Q3 2007 Earnings Call

Company Participants

- Jose Marcos Treiger, IR
- Luis Martinez, Commercial Director
- Otavio Lazcano, CFO

Other Participants

- Carlos Aqus, Analyst
- Denis Parsian, Analyst
- Felipe Hays, Analyst
- Marcelo Agular, Analyst
- Unidentified Participant, Analyst
- Victoria Santailla, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to CSN's Third Quarter 2007 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 a listen-only mode during the Company's presentation. After the Company's remarks are over, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions).

Before proceeding, let me mentioned that forward-looking statements are being made under the safe harbor Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of CSN Management and the information currently available to the Company. They involved 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 and (inaudible) and other operating factors could also affect the future results of CSN and could cause results to differ materially from those expressed in such forward-looking statements.

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

Jose Marcos Treiger

Good morning, ladies and gentlemen. I would like to thank you all for attending another of our conference calls during which we will analyze together the Company's results in the Third Quarter and the first nine months of 2007 as a whole. And I would like also to ask you please, we do apologize our delay in beginning this conference call due to a small technical problem, fortunately already solved.

As always, our call will be divided into two parts; firstly, we'll be presenting some slides relating to the periods and then we will move on to the question-and-answer session, during which we will be joined by our Executives.

Having said that, let us move straight on to slide number two please. Well here you can see our disclaimer regarding forward-looking statements. And we would ask you to please read it carefully. And so now let us begin the presentation itself with slide number three, which deals with the outlook for the global steel sector.

Despite steel (inaudible) and the capacity increases in China and elsewhere, it may well be that the positive trajectory is still in its initial stages, especially in the case of flat steel. The main factors driving this growth are the expansion of the markets themselves, the urbanization of China. China's urban population looks set to increase from the current 0.5 billion to 1.0 billion in just 10 to 11 years. The information technology revolution and the break of capital discipline on the part of the steel producers including the definition of the (inaudible) portfolios, capacities. And markets.

The fact is that between 1974 and 2004, the average price of flat steel hot roll coils was hovering around R$1,300 a ton. Between then and now, however, the price has practically doubled. If you look at the price graph between 2004 and today, you can see that the price line has an angle of around 45°. (inaudible) is showing a similar trajectory between 2000 and 2007, EBITDA per ton moved up by close to R$60 a ton to around R$150. It might also be worth remembering that global GBT was around R$30 trillion [ph] in 1995. Now, it's closer to R$50 trillion [ph].

Simultaneously, global inflation fell from 15% per annum to just 3.5% in 2006. And one more important comparison; in 1995 Chinese GBT totaled R$730 billion; by 2006 it around R$3 trillion [ph].

Well the new variables for producers outside China include, amount others, growing global demand, weighted consolidation, growing scarcity of raw materials against a background of strong steel demand. And a reduction in the so-called Chinese threat, due to a number of factors, including the appreciation of the local currency, the imposition of export restrictions there, policy geared towards improving environment and increased factory consolidation even in China.

Next year, we believe the likely increases in maritime freight charges and the price of the main imports could very well force international steel makers to raise their own prices in order to preserve their operating margins. Given such a scenario, CSN should do exceptionally well considering its self-sufficiency vis-a-vis the main production imports, especially iron ore.

Let us move now to the next slide, number four, where we have some observations on the Brazilian steel scenario. The (inaudible) Central Bank survey, the Brazilian Central Bank in September '07 increased the average GDP growth forecast for 2007 from 4.5% to 4.73%. According to the FGV, the Getulio Vargas Foundation, installed capacity use in the first half of 2007 averaged 86.1%, the highest level in 30 years in Brazil. The flat steel market recorded substantial growth in the Third Quarter with sales volume moving up 18% year-on-year led by high consumption from the automotive, capital goods, construction. And semi-finished and home appliance and low EOM sectors.

Year-to-date sales volume increased by 17% over the first nine months of '06. In the first months of 2007, construction moved up, the construction sector moved up a substantial 11% year-on-year. And the outlook for this segment is at the same level.

The (inaudible) underlined by the recent growth in public works and the surge in low-cost housing. The distribution segment also did very well in the Third Quarter. And for driving the sound performance of the Brazilian (inaudible) sector.

Other top performers included machinery and equipment with year-on-year growth of 28% in the first nine months of the current year. Agriculture did quite well, with prices and outputs both moving up. The (inaudible) goods sector estimates sales growth of more than 10% in the Fourth Quarter of 2007 over the Fourth Quarter of '06, accompanied by a 20% upturn in retail sales.

The automotive sector including auto parts has recorded successive increases in domestic sales measured by the number of licensed vehicles. Between January and September, it recorded year-on-year growth of 27% with sales of R$1.74 million light vehicles, trucks. And buses. ANFAVEA, the National Vehicle Manufacturer's Association in Brazil, expects an annual increase of 25%, which in record sales of almost 2.5 million units, 2.4 million units to be more exact.

On slide number 5, we show some of CSN's Third Quarter highlights, including among others the fact that CCSN posted net income of almost R$700 million, 699 to be exact, in the Third Quarter of 2007, 109% more than in the Third Quarter of '06. Net income in the first nine months totaled R$2.4 -- almost 2-and-a-half -- billion, 123% up year-on-year. And a new Company record.

Crude steel production moved up 10% from 1.3 million tons last year to 1.4 million tons in the Third Quarter on the current year. Fourth quarter steel production sales volume totaled 1.3 million tons, representing a growth of 7% over the same quarter last year. Year-to-date sales volume came to 4 million tons, 24% up on the first nine months of '06. And another Company record. Net revenue amounted to R$3 billion in the Third Quarter, 14% up in relation to the Third Quarter last year. And R$8.4 in the first nine months, also a new period record. And a year-on-year improvement of 30%.

