

Q3 2008 Earnings Call

Company Participants

- Juarez Avelar, Mining Director
- Luis Fernando Martinez, Commercial Director
- Otavio de Garcia Lazcano, CFO

Other Participants

- Andrea Cuisavo, Analyst
- David Martin, Analyst
- Eric Ollom, Analyst
- Jamie Nicholson, Analyst
- Leonardo Correa, Analyst
- Louis Alberto, Analyst
- Unidentified Speaker, Analyst
- Yuri Maslov, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to the CSN Third Quarter 2008 earnings conference call. Today we have with us the Company's executive officers.

(Operator Instructions) We have simultaneous webcasts that may be accessed through CSN's Investor Relations website at www.csn.com.br/ir. The slide presentation may be downloaded from the 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 compared to of 1996. Forward-looking statements are based on the 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 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 the results to differ materially from those expressed in such forward-looking statements.

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

Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Good morning, everybody, thank you all for joining us for the Third Quarter earnings announcement and conference call. Let's start with the main highlights of the Third Quarter.

The Company reported net revenues from sales of R\$4 billion. It is a record for the Company, 13% above the number reported during the Second Quarter '08 and 36% above the number reported during the Third Quarter '07. Net revenues from sales accumulated over the first nine months of 2008 of R\$10.6 billion is also a new record for the Company, 26% above number accumulated over the first nine months of 2007.

Gross income of R\$2.1 billion during the Third Quarter and R\$5 billion during the first nine months of '08 are also records for the Company. The EBITDA of R\$2.1 billion reported for the Third Quarter '08 was also a record and it is 22% above EBITDA reported during the Second Quarter '08 and 60% above the Third Quarter '07.

During the first nine months the EBITDA accumulated was R\$5.1 billion, another record for the Company. The EBITDA margin of the Company was 52% during the Third Quarter. The Company has been reporting EBITDA margin above 40% for more than seven years in a row.

As to the net income accumulated over the first nine months of '08, it was R\$1.8 billion. As to the net income reported for the Third Quarter '08, it was R\$40 million, reflecting higher financial expenses related to Total Return Swap that we did on our own ADRs. This transaction was first executed back in 2003. It was then renewed several times.

By the end of '07 the accumulated gains net of taxes was R\$2.2 billion. We accumulated additional gains of R\$800 million during the first half of '08 and then we had losses of R\$1.3 billion during the Third Quarter of '08. The accumulated gains net of taxes, once again, by September 30, 2008 was still R\$1.8 billion.

Sales of new products in the local market, I mean, in the Brazilian economy during the Third Quarter accounted for 88% of the total sales volume of the Company. As to the net revenues for average net revenues per ton, it was R\$2,448 per ton, significantly higher than the R\$2,000 per ton during the Second Quarter '08, not to mention R\$1,900 per ton one year ago. During the last 12 months the return on equity and the return on capital employed by the Company was 57% and 31% respectively.

Now moving to the next slide where we present net revenues from sales and sales volume by market, beginning with the chart on your left hand side, there's no change at all as to the sales volume of the Company, roughly speaking 1.3 million tons each and every quarter. There was a significant change in the sales allocation of the Company towards

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the domestic economy where the Company can generate higher margins historically. Domestic sales accounted for 88% of the total sales volume.

Now moving to the chart on your right hand side, net revenues from sales of R\$4 billion is a record for the Company, 14 [ph]% above the previous quarter and 36% above one year ago, reflecting the cumulative price increase announced and then implemented by the Company on steel products back in March, May and June 2008. And also, the sales volume of iron ore, iron ore business is becoming more relevant within the Company.

Moving to the next slide where we present sales volume by product and market segment. Beginning with the chart on your left hand slide at the top of the slide, you can see that there is no change at all in the total sold by the Company. Total products still accounts for approximately 50% of the total sales volume, so no change at all.

Moving clock wise to the right, you can see that iron ore is becoming more relevant, as you see in our portfolio of assets. Total production of iron ore during the Third Quarter was equivalent to 4.5 million tons at Casa de Pedra, 1.3 million from NAMISA, our subsidiary. And we also acquired 1.6 million tons from others to develop our business to trade iron ore for others. So the total within CSN system was 7.4 million tons of iron ore.

