

Q2 2010 Earnings Call

Company Participants

- Jayme Nicolato, Mining Director
- Luis Martinez, Commercial Director
- Paulo Penido Pinto Marques, CFO and IR
- Unidentified Speaker, Unknown

Other Participants

- Alex Hacking, Analyst
- Carlos De Alba, Analyst
- Christopher Buck, Analyst
- Leonardo Correa, Analyst
- Marcelo Aguiar, Analyst
- Marcos Assumpcao, Analyst
- Rene Kleyweg, Analyst
- Rodrigo Barros, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to CSN's Second Quarter 2010 earnings conference call. Today, we have with us the Company's executive officers.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After the Company's remarks are over, there will be a question and answer section. At that time, further instructions will be given. (Operator Instructions)

We have simultaneous webcast that may be accessed through CSN's Investor Relations website at www.csn.com.br/ir. 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 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. 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. Paulo Penido Pinto Marques, who will present on CSN's operating and financial highlights for the period. Mr. Penido, you may begin your conference.

Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Good morning. Good afternoon, depending on where you are. We'd like to make a brief introduction to our conference call. We have a presentation, a 12-page presentation. I will start on page three, please, where we present the highlights of our performance in the quarter. Summarizing all these points, we would like to say that our EBITDA margin came back to our traditional level above 45%. We had 46% in the Second Quarter of the year.

Our net revenue went up 22% comparing to the First Quarter of the year. This can be due to price and volume increase in our mining activity and also to price and volume increase in our steel -- domestic steel sales and some export sales of steel. We remain quite optimistic for the rest of the year. And we are also investing and we have invested BRL1.5 billion in the First Quarter -- in the first half of the year.

Providing some more details on our steel performance on page four, you can clearly see the higher volume, jumping from 1.26 million tonnes in the First Quarter to 1.3 million tonnes in the Second Quarter. You can see the revenue's increased and the result of the price adjustment that was made in the second half of the year. And we are preserving our high value-added mix of profits.

Now on page five, we can see the higher volume, better volumes in terms of products. And a jump in our net revenues coming from the mining activity as a result of the international price for iron ore that went up in a meaningful way comparing the first and Second Quarters of the year.

On a consolidated basis, you can see on page six our net revenues, reaching BRL3.8 billion in the Second Quarter of the year, approximately 20% of it -- sorry, approximately BRL1 billion in terms of exports and sales abroad and BRL2.86 billion of sales, domestic sales.

Our -- as we can see in these pie charts, 70% of our revenues in the Second Quarter came from steel and 22% from mining activities. So our core business at this point in time is 92% in terms of mining and steel activities.

On page seven, we can see the clear and very fast recovery of CSN. We took the worst quarter ever, that was First Quarter of '09, where we were fully impacted by the

international crisis. And how we could on a very fast way of how -- come back to the 40%, 46% level of EBITDA margin.

Explaining the EBITDA evolution from the First Quarter of 2010 to the Second Quarter of 2010 on page eight, we can clearly see, as I said that the steel revenues and the mining revenues are basically responsible for the increase in the EBITDA.

On page nine, we present our debt situation. We preserved the net debt-to-EBITDA ratio flat at 1.56 times comparing the First Quarter of '10 and Second Quarter of the year.

And understanding this leverage ratio on page ten, we can clearly see that the size of the net debt went up from BRL6.6 billion to BRL8.3 billion as a result of the investments, the capital expenditures that we did and the interest on capital that we have paid in the first half of the year. They were the major, I would say, cash outflows from the Company. And at the end of the day, they responded for this increasing debt.

On page 11, you all know the performance of the shares. We have preserved, I would say, a positive performance when comparing to the stock exchange, mostly Brazil and abroad.

And that's the introduction that I was looking for, for this conference call today. We are now open for the Q&A session. Thank you.

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Leonardo Correa with Barclays Capital.

Q - Leonardo Correa {BIO 16441222 <GO>}

Hi. Good afternoon. Thank you for the opportunity. My first question's for Jayme. Regarding basically the 2011 annual shipments guidance that you have now, basically, this is really a follow-up from the conference call in Portuguese. You revised downward slightly the guidance for 2010 now at 27, 28 million tonnes. So just to get your views on the latest updates for 2011 on the guidance of shipments. That's my first question.

