

Q2 2009 Earnings Call

Company Participants

- Charles Putz, CEO
- Luis Martinez, Commercial Director
- Paulo Penido, CFO and IRO
- Unidentified Speaker, Unknown

Other Participants

- Carlos de Alba, Analyst
- Clara Kuroga, Analyst
- Denis Parisien, Analyst
- Diego Torres, Analyst
- Felipe Reis, Analyst
- Francisco Schumacher, Analyst
- Leonardo Correa, Analyst
- Marcelo Aguiar, Analyst
- Marcelo Aguillo, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to CSN's Second Quarter 2009 Earnings 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).

We have a 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 the website. Please feel free to flip through the slides during the conference call. There will be a replay service for the call on the website.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward looking statements are based on beliefs and assumptions of CSN's management and over

information currently available to the Company. They involve risks, uncertainties and assumptions based because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of CSN and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Paulo Penido who will present CSN's operating and financial highlights for the period. Mr. Penido, you may begin your conference.

Paulo Penido {BIO 4384213 <GO>}

Thank you. Good morning, everybody. We have a quick earnings presentation that I would like to share with you, by starting on page three, please, where we highlight some major achievements of the Second Quarter.

We had 47% growth in our Steel sales -- Steel product sales, comparing the first -- the Second Quarter to the First Quarter.

Our net -- both our net revenues and our gross margin went up a little bit.

Our EBITDA also went up 7% in this period.

And, as you may know, we finished our maintenance program in our Blast Furnace number two that came back to production in June -- last June. So it was a strong quarter in terms of Steel sales, the beginning of a recovery process.

In terms of the Mining activities, our sales in the first half of 2009 were 22% bigger than the sales of the same period of last year.

And also highlighting the Cement business that we have, we have started the operation of our plant back in May. And we plan to achieve 300,000 tonne total sales of cement this year in the normal ramp up process of our plant.

Turning to page four, please, we present some details on our Steel sales in terms of breakdown of domestic market, international market. As you can see, we are fully focused in the domestic market. And in the Mining, in the Iron Ore sales where we are more focused on the export business.

On page five we present our sales by product and our net revenues by product and our market share. As you see, we have preserved a strong market share and we have preserved a very good mix of product. In fact, we have gained some market share in this quarter.

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Moving to page six, we are presenting our cost breakdown. As you see, we have reduced to practically zero our coke consumption in the Second Quarter. As a result of this reduction and a number of other measures that we take -- we have taken in the Company, we have presented a 14% reduction in our cost of goods sales when comparing the Second Quarter to the First Quarter.

On page seven we are proud to see these numbers of the EBITDA margin and the gross profit. It shows how resilient is CSN to this price. It shows that we are also starting to recover, to have a better margin and we are optimists for the second half of the year. And maybe different from other competitors where they have a reduction in margin in the Second Quarter, we were able to preserve it.

On page eight you see that our total debt has reduced from BRL11.9 billion to BRL10.9 billion when comparing the First Quarter to the Second Quarter. Most of this reduction is due to the appreciation of the Brazilian local currency. The leverage went up a little bit as a result of the reduction of the EBITDA. But it is still in a very comfortable level at 0.97 times net debt to EBITDA ratio.

Page nine shows a bridge between the net income of the First Quarter of this year to the Second Quarter. Basically, we were able to preserve the operational cash generation of the Company and we had some financial -- positive financial gains related to the appreciation of our shares and also to the appreciation of the Brazilian local currency. It was sufficient to preserve a flat result.

Going to page 10 where we have the evolution of the net debt, I would like to remember that we have paid BRL1.8 billion in dividend and interest on equity. That was a major cash disbursement that we had. The other gains and the other expenses, they compensated each other. So the reason why our net debt went up was basically the cash disbursement for dividends.

On page 11 we show the evolution of our net price. You are experts on it. So no further comment.

And that's basically the introduction that I would like to share with you. We are ready for the Q&A session. Thank you.