During the first nine months of 2008 Casa de Pedra produced 13.5 million tons of iron ore products, NAMISA produced an additional 3.9 million tons and we acquired 3.9 million tons as well from others, a total of 21.3 million tons available for sale within CSN system.

As to the sales volume, during the Third Quarter of '08 we sold to final customers 5.4 million tons on top of 1.8 million tons used to support the existing steel operations of CSN. During the first nine months of 2008 we sold to final customers 13.1 million tons of iron ore products, once again on top of 5.5 million tons used to support the existing steel operations of the Company.

Now moving to the bottom of the slide, still on your right hand side, you can see market share by industrial segment, distribution still accounts for 41%. It's important to highlight that INAL, our homeowner subsidiary, is the largest distributor of flat steel products in Brazil.

Market share in the civil construction industrial segment is still 46%, home appliance 36% and automotive, including auto makers and auto parts, to 81%. Finally, market share by product, hot bands 35%, cold rolled coils 26%, galvanized 48% and thin plate that we use for packaging, 98%.

Moving to the next slide where we present production costs of the Company, you can see that there is no major change at all in the production costs of the company during the Third Quarter of '08, other than slabs and hot band that we acquired from third parties for processing during the Third Quarter and coke and coal, which accounted for 31% of the total production cost of the Company. Production costs were equivalent to R\$1.5 billion, R\$300 million above production costs reported for the Second Quarter of '08, an increase of 25%, mainly reflecting higher raw materials costs, mainly coal and coke.

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Now moving to the next slide where we present financial metrics of the Company, once again beginning with the chart on your left hand side at the top of the slide. EBITDA margin was 52%. EBITDA margin from the iron ore business was 67%. Once again, this company has been recording EBITDA margins above 40% for more than seven years in a row.

Moving clock wise to the right, the net income accumulated over the first nine months was equivalent to R\$1.8 billion. Then moving to the bottom of the slide, still on your right hand side, you can see return on equity and payout ratio of the Company.

We have been reporting on average a return on equity equivalent to almost 100% and we have been distributing back to the shareholders more than 100% of the net income of the Company over the last five years. Finally, this Company had a return on capital employed of 31% during the first nine months of 2008.

Moving to the next slide where we present amortization schedule of the decreasing investments of the Company and some other credit metrics. Beginning once again with the chart on your left hand side the ratio of net debt to EBITDA was slightly below one time. It's important to highlight that this Company will be cash positive as soon as we have the financial settlement on the transaction where we sold a 40% stake on NAMISA to a consortium of Japanese and Korean investors.

Now the chart on your right hand side, you can see that the average life of the existing indebtedness is longer than nine years and the cash existing within the Company will enable us to pay back all the outstanding debtedness until 2013. It's a very solid and very comfortable financial position, not to mention the capital structure of the company.

Moving to the next slide where we compare the net income reported during the Second Quarter to the net income reported for the Third Quarter. We had a R\$1 billion net income reported in the previous quarter. We have a lower tax burden on the company of R\$506 million during the Third Quarter.

Gross income went up by R\$400 million. We had better results for non-affiliated companies, it's a railway company in the northeastern part of Brazil, additional R\$60 million. Then we had poorer financial results of R\$1.9 billion, once again reflecting the results on a Total Return Swap that we did on our own ADRs back in 2003. We had higher provisions for contingencies, R\$18 million. We had other items a total of R\$28 million and then the net income of R\$40 million.

Moving to what I believe is the last slide of the presentation, the evolution of the net debt of the Company since the beginning of the year. The net debt reported back in December '07 was R\$4.8 billion. Since then the Company accumulated a R\$5.1 billion consolidated EBITDA.

On the other hand we paid back to the shareholders R\$2.1 billion in dividends and interest on capital. We made investments of R\$1.7 billion and financial expenses of R\$1.4 billion. We paid more taxes, R\$900 million, we invested additional working capital in the business,

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R\$300 million. We made a deposit with the Judiciary in Brazil of R\$100 million and other items a total of additional R\$100 million so that we have net debt of R\$6.3 billion by the end of September '08.