Second question, Jayme, also for you, regarding the port expansion, if you can give us an update on how the project is evolving, basically the main challenges that you're facing to deliver and also now the expected timelines for port capacity going forward. So those are both of my questions. Thank you, very much.

A - Jayme Nicolato {BIO 7472801 <GO>}

Hi, Leonardo. Thank you for the question. Even considering the delays that we have faced in this 2010 year, we are keeping our guidance for 2011. Why we are keeping our guidance -- because as you -- that's related to your second question. We are at -- contract all the

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expansions up to 6 million tonnes per year capacity at the port. Then we -- okay. And the way to deliver that capacity, you cannot see this in our investment expenditure because the size of the amounts for the 45 million tonnes per year capacity is a very small investment to reach that capacity. We have finalized on that expansion. And for the 60 million, we are at -- had all the construction, all the equipment for the expansion, it will come as predicted. And our guidance for 2011 and 2012 are the same that we presented before.

And this year, we faced a lot of problems. We are in the process of changing one of the contracts in the maintenance of the port. We are in fact in-sourcing our maintenance. And the result on the performance of the port was impacted by heavy rains that we faced and also some problems during the operation. But that should not affect our expansion and our forecast.

At the mine site, we are finalizing the expansion from 40 million this year. And also, we are making all the preparations for the second phase of the expansion. We are doing all the land work. We are preparing for the constructions of the second phase of the expansion. That's why also at the mine because we are in the process of a startup of the 40 million and with this small investment in land works and have movement. That's why you cannot see it and track a very huge investment the CapEx. But the plans are as forecasted. And we will deliver the expansion as forecast for the next year. Thank you for your question, Leonardo.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you, Jayme. Just to confirm then. So for 2011, the guidance is around 40 million tonnes considering 100% of revenues. Is that correct?

A - Jayme Nicolato {BIO 7472801 <GO>}

That's correct, considering 100% Namisa.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay. And just to follow up, Jayme, please, the port capacity expansion of -- to 45 million tonnes, will that still be achieved in the first -- in the second semester of this year? Or has that been postponed to the first semester of 2011?

A - Jayme Nicolato {BIO 7472801 <GO>}

It will be achieved in the second semester of this year. In fact, we are predicting in July this year. But we will be reaching it at the end of this year, maybe October. That's our update on that expansion now. But it's -- it will be delivered as predicted in 2011, the full capacity.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you, Jayme.

A - Jayme Nicolato {BIO 7472801 <GO>}

Thank you, Leonardo.

Operator

Your next question comes from the line of Carlos De Alba with Morgan Stanley.

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

Yes. Good morning. Thank you, very much. I would like to understand a bit better how much of your iron business is done in export prices. How much is under the new benchmark system of quarterly revisions because I think when we looked at the numbers, the average price despite a 44% increase quarter on quarter that we calculated it is still a little bit below what we saw in the benchmark prices. That would be one question.

And the second question would be if you can talk a little bit about the margin that you are seeing in your different businesses, the mining business, the steel business. And the infrastructure business if we looked at them separately. Thank you.

A - Unidentified Speaker

Carlos, thank you for the question. This is Ricardo Bromossi speaking. Carlos, we -- okay, we have our sales, okay, very much based on long-term contracts, okay. And selected clients, okay, first-class clients. So most of our sales have been done on quarterly prices. And if, okay, the smaller amounts that we are having on spot prices are, let's say, maybe some low-quality material, okay, that we have to place one shipment here, another there. But most our sales now is being carried out under contracts and quarterly prices.

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

Okay. Thank you. And could you comment about the margin in the iron business standalone and then also what you're making in steel and in iron ore -- sorry, steel and infrastructure? And maybe this is a question for Paulo or Ricardo.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Yes, I can, Carlos, no problem. Just to give you a sense of the Second Quarter of 2010, our steel business had a margin of 45%, remembering that we buy iron ore at cost because we, up to now, (inaudible) consolidated in CSN. Our mining business had a margin of 65%. Our logistics business had a margin of 46%. Our energy business had a margin of 61%. So all in all, our EBITDA margin was 46% doing a weighted average cost considering all this.

