inaudible) for (TEV) to EBITDA. But we think that the markets are, as of now, not pricing (inaudible) one of the main projects we have. And this product is the expansion of Casa da Pedra. If you look in the numbers, the expansion of Casa da Pedra, on our point of view, is clearly not in the price of the Company yet. So we think that the market is unfortunately -- but maybe because we do not sustain [ph] that's right or whatever it is. But we are not seeing, as of now, the market actually pricing it right. The way we think it is is an extremely cash-generative and profitable project. It's not in our numbers yet.

## Q - Mauricio Peredez

Great. Thanks. And a last question, if I may. If you could give us some color on EBITDA levels for the Fourth Quarter in 2005, if you could? Appreciate it.

## A - Lauro Rezende {BIO 1959027 <GO>}

Okay. As we mentioned, the EBITDA levels for the Fourth Quarter 2004 should be well in line with the Third Quarter. And as we already said, the average price 2004 should be better -- sorry, 2005, should be better than the average price for 2004. We don't expect much change in the cost base. We control most of our costs. The only costs we actually do not control, that we buy from outside, is coal and a little bit of coke.

We intend to reduce a little bit this purchase by end 2005, because of some projects that we are undergoing today, mainly a change in the way that will be able to feed some natural gas (inaudible) and acquire less external coal. There is a lot of people out there saying that a big -- an increase in prices and in costs of coal by 2005. But we don't think that would be enough to offset these higher revenues, because of the high average price.

So what we would basically say that the Company does expect EBITDA in 2005 should be better than it was in 2004.

## Q - Mauricio Peredez

Thank you, very much.

## A - Lauro Rezende {BIO 1959027 <GO>}

Thank you. My pleasure.

## Operator

Thank you. (Operator Instructions) Our next question is coming from Diana Montif [ph] of (Lumison Thales) [ph]. Please go ahead.

### Q - Diana Montif

Yes, thanks for taking my call. I just (inaudible) the Company. And there's 1 -- from your talking about your sales volume, I just wanted to get a little clarification. You're saying that the sales volume declined because your internal sales increased. Can you give me an idea of how -- what the volume was of your internal sales that I guess were not turned around and sold externally?

### A - Vasco Dias {BIO 19950371 <GO>}

Hi, Diana. Nice to speak with you. We are selling in internal markets. In the Third Quarter and already in October and probably in November and December, a level of 330,000 to 350,000 tons. This one is a very high volume. And the average is above our historical sales for the internal market. So that's around 1 thing.

The remaining volume at something like 100,000 tons -- that's more or less 20% of our total sales -- I'm sending to our subsidiaries. 12,000 tons for Portugal of hot bands, 8,000 tons is a mix of slats and galvanized products for US. Now parts of these products has to be (inaudible). We have a (inaudible) agreement, then to be transformed in hot bands. And it has to be galvanized in our plants in the US and then sold to the final customer.

Of course, the -- formally, we are selling to our subsidiaries bigger. Some of this volume that will be sold for the final customer will appear in November and December. That is first part. And in second part, we will have a significant reduction. We have the stock levels of all the subsidiaries by the end of the year. It (inaudible) not only Portugal, US but our distribution company in Brazil, (inaudible). So we have a bigger sale and a reduction at stock levels by the end of the year.

### Q - Diana Montif

How many weeks do you actually close the plants for in both Brazil and the US?

### A - Vasco Dias {BIO 19950371 <GO>}

Excuse me. Could you repeat?

### Q - Diana Montif

How many weeks will the production be down in the US and Brazil in December?

### A - Vasco Dias {BIO 19950371 <GO>}

Are you asking in terms of lead time?

### Q - Diana Montif

Yes.

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**A - Vasco Dias** {BIO 19950371 <GO>}

Yes. Between, total lead time can be 3 to four months, depending if they are selling slats, toning processing for hot bands and in galvanizing, the total time is -- total lead time is four months. If is direct sale of (inaudible) or (inaudible) galvanizers, total time is night/day three months.

**Q - Diana Montif**

Okay. And just 1 other question. I thought I heard you say that you will also be having some of your plants closed for a short period of time in the Fourth Quarter? Did I understand that correctly?

**A - Lauro Rezende** {BIO 1959027 <GO>}

No, no, no. We are producing at full. And we do not expect any no stoppage on production at all in the Fourth Quarter. Sorry if we misled at some point. But here is no such a thing.

**Q - Diana Montif**

Okay. Thank you.

**A - Lauro Rezende** {BIO 1959027 <GO>}

Thank you.

**Operator**

Thank you. (Operator Instructions) Thank you. Our next question is a follow-up question coming from Daniel Altman of Bear Stearns. Please go ahead.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Hi, thanks again. Your tax rate in the Fourth Quarter -- I'm sorry, in the Third Quarter was much higher than what we're used to seeing. Obviously, your profits were much higher, too. But do you have a projection in terms of your effective tax rate for 2005?