So this is the corporate presentation of the Company. Now I'll open the conference call for the Q&A session. Thank you, all.

Questions And Answers

Operator

Thank you, the floor is now open for questions. (Operator Instructions) Your first question comes from the line of Leonardo Correa with Credit Suisse.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good morning, and thank you for the call. My first question is regarding the outlook for iron ore shipments in 2009. Have you been noticing that clients are canceling or postponing orders, which could risk sales in 2009? And once again, can you remind me if the guidance of sales to third parties of R\$38 million in 2009 is maintained in the current scenario please?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Leonardo, I'll just ask you to hold for Juarez Avelar, the Mining Director of the Company.

A - Juarez Avelar {BIO 16483817 <GO>}

Leonardo, we are working with two different scenarios for 2009. We have given our guidance for export, as we forecast 34 million tons of iron ore for the next year. But we are working with a worst scenario of 29 million tons per year for the next year.

We are considering that CSN is in a good position because we have a lot of cash to keep our production. And of course, after the NAMISA deal we have the condition to sell our products for the next year.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay thank you. And my second question is for Otavio, just relating the total equity return swap. Given the volatility that these instruments have on your income statement, have you been contemplating closing these positions before the expiry, which is July 2009?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

No not at all, Leonardo. We have a view that the Company will continue to report record results each and every quarter, mainly because we did our homework, we have a lot of competitive embedded in the field. Part of the business, not to mention iron ore, which is becoming more relevant. And we constitute the results of this Company with incremental

free cash flows and positive accounting results. So we are not considering the sale or the unwinding of this Total Return Swap on our own ADRs before final maturity.

It's important to highlight once again that it was done back in 2003. We have been renewing this transaction each and every year. Last time we did it was back in August/September. The accumulated gains by September 30 was still R\$1.8 billion net of taxes. So I believe it's fair to say that we create a lot of economic value to all the shareholders over the last five years through the execution of this trade.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay thank you very much.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

You're welcome.

Operator

Your next question comes from the line of David Martin with Deutsche Bank.

Q - David Martin {BIO 5583151 <GO>}

Thank you. And congratulations on the results. I wanted to first ask you about the coal and coal costs. On slide six of the presentations you note that the average cost in the Third Quarter was 360 per ton, which I believe was up about 60% quarter-over-quarter.

I guess my question is, how much more of the international coal costs are yet to be reflected? And will they all be reflected in the Fourth Quarter? I would conclude that maybe your coal costs will double in the Fourth Quarter, I just wanted to get your comments on that.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

I will pass the question on to Harry [ph], Harry is the Officer responsible for procurement within the company okay?

Q - David Martin {BIO 5583151 <GO>}

Sure.

Q - Unidentified Speaker

I think that the most impact we had was in the Third Quarter. And we think at Fourth Quarter it would be exactly at the same level because the impact that we had, it was exactly when we began to receive the new price of coal comparing with the old inventory we had. So we think that for the Fourth Quarter we will maintain the same level of cost.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

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So it's still reflected in the income statement of the Company all the price increases, given the inventories that we had. If I may step in for just one sec, it's important to remember that this Company is self sufficient in almost everything but coal and coke, which accounts for 30% of the production costs of the Company.

This gives us a huge competitive advantage against all the other players in our industrial segment. We are self sufficient in power generation, we are self sufficient in limestone, dolomite, iron ore, we have our own logistic assets so we are not relying on other companies to transport and channel our products within Brazil and to other countries.

So if there is a company that can really keep its production costs well under control, it is CSN no question. And it's reflecting the historical EBITDA margin that we have been before.

Q - David Martin {BIO 5583151 <GO>}

Okay thank you. Then secondly, regarding an outlook, could you comment on your expectations for steel shipments, particularly in the Fourth Quarter? I know you also have been buying slabs and hot rolled coil and selling them. Will those purchases continue in the Fourth Quarter?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

I will pass on the question to Luis Fernando Martinez, he's the Officer responsible for steel sales within the Company okay?