A - Jayme Nicolato {BIO 7472801 <GO>}

Carlos, this is Jayme speaking. Just a comment on top of Paulo's, speaking that our margin in mining is a consolidate margin. Of course, our margin at (inaudible) business is higher than Namisa, okay, just to mention that.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Yes, in the mining business, we know that Namisa margin is a little bit below average (inaudible) margin. We all know that the different lines -- Namisa has four sites. CSN has just one but is more synergies than Namisa business (inaudible). But it's normal. At the end of the day, our margin in this range.

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

Thank you, Paulo. Thank you, Jayme. Thank you. Just a final question, Paulo, maybe on the tax rate. It's starting to increase. But it's still around 19%, the effective tax rate that we saw in the quarter, way below what we have seen in prior years. What should we look forward in the next -- in the upcoming quarters and maybe into 2011? Do you expect the tax rate to normalize?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Okay. Our controller Onjario is here. So he can talk a little bit about our margin.

A - Unidentified Speaker

Talking about ETR, effective tax rate, exactly?

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

Yes, that's correct.

A - Unidentified Speaker

Actually comparing two quarter with the First Quarter, we had very a low ETR in the First Quarter, considering the gain we had in the receipts, the program mentioned the First Quarter. But in the Second Quarter, the ETR should be always around 16%.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

So in other words, we have a benefit of the (inaudible) program, which is this refinancing of tax problem that was available from the Brazilian government. And it may not repeat in the future. So it's a one-time event, yes.

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

Okay. So you see probably the effective tax rate climbing close to 30% or so?

A - Unidentified Speaker

Yes, we expect to have around 15%, 20%.

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

15%, 20%. Thank you, very much.

Operator

Your next question comes from the line of Rene Kleyweg with UBS.

Q - Rene Kleyweg {BIO 16569285 <GO>}

Afternoon, gentlemen. A couple of things. One, could you talk a little bit more about the state government import incentives that you refer to in the press release? And I understand -- also a little bit more on Transnordestina, where we've seen a significant pickup in investments, maybe provide a little bit more guidance or an update on your expectations in terms of revenue generation expectations there medium term and margin potential out of Transnordestina.

A - Unidentified Speaker

Okay. Martinez is our Commercial Director. He can talk a little bit about these incentives.

A - Luis Martinez {BIO 17456025 <GO>}

Rene, regarding to the imports here in Brazil, obviously, we were talking during this morning. In the case of CSN, we are saving a lot of -- I could say a lot of -- a kind of dumping in the coated products. If you take into account hot-dip galvanized, Galvalume, coil-coated. And tinplate, we are suffering from a lot from this type of pressure in Brazil.

But on the other hand, just to add to this point, we have also some state incentives, mainly in some ports. And according to our negotiations with some federal institutions, we are trying to understand and what we could do trying to fight against this type of incentive because it's very dangerous for our industry. It's very, very dangerous for our market. And no matter if the price is going up and down, they have more than 9% just for these incentives. So obviously, we are going to try fight against these type of incentives. I don't know if exactly your question is related to this incentive or import tariffs.

Q - Rene Kleyweg {BIO 16569285 <GO>}

It was directed at the reference in the press release about the state incentives. So I guess you're talking about the port incentives. Does that relate to the -- the import tax is a federal tax, right? So we're -- are we talking about the port taxation plus subsidies on ports and port handling costs? Or what are we talking about?

A - Luis Martinez {BIO 17456025 <GO>}

Just to give you some example, if you take into account no incentives in the Brazilian ports, we are working the hot band, hot rolled coil in Brazil with a premium over imported nationalized, something like 23%, 24%, or even 25% over the imported landed in Brazil.

Some states in Brazil in addition, this is a federal -- obviously, we have import tariffs, a federal import taxes. In the case of the states, in addition to this difference, we have more 9% or 10% regarding to a state incentive in VAT. So this is the problem. And we are trying to face this problem, trying to understand what we can do to avoid this type of competition here in Brazil. I don't think it's fair. And also, we have --also take into account that in the case of coated products, we have some kind of dumping products in Brazil. But

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we are studying these prices. And we are trying to understand better this type of taxation right now.

A - Unidentified Speaker

Okay. Rene, I understand you also want to know a little bit about Transnordestina, right?

Q - Rene Kleyweg {BIO 16569285 <GO>}

Yes, please. Thank you.