EBITDA stood at R$1.3 billion in the Third Quarter, 43% above the Third Quarter of '06 figure. And R$3.6 billion year-to-date, also a historical record. The consolidated Third Quarter '07 EBITDA margin came to 44%, 9 percentage points up on the same three months in 2006, while the Parent Company's margin exceeded 51%, up by 14 percentage points year-on-year.

Slab production costs averaged US$26 a ton in 2007 through September, despite the very important 15.0% appreciation of the Brazilian Real in the last 12 months, once again maintaining CSN as one of the most competitive and profitable producers in the global steel industry.

On the next slide now, number 6, we'll be commenting on our Third Quarter sales and revenue. CSN's crude steel production totaled 1.39 million tons in the Third Quarter of '07, 10% up year-on-year and 4% higher than the previous quarter. Total year-to-date sales volume was up 24% over the first nine months of last year.

In the Third Quarter, total sales domestic and export stood at 1.35 million tons, 5% down on the Second Quarter of '07. In year-on-year terms, however, declined 7% strictly due to strong domestic demand for the Company's products. Domestic market sales totaled 967,000 tons in the Third Quarter of this year, or 6% up on the previous quarter reflecting the healthy commercial scenario triggered by the (inaudible) economy. In year-on-year terms, sales moved up by an even bigger 22%. Strategically. And due to the strong demand in Brazil, Third Quarter exports (inaudible) by 25% over the Second Quarter of the current year to 382,000 tons, thereby ensuring better margins for the Company.

On the next slide, number 7, we show a breakdown of our sales by product and net revenue by segment. The sales on domestic price increases that began in June '07 was concluded in the Third Quarter, with rolled products moving up by between 4% and 6%. In comparison with the Third Quarter of last year, hot-rolled and galvanized prices climbed by 12% and 15% respectively.

Average export price in (inaudible) has remained flat, even absorbing the current currency appreciation. CSN recorded a 36% share of the domestic flat steel market, hot-rolled, cold-rolled, galvanized and 2 new products, 1% up on both the Second Quarter of this year and the Third Quarter of last year in its highest quarter this year in 2007. Steel sales accounted for 82% of total net revenue in the Second Quarter, while mining contributed with 8% -- I mean in the Third Quarter.

Let us move now to the next slide EBITDA and EBITDA margin in R$. Third quarter EBITDA total R$1.3 billion, 43% up year-on-year and R$24 million more than in the Second Quarter of '07. Year-to-date EBITDA came to R$3.6 billion, 66% higher than the first nine months of 2006. The consolidated EBITDA margin stood at 44% in the Third Quarter, an improvement over the 43% recorded in the Second Quarter of '07. Between January and September, the margin moved up 9 percentage points year-on-year. The Parent Company's EBITDA margin reached a hefty 54% in July '07.

The next slide, number 9, shows our growth in net debt in the last two years. CSN's net debt increased from R$5.472 billion at the end of the Second Quarter of '07 to R$5.617 billion on September 30, 2007. This increase was basically due to the following factors; payment of R$685 million to CSN shareholders at the remaining balance of dividends and interest on equity (inaudible) 2006 by the General Assembly meeting of April 30, 2007.

The acquisition of CSN in July '07, which involved disbursement of R$656 million; investment of R$416 million from the Third Quarter of this year; payment of income and social contribution to access the upcoming more than R$350 million. However, this effect was partially offset by an EBITDA of R$1.3 billion in the Third Quarter; the freeing of R$364 million in judicial deposits for the payment of dividends in September/07; the reduction in the average annual cost of the debt resulting in a decline of around R$260 million; the recession of a further R$73 million as advances from insurance relative to the Blast Furnace #3 claim; the net debt to EBITDA ratio measured with the last 12 months EBITDA continued its downward trajectory in place since the end of 2006, falling from 1.74x in December '06 to 1.27x at the close of September '07.

The Company's cash and cash equivalents are sufficient to amortize the principal of the debt until 2012. And the average maturity of the debt is more than 12 years.

Now moving ahead to slide number 11, CSN recorded, as you know, a net income of almost R$700 million in the Third Quarter, comparing with the Second Quarter figure of R$952; net income fell by R$263 million due to the following reasons; positives -- Treasury operation gains of approximately R$132 million; the positive impact of R$64 million in income and social contribution taxes due to the better performance in the Second Quarter; and a R$44 million reduction in distribution costs.

Negatives; non-recurring reversal of $328R million in provisions for PIS/COFINS taxes just in the Second Quarter of this year; a complement of $139R million to the provision for presumed IPI tax credits on raw materials acquisitions, as part of the request to the Brazilian IRS for the tax debt to be deferred into installments; and a reduction of R$26 million in gross profit.

Let us start now a new section on Mining. This is being shown now, the partition slide is the slide number 11. As we know, the iron ore market remains excessively robust. Growing demand for the raw material in Brazil and worldwide, especially in China are pushing prices up to record highs, with recent annual increases of 9%, 19%. And almost 72% between 2003 and 2006. And market analysts are forecasting for 2009 between 25% and 50% or even more. Virtually, as soon as the mineral is reground, it is sold in this scenario. And the same scenario looks set to continue for some years to come.

It is prospects like this that have reinforced CSN's plans to quadruple iron ore production by the end of the current decade. This is a project that will (inaudible) resources of around R$2.8 billion (inaudible) in with the Company has already invested around R$620 million.