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

Hello David. Good morning. In terms of volume guidance, we are forecasting to have in the year 5.2 million tons, considering that we have 4 million year-to-date. Regarding hot rolled coils and slabs that we bought, obviously we tried to cancel some orders. But we need some extra 50,000 tons to receive in Brazil and we are forecasting to sell all these hot rolled coils to the end of this year.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

So there was no change at all in the guidance that we have for sales volume for 2008 for the opposite. I mean we know that October and November tend to be very good months in terms of sales volume. Once again, I want to highlight that local sales accounted for almost 92% of the total sales volume of the Company. And we implemented three sets of price increases back in March, May and June so the Company would continue to report very strong results.

Q - David Martin {BIO 5583151 <GO>}

Okay thank you.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

You're welcome.

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Operator

(Operator Instructions) Your next question comes from the line of Jamie Nicholson with Credit Suisse.

Q - Jamie Nicholson {BIO 1540918 <GO>}

Hi good morning, thanks for the call. I'd just like a little more clarity on your total return equity swap. Can you reconcile the loss of R\$1.3 billion that you report in the text with the R\$571 million of losses in derivatives operations that you show in the breakdown of your net financial results? Is there any offsetting transaction, other derivatives that you're involved with? Can you explain that discrepancy?

Then secondly, what is the cash implication of this loss? Do you have any margin you need to post? Is your cash obligation just at settlement in July '09? If you could provide some additional color on that, thanks.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Okay given that we don't have developed capital markets in Brazil, we have been financing our Company on the international capital markets for years. We have several Eurobonds outstanding out there. And in order to protect the income statement of the Company and the balance sheet of the Company, we have been playing with only linear foreign exchange derivatives instruments.

Given the devaluation of the real during the Third Quarter, we had relevant gains on those linear foreign exchange derivative instruments, which offset the losses that we had on the Total Return Swap. We'll ask the investor relations team to send you a description of the products, the financial instruments that we have. Better, we will make it available on our website so that you all can see with your own eyes.

Your second question was?

Q - Jamie Nicholson {BIO 1540918 <GO>}

Regarding the cash implications you have.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Oh the cash implications.

Q - Jamie Nicholson {BIO 1540918 <GO>}

Yes.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

There are margin call mechanisms embedded in the existing contract but the cash implication is much smaller than the accounting result reported on the Total Return Swap. And once again, this transaction was executed first back in 2003.

Since then we accumulated relevant gains for all the shareholders. By September 30 the accumulated gains were equivalent to R\$1.8 billion net of taxes. So I believe it's fair to say to that we created a lot of account value to the shareholders.

We believe that the Company will continue to report that kind of results over the next several quarters, given our competitive advantage against all the other players in the steel industry (inaudible) and given the relevance of the iron ore business that we are building within our portfolio.

Iron ore will contribute huge additional free cash flow in 2009 and the following years to the company, not to mention the accounting results. So I believe that this derivatives transaction will continue to create economic value to the shareholders.

Q - Jamie Nicholson {BIO 1540918 <GO>}

Thanks for the additional color. And one other question, what is the status of the registration of your bonds? I know in your 20-F you mentioned you still have ongoing disputes with the SEC regarding the accounting of your taxes, can you give us an update on that? Thanks.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Yes we have tax provisions regarding the financials of the Company. The SEC has a view that we should unwind those provisions. We at CSN and our external auditor, we have a different view than the SEC, but I believe that sooner rather than later those bonds will be registered.

Q - Jamie Nicholson {BIO 1540918 <GO>}

But this dispute seems to have been going on for more than a year. What will resolve the issue?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

We have a close contact with the staff of the SEC and I believe that we are really close to a final agreement and we will keep the provisions within the financials.

Q - Jamie Nicholson {BIO 1540918 <GO>}

And is there any update regarding the provisions or the settlement of those with the government?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

No not at all, no change at all. The last thing that you'll see from CSN is really doing anything in the accounting to mislead the shareholders and creditors. So this is the reason why we keep insisting on having those tax provisions within the set of financials of the company. Otherwise we would have a major boost of the profitability of the Company and would not reflect the status of the legal institute with the tax authority in Brazil.

