Q4 2006 Earnings Call

Company Participants

- Jose Marcos Treiger, IR Officer
- Juarez Saliba, CEO of Mining Business
- Luiz Martinez, Executive Director
- Otavio Lazcano, CFO

Other Participants

- Anne Milne, Analyst
- Jim Rice, Analyst
- Juliana Chu, Analyst
- Marcelo Aguiar, Analyst
- Marilia Guguas, Analyst
- Marina Rohe, Analyst
- Uri Maslo, Analyst
- Victoria Santaella, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to CSN's full year 2006 earnings conference call. Today we have with us Otavio Lazcano, CFO; Jose Marcos Treiger, IR Officer; and other company executive officers. (Operator Instructions)

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 the 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.

Now I'll turn the conference over to Mr. Treiger who will present CSN's operating and financial highlights for the year of 2006. Mr. Treiger, you may begin your conference.

Jose Marcos Treiger

Thank you. And good morning, ladies and gentlemen. And thank you all for attending CSN's conference call during which we will analyze our results for the Fourth Quarter of 2006 and the full year of 2006 as well. Our call today will be divided into two parts. Firstly, we will be showing you some slides related to the period. Then we will move on to a question and answer session in which our executive officers will take part.

Well having said that, let us begin our presentation on our slide of number 3 where we are showing 2006 main highlights. Among the year's main highlights, we would particularly like to draw attention to the following. CSN posted net revenue of $2R.58 billion in the Fourth Quarter of 2006, registering $5R.17 billion for the second half, up by 7% and 12% year on year, respectively. Annual net revenue exceeded $9R billion.

Annual EBITDA, adjusted for earning losses due to business interruption, came to $3R.82 billion, approximately $1.8 billion, accompanied by an EBITDA margin, similarly adjusted, of 42.3%, climbing back to end of 2005 levels. The provisions for lost earnings, totaling $730R million, are backed by the documents made available by our lead insurer. The company estimates actual lost earnings at $1R.1 billion, an estimate with which our independent consultants are in agreement. Based on the company's total estimated adjustment, 2006 EBITDA would have reached approximately $4R.2 billion with an EBITDA margin of 45%.

Annual net income totaled approximately $1R.2 billion. When adjusted, though, for total earnings losses estimated by the company and its independent consultants, 2006 net income would have reached approximately $1R.5 billion. These results are particularly important, given the accident at the structure adjacent to the main blast furnace, blast furnace number three, in Volta Redonda, our mill, on January 22, 2006, which is responsible for about 70% of the company's steel output.

CSN in fact demonstrated exceptional operational resilience, taking immediate steps to acquire appropriate volumes of steel slabs in order to avoid any break in production and to ensure delivery of end products to all our clients. At the same time, it immediately activated its pool of insurers in order to guarantee compensation as quickly as possible, both for material damages and lost earnings, through the insurance policies duly taken out to cover just such a contingency.

Well now let's go to slide number 4, which outlines the scenario for the steel sector in 2007 or at least as we see it. Given the possibility of higher economic growth in Brazil, most likely due to higher government investments combined with the continuing reduction in local interest rates, the company expects growth of around 8% in national flat steel demand, very much in line with the forecast of the Brazilian Steel Institute, IBS. Thus, sales volume may increase significantly over 2006 followed by an improved sales mix for market segment as well.

There are also certain factors that bode well for international prices, including the adjustment of steel inventories in the United States taking place right now, the possible reaction by several countries against excessive Chinese exports, the announcement by the Chinese government itself of its intention to reduce steel export incentives. And the reduction in European inventories. We also expect a reversal of the slight decline in international prices evident in the second half of 2006 as a possible consequence of the maintenance from global economic growth as well as international trade in steel products, greater discipline in production and prices resulting from the already underway consolidation of our sector, plus controlled inflation and relatively low interest rates in various countries worldwide throughout 2007.

With particular reference to CSN, the return of production costs to normal levels and the reduced price of coke purchases should bring the company's EBITDA margin back to its historical average of recent years.

Let us move now onto slide number 5. On slide 5, we see some graphs on sales revenue and sales volume by market. Total sales volume came to 1.2 million tons in the Fourth Quarter '06. 732,000 tons was the total sales volume or 61%. And I mean 61% of which on the domestic market. Domestic sales fell by 8% over the previous quarter chiefly due to the lower number of working days in December. In year-over-year terms, however, the result was highly positive with a 22% increase over the last quarter of 2005.

Final quarter exports came to a level of 462,000 tons, stable over the previous quarter. However, in comparison with the last quarter of 2005, they fell by a substantial 39% due to first the heating up of the domestic market and also due to the company's strategy of obviously prioritizing the domestic market given the production limitations imposed by the accident to blast furnace as I explained which occurred in January 2006.

With this vital piece of equipment inoperative throughout the first half of last year, annual sales volume of 4.4 million tons was in fact 10% lower than in 2005. Of this total, 2.8 million tons or 64% went to the domestic market, as a result recorded an average domestic flat steel market share of 27%, stable though in comparison with the previous year.