Let's more on now to slide 12 where we have some of our mining sectors tiers; production from the Casa de Pedra Mine totaled 3.87 million tons of iron ore in the Third Quarter of this year, 322,000 tons less than in the previous quarter. Year-to-date production came to 11.71 million tons. Also in the Third Quarter, Nacional Minerios produced 1.27 million tons through its subsidiary, CFM.

The Presidente Vargas Steel Mill absorbed 5.27 million tons of Casa de Pedra's year-to-date output. And the Third Quarter consolidated iron ore sales volume totaled 3.31 million tons, 69% up on the previous three months basically due to increased sales by CSN and NAMISA's higher share of sales, following the acquisition of Companhia de Fomento Mineral, CFM.

In the first nine months, iron ore sales volume reached 6.54 million ton. The domestic market absorbed 51% of this total, equivalent to 3.36 million tons and exports have accounted for 49%, or 3.18 million tons.

At the close of the Third Quarter, consolidated iron ore inventories, including those from CFM, stood at 12.36 million tons.

The next slide is number 13 where you can see the project schedule. With mineral resources of 8.4 billion of high grade, or 1.6 billion of (inaudible) proven reserves, Casa de Pedra has current annual production capacity of 16 million tons. And (inaudible) to increase its capacity in stages until it reaches 65 million tons at the end of 2010. As a result, we are going to need palletizing plants, which are scheduled for startup in April of 2010.

At the same time. And as an integral part of our mining product, we are expanding our operating and handling capacity in our Port of Itaguai in the State of Rio de Janeiro where our current (inaudible) capacity if 70 million tons per year. We expect to raise this year to 30 million tons next year. And to reach 70 million in less than four years.

The next slide is number 14. And here you can see on it the CapEx for the iron ore project, which includes the Casa de Pedra Mine, its expansion, the palletizing plant and the Port of Itaguai. And it totals 2. -- almost $2US.8 billion -- $2US.77 billion. (inaudible), we have already invested around $620US million in this program. And positive debt has absorbed 1.64 billion -- I mean (inaudible) of 1.64 billion -- palletizing unit $440US million. And Itaguai Port around $700US million.

On the next slide, number 15, we show our planned iron ore production and sale figures for 2008 onwards. The next slide shows our iron ore production, the consolidated figures. And for 2008 and onwards. The production figures refer to volume produced by Casa de Pedra and Nacional Minerals and NAMISA, our new subsidiary. NAMISA's output includes depth of the recently-acquired CFM and it also (inaudible) for mining companies nearby or in the proximity of Casa de Pedra.

As you can see, our planning indicates total 2008 sales, including supplies to our new Volta Redonda of around 38 million tons. It is our intention to successfully implant an important new mining business for CSN and its shareholders that will reach sales of around 85 million tons a year by 2012. And around 82 million a year thereafter. Of this total, we expect (inaudible) close to 63 million tons per annum. \ In order to demonstrate our progress, we will now show you some highly informative -- so we expect photos and diagrams starting now on slide 17; I mean this is the next slide is slide 16, I'm sorry. So on slide 16, as you can see, we are showing a panoramic view of the Case de Pedra Mine, which gives you an idea of the sheer size of this complex, especially the main pit and the western pit, which are already being explored. We plan to have additionally 3 new pits to be explored.

Let us move now to slide 17 if I'm not wrong. Here you can see a number of equipment, excavators. And very new offload trucks and equipment operating in Casa de Pedra. And now we can move on to slide number 18. On this next slide, it is our last mining slide with a picture; you can see the work going on in the main pit. And we believe it (inaudible) lots of activity in this main pit.

Well on slide 19 now, what you can see is a (inaudible) model of the future palletizing plant in Casa de Pedra. And this unit, as I explained, is scheduled for startup in April 2010.

On the next slide, number 20 they're using an aerial photograph for our Port in Itaguai, State of Rio de Janeiro. As everybody knows, CSN runs 2 maritime terminals in Rio de Janeiro State; the (inaudible) terminal called (inaudible) in the Port of Itaguai. As I have already mentioned, we plan to expand (inaudible) in order to provide support for our iron ore exports. And it already has installed moving capacity of 70 million tons per year, which it reached already in 2007. And if we highlight the existing tiers -- moving now to the next slide, we can see the terminal's expansion and adaptation works; that will last from 2007 to 2012 when we should reach an annual shipping capacity of 70 million tons, consolidating at Itaguai is one of the most important port complexes in the country. And the photo shows the existing piers and the new one to be construction.

Let us move now to a new sector, long steel. We have here now a series of slides on our long steel project beginning with slide number 22. The long steel plant marks CSN's entry into a new business segment. Our intention is to install equipment capable of producing 500,000 tons per year of rebar and wire rods, mostly geared towards domestic markets, especially industry and construction.

As we can see here on slide 23, we will invest R$113 million in the new plant, which will involve the construction of a (inaudible) comprising an electric furnace, a little furnace, a (inaudible) furnace. And a high-speed continuous casting mill. Around R$70 million will go earmarked the environmental control system associated with this project. And now let us go to slide 25, if I'm not wrong.

No I'm sorry, slide 24; on slide number 24 you can see an aerial and the projected layout of our long steel plant (inaudible). The project is moving within the schedule. The first foreign [ph] equipment will arrive in 2008 and startup is scheduled for the end of the same year, the end of 2008.

Let us move now to slide 25. And here we can follow the work schedule. And it is important to point out that we are within the estimated deadlines. The first foreign equipment will arrive in Brazil by March of 2008. And we expect a (inaudible) startup for the end of the same month.