A - Unidentified Speaker

Yes, Transnordestina is planned to be a 50 million tonne transportation company when it will be operating at full capacity. We expect that the first major part of the railroad to be ready -- to be completed, the execution or the construction by the end of 2012. So this number may -- there will be a ramp up. So best case scenario is 30 million tonnes may be being transported in 2013. Considering expected cost of transportation, it may be a \$1 billion company in terms of net sales in 2013 or maybe 2014.

If I may give you a very brief update on what's going on in Transnordestina, it is a BRL5.4 billion investment, where we have already contracted BRL3.5 billion in terms of contractors and equipment being bought and all this. So more than half is contracted. In other words, out of the 1,728 kilometers, 1,150 is being constructed right now. We have approximately 80,000 people working there. It's a major I'll say work that's being developed in the northeast of Brazil.

And just to add a final comment, the cost per kilometer is around BRL3 million, which is one of the lowest in the world at this moment for this type of construction. So it's -- repeating, a \$1 billion company in terms of net sales for two years from now. At this point in time, we are building.

Q - Rene Kleyweg {BIO 16569285 <GO>}

And then just to clarify if I may on the BRL10 million per kilometer, is it mostly upgrade? Or is it basically effectively replacing the entire network with new lines? There's just no clearing work.

A - Unidentified Speaker

We are building brand new railroads, world-class railroad. That's the cost. It's BRL3 million per kilometer.

Q - Rene Kleyweg {BIO 16569285 <GO>}

Thank you.

Operator

Next question comes from the line of Alex Hacking with Citigroup.

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Q - Alex Hacking {BIO 6599419 <GO>}

Good morning, everyone. Thanks for taking the call. Just to follow up on Carlos's question earlier, just to clarify that the EBITDA margin in steel was 45% and in mining was 65%, did I hear that correct?

A - Unidentified Speaker

That's correct.

Q - Alex Hacking {BIO 6599419 <GO>}

Okay.

A - Unidentified Speaker

That's right.

Q - Alex Hacking {BIO 6599419 <GO>}

Okay. How -- I guess the question is how does that come to an average of 46%? It would seem like CSN weighted average would be higher than 46% if steel is the lowest at 45%.

A - Unidentified Speaker

We have to take into consideration all the corporate costs, I would say the costs that we have, management in terms of -- and also the cement business that we are starting up right now. Our EBITDA margin the cement business is still 6%, very low. And it's natural because it's starting. This is a business that will have an EBITDA margin ranging from 30% to 35% in the future. But as we are starting right now, it's still low. And that's it. That's a precise number. At the end of the day, if you round up all the activities of the Company, we have this EBITDA margin of 46% on a consolidated basis.

Q - Alex Hacking {BIO 6599419 <GO>}

Thanks. Thanks very much for the explanation. The second question would be on the outlook for the steel price. In the Third Quarter, you'll obviously benefit a little bit from price increases implemented during the Second Quarter. Are you planning any further increase in the Third Quarter? Thanks.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

We don't think so. We -- in the Third Quarter, we will have the residual impact of the price adjustments that were made in the Second Quarter of the year. As you know, there were price adjustments ranging from 10% to 12% in the Second Quarter. If you compare the average price increase from the first and Second Quarter, there was an increase below 10%. So there is some -- still some impact that we'll be seeing in the Third Quarter. But considering the market, we are not planning further increase in price in the domestic market for the Third Quarter.

Q - Alex Hacking {BIO 6599419 <GO>}

Great. Thanks, Paulo.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Thank you.

Operator

Next question comes from the line of Marcos Assumpcao with Itau.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Hi. Good morning, everybody. Congratulations on the results. My first question is regarding Namisa sales volumes for 2010. Can you guys provide a guidance for what is the target volume for Namisa for 2010 and also for 2011?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Okay. Namisa for 2010, the expected volumes will range from 18 million to 19 million tonnes. That's where we plan to be in terms of full sales of Namisa. And it is our plan to keep on growing Namisa a little bit for the following year. But not very much, maybe around 19 million, 20 million tonnes, too early to say.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. But, Paulo, is there any target between -- or target or contract between the Japanese consortium and CSN related to these iron ore volumes for 2010 and '11?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

No, the -- our shareholders, they came to us. We have a business plan that we are respecting. This business plan includes a number of CapEx or capital expenditures and a number of efforts to buy iron ore from (inaudible) and to resell it and also to do the process. So we are working as close as possible to the business plan in order to deliver what was I would say agreed. But they know, as we know that when we enter as a (inaudible) holder (inaudible) in a company, there are risks, commercial risks, market risks, things like that.