Let us move now to slide number 6 which shows sales by product and net revenue by segment. Here we would like to point out the excellent product mix realized last year. Once again, the company exceeded a 53% market share of coated products in the domestic market. And net revenue from steel sales accounted for more than 80% of total annual revenue followed by revenue from logistic services which accounted for by around 8%.

On slide number 7, we show our quarterly EBITDA and EBITDA margin trends. Fourth quarter EBITDA moved up by 8% over the previous three months from $912R million to $984R million. And the EBITDA margin widened by 3percentage points fueled by the return to operations of the blast furnace number three. It is worth pointing out, however, that the Fourth Quarter 2006 margin of 38% reflects operating costs that were still affected by the accident, especially the high inventory costs of steel produced in previous months and/or acquired from third parties.

Annual EBITDA adjusted for the provisions for lost earnings totaled $3R.8 billion with a margin of 42%. However, based on the company's total estimated adjustment supported by our independent consultants, 2006 EBITDA would have reached approximately $4R.2 billion with an EBITDA margin of 45% already.

The next slide, slide number 8, shows the behavior of our consolidated gross and net debt over the last two years. The gross debt totaled $9R.4 billion at the close of 2006, $600R million higher than the $8R.8 billion recorded at the end of December 2005. The main funds raised throughout the year were $600R million from the fourth debenture in May which matures in six years and the $100 million five-year import note placement in November. We also raised a further $600 million at the end of the year from advances on export contracts, prepayments. And the use of a previously contracted credit line.

On the amortization side, the main highlight and important one was December's redemption of $650R million in debentures. The average maturity of the gross debt of CSN at the end of 2006 was 7.4 years, a comfortable level. And the net debt weighted by region adjusted for lost earnings impact was 1.7 times. The net debt totaled $6R.65 billion on December 31, 2006. The reconciliation of the $4R.7 billion reported at the close of 2005 is shown on the next slide.

Let us move then to this very next slide, number 10, which shows the reconciliation between the net debt of $4R.7 billion at the end of last year -- I mean 2005 -- and $6R.7 billion at the close of 2006. Among the items which reduced the net debt, we would draw particular attention to $3R.2 billion in EBITDA, an indicator widely used as an approximate measure of operating cash flow. And $476R million effectively advanced by our insurance by year end.

Now we come to those items that increase the net debt. CSN paid out $2R.1 billion to its shareholders throughout the year in dividends. In November, the company spent around $300 million, almost $700R million, on acquiring a 3.8% stake in Corus Group. The debt carrying cost as mentioned previously of 11% per annum, corresponding to around $600R million, annual investments of close to $1R.5 billion, allocated in different projects, such as more than $400R million to Casa de Pedra, $200R million by MRS, our railway -- this is proportional to CSN's almost 33% stake in the company -- $100R million in various technological operating and development projects at the Presidente Vargas steel mill in Volta Redonda, more than $200R million in the diverse projects for CSN and its subsidiaries. And around $500R million on maintenance to maintain the state of the art of all our industrial complexes.

We also had various cash outlays [ph] and disbursements which totaled almost $800R million, the most important of which were EUR25 million, more than $70R million, spent on the acquisition of the remaining half, the remaining 50% of Lusosider, our Portuguese rolling mill; around $350R million in income and social contribution taxes after offsets; $100R million in working capital variation, reflecting the differences between the cash and accrual accounting methods on the value of EBITDA and investments; $39R million spent on the repurchase of CSN shares -- we have an ongoing program; around $40R million in PIS and COFINS, taxes on the amounts effectively received from the insurance as well as the Brazilian tax CP&F. This is a financial protection tax and others.

Given all of this, we arrive at a net debt of $6R.7 billion at year end. However, if we consider the amount of lost earnings estimated by our independent consultants, we would have additional cash of $800R million. Moreover, if we had the almost $900R million from the future sale of the Corus shares, corresponding to 3.8% of the company's capital, which belongs to us, our net debt would come to just $5R billion, which is a much more accurate reflection of the company's financial average at this point in time.

Let us move on now to slide number nine, where we can see the consolidated net income variation between 2006 and 2005. The variation between our net income of 2005 and 2006 can be best understood in the following manner. Due to the accident to the blast furnace number three in January of 2006, the company decided to acquire around 1 million tons, a big volume, 1 million tons of slabs on the market in order to insure the maximum possible supply for its rolling mills. As a result, we were able to guarantee deliveries for our domestic clients and the fall of just 10% in total sales volume, which was entirely concentrated in the export market.

Nevertheless, the higher production cost resulting from the accident and the need to buy slabs from third parties combined with the reduction in sales had a negative impact of $1R.4 billion. Part of this loss was offset by the booking of the provisions for lost earnings which were conservatively estimated at $730R million.