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Q - Jamie Nicholson {BIO 1540918 <GO>}

Okay. Thanks so much for the update.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

You're welcome.

Operator

Your next question comes from the line of Eric Ollom with ING.

Q - Eric Ollom {BIO 4374335 <GO>}

Yes hi. Good morning, everybody, my question has to do on investment. There've been some press reports that you, just given the general market conditions in metals, that you may be scaling back some of the planned investments. Can you just comment on that and what your CapEx budget is expected to be for '08 as well as '09? And what is the use of the cash proceeds from the NAMISA sale, will that be reinvested in the iron ore business or is that available for other things? Thank you.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

As to the pipeline of investments in the Company that we announced several months ago, let's start with cement. The Cement business, we'll start to produce cement products by the end of 2008 beginning of 2009, so we are moving ahead with the project.

Iron ore generates so much cash that the pay back is shorter than two years after the completion of the project. It is a 65% plus EBITDA margin business. So we are moving forward as fast as we can with investments in the iron ore industrial segment, including the expansion of the seaport terminal and in our own seaport terminal in the State of Rio De Janeiro.

Long steel we are half way to completion of the project. We'll start to product long steel products by the end of 2009. There is no change at all as to the schedule of the fiscal events and in the execution of the investments and the plan announced for our long steel.

Then we announced a project to build steel facilities in the State of Minas Gerais and the State of Rio de Janeiro. We are in the first phase of execution of those investments, we are getting environmental permits, we are doing the base engineering, we are revising the capital budget for those projects so that there will be plenty of time to revise those investments in case it becomes necessary, given the then prevailing economic environment of 2009 and 2010.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. So nothing definitive has been decided one way or the other, but you're still studying it.

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A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Yes we are moving ahead as fast as we can with cement, iron ore and long steel because we are half way to completion and all of them generate a lot of cash. Iron ore, I mean the pay back is shorter than two years. It has to be done.

Then as the Greenfield projects, by coincidence we are in the first phase of execution of the project. We are doing the base engineering, we are talking to the suppliers of equipment, technology of one, getting the environment permits. So there will be a lot of time to revise the plan in case it becomes necessary, given the then prevailing economic scenario.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. And the use of the cash proceeds from the NAMISA sale?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

It is difficult to say at this stage. We are executing all the steps required to have the steel concluded sooner rather than later. I believe, it's my expectation, just my expectation, that this transaction will be done over the next weeks. And as soon as we receive the cash from this transaction then we will analyze all the alternatives.

One additional comment, you probably saw in the presentation that we paid back to all the shareholders of dividends and interest on capital more than what we reported as net income over the last five years. This Company has a business folders [ph] and there was no change at all in the business folders in the recent past.

So we will continue to pay back to the shareholders all the excess cash that we may accumulate over time. We know for sure that you guys can do a better job with the cash rather than the Company.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay great, thank you.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

You're welcome.

Operator

(Operator Instructions) Your next question comes from the line of Louis Alberto [ph] with Fortis Investments.

Q - Louis Alberto {BIO 19270406 <GO>}

Good afternoon, everybody, one question related to domestic steel prices. Considering the current FX rate in Brazil the premium would be around 20% over international prices.

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But if we consider that possibly FX rate could go back to 210, for example, this premium would be higher.

And the next year environment for domestic steel demand in Brazil is weaker than this year. So could you comment on the possibility of reducing steel prices in Brazil? And what will be a possible trigger for that happening? Would that be related to renegotiations of contracts with miners, for example?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

I will pass on the question to Martinez who is the Officer responsible for this.

Q - Unidentified Speaker

Hello, Mr. Alberto. Good morning. Regarding the local market, in the case of hot rolled coils we have in Brazil a premium around 20% over the imported net of landed in Brazil. But we have to take into consideration that we are not just supplying the coil, we are supplying all the service regarding this network, in other words, just-in-time production, technical assistance and so on and so forth.