In addition, we have a stake agreement. So we have some sales that we plan to do. But they are below this level of sales that I am telling you.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay, Paulo. And on the investments and the CapEx of Namisa, where can we find them in the breakdown that you provide every quarter in your press release?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Good question. Where can I find Namisa?

A - Unidentified Speaker

Hi, Marcos. This is David. In order to give you an idea, every quarter, when you're reading our results, we include what we are selling in CSN and what we are selling in Namisa. That means that you have all the ways, you have all the correct calculation on these. And we maintain clearly the results of both companies.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Just one follow-up question on the EBITDA margin per business, on the margin of steel of around 25% is considering what kind of purchase of iron ore, at market prices from CSN or at cost?

A - Unidentified Speaker

At cost.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. So the margin on the iron ore business should be even higher if it was to be marked by market prices, right?

A - Unidentified Speaker

Making a back-of-the-envelope calculation, EBITDA margin would be 40% for the steel business and 70%, just back of the envelope, very brief calculation if we transfer this, I would say, margin from one side to the other side of the business, maybe a little bit in excess of 40 -- 70% for mining and around 40%, a little bit below 40% for the steel business.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Thank you, very much.

A - Unidentified Speaker

Thank you, Marcos.

Operator

(Operator Instructions) Your next question comes from the line of Rodrigo Barros, Deutsche Bank.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Good morning, gentlemen. I have just one question. Regarding the CapEx for mining that it's on CSN's corporate presentation, it's roughly BRL1.4 billion over a seven-year period from 2010-2016. That would imply an average spending of roughly BRL400 million per quarter. I wonder if you could hint us when we are going to see a speed up in the CapEx in the mining segment to procure that guidance based on the conference presentation. Thank you.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Okay. (inaudible) to answer this question. And then I will ask Jayme to add some more thoughts or comments on it. It is our plan to spend BRL700 million in mining this year in terms of CapEx. And you may ask, oh, it's below expected. But it's not. Jayme can explain it to you, please.

A - Jayme Nicolato {BIO 7472801 <GO>}

Hi, Rodrigo. As you know, we are maturing our investment in the 40 million tonnes at Casa de Pedra and also the expansion of 45 million tonnes at Itaguaí Port. And the expenses for these expansions, they are maturing. We are at the end of the process. And there is very low expenditure on these investments.

And for the next steps, we -- our hired the expansion for 60 million tonnes per year at the port. And we'll see this increase in the expenditures of investments at mine for the next quarter beginning of next year and also the expansions of Namisa and the expansion of the next phase of Casa de Pedra in the next year because at the Casa de Pedra and Namisa now, we are in the beginning of the F moving, F works for the second phase to be the civil constructions and all the acquisitions of the equipments.

And the expansion we deliver as forecast. And that's why you're not seeing so much investment in mining at this moment. But make sure that we are underway to reach what was forecast. Thank you.

Q - Rodrigo Barros {BIO 5851294 <GO>}

That's good news. Thank you, very much.

Operator

Next question comes from the line of Marcelo Aguiar with Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Hi, Paulo. A follow up on Transnordestina--can you remind us what -- how you're going to do the -- I mean, finance this CapEx in terms of (inaudible) equity. So including that between you and BNDS and which is the stake of each of you, the government?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Okay. In terms of the BRL5.4 billion planned that we have for Transnordestina is divided in BRL1.3 billion of capital coming from CSN, 700 -- let me give you BRL165 million from Valec. And BRL823 million from FINOR. So 40% of the total will be capital. At the end of the day making all the adjustments, CSN will end up with 75% of capital and the government with 25% of the capital.

In terms of financing, your question -- so it's 40% capital, 60% financed. We have three sources of financing, BNDES and the SDNS, which is the development fund for the northeast of Brazil. And the FNF--sorry, FNE. Altogether, the main source will be this fund

for development of the northeast. This I would say financing is coming from the government (inaudible) as expected. We are having this financing. And we are funding the Company with the financing from the federal government and our capital.

And repeating, we are talking about BRL1.3 billion of capital being injected by CSN over the period of time of 3, 3.5 years, which is quite comfortable for us.