The next item, amounting to $170R million refers to the nonrecurring reversion for provisions for label [ph]. These were legal contingencies, both in the Third Quarter of 2005 and duly reported in the release for that period.

Moving on across the chart, we come to the negative variation of $138R million in the financial results which was primarily due to PIS and the COFINS taxes on the $730R million in provisions for lost earnings, as well as higher expenses from the restatement of contingent liabilities by the Selic Brazilian interest rate. It is important to point out that the difference of around $1R billion in the average net debt was partially offset by the lower average cost of the debt. In 2006, this cost averaged 11% per annum versus 14% in 2005, in both cases corresponding to 73% of the CDI Brazil rate.

The final variation of around $169R million was due to a variety of less important effects offset by lower expenses from income and social contribution taxes, due obviously to the reduction in taxable income.

Now let's move on to slide 11. We are coming to the end of our presentation. Investments in the Fourth Quarter 2006 totaled $380R million, $147R million of which went to the Casa de Pedra iron ore mine expansion project, $24R million to the Sepetiba Port expansion project, $63R million to the MRS railway system and corresponding to CSN's 32% stake in this company. And $34R million to industrial maintenance.

Investments in 2006 totaled an impressive $1R.5 billion, allocated as follows -- $247R million in the Casa de Pedra mine expansion; at the very [ph] mine; $176R million in the Sepetiba port expansion project; $175R million in MRS, $78R million in Lusosider, our company in Portugal; $122R million in the subsidiary product; and $396R million in general maintenance projects. Most of the remainder went to smaller but also relevant projects associated with maintenance and overall improvements in CSN's operating performance and that of its subsidiaries.

Slide 12 shows the physical and financial schedule of our main investments until 2010. As you can see, investments in the Casa de Pedra mine, the Beneficiation plant and the pelletizing plants as well as the Port of Itaguai should total around $3R.7 billion until 2010. In relation to the schedules disclosed previously, there has been, yes, a delay in the first phase of the Casa de Pedra mine project designed to raise annual production capacity to 21 million tons. This capacity -- I mean, this landmark of reaching a capacity of 21 million tons is now foreseen to be achieved only in February 2008. However, it is important to notice that this delay will be fully absorbed by July 2010 and that the regional completion schedule for all the advancements will not be jeopardized.

On slide 13, you can see a very recent aerial photograph of our Itaguai port. In February 2007, we completed the first phase of the iron ore terminal at the port of Itaguai with an initial annual export capacity already reached of 7 million tons per annum. The second phase will raise the terminal's capacity to 30 million tons per annum and the third and last one to 53 million tons per year. Investments are estimated at $260 million until the conclusion of the works and the installation of the necessary equipment.

Now on slide 14, you can see some photos of CSN's first exports of iron ore, our first shipment. The company plans to become the world's fourth largest iron ore exporter by 2010. And we took the first steps towards this goal on February 25, 2007, very recently, when the first ship, named the Santos Success, set sail for Bahrain from the port of Itaguai in the state of Rio de Janeiro carrying 65,000 tons of iron ore acquired by CSN from third parties. We intend to access the main consuming markets, including Asia, Europe. And the Middle East, with our high-grade ore. The second and third phases of CSN's port expansion are due for completion in November 2007 and 2008, respectively. The new pier and conveyor belt will give added flexibility to the unloading of coal and coke and the loading of iron ore, raising CSN's ore-handling capacity at its sea terminal from the current 7 million to 50 million tons per year.

Let's move on now to the next slide, number 15, capital markets. Well CSN's shares performed well in 2006, appreciating by close to 45% when compared to 33% for the Ibovespa local index. And even after this upturn, a trend which continued fortunately at the beginning of 2007, most steel industry analysts were still maintaining their buy recommendations for the company's shares. According to Bloomberg on March the 3rd, 2007, CSN had 11 buy recommendations, three recommendations to hold. And just one sell.

The 39% appreciation recorded by CSN's ADRs on the NYSE was equally significant, particularly when we compare it to the Dow Jones appreciation of 16% last year. In the last five years, this is rather impressive, CSN's shares have appreciated by more than 1000%.

And in 2006, CSN paid out more than $2R billion in dividends and interest on equity, higher than any other Brazilian company as measured by dividends per share.

Well ladies and gentlemen. this slide brings the first part of our conference call to a close. I thank you very much for hearing our message, for having all this patience with me. And now, let's move on to the question and answer session where my colleagues, our executive officers, will be very happy to answer any questions you might have. Thank you, all very much indeed. Let's move on to the Q and A session.

Questions And Answers

Operator

(Operator Instructions) Your first question is coming from Marcelo Aguiar of Merrill Lynch.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Hi, Jose Marcos, Otavio. Here we are again, English call. A couple questions for you and for the executives they represent. The first one would be related to the Casa de Pedra mine. If Juarez Saliba, if he can comment in broader terms in terms of your scheduled production for the next years in terms of capacity, which levels are you going to reach in each year. And secondly if you, Juarez, also can comment on how much should we put in our models in terms of third-party or acquisition and resale. This will be the first question.