Let's see here -- cement; CSN is also entering the cement segment attracted by the high degree of synergy between this activity and our existing business, as well as this slide, slide 26 we will be giving you some of the most recent details on this project, the Presidente Vargas Steel Works in Volta Redonda generates around 1.4 million tons of slag every year, which accounts for up to 70% of our cement production raw materials needs. Located on the site of the steel mill site involving a (inaudible), the new factory will employ the country's most modern production technology, vertical cement wheels.

This facility is capable of controlling product quality in real time and operating with reduced energy consumption. The new mills will allow the Company to produce high-quality cement at a low cost and in a environmentally responsible manner. Cement represents obviously an additional and very important opportunity for CSN and its shareholders to participate competitively in a market with enormous potential in Brazil.

Let us move now to slide 27; our cement project involves investments of around R$184 million. And we have spent R$37 million to date. According to the current status, the first phase grinding facilities will be concluded in the first half 2008. It is important to note that the great advantage of our project lies in its location on the very side of the Presidente Vargas Steel Works in Volta Redonda; in addition, during the second phase, we will be using limestone from our own mine in (inaudible) which is of excellent quality also for the production of cement.

All in all then, CSN will be able to take advantage of its own high-quality raw materials, as well as totally integrated logistics also for the steel business.

Now let's get on to slide 28; you can see the general (inaudible) plant. And on the next slide, it's possible to compare, number 29 we have an overview of the work in progress. As you can see on slide 29, the cement factory is clearly moving ahead. And this slide shows some important parts of the project, the cement silos, the packaging facility, the laboratory clinker silos, the raw material shed and also the supply, the silo for supplies.

Moving ahead, we have here a recent picture of the cement packaging facility. Here on slide 30 we highlight the physical progress of the silos and the reinforced concrete columns that will support the metal and part of the cement storage shed.

And in slide 31, we have the execution schedule, the executive schedule for this project. We are, again, within the schedule and expecting implementation and operational startup by the second half of 2008.

Now in terms of capital markets. And this is the last slide of the first part of our presentation -- I'm sorry this part was a little long -- on this slide, which is 31, you can see our share performance in Brazil and in the United States, New York, CSN's shares appreciated substantially throughout the first nine months of 2007, climbing by 106%, substantial higher than the 36% in the Ibovespa Index in the same period. And in the Fourth Quarter, CSN's shares moved up by additional 29%, versus the Ibovespa's 11%.

The Company's ADRs, ticker symbol SID, traded on the NYSE, put up an even better performance, appreciating by 44% in the Third Quarter and by a solid 149% year-to-date, substantially higher than the 5% and 13%, respectively, recorded by the Dow Jones in the same periods.

Daily traded volume on the BOVESPA also did well. This is a (inaudible) satisfactory here at the IR Group [ph], increasing from R$38 million at the end of 2006 to more than R$98 million in the Third Quarter of '07.

Similarly, ADR traded volume on the NYSE increased from US$24 million a day to US$75 million per day.

The annual shareholders meeting was April 30, 2007 approved payment of dividends and interest on equity relative to 2006 in the amount of R$1.4 billion, R$415 million. And R$333 million of which having been paid on June 30 and August 9, 2006 respectively as advances on dividends as approved by the Board of Directors.

The remaining balance of R$685 million was paid on September 4, 2007.

Well this said, ladies and gentlemen, we conclude the first part of our conference call. And we will now open the floor for the Q&A session, during which our directors here will answer any questions you might have.

Thank you very much. And again sorry for the delay in the beginning of this conference call; back to you Operator, thank you.

Questions And Answers

Operator

(Operator Instructions).

Marcelo Agular, Goldman Sachs.

Q - Marcelo Agular

Hi. Good afternoon to everyone. So a couple of question I have for you today; the first one is related to your gross margin in the Third Quarter. I was a little bit surprised by the decrease in gross margin on a quarter-over-quarter basis. And even if we adjust, I mean the negative impact it had on the maintenance of the (inaudible), we have like a flat gross margin when you have a significant increase in domestic market mix. I mean you ship at very high levels, products in the domestic market in the third one compared to the second, which means, I mean we would expect increasing gross margin because the prices are looking much better than the export market.

So I'd like to understand why we didn't see an improvement in the gross margin based on what I just said.

A - Otavio Lazcano {BIO 4999009 <GO>}

Marcelo, it is Otavio; how is everything?

Q - Marcelo Agular

Pretty good.

A - Otavio Lazcano {BIO 4999009 <GO>}

As to your first question; (inaudible), we reconciled the numbers, okay and send you an email because as far as I remember, there is not anything special within the results of the Company okay. You saw we changed slightly the mix of products being sold towards (inaudible). And a few orders (inaudible) but nothing really special. So let me reconcile the numbers and then I will send you an email.

Q - Marcelo Agular

Otavio, the only thing that I really -- I mean correct me if I'm wrong. I mean the only thing that I saw here is that you sold much more product, seemed that you sold much more products from your foreign subsidiaries than you sold in the previous quarters, which means I believe that you cost difference is much higher than the cost you have locally. So I mean the only thing that I saw in the result that could explain should be the cost because it's so much more from your first subsidiaries than the Second Quarter.

A - Otavio Lazcano {BIO 4999009 <GO>}

Yes. That's exactly what I believe too. I mean it's reflecting the numbers; but let me reconcile the whole stuff and then I will send you a (inaudible).

Q - Marcelo Agular

Okay. And the second question will be -- I mean I got into the Portuguese conference call on the end and I didn't hear quite well what Jose mentioned about the projects, I mean the two projects in Brazil. I'd like to, if he is around and can talk a little bit about the project. Because I heard him talking about the rolling [ph] facility is going to be the key one to the same capacity as Lab I [ph], which is 6 million tons. So I'm confused on the project.