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Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. Okay. Fair enough. On -- getting back to the other CapEx, do you have any figure to tell us for 2011 already?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

For CapEx in terms of the Chino?

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Sorry, for the whole company, consolidated company, just if you can tell about the business.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

For consolidated figures is BRL3 billion to BRL3.5 billion. Next year will be around BRL3.5 billion to BRL4 billion. That's what's in our budget for next year.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. Fair enough. Thank you. Thank you, Paulo.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Thanks.

Operator

Your next question comes from the line of Carlos De Alba with Morgan Stanley.

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

Yes, thank you very much. Just to want to have a follow-up question. The Brazilian economy has certainly been quite strong year to date. But in the last few months or weeks, we have seen a slight drop in retail sales. Consumer confidence has come down, as well as industrial production has slowed down. So I wonder if you have seen any negative evolution in your order book, if your clients are buying a little bit less for the second half of the year than they did for the first half. Any comments on that would be appreciated. Thank you.

A - Luis Martinez {BIO 17456025 <GO>}

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Hello, Carlos. Good morning. This is Luis Martinez speaking. Regarding to market, Carlos, being very straight to the point, we are forecasting to have a growth in the whole market, the flat steel market, around 25% to 30%. If you take into account the first half of the year, we are around 3.9 in Second Quarter and 2.3 or 2.4 in the First Quarter.

So we are not forecasting to have any bad market in the Second Quarter because obviously we are facing some problems in the case of distribution markets. They bought a lot of inventory. They bought a lot of steel from imported. And we are going to face some realignment in the inventories during August and September.

But in the case of CSN, we have to take into account that we have another very strong market in Brazil, like building products and tinplate markets. So building products and also building construction in Brazil is growing in a range of 10% to 12% a year. And we are going to capture obviously all this growth in Brazil.

In the case of tinplate, for example, we are going to have a very good second half of the year. And for other markets, like auto industry, for example, (inaudible) still keeping the same forecast, around 3.4 million cars in a year.

Another very important market for CSN is home appliances and white goods. Obviously, they are suffering a little bit in June and July due to the seasonal year. But now we are in a ramp-up basis right now. From now to the end of this year, we are going to experience some other growth in the markets.

Our challenge, Carlos, instead of selling -- in the case of CSN, our major target here instead of selling steel coils in metric tons, our major challenge is to sell solutions or engineered parts in pounds or even in footage or meters. So in the case of this profit market, for example, take into account that we are going to have not only flat products but roofing facades, rebar, steel colors (inaudible). We would like to develop a kind of distribution and a kind of channel in Brazil that allows customers to have a kind of one-stop shop. So this is the reason we would like to move this type of commercial standpoint.

In the case of auto market, for example, instead of growing in capacity, we are growing in services, in service centers in GalvaSud. And just to give you some numbers, we are more than -- we are now working in the range of 3,000 metric tons of engineered parts. And we are going to move to 12,000 metric tons a month from October to the end of this year. So this is our strategy. We are not forecasting to have any major problem in the market the second half. And we are very well prepared due to our strategy, not to put all the eggs in the same basket. We would like to capture all the value in the market from now until the end of this year.

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

Thank you, very much, Martinez. And my final question will be maybe for you, Paulo. The SG&A -- sorry, G&A expenses in the quarter increased by BRL20 million. And this, according to the release, was due to the collective bargaining agreement that you reached in May. Is this a one-time expense? Or should we see this on a recurring basis going forward?

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A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Hold on. Hold on just a second. I'm checking with people here. I don't have this detail right now here. Yes, we will make a comment in our press release regarding this, I would say, SG&A movement. We had a salary adjustment for our employees. And we are now intensifying our CapEx program. And as a result, we are using a little bit more external service providers. I would say that to be conservative the current level of SG&A maybe is kept for the coming quarters.

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

All right. Thank you, very much, Paulo.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Okay. I have a question here before we go to the next question from the webcast. It's from Mr. Eric Olive. And he's asking about -- his question is very -- I will read it. Given to the continued strong results as well as the restraint shown on the investment problem and any M&A project over the last few years, why does Moody's and S&P continue to rate the Company below investment grade? What is in the -- report to what are they looking for -- maybe I got the wrong spelling or the wrong wording here.