A - Juarez Saliba {BIO 16483817 <GO>}

Thank you, Marcelo. As Jaurez is here by my side. And will address your question. Juarez, please?

Hi, Marcelo. First of all, in terms of scheduled [ph] project implementation, in terms of port, we just completed the first phase, the 7 million ton capacity, in February 2007. It is forecasted for January 2008 the second phase when we reach 30 million tons capacity. And we are forecasting for March 2009 -- this is a new level of capacity -- of 40 million tons in March 2009. And we can reach about 55 million tons in the end of 2010, second half of 2010. Then for the ports, the schedule is this.

For the Casa de Pedra mine, we are currently producing 60 million tons per year. We will reach 21 million tons per year capacity in February next year 2008 and 40 million tons in October 2008. Then in November 2009, we can reach 45 million tons per year capacity. And in July 2010, 53 million tons per year.

In terms of our pelletizing plant, our forecast is that we will be starting production in our pelletizing plant in the first half of 2010. And we probably with full capacity into July 2010, 6 million tons per year capacity.

Sorry, your second question, Marcelo?

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Is related to the contracts (technical difficulty) on third-party operation? And so how much should we consider, I mean, a sustainable basis, the amount of iron ore that you're going to sell buying from third parties?

A - Juarez Saliba {BIO 16483817 <GO>}

Marcelo, this year, we have enough third-party iron ore to sell this year in order to fulfill the capacity of the port or in other words 7 million tons this year. But our sales of third-party iron ore in 2007, we'll build that balance between the port capacity and the sales of Casa de Pedra iron ore. In other words, it depends on the -- we have some clients for Casa de Pedra iron ore. They are providing us offer to buy this ore. And in order to give this offer to SID [ph]. If SID exercise 100% of the offer, then we export 7 million tons of third-party iron ore. If SID does not exercise 100% of these offers. So the export of third-party iron ore will be the balance. Is it clear for you?

Q - Marcelo Aguiar {BIO 3721791 <GO>}

It is. It is.

A - Juarez Saliba {BIO 16483817 <GO>}

Yes.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Juarez. So remaining on the Casa de Pedra issue, let me understand the long term of Casa de Pedra and now knowing that you're expanding the port to 53, which gives you more excess capacity. So remember that -- I mean, when you show long-term production of Casa de Pedra, you show, let's say, at the end of the 2010s, 2020s, it's like 42 million tons. I'm not sure if that changes any in 2030. Just to do the model of Casa de Pedra, you say it's 26, I think. Then after 30 years, Casa de Pedra ended. So to forecast this project. And which will be this production capacity at Casa de Pedra remain the same. So after 2009, 42. And then 2010, it's 35, 26. And how you would put in additional capacity? Is it greenfield ones? Is it third parties? I would like to understand what you guys are doing to try to make this as a long-term project and to fulfill the port.

A - Juarez Saliba {BIO 16483817 <GO>}

Your forecast in terms of Casa de Pedra production is right, roughly is the number you said right now. In terms of the available capacity port in the next 10, 15 years, we are considering two possibilities. One of them we are already using that is the purchase of iron ore from third-party producers and the sale of this iron ore acquired. The second possibility that we are considering and we are already working on this is the acquisition of greenfield reserves close to Casa de Pedra mine or along the railway line in order to develop the greenfield projects. We are considering this. We have some targets in our hands right now. And as soon as we finalize negotiation with these targets, we can announce on the market.

But the strategy is based on two possibilities -- acquisition of iron ore from third parties and acquisition of greenfield reserves of iron ore in order to develop greenfield projects. We are very competitive on this regard because the main restriction for iron ore production increase in Brazil is logistics. And we have the solution for the logistics. So we have the participation in the MRS railway which is able to increase very easily capacity to a very high level and have available capacity in our port. So the main target is to get some reserve ore, even iron ore from third parties in order to fulfill this project.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. So as you probably are aware, this is important, relevant information for the potential IPO. So I do expect that you guys are going to say more detail about that before the potential IPO, right?

A - Juarez Saliba {BIO 16483817 <GO>}

For sure.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

-- from greenfields and third parties, right?

A - Juarez Saliba {BIO 16483817 <GO>}

Yes, for sure. The IPO is very dependent of these possibilities because it can make our project value worth much more.

A - Otavio Lazcano {BIO 4999009 <GO>}

Marcelo, it's Otavio speaking. How's everything? You got it absolutely right. Our idea is to as soon as we finalize all the negotiations with those target companies as Jaurez well pointed out is to immediately announce it to the market so that we can even unlock higher economic value to all the shareholders of CSN on the IPO of the mining project. But you are absolutely right.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. I promise that it's the last question. Are you going to probably reserve a substantial amount of cash during 2007 that will come from the insurance and from the resale of Corus shares? I would like to know when and which is the amount of each of this in operation that it did and to better put in our models.