A - Jose Marcos Treiger

We have authorization from the Board to gear it up to additional 90 million tons of incremental slags. And slag facilities, with our ability to produce incremental 90 million tons of slags, you all know that we want to play with Chinese technology which helps us (inaudible) to keep the purchase for all those projects pretty under control of the

Company. And the projects are being executed absolutely in line with the schedule of these events that we are now sold through the market.

We believe that we have got the preliminary permits, environmental licenses to start this project by the beginning of 2008 and then the definitive ones a few months; we are talking to the Chinese suppliers. Our procurement department is collecting proposals. We are working on the financial scene to support those investments; we -- I mean the (inaudible) is gone already. So everything is being executed in accordance with the schedule publicly announced by the Company.

(inaudible) the environment in Brazil improves dramatically over the last two years, mainly over the 12 months. And for a total (inaudible) let's say 6 million tons of incremental slag being produced by the Company should be no problems (inaudible) so long steel products and railway tracks so that we can benefit from current market conditions in Brazil, we believe that we will continue to have a very good economic environment in the years to come. So there are no, I mean (inaudible) as to the project, the (inaudible) projects to increase the amount of slags being produced by the Company other than the ones that we been communicating to the market Marcelo.

Q - Marcelo Agular

I think the only point that I don't have is the CapEx for the rolling part because I think you have been talking about the CapEx for the semi-finished products but not for the rolling part.

A - Otavio Lazcano {BIO 4999009 <GO>}

Yes. We are still working on it, okay and as soon as we have the definitive numbers, we will make a public announcement so -- but for the time being what we can say is while the Company has become the (inaudible) by 2011 the Company will be producing at least additional 6 million tons of slags; 2 out of the 6 will be (inaudible) that are into long steel products, heavy plates. And railway tracks. I mean those products will be sold locally. And the budget for the project is roughly speaking R$580 per ton with ground feasibility studies done, we believe we will get the preliminary permits by the beginning of next year, the definitive ones a months ahead. And that's it.

Q - Marcelo Agular

Okay I have another couple of questions. But I'll get back to the queue and let my colleagues make their questions.

A - Otavio Lazcano {BIO 4999009 <GO>}

Thank you, Marcelo.

Operator

(Operator Instructions).

Denis Parsian, Santander.

Q - Denis Parsian

Good morning, gentlemen; thanks very much for the call and congratulations on your results. Just a little technical question; could you please give us an update on the process to register the 10.5% 2015 bonds and tell us a little bit about why that hasn't been done yet and what's being done about it? Thanks.

A - Jose Marcos Treiger

Hi Denis, it's Jose; how is everything?

As to your question and the exchange offer on the (inaudible) bonds, you know the Company better than maybe, I mean if different people would think the Company has been playing with the numbers. And you saw in the notes for the financials a special note on the tax (inaudible) of the Company.

The Company was benefiting on an injunction that we got in the judiciary in Brazil so that we could offset the day-to-day payment of taxes with tax credits on exports, mainly on exports of the Company. And since the beginning, our decision was to reflect 100% of the (inaudible) the notes to the financials.

(inaudible) could say that we should reverse the provision that we have for those tax credits. We see those tax credits as a contingent asset. And given the nature of the judiciary in Brazil, we believe that a provision is required. But such a conservative decision of the Company reflecting its financial, a provision for the tax credits that we use on (inaudible) day-to-day payments of taxes in Brazil.

(inaudible) have a different view; they would like to see us reverting this provision. And this is the reason why we were not able to exchange the bonds for the definitive ones and (inaudible) as you know.

Q - Denis Parsian

So that's going to remain an impasse; we can now look at those as being, that couple being permanently with the 50 basis points higher than they would be if they were to be registered. And you're going to cease the process and try to register them?

A - Jose Marcos Treiger

No, just a few days ago, we go, I got an email from the (inaudible) of the Company stating that the SEC changed their mind and then we'll be able to exchange the bonds sooner rather than later. UP until now, we were not able to exchange the bonds because we had a decision to reflect those tax contingencies in our financials. I mean the provision for all those tax credit stuff were used by the Company to offset the day-to-day payment of taxes.

Q - Denis Parsian

Okay.

A - Jose Marcos Treiger

SEC had a different view; they wanted us to reverse the provision, which would give a boost to the net income of the Company, for example. We don't think it's fair treatment to the market, to the stakeholders of the Company.

Just two days ago, I got an email from the external auditor; looks like the SEC changed their mind; we were able to convince them the other way around. And the bonds will be exchanged sooner rather than later.

Q - Denis Parsian

Great. Thanks for the disclosure; very much appreciate it. Could I just add that whatever details on your, the explanation on your gross margins requested by my esteemed peer at Goldman Sachs, could you include ourselves as well at Santander on that email, or post the details on your website so that we can all see that? I think that's of general interest.

A - Jose Marcos Treiger

It will be posted on our website.

Q - Denis Parsian

Thanks very much; one more question before I give up the floor; could you give us a little bit of color and detail on what is in your marketable securities line. And I noticed in your working capital derivation, you look at the change in cash and equivalents. But leave out the marketable securities. So I mean sometimes the marketable securities are included in cash and sometimes they're not. Could you maybe just discuss that a little bit?

A - Otavio Lazcano {BIO 4999009 <GO>}

Yes. We -- a portion of the cash position of the Company is invested in Brazil (inaudible) mainly with government bonds. Highly liquid assets we can convert into cash almost immediately. And another portion we've bought short term money marketing formats with I mean financial institutions, top-tier financial institutions. We know that our main really is to make money out of steel production and stay off our products so we don't play heavily with financial instruments. I mean more (inaudible) exotic financial instruments. Really money marketing, money market instruments abroad and in Brazil. In Brazil mainly (inaudible) agreements on Brazilian government bonds.