Questions And Answers

Operator

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

Q - Leonardo Correa {BIO 16441222 <GO>}

Hello. Good afternoon. Thank you for the call. Just to double check on the volume of guidance that was provided during the previous call, with respect to Iron Ore volumes you

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now expect total volumes of 25 million tonnes for 2009 and 35 million tonnes for 2010. This is all on a 100% basis.

Moving on to Steel, you expect now 4 million tonnes in 2009. And is there -- we know that there is very low visibility on 2010. But do you think it's fair to assume a similar run rate for 2010? In other words, if we were to annualize your 1.2 million run rate that you're going to have in the second semester of this year we would reach a total figure of 4.8 million tonnes in 2010. Do these numbers sound right? Do you think it's fair to consider an annualized rate for 2010? That's my first question, please.

A - Paulo Penido {BIO 4384213 <GO>}

Okay. Let me give you some guidance in terms of both Iron Ore and Steel sales. In terms of Steel sales, we have provided to the market the guidance that our total sales may reach 4 million tonnes in this year. So it's hard to annualize but, as you know, the market is coming back. We do expect to have a very strong second half of the year, reaching this 4 million tonnes. So you'll remember that we had 1.6 million tonnes in the first half of the year. So second half much stronger, accumulating a total 4 million tonnes in the period.

In terms of guidance for Iron Ore sales, our total sales of Casa de Pedra, total sales of NAMISA, we expect to reach 25 million tonnes in the year. That's the guidance that we are providing.

Q - Leonardo Correa {BIO 16441222 <GO>}

Yes, okay. Thank you, very much, Paulo. But just to conclude this issue, if you look at the previous guidance, which was a run rate for the quarter -- for the next quarters of around 1.2 million tonnes, do you think it would be fair to annualize that figure going into 2010? Once again, I know that the visibility is very low. But could we do that type of calculation or do you think that number is -- for 2010 seems too high?

A - Paulo Penido {BIO 4384213 <GO>}

Yes, 1.2 million tonnes per quarter is the approximate total -- full capacity. At this point in time we are running at 90% of our full capacity in terms of the steel production and 100% of our capacity in terms of rolling -- production of rolling steel. So it's fair to consider 1.2 million as a guidance for next year.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay, thank you very much.

And my second question regarding the NAMISA business. Just to understand the project development there, looking for the number which you've disclosed during the Second Quarter, your total CapEx spent on NAMISA specifically was only BRL10m. So just to get an update on the NAMISA project, have you changed your plans? Are you reassessing your plan with respect to NAMISA? That's my other question, please.

A - Paulo Penido {BIO 4384213 <GO>}

Okay, I'll take advantage of Charles who is the CEO of NAMISA, who is here. He will answer the question.

A - Charles Putz {BIO 7407612 <GO>}

Hi. Thank you for the question because, in fact, we did have a much lower CapEx in the first semester than probably was expected. But, no, that doesn't mean that we have changed our plans. We continue with the same expansion plans for NAMISA as announced before. We will have, naturally in the Second Quarter or the second semester of this year considerably higher CapEx than in the first semester. And our greater CapEx figures will come in 2010 and 2011 as originally forecasted.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay, clear enough. Thank you, very much.

A - Paulo Penido {BIO 4384213 <GO>}

Okay, thanks.

Operator

Your next question comes from the line of Felipe Reis with Merrill Lynch.

Q - Felipe Reis {BIO 7103920 <GO>}

Hello. Good afternoon everyone. I have two questions. The first one is related to domestic prices in Brazil. I'd like to know which level do you think that the state of the domestic sales is sustainable over the reported as to parity, mainly considering that there is a pickup in demand in Brazil.

And also if we continue to see the scenario of decreasing steel prices and if that could eventually lead to higher prices in the domestic market? These are my first questions.

A - Luis Martinez {BIO 7187744 <GO>}

Okay, Felipe. Good afternoon. This is Martinez speaking again. Just to reinforce that I mentioned during this morning in the conference call, the only thing that I would like to say is all way down in terms of pricing is over. We don't have any problems to reinforce or to restate that. We are going to -- at least to keep the price for the remaining year.