A - Otavio Lazcano {BIO 4999009 <GO>}

Okay. Let's begin with the Corus shares. Corus shares are blocked from trading from today on. And we are expecting financial settlement next Monday. The amount of cash is roughly speaking $450 million. And the impact on the net income of the company during the First Quarter will be $100 million. Okay.

As to the accident and the insurance policy of the company, we are expecting to collect additional $350 million still in 2007. As I said in the previous conference call, we are in a final stage of the adjustment process with insurance companies. And we have good reasons to believe that this $350 million that I told you is doable, is feasible in the short term.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you very much.

A - Otavio Lazcano {BIO 4999009 <GO>}

Welcome.

Operator

Thank you. Your next question is coming from Jim Rice [ph] of Avenue Capital.

Q - Jim Rice {BIO 1993179 <GO>}

Hi. I was just wondering if you can outline what your acquisition strategy is going to be going forward now that the Corus situation has been settled.

A - Otavio Lazcano {BIO 4999009 <GO>}

Okay. Thank you very much for your question. The strategy of the company is the same one that was embedded in our 20-F for I believe 2001 or 2002 when the company made a public statement that it is looking for rolling mills in Europe or in U.S. where the company can further process incremental production on slabs from Brazil. As you probably saw, our Board of Directors approved an investment of roughly speaking $3 billion to increase slab production in Itaguai in state of Rio de Janeiro by 4.5 million tons. This project will be done by 2010. And the company's still looking for an outlet out there so that we can further process this raw material in the biggest consumption centers in the whole world.

Corus, what is likely different investment case, it cannot be perceived as a rolling mill. It cannot be even perceived as an outlet, given that the size of production of the company and had several advantages including a well-established distribution network, $3.2 billion NOLs that could be used to pay back the investment executed. Probably the best integrated (inaudible) in Europe which is rolling mills [ph]. So it was a completely different investment case. You should not expect from CSN other relevant transactions as Corus would be because our goal is not really to be the biggest or one of the biggest steel players on earth. Our goal is to be recognized as the most cost efficient one, the most competitive one.

So to summarize, our strategy is still the same. We are looking for an outlet, rolling mills in Europe and U.S. where we could further process 4.5 million tons of incremental slabs that will be produced from 2010 on. And Corus was a completely different investment case.

Q - Jim Rice {BIO 1993179 <GO>}

Is there a minimum size in terms of rolling capacity that you're looking for? Or are you willing to do several different deals to piece together that --?

A - Otavio Lazcano {BIO 4999009 <GO>}

There is no minimum size. In theory, we can execute several smaller deals. There is no minimum size. It's always a question of creating economic value to all the shareholders rather than doing big transactions, more relevant type of transactions as Corus would be in case CSN was successful [ph].

Q - Jim Rice {BIO 1993179 <GO>}

And would you be open to ever pairing up yourselves with a larger steel company? Or is that not on the table?

A - Otavio Lazcano {BIO 4999009 <GO>}

You mean merging CSN with or into another larger steel company?

Q - Jim Rice {BIO 1993179 <GO>}

Yes, or someone of equal size.

A - Otavio Lazcano {BIO 4999009 <GO>}

As long as it's -- first I cannot speak for the controlling shareholder. Okay.

Q - Jim Rice {BIO 1993179 <GO>}

Right.

A - Otavio Lazcano {BIO 4999009 <GO>}

So I can basically give you my view as an individual. And given what I know from the controlling shareholder, as long as it creates economic value to all the shareholders, then it's something that is doable.

Q - Jim Rice {BIO 1993179 <GO>}

Okay. Great. Thank you.

A - Otavio Lazcano {BIO 4999009 <GO>}

Welcome.

Operator

(Operator Instructions) Your next question is coming from Marina Rohe of Bear Stearns.

Q - Marina Rohe

Hi. I have a question regarding the provisions relating to the blast furnace shut down last year. I'd just like to clarify what was the total amount provision and what has been received up to the end of last year. And when do you expect to receive the balance? And also if you're going to go for the higher amount that was estimated by your consultants.

That's my first question. And my second question is regarding the inventory that is now at Casa de Pedra, if you expect to be selling this already in the First Quarter and if it could be delayed by any reason. Thank you.

A - Otavio Lazcano {BIO 4999009 <GO>}

Okay. Marina, it's Otavio speaking. Let's just start with the question on the insurance provision. During the third -- in the financials for the Third Quarter '06, we had a provision for business interruption, which is basically equivalent to margin lost, in the amount of $445 million. This provision is supported by documents that the insurance companies participate in our policy made available to the company, made available to CSN. Okay.