Regarding imports, we believe that due to exchange rates we are going to reduce our imports next year at least 50%. In 2008 Brazil received around 1 million tons of imported metal, most of them related to plate steel.

But in terms of competition, we have to take into account that we have a very strong product portfolio and we have a very good operational excellence. So it's very interesting for us to supply not only the coils but the service.

And we are prepared to compete no matter what the price is. But now we are studying what we are going to do early January. At least, we are forecasting to keep the price until the end of this year and take into consideration the next movements for next year.

Q - Louis Alberto {BIO 19270406 <GO>}

Okay. So what would be in your view the worst case scenario for domestic prices, for example, if FX rates here in Brazil goes back to around R\$2 per dollar?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Around R\$2?

Q - Unidentified Speaker

R\$2 per dollar.

We believe that R\$2 per dollar, I think we can keep the current premium, 20%, I think it's possible. But maybe we need to adjust the price around 10% for next year. If the exchange rate remains 2.3 as nowadays, I think we can reduce our price around 5% next year.

We are just analyzing all the situations. We have not defined so far but, again, we need to take into consideration that we have a very good portfolio, a very good customer base and a wonderful operational excellence. So we are prepared to a war.

And actually, I've never heard in Brazil economies that say that GDP will be zero next year. Even considering that GDP for next year in the range of zero, next year will be very, very good for CSN.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Louis, if I can step in for one sec, there's no question that our capability to forecast the demand and supply conditions in 2009 is worse than what it used to be in the past, given the provincial prices and otherwise.

But on the other hand, we saw historical margins above 30% in the recent past for hot bands, galvanized and so on. So 30% premium that we have in the domestic market is sustainable over time.

The second comment, it is fair to say that if the foreign exchange rate moves to a level below R\$2 per dollar that demand conditions tend to be better than what everybody's forecasting at this stage. And third, we had a relevant equivocated price increases implemented with this domestic economy in 2008.

For example, hot bands went up by almost 50%. The price we charge domestic customers for hot bands went up by 50% and cold rolled coils I start to remember it was 34%, galvanized was 25% and then thin plate 15% [ph]. So even if, in the worst case scenario, prices go down by 5% or 10%, the company will report very strong and solid results in 2009. Even in the worst case scenario, this company will report very strong results in 2009.

Q - Louis Alberto {BIO 19270406 <GO>}

Okay. Thanks, Otavio, thanks, all.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

You're welcome.

Operator

(Operator Instructions) Your next question comes from the line of Yuri Maslov with Nevsky Capital.

Yuri, your line is open.

Q - Yuri Maslov {BIO 15101133 <GO>}

Hello, can you hear me? Hello?

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A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Yes, go ahead.

Q - Yuri Maslov {BIO 15101133 <GO>}

Yes hello, I've got a follow-up question on iron ore targets for next year because the line was not particularly good. Did I hear correctly that you plan to sell 34 million tons of iron ore next year, but in the worst case it can be 29 million tons?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

You got it right.

Q - Yuri Maslov {BIO 15101133 <GO>}

Okay. Then the question for the remaining of 2008, if I'm not mistaken, you previously guided for second half '08 sales of iron ore of about 14 million tons, 12 million tons for export, about 2 million tons for domestic market. Then in Q3 you shipped only 5.5 million tons of iron ore. Are you still going to hit your target for the remaining of the year? Or how does the guidance for this year look like in iron ore?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Most likely the total export volumes of iron ore will be equivalent to 20 million.

Q - Yuri Maslov {BIO 15101133 <GO>}

Sorry, how much?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

20 million tons in total.

Q - Yuri Maslov {BIO 15101133 <GO>}

20 million tons in total.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

It looks for a total of 20 million tons of iron ore products in 2008.

Q - Yuri Maslov {BIO 15101133 <GO>}

And domestic?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

That's total sales, I'm sorry.

Q - Unidentified Speaker

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Total sales, premium.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

It's my mistake, I'm sorry, 20 million tons total sales.

Q - Yuri Maslov {BIO 15101133 <GO>}

20 million tons total sales. And how much of that is going to be on export?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

17 million tons.