Q - Denis Parsian

Thank you very much.

Operator

Jim Reyes [ph], Avenue Capital.

Q - Unidentified Participant

Hi, I was just wondering if you could comment on any further M&A strategy, what types of things you're still looking at, what types of regions and what types of assets?

A - Jose Marcos Treiger

Yes, given the very (inaudible) environment in Brazil and given our strong believe that (inaudible) to consider to benefit from better conditions in Brazil. We are more focused on local sales rather than anything else.

But on the other hand it's our duty to maximize the current value of our portfolio to all the shareholders of the Company. And we keep an eye on what is going on out there so that in theory, we could put our hands on our rolling mill, I mean enough labs for labs that will be producing in Brazil.

There is -- nothing is (inaudible) by the Company at this point in time. And to be completely hones with you, we don't have as a target to rank among the ten biggest steel makers on Earth. Our goal is really to make sure that the (inaudible) will keep its position as the most competitive steel company in our industrial segment.

So there is nothing special on the horizon; we keep an eye on what's going on out there. If there is an opportunity to put our hands on a rolling mill or an outlet for steel products in a major consumption center, no question the Company will take it seriously. But I mean, other than this, I don't see anything happening with the Company. And again, we don't have as a goal to rank among the ten biggest steel players on Earth.

Q - Denis Parsian

Okay great, thanks.

Operator

(Operator Instructions).

Victoria Santailla, Santander.

Q - Victoria Santailla

Hi good morning gentlemen. I have 2 questions; the first one is if you can give us an idea of how low your export level can drop. And I guess there are some limitations in terms of long-term agreements that you might have with international clients or the products that you might have. I see that your exports are now 28% of total volume.

And the second question is if you can give us an idea of perspective for prices, how (inaudible) stations are going with your main clients in the domestic market?

A - Otavio Lazcano {BIO 4999009 <GO>}

I will pass you on to Luis Martinez; he's the Executive Officer responsible for sales within the Company.

Q - Victoria Santailla

Thank you.

A - Luis Martinez {BIO 7187744 <GO>}

Victoria good morning; first of all, I would like to reinforce that our local market is our (inaudible) priority. Just to give you some numbers in terms of shipments, 86% of our foreign companies (inaudible) for the local market. So we are shipping basically a small amount of metal to our companies in Portugal and in US. But it's completely different to be out of the market competing with other players. We are just acting in the local markets in Europe, in US to our companies. There is no sense at this moment in the market, in this good Brazilian market, to export. Our total emphasis to be totally focused to the local market; the number is something like 72% to 80% in our consolidated numbers.

Q - Victoria Santailla

Yes. But you see that number dropping let's say 5% or -- let me put it the other way around -- your domestic market going up to 90%, 95%?

A - Luis Martinez {BIO 7187744 <GO>}

No. In terms of domestic markets we grew in our Parent Company 86%; in consolidated numbers 72%. We have to take into account in terms of total shipment that we have, we lost a shipment, Panama Shipping in, by the end of this month in a total of 70,000 metric tons. But we are going to recover those numbers in the next quarter.

In terms of pricing, we got into prices in the local market. We are working in a price range of in the hot roll coils around US$800 to US$900 metric tons, US$ (inaudible) per metric ton. Comparing with US market for example, we have a very good premium. We expect that in American markets for the First Quarter next year, most of the (inaudible) are announcing nowadays a price increase in the range of US$30 per metric ton. Not only in US. But also in Europe. So we are going to expect to have in US a price increase, not only for market conditions. But we have to take into account that other raw materials, like iron ore and freight continues in a bullish trend.

Q - Victoria Santailla

Okay, it's still -- I'm very sorry but it's still not clear for me, how low your exports can drop as a percentage of your total consolidated volume.

A - Jose Marcos Treiger

If I may add something to what he said, in theory the Company can increase the percentage of sales to 90%, 95%; actually (inaudible) has one major advantage against all the other major players in Brazil, which is a logistics corridor [ph]. I saw (inaudible) in Brazil, I saw this company sending 60%, almost 60% of its production abroad. And (inaudible) and would have amazing demand conditions in Brazil; in theory we can create the percentage of total production at being sold a little more than 90%. A major advantage that we have, we can play with the sales allocation (inaudible) even that the Company has its own logistics corridor.

Q - Victoria Santailla

Excellent, that was the answer I want to hear, thank you.

A - Jose Marcos Treiger

You're welcome.

Operator

(Operator Instructions).

Carlos Aqus, UBS.

Q - Carlos Aqus

Good afternoon, gentlemen; actually my question was already made before, it was related to the domestic mix exports. Just would like only to compliment; if you go to this maximum level, as you mentioned about 90% of exports, of domestic sales, is it a level that you could avoid any kind of commercial problem with your relations with foreign clients, or is that possible without damaging these kinds of relations?

Thank you very much.

A - Luis Martinez {BIO 7187744 <GO>}

Carlos, in the steel industry we don't have long-term contracts. I think from the (inaudible) ten years ago, now remember that we had at some point in time a 10-year contract with Procter & Gamble. These kinds of contracts, I mean we don't have in the steel industry. So we can really play with the sales allocation really fast, mainly given that (inaudible) and in theory we can sell more than 90% of the production locally.

There will be steel customers and marketplaces abroad that the Company will (inaudible) but in theory, we can sell the whole stuff locally.

Q - Carlos Aqus

Okay. Thank you very much.

Operator

Ellis Allum [ph], ING.