When we were interacting with our external auditor -- I mean, when we were preparing and doing the auditing stuff for the Fourth Quarter, we decided to reallocate $90 million out of this $444 million provision from our margins lost or business interruption to damaged equipment. Then as a consequence, we had an impact in the net income of the company of roughly speaking $100R million. You should not expect anything similar to this in the future, quite the opposite. As the company made it clear, our expectation is that the total adjustment, total indemnity would be close to $650 million, including damaged equipment and business interruption. And we are expecting to collect at least $350 million still in 2007.

We are entering our final stage of the adjustment process. And still on the accident and insurance policy, up to now, we collected roughly speaking $250 million.

Q - Marina Rohe

Okay. My question was if you're going to be collecting the difference between the $650 million and the $445 million. You had initially a lower estimate. And now you have a higher estimate you just said you're going to be collecting in 2007, correct?

A - Otavio Lazcano {BIO 4999009 <GO>}

Yes, no question about it. And this bill is supported by our external consultants which are Fidacafia [ph], well-known institute here in Brazil that do this kind of evaluation and assessment on various accounting matters and our external lawyers as well. Okay.

Q - Marina Rohe

Okay.

A - Juarez Saliba {BIO 16483817 <GO>}

Marina, regarding your second question about the inventory in Casa de Pedra mine, I can tell you that only not to remember this inventory was produced mainly to supply Corus in case CSN was (inaudible). But now we are preparing, we are discussing with several potential clients. And we intend to start the sales of this inventory in the end of Second Quarter. In fact, most of the inventory will be sold probably in the second half of 2007.

Q - Marina Rohe

Okay. Thank you very much.

A - Juarez Saliba {BIO 16483817 <GO>}

Welcome.

Operator

Thank you. Your next question is coming from Victoria Santaella [ph] of Santander.

Q - Victoria Santaella {BIO 1521297 <GO>}

Hi. Good morning, gentlemen. If you can give us some idea about markets in Brazil for carbonized products, which are the specific segments that you are expecting a higher growth? And my second question is basically regarding the information flow and news coming from the legal battle that you are having with CVRD. What can we expect in the short term in terms of news flow?

A - Luiz Martinez

Victoria, this is Luiz Martinez [ph] speaking. First, I would like to start with the local market. Regarding to local market, we are expecting for 2007 a very good year in terms of sales. Just to give you some numbers, in the auto industry last year, we experienced a growth in the range of 12% to 16% depending on the market. In markets like distribution and building products, CSN is very well positioned due to our portfolio, our product portfolio. So in our estimates, we are including in our budget a minimum of 8% growth in 2007.

I have also to mention that our goal is to improve and to increase our share, our participation in the coated products. So we have a very good portfolio that fits very good on the size of the market if you take into account not only hot dip galvanized but tin plates. And in terms of economy, we have other new markets that are recovering comparing with last year, like ethanol markets in Brazil. So we are going to have a lot of investments in new plants. And we are expecting to collect some profits regarding to steel for tubing and other applications in this market.

In the agro business markets, finally we are going to experience a recovery. And CSN is very well positioned, take into consideration that we have some specific products for this market. So in the local markets, taking briefly and just a snapshot, we are expecting 8% growth. We are very well positioned in all the markets. And we are also recovering our share in the auto industry that we lost two years ago.

In the external markets, just to give you some numbers, in the case of slabs, nowadays a slab is being commercialized in the range of 500 to 530 FOB and hot rolled coils in the range of $600US to $620 per metric ton. So we have all the room in the international market to grow. And take into account that CSN's strategy in the external market is to compete in the local markets that we have operations. Okay.

So we are not a spot exporter in the market. We have our operation in U.S. and also in Europe. And our goal is to act as a global local player in Europe and U.S. So we are not going to suffer from fluctuations in the market, even considering that's a good moment for this year.

Hello?

Q - Victoria Santaella {BIO 1521297 <GO>}

And regarding the question the news flows from the relationship with CVRD.

A - Juarez Saliba {BIO 16483817 <GO>}

Victoria, this is Juarez again. In fact, I want to make clear what's your question about. In fact, as you have seen in CVRD, we have only one discussion currently. This discussion is related to our one commercial contract that we have with CVRD. We have a contract for 500 million tons per year sales from CSN to CVRD. And we have some commercial discussions. And we are finalizing this discussion based on an arbitrage. And it is forecasted to be finalized in April this year, very, very quickly. I don't know if you are asking about the first refusal right contract between CSN and CVRD. Is this your question?

Q - Victoria Santaella {BIO 1521297 <GO>}

Yes, sir. That's more specifically my question.

A - Juarez Saliba {BIO 16483817 <GO>}

Yes. So this issue is not a legal discussion between CSN and CVRD. This is a discussion between CVRD and the antitrust commission in Brazil, called CADE. It's not -- we have nothing in this regard. We are only watching what's happening about this. In fact, the antitrust commission in Brazil decided, based on the acquisition that CVRD made in Brazil and this acquisition includes the first refusal rights with CSN. The antitrust commission Brazil told to CVRD that they would have to sell the (technical difficulty) company or as an option to finalize the contract with CSN.