**A - Lauro Rezende** {BIO 1959027 <GO>}

Okay, Daniel, we usually have a (Brazilian) tax rate for see the current, because we are taking advantage of some credits that we have in the Company in the past. Up to now, we have used most of it. So we're going to have a very small position in the Fourth Quarter to 2005. So you should expect a real rate -- tax rate 2004 much nearer the 34% for Brazilian companies.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay. Great. Thanks very much.

**A - Lauro Rezende** {BIO 1959027 <GO>}

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Thank you.

## Operator

Thank you. Our next question is coming from Mark Bartlett [ph] of ING. Please go ahead.

### Q - Mark Bartlett {BIO 17709477 <GO>}

Hi. Good afternoon. Could I just ask 1 thing on Casa da Pedra? I wanted to just make sure that you are going to be treating it as a 100% subsidiary? There was some talk at 1 stage of perhaps not (inaudible) it completely. And maybe having a partner or something. Can you clarify that?

### A - Lauro Rezende {BIO 1959027 <GO>}

Okay, no a portion was not in our sights. The project is going. And we expect that that should goes forward with a 100% sub of CSN. Okay?

### Q - Mark Bartlett {BIO 17709477 <GO>}

Okay.

### A - Lauro Rezende {BIO 1959027 <GO>}

What we have said to the market at some point is -- some point in time, is the Company has (inaudible) some (inaudible) and the viability is picking up and we've said at some point in time, because it's -- we may be saying that it does create value for our shareholders. In fact that is our obligation to look after.

### Q - Mark Bartlett {BIO 17709477 <GO>}

Okay.

### A - Lauro Rezende {BIO 1959027 <GO>}

So there will be no partners or something like that. But basically spinning off, because our intention is to create a mining business for the Company. And we want to keep the mining business, in terms, closer to our operation of -- or start of exports of Casa da Pedra present to the market a pro forma statement and a profit and loss statement from Casa da Pedra to be able to let the market understand how much in making Casa da Pedra for us, Casa da Pedra represents within the Group and so on.

### Q - Mark Bartlett {BIO 17709477 <GO>}

Presumably you've already done that for the banks, for financing.

### A - Lauro Rezende {BIO 1959027 <GO>}

No. Not yet.

**Q - Mark Bartlett** {BIO 17709477 <GO>}

Not yet.

**A - Lauro Rezende** {BIO 1959027 <GO>}

Yes, we -- most of the financing here, we are expecting this -- is the same 2 ways to finance Casa da Pedra. 1 of them is basically go forward with -- sorry, I use the scenario in Brazil that DNDS [ph]. The second one is it is a private finance based R&D [ph] asset itself that is a (inaudible). So what --

**Q - Mark Bartlett** {BIO 17709477 <GO>}

The highest (inaudible), sorry?

**A - Lauro Rezende** {BIO 1959027 <GO>}

Yes, this is a privatized (inaudible) program, where I want to be able to finance it through receivables from some customers, basically. So there is no (inaudible) statement done for the bank yet. We have that for the internal appreciation of the Company. And I can tell you the product is extremely cash generative and extremely profitable, even we're forecasting within the product yet, prices well below the expected price (inaudible) 2005.

Most of the market is starting in about the (inaudible) or so increase in prices for in 2005. And the model that we have that we have a credit shows EBITDA margins higher than the DCSM [ph] margins, itself. The prices are below those numbers.

**Q - Mark Bartlett** {BIO 17709477 <GO>}

Higher than (inaudible). Okay. So some of that financing will be off balance sheet, then, through a project finance vehicle of some kind? Is that right?

**A - Lauro Rezende** {BIO 1959027 <GO>}

Well, yes, we may be able to achieve that. Up to now, the idea -- we are not, let's say, foreseeing, going forward because of this. But because we believe (inaudible) would be the cheapest way to go. Not because of off-balance or anything like that. And anyhow, even if you be off-balance in Brazil, the likelihood to be off-balance in US GAAP is very small. And anyhow our idea to present is set to I would say statements for Casa da Pedra, a pro forma set on the statements of Casa da Pedra to the markets. So the markets understand how the company does so we'll be allocating finances [ph], with finance to build the project within that. So to really know how much debt it is.

**Q - Mark Bartlett** {BIO 17709477 <GO>}

Okay. Thank you, very much.

**A - Lauro Rezende** {BIO 1959027 <GO>}

Thank you.

## Operator

At this time, there appear to be no further questions in the queue. I'd like to turn the floor back over to Mr. Lauro Rezende for any closing remarks.

## A - Lauro Rezende {BIO 1959027 <GO>}

Well, ladies and gentlemen. thank you very much. We know that Europe is happening already and the US. Thank you for attending (inaudible). The Company is proud to have this much interest on our conference call. Great. I hope to see you on the year results, which we expect to be better than the Third Quarter. Our IR team is at your disposal if there is any other follow up question. Thank you, very much. Good afternoon.

## Operator

Thank you. That does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day.

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