So if you check all the CSN (inaudible) CSN ratios and the size of CSN and importance of CSN in the domestic market in Brazil and in the international mining, iron ore mining market, CSN is clearly an investment grade company. However, the rating agencies are being cautious to upgrade us, expecting to see our movements in the M&A area, to see the impact of these. That's my reading of their report. I recommend to read the report if there is any difficulty in getting Moody's or S&P report, we can show you or we can send it, no problem.

There is a complement on his question. He also asks about if there are any plans to call the \$750 million perpetual note. And our answer is that we are currently analyzing the option to exercise this co-option. It's available on a quarterly basis. And I have no decision to announce right now. But it's something that we are clearly announcing -- sorry, considering right now. Thank you.

Operator

Next question comes from the line of Christopher Buck with Barclays Capital.

Q - Christopher Buck {BIO 15134624 <GO>}

Hi, thank you. I'm wondering if you can discuss the international expansion plans a little bit more. I know that they were discussed on the Portuguese call. But can you give us an update in terms of how you're thinking about those plans at this point? Thank you.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

You have asked -- the connection was not very clear -- about our international movements. Is this right?

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Q - Christopher Buck {BIO 15134624 <GO>}

Yes, exactly, what your plans are for international expansion moving forward and how you're approaching that process at this point.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Okay. We do have a plan to have more international presence. That was clearly announced in the past. We -- as everybody knows, most -- almost all our operation is located in Brazil. We have some minor operation in Europe and in the U.S. And then we want to expand it. The focus, as announced by our Chairman, is to have some presence in Europe and some more presence in the U.S. In the western part of Europe and the eastern part of the U.S., that's the preference but it can be -- it's not mandatory. If there is an opportunity, good opportunity in other areas, we can consider it.

So the Company is considering to buy participations or to buy the control of companies in our core business areas, mostly in the steel-making area and the cement-making area, because you know that the mining -- the good mines for iron ore are located in Brazil.

So CSN may have or may or may not have, depending on the opportunity -- we are highly disciplined in analyzing the return and the cost of any M&A movement in Europe, mostly in Europe. And in the U.S. And it may happen, let's say, in a short period of time. But at this point in time, we do have -- we cannot announce anything because we don't have any process, any major process being conducted right now.

Q - Christopher Buck {BIO 15134624 <GO>}

I'm sorry. Just to confirm, you do have some things under discussion at the moment, or you do not?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

We do not have. We are, of course, analyzing things. But we do not have anything to announce right now.

Q - Christopher Buck {BIO 15134624 <GO>}

Okay. And then if you can also just give an update in terms of the possible sale of part of the iron ore unit and possible IPO and any update on the timeline in terms of when there may be additional developments there.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Yes, we took the decision to negotiate with our minority shareholders of Namisa, a merger between our mine Casa de Pedra and Namisa. This process is going very well. We are in the middle of the negotiation process. It takes time. So I can't be precise now on when we may do this IPO of Casa de Pedra. It can happen in the next 12 months or in the next six months, depending on these negotiations.

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We have seven Asian shareholders in Namisa. And we do have to respect their, I'd say, timing, their processes. And the legal environment in each country. So it takes some time. But I can tell you that we are optimistic about the negotiations. It's going to be a win-win situation, better for them, better for us. And better for all shareholders at the end of the day.

Q - Christopher Buck {BIO 15134624 <GO>}

Okay. Great. And finally, you touched on the possibility of refinancing the perpetual notes. Any other comments? You did issue a bond earlier in the Third Quarter. And I'm just wondering if you have any other comments about possible usage of cash and/or financing plans that you may have.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

In terms of financing plans, we are done for the year and basically done for next year. Of course, there are some normal disbursements from BNDS for our activities in front, official banks for our disbursings, for our CapEx programs. But I'll say the big deals were done for this year. And so we have no other plan of doing a major deal in the short term.

Q - Christopher Buck {BIO 15134624 <GO>}

Great. Thank you, very much.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Thank you.

Operator

I'll turn the call over to Mr. Paulo Penido for closing remarks. Mr. Penido, please go ahead.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Okay. I would like to thank you all for participating in this call and to remember that our Investor Relations team is available for any further questions. Thank you.

Operator

-- today's CSN Second Quarter 2010 earnings conference call. You may disconnect your lines at this time.

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