In other words, we are not part of this dispute. We are only watching what is happening. In fact, the Brazilian antitrust commission, they were very successful again in the Brazilian court. And the CVRD again lost the subject against the antitrust commission in Brazil. And we don't know. This is a legal issue. We don't know when it will be finalized. But the antitrust commission is being very successful in this regard.

Q - Victoria Santaella {BIO 1521297 <GO>}

Thank you very much.

A - Juarez Saliba {BIO 16483817 <GO>}

Welcome. Thank you, Victoria.

Operator

(Operator Instructions) Your next question is coming from Marilia Guguas [ph] of Unibanco.

Q - Marilia Guguas

Hi. I want to qualify one point regarding the provisions for the insurance. I understood that you have reverted a position in the value of $193R million in the Fourth Quarter. And this was allocated under operational expenses. It had a negative impact on the EBITDA and net earnings. Is this right?

A - Otavio Lazcano {BIO 4999009 <GO>}

You are absolutely right, Marilia. It's Otavio speaking. We had a provision for -- we still have a provision for $445 million imbedded in our financials. But we decided to reallocate roughly speaking $90 million from business interruption to damaged equipment. Then we had this impact on income statement of the company.

Q - Marilia Guguas

Okay. Thank you.

A - Otavio Lazcano {BIO 4999009 <GO>}

Because the $90 million now is a balance sheet account. It's no longer income statement account if you know what I mean.

Q - Marilia Guguas

Okay. Thank you.

A - Otavio Lazcano {BIO 4999009 <GO>}

Welcome.

Operator

Thank you. Your next question is coming from Juliana Chu of BES Securities.

Q - Juliana Chu {BIO 1551904 <GO>}

Hi. Good morning, gentlemen. I have two questions. First one is regarding the shares that you have in treasury if you have any plans regarding the shares, if you would like to sell it or to cancel. And the second question is regarding the Corus shares. The amount that you have commented, it includes the incentive remuneration or we still can add this amount?

A - Otavio Lazcano {BIO 4999009 <GO>}

Let's just start with your question on shares that we bought back from the market. We have been using for years a buyback program as a tool to get rid of unnecessary volatility in the market. So as soon as we face whatever miscommunication or whatever noise in the market as to the price of our shares, we will be using the tool. Okay.

Q - Juliana Chu {BIO 1551904 <GO>}

Yes.

A - Otavio Lazcano {BIO 4999009 <GO>}

I don't think at all that CSN will be selling back into the market the shares that it bought over the last few months or years. Okay. I really don't think. As to Corus shares and Corus transaction, you all know that with benefit of the price that Tata Steel will pay for it when compared to the price that we paid when we bought 3.8% of the total capital of the company back in December or November. And the net income will be roughly speaking $100 million. On top of this, the company is entitled to get a breakup fee, inducement fee of 1% of the price that Tata will be paying for the company, roughly speaking again additional $120 million. So total, $210 million, $220 million will be the profit of CSN as a result of this transaction between CSN, Corus. And Tata.

Q - Juliana Chu {BIO 1551904 <GO>}

Okay. Thank you very much.

A - Otavio Lazcano {BIO 4999009 <GO>}

Your welcome.

Operator

(Operator Instructions) Your next question is coming from Uri Maslo [ph] of Nevsky Capital.

Q - Uri Maslo

Yes. Hello. I've got two questions please. One is could you update us on your plans to potentially IPO Casa de Pedra? What is the likely timing for that? And the second question is about your dividend policy. Could you please again outline your dividend policy and what payout ratio we can expect in the next couple of years? Thanks.

A - Otavio Lazcano {BIO 4999009 <GO>}

Let's just start with the question on dividend policy. Our company has been generating a lot of cash. And there are no reasons to expect that in the future the company will not continue to generate a lot of free cash flow. And we recognize that you guys can do a better job with excess cash than what the company can do. Okay. So whenever the company ends up accumulating more cash than what is required to finance all the investments and the day-to-day management of the company, I will be paying it back to you guys. Okay.

As to payout ratio, the payout ratio over the last two or three years was close to 100%. Okay. I believe that you should not expect from the company much lower payout ratio in the years to come. Okay. I would say that payout ratio tends to be in a range from 60%, 65% up to 100% during the following years. Okay.

Then your question on our plan to sell stake in our mining project to further the transaction, we are in a final stage, final analysis to determine what is the most cost efficient structure for CSN and its shareholders. And the goal is to bring this transaction to the market sooner rather than later. You further understand that I have to deal with the legal framework in Brazil and abroad. And really, I'm sorry. But I cannot make a comment on a specific date. But I mean to be sooner rather than later, really.

Q - Uri Maslo

Thank you.

A - Otavio Lazcano {BIO 4999009 <GO>}

Your welcome.

Operator

Thank you. Your next question is coming from Anne Milne of Deutsche Bank.

Q - Anne Milne {BIO 1757455 <GO>}

Good morning, Otavio and Jose Marcos. How are you?