But the other thing that I would like to state, obviously, we are going to analyze the supply/demand offer. One of the things that is very important for us is the imported level and the clearance rate. If you take a look in all the markets, including distribution market, distribution market is a very strong market for CSN right now and also building products. Probably if the demand remains firm and stable for the remaining part of the year, probably we foresee that we are going to have a very good opportunity to -- at least to have a raise by the end of September or October. But I would like to reinforce that it's very important to keep the same situation in terms of demand.

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And another very important point that we are keeping tracking is related to imported metals. In terms of cold rolled coils, for example, we understand that the market is already very well supplied in terms of demand and supply/demand. But in terms of hot rolled coils for distribution market, we understand that we can at least increase prices by the end of September if demand keeps firm.

And another important point, just to keep you aware about these numbers, last year we received here in Brazil something like 1.2 million tonnes of imported metal. And during the first semester the amount is probably -- would be very, very close to last year. So that's one of the reasons we are cautious about a price increase. But I would like to reinforce that CSN will catch the opportunity if demand keeps firm until the end of this year. Okay?

Q - Felipe Reis {BIO 7103920 <GO>}

Okay, thanks, Martinez. And my second question is I think that Paolo, this is one -- this one is for you. What are your intentions with regards to the total return equity slot? Do you intend to close it this year, do you intend to renew it this year, or haven't you made a decision yet?

A - Paulo Penido {BIO 4384213 <GO>}

As you know, as is in our financial statements, this transaction matures in September and we are still discussing the next steps. So no decision for now at this point in time.

Q - Felipe Reis {BIO 7103920 <GO>}

Okay, thank you.

A - Paulo Penido {BIO 4384213 <GO>}

Okay, you're welcome.

Operator

Thank you. (Operator Instructions). Your next question comes from the line of Carlos de Alba with Morgan Stanley.

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

Good afternoon. Thank you for taking the time. My first question is regarding the price for a run off mine that you are selling from Casa de Pedra to NAMISA. That obviously affected a little bit your overall price -- realized price. So if you could give us a number, a reference as to how much this price is, that would be my first question?

A - Unidentified Speaker

Carlos, this is Jaime speaking. Thank you for your question. You know that this deal was set up during the NAMISA deal and we have a fixed price of \$8 for the run off mine. Of course there is a prepayment on that. And the other part of the payment comes when we deliver the run off mine to NAMISA.

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

Okay, thank you.

And the second question is could you give us an update on the Iron Ore capacity expansion plan and the port expansion plan? My understanding is right now you are at 10 million tonnes of capacity in Casa de Pedra and about 40 million tonnes in Port. Is this correct? And where do you see those capacities moving over the next couple of years?

A - Paulo Penido {BIO 4384213 <GO>}

In fact, there is a misunderstanding on that number. Our current capacity at the port is 30 million tonnes per year. That means 2.5 million tonnes per month. This month, in July, we had reached approximately that number. We exported 2.4m. And at Casa de Pedra we will be reaching 40 million tonnes per year next -- on the First Quarter of 2010. And our current capacity at Casa de Pedra is 22 million tonnes per year. And for the Port we intend to reach 45 million tonnes per year in the Second Quarter of 2010.

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

And what about the plans for Casa de Pedra? 40 million tonnes in the First Quarter of 2010 and then what are the plans going forward?

A - Paulo Penido {BIO 4384213 <GO>}

As we disclosed previously, our intention is to reach 50 million tonnes per year in 2012. And then we will keep the expansion in order to deliver a run off mine to NAMISA in order to allow NAMISA to produce 20 million tonnes of high grade pellet steel in 2013. Then we will make an expansion in our Russian facility in order to deliver this Russian run off mine to NAMISA. That's our plans -- current plans for Casa de Pedra now.

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

Okay. And then, in terms of the sales of Iron