Q - Unidentified Participant

Hi. Good afternoon gentlemen and congratulations on the tremendous results. I basically have 2 questions; one -- or I guess 3 questions; one is can you just give u a sense of how this Fourth Quarter is shaping up, up until now? Are we basically going to look for similar kind of trend performance for the Fourth Quarter? Can you just refresh your CapEx budget for '07 as well as '08? Then finally, on the -- because I'm a debt guy -- can you talk about your rating agencies discussions -- obviously, the market has (inaudible) come to the market with a full investment-grade rating even though they've just made some acquisitions. Your numbers are in line with their numbers more or less. Can you tell us where you stand in talking about the rating agencies and where your expansion plans factor into this discussion? Thank you.

A - Otavio Lazcano {BIO 4999009 <GO>}

Elliot, thank you for the compliment. As to the 2007 results, I believe that the results will be a record for the Company. And absolutely in line with market expectation. Now we all in this (inaudible) we are benefiting from an amazing economic environment in Brazil and abroad.

As to 2008, this Company will start to benefit dramatically from the new iron ore business. As you saw in our press release, next year the Company will be either (inaudible) or consume internally almost 40 million tons of iron ore. We'll be selling to our final customers over 30 million tons of iron ore. It means that we will be (inaudible) incremental net revenues from sales almost R$1.5 billion. If it's (inaudible) business is close to 60%, which means that we'll be over 40 in, by the end of 2008. Incremental EBITDA of at least $700R, maybe $800R million, I mean incremental on top of whatever is being reported by the existing steel operations of the Company.

So it's fair to say that in 2008, all the steel producers in Brazil and abroad continue to benefit from the very good economic environment. But (inaudible) we'll be reporting superior results, mainly results from the new iron ore business that we are developing.

Q - Carlos Aqus

Okay great. And as far as the rating agencies go, I mean --?

A - Otavio Lazcano {BIO 4999009 <GO>}

We keep in close contact with them. By coincidence I have a meeting, I had a meeting yesterday with Standard & Poor's; they are reassessing the rating assigned to the Company. And for obvious reasons, we do not control (inaudible) decisions. But in theory the Company can be I mean not great but (inaudible) down the road. But for the obvious reasons it's beyond my control. We went to the meeting to give them an update on the more recent results of the Company.

Q - Carlos Aqus

Okay great, thank you.

Operator

Marcelo Agular.

Q - Marcelo Agular

Yes Otavio, a couple of questions. So I got to insist again on the CapEx numbers, if you can share with us with is the total CapEx for 2008. And for 2009? The first one.

A - Otavio Lazcano {BIO 4999009 <GO>}

Marcelo, as a rule of thumb, to keep it distinct of our main facility, we will be investing 40% of the annual depreciation of the Company, okay just to phase [ph] the depreciation charge. Then on top of this, we have all the projects that is for, long steel, cement, iron ore. And then green field projects, I mean flat steel green field project being developed by the Company.

So total CapEx by 2008 is to be close to R$1.2 billion, including everything.

Q - Marcelo Agular

Okay, I assume that in this CapEx there is very little investment for the steel plant, right the 2-3 million tons and the rolling facilities.

A - Otavio Lazcano {BIO 4999009 <GO>}

Yes because we expect to get the preliminary permits by the beginning of 2008 and then a few months down the road, the definitive ones. So the CapEx for the green field projects will be pretty low in 2008. (inaudible) by 2009 and 2010. So that we can start to operate full speed by 2011.

Q - Marcelo Agular

Okay and the second one, I mean this discussion on your domestic mix I think is a good discussion. And just remind me; I mean you have today in US 800,000 tons of cold rolling facility, with is Heartland [ph] and you have in Portugal a facility that can product 240,000 tons of galvanized sheet. So we're talking about 1 million tons of capacity in, I mean foreign. And US you need labs and in Europe you need hot roll coil from (inaudible). So I mean. So your plans for these 2 facilities to be idle in the next 2 or three years, or are you guys planning to be just another we'd rather buy it from someone else and get a little bit of margin not to leave this news almost idle?

A - Otavio Lazcano {BIO 4999009 <GO>}

No you are absolutely right Marcelo. The current market conditions and demand conditions for 2008 those companies will be relying on international suppliers of raw materials so they can continue to operate at full speed. Then CSN's Parent Company we will be focusing more on the domestic economy so that we can maximize margins and returns to our shareholders.

Q - Marcelo Agular

But we can assume that they're going to be using their limited percentage of their capacity if I'm not wrong, because I mean your guidance said the volumes next year are going to be very similar to this year.

A - Otavio Lazcano {BIO 4999009 <GO>}

The downstream investments that we have in US and in Portugal will be relying on international suppliers of raw materials. And from the Parent Company perspective, we cannot supply them with products from (inaudible) in Brazil, we'll be focusing more on the domestic economy.

I believe it's fair to say that if demand for flat steel products grow by 2 digits again in 2008, we will have very tight, very tight supply conditions in Brazil for even hot melt.

Q - Marcelo Agular

Okay so the -- I'm sorry -- the final one is on the volumes, on '08. So which of the total shipment that we can expect of 2 products on a consolidated basis?

A - Otavio Lazcano {BIO 4999009 <GO>}

Marcelo we are still finalizing the purchase for 2008. And I mean for the next four years, it will be submitted to the Board members and that is by the beginning of December. So it is too early to give you our guidance on volume being sold.

Q - Marcelo Agular

Okay no problem at all.

A - Otavio Lazcano {BIO 4999009 <GO>}

But no less than 5.5 million tons, no less than 5.5 million tons.

Q - Marcelo Agular

Okay tanks a lot Otavio.

A - Otavio Lazcano {BIO 4999009 <GO>}

You're welcome.