A - Otavio Lazcano {BIO 4999009 <GO>}

I'm fine. And you, how's everything?

Q - Anne Milne {BIO 1757455 <GO>}

Very well. Thank you. My question has to do with your, let's say, debt profile and your refinancing plans for 2007. I know that you will be getting some cash back from the Corus shares. That was one of the reasons why your net debt did go up in 2006. Will that be used to reduce debt? Or are there other refinancing plans you have during the year?

A - Otavio Lazcano {BIO 4999009 <GO>}

Within CSN, we keep focusing on the net debt of the company. It's the ratio that we keep an eye on always is really the ratio of net debt to EBITDA. Okay. Our expectation is that net debt will go down to a level below $4R billion at the end of 2007 after the payment of dividends and execution of the investments, including the expansion of the mine, including cement and long steel products. Okay.

Q - Anne Milne {BIO 1757455 <GO>}

Okay.

A - Otavio Lazcano {BIO 4999009 <GO>}

And as a consequence, this ratio of net debt to EBITDA will go down to a level well below just 1 time. Okay.

Q - Anne Milne {BIO 1757455 <GO>}

Okay.

A - Otavio Lazcano {BIO 4999009 <GO>}

As to debt profile, the average life of our gross debt is longer than seven years. And when you consider the amount of cash accumulated by the company, it's even longer than 12 years. Okay. The average life of the net debt is longer than 12 years. So the company's not in a hurry to raise cash. We can finance all the projects with the cash generation from the day-to-day operation of our company. And unless we face a very good opportunity in capital markets, you won't see us out there issuing new paper.

Q - Anne Milne {BIO 1757455 <GO>}

Okay. Very good. Thank you very much.

A - Otavio Lazcano {BIO 4999009 <GO>}

Your welcome.

Operator

Thank you. Your next question is coming from Marcelo Aguiar of Merrill Lynch.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Otavio, just a follow up related to your slab expansion, we recognize that a lot of investors and sell side analysts doesn't consider this slab expansion in the models. Just to understand how well positioned are you. And which part of the process are you now on the slab expansion? And if you can break down the CapEx for that to put in our model.

A - Otavio Lazcano {BIO 4999009 <GO>}

Marcelo, we are finalizing the economic feasibility study that we are doing together with Ball Steel. And as Eneas well pointed out in the previous conference call, in the next three months, we will be talking to the usual suspects. I mean the usual suppliers of equipment, technology. And services so that we can start to build it. This project will create an immense economic value to all the shareholders of CSN. We intend to use the immense area that we have right there by the sea port terminal. It's a 900-hectarea area, again, right there by our own seaport terminal. We are expecting a cash return of slab given the current environment of roughly speaking $200 per ton, on investment per ton lower than $600. So it will really help us to create and unlock a huge economic value to all the shareholders.

As to the breakdown of the investment, unfortunately I don't have it here in my hands. But I can send it to you, Marcelo, later on through email. But it's basically what is embedded in the previous presentation that we did. I believe it's embedded in the presentation that we did for the Third Quarter results. Nothing changed since then. Okay. The total investment is roughly speaking $3 billion. The investment will be done by 2010. Then the schedule of fees, (inaudible) and the cash payments is exactly the same one that we made public a few months ago. But I will send it again to you by email.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you very much. That's all.

A - Otavio Lazcano {BIO 4999009 <GO>}

Okay.

A - Jose Marcos Treiger

This is Jose Marcos Treiger again. And I'm the Investor Relations here. And I would like to ask your understanding. But we are going to limit now to one last question. It's already a long time that we have been together in this conference call. So we are opening the space for a very last question if there is one.

Operator

There actually appear to be no further questions. I would now like to turn it back to Mr. Treiger for any closing remarks.

A - Jose Marcos Treiger

Well first of all, I would like to thank very much all of my colleagues that are here with me now, especially my CFO, Otavio Lazcano, all my colleagues from the controlling area of CSN. We worked very hard in the recent days and mainly to prepare a material that could explain in detail and in a more simplified way a very, I would say, different year that we had in 2006 and all the effects that were considered up to now or that will be considered in the next steps of the company.

We are very much confident that we are starting the very First Quarter of 2007 already with a sound base directly affecting our bottom line. Our plans are in place. We are really going on with our plans on investment, both at the port and Casa de Pedra. And our sentiment is a very positive one also in relationship to the scenario of the steel industry in 2007.

I thank you all indeed for participating in our conference call covering the 2006 results. And I would like to invite you for our next conference call which will be dealing with the First Quarter results. And we will try to do this one as fast as possible. This one we are going to try to really, let's say, surprise the market and do it earlier than forced to. [ph] Well thank you very much for your participation. And see you all in our next conference call. Bye, bye.

Operator

Thank you. This does conclude today's CSN Fourth Quarter 2006 earnings conference call. You may now disconnect and have a wonderful day.