Q - Yuri Maslov {BIO 15101133 <GO>}

Okay thank you very much. And another question, your level of inventories stayed roughly the same at 14 million tons. Is that because of your conveyor belt problems? Do they still continue? Or is that the first indication that demand is slowing down?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Yes you've got it right. You should not take this small revision in the sales volume of iron ore as a signal of weaker demand, quite the opposite. If it wasn't the problem with the conveyor belts we would be standing most likely at more than what we were communicating to the market. You know that we had a problem with the quantity of the conveyor belts and then we had to replace, 13 kilometers of conveyor belts, we had to replace them.

Q - Yuri Maslov {BIO 15101133 <GO>}

What is the stage of the replacement at the moment? Has it been completed now?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

It's well behind us and we have an insurance policy which gives us protection against margin loss so that we'll be able to recover that margin loss from the insurance company.

Q - Yuri Maslov {BIO 15101133 <GO>}

Okay very good. And my final question is about prices for steel domestically in Q4, because your Q3 pricing was very strong which indicates that you managed to push your announced price increases very rapidly this quarter. Now what should we expect in terms of the domestic steel prices in Q4 in terms of growth Q4 and Q3?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

It will be pretty stable, the Fourth Quarter when compared to the Third Quarter.

Q - Yuri Maslov {BIO 15101133 <GO>}

Okay thank you very much.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

And I want to highlight that we have relevant accumulated price increases implemented in 2008. So 50% accumulated price increase for hot bands and 35% accumulated price increase for cold rolled coils and so on. So in the worst case scenario where we would have a small adjustment in price we charge domestic customers, even in this scenario the company would report very strong results in 2009.

Q - Yuri Maslov {BIO 15101133 <GO>}

Okay thank you very much.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Thank you.

Operator

(Operator Instructions) Your next question comes from the line of Andrea Cuisavo [ph] with Metlife.

Q - Andrea Cuisavo

Hi, could you give us more color on what to expect on the domestic steel market next year with your current market conditions, how that will impact your mix of sales going forward?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Okay, I will pass the question on to Martinez, the Officer responsible for sales. Just one sec.

Q - Unidentified Speaker

Hello, Andrea. Good morning. We are forecasting for this year we are going to finish in a range of 80% of total growth comparing it with 2007. For next year we are forecasting at least to have the same total volume of 13 million tons of rolled products in Brazil.

Obviously we are experiencing some adjustments in the distribution market, but CSN, as I mentioned before, we have a very good portfolio, very good customer base. And we are very prepared to compete with different segments in the industry.

Q - Andrea Cuisavo

And the mix sales remain weighted to the domestic market?

Q - Unidentified Speaker

Yes we are forecasting to have at least 85% total sales for the local market.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Yes it will be from 80% to 85% of sales to the local economy and then on the balance, be next quarter to customers out there.

Q - Andrea Cuisavo

Perfect. Can I ask you about your cost? What percentage of your cost is denominated in local currency and how the new conditions on commodity prices on the exchange rate will impact those costs?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

From 40% to 50% of the cost is denominated in foreign currency and the other 50% is real denominated. As to the future stream of revenues, it still is a principal [ph] product. So the price we charge our mobile customers are a portion of whatever then prevailing foreign exchange rate was a premium. And the premium is a function of logistic costs basically, logistic costs and additional working capital that would be required in case a customer in Brazil decides to import steel products from other countries.

So CSN, the future's three months revenues is really, one way or the other, dollar denominated, not to mention the iron ore business which is becoming more relevant within our Company and will give us a huge incremental net revenues from sales and free cash flow in 2009 and the following years.

So whatever the valuation of the real, the Company tends to report even better results. Is this clear? Does it answer your question?

Q - Andrea Cuisavo

Yes. Thank you.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

You're welcome.

Operator

There are no further questions at this time. I'll turn over to Mr. Otavio Lazcano for closing remarks. Mr. Lazcano, please go ahead.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Once again, thank you all for joining us for the Third Quarter earnings announcement conference call. Thank you, all and have a nice day.

Operator

Thank you. This concludes today's CSN Third Quarter 2008 earnings conference call. You may now disconnect your lines.

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