Operator

Felipe Ladas [ph], Santander Investment.

Q - Felipe Hays

Hi it's actually Felipe Hays. In the previous call, you said that you are completely booked in terms of iron ore sales for '08 and '09. could you please share with us who are your clients, I mean the names of the steel companies that are buying your ore?

A - Otavio Lazcano {BIO 4999009 <GO>}

We have a large contract with Studio D [ph]; we have sales to customer in Brazil; we have a few other customers abroad. For these reasons, I don't want to give you a -- you will understand why -- we don't want to give you all the details of each and every contract that we have for the iron ore business of the Company. But you can take it for granted we sold 100% of the production for 2008 and 2009.

Q - Felipe Hays

Okay.

A - Otavio Lazcano {BIO 4999009 <GO>}

But for sufficient reasons, I don't want to give you all the details, the names and so for each and every contract that we have.

Q - Felipe Hays

Okay; also more (inaudible) question; your goal for the Company was to sell 5.6 million tons in 2007; do you keep your guidance?

A - Otavio Lazcano {BIO 4999009 <GO>}

Yes, no question about it.

Q - Felipe Hays

I am sorry, for '07, do you keep the guidance?

A - Otavio Lazcano {BIO 4999009 <GO>}

Yes in the Fourth Quarter, it's fair to say that the Company will be selling roughly 61.5 million tons on a consolidated basis.

Q - Felipe Hays

Okay thank you.

A - Otavio Lazcano {BIO 4999009 <GO>}

You're welcome.

Operator

Denis Parsian.

Q - Denis Parsian

Hi gentlemen; could you give us any update on the plan to spin off Casa de Pedra? I don't think I heard any mention of that. And is in terms of financing of the very significant CapEx program you have going forward, can you give us any details there: Is there some project finance; is there some (inaudible) and any other specific plans? Thanks.

A - Otavio Lazcano {BIO 4999009 <GO>}

It was never our intent to spin off Casa de Pedra. What the Company is analyzing seriously is an equity type of transaction, (inaudible) iron ore business of the Company. The studies are (inaudible) you have been walking heavily with our legal advisors, we will be submitting this project to the Board members sooner rather than later. We are buying some time so that we can benefit from what we believe will be very positive news from the market. For example, what will be the next, the price increase for 2008 contracts for iron ore before we make a big announcement, okay?

Then if I understood you correctly, your next question was on any plans to use J-Big [ph] or PNDS [ph] or are there ECAs to help us finance the projects for the Company. No question about it; we have a very good relationship with all of them including (inaudible) and as long as we can be together the more cost efficient way to finance all those project, it will be iron ore and is still we will be working with those financial (inaudible).

Q - Denis Parsian

Thanks for that; is there likely to be any international bond issues behind that as well?

A - Otavio Lazcano {BIO 4999009 <GO>}

We keep an eye on what's going on out there. And if there is opportunity to get very good financial terms from creditors abroad, no question the Company will be doing something. But on the other hand, we need to keep an eye on the capital structure of (inaudible). You understand the result, optimal capital structure for the Company in theory. And we have to keep an eye on it. So any decision to issue Euro bonds out there depends on where we are in the capital structure of the Company and the (inaudible) investments to be executed.

Q - Denis Parsian

Are you still thinking in terms of somewhere around 2 times net debt/EBITDA as a long term sort of steady state for the Company?

A - Otavio Lazcano {BIO 4999009 <GO>}

It's 2 times, I would say to 2.5 times at the peak of the investment cycle. As a general guidance, we want to keep this ratio close to 1 time. Why? Because we have the wrong zip code; if this Company was located in the US, it would be a single-A flat rating from all the guys out there. And then I would be able to benefit for better financial terms. But given that we are located in Brazil, if we did leverage too much the Company I would end up losing the (inaudible) and I wouldn't be able to better financial terms up there. If I leverage the Company beyond the (inaudible) times net EBITDA ratio, then creditors and shareholders would start to complain about it, would start to criticize us.

Q - Denis Parsian

Thanks very much.

A - Otavio Lazcano {BIO 4999009 <GO>}

You're welcome.

Operator

Victoria Santailla.

Q - Victoria Santailla

Sure, thank you; given the very tight conditions in the domestic market, why are your plans of expanding the slag mill, which I understand is mainly for the export market. But it's going to take at least 4 or five years? Isn't there any possibility that you can speed up this capacity given the very strong demand in the international and domestic market?

A - Otavio Lazcano {BIO 4999009 <GO>}

A few comments Victoria; first it will take 3.5 years to be operating at full speed, okay. So it won't be like five years okay. Second comment; Brazil totals steel production is close to 32, 33 million tons. Brazil total consumption is like 18, 19 million tons. So there is a need to keep exporting products to other jurisdictions. Okay?

Third comment; there is no market for slags. The world is producing and selling 1.2 billion tons of finished products; the world is producing and selling just 30 million tons of slags each and every year. So coming to the market with an additional 6 or 9 million tons of slags would backfire on us in terms of margins, prices and results being reported to the shareholders.

So there is a need to find an outlet to maximize these returns to the shareholders. There is a need to find an outlet where we could further processes the slags produced in Brazil. And this is the reason we keep an eye on what's going on out there.

Q - Victoria Santailla

Okay thank you very much.

Operator

Thank you, there appear to be no further questions at this time. I'd like to turn the floor back over to Mr. Treiger for any closing remarks.

A - Jose Marcos Treiger

Well I would like to thank everybody for the participation in our conference call. And I would like to invite you to join us in the next conference call. Thank you.

Operator

Thank you; this concludes today's CSN Third Quarter 2007 earnings conference call. You may now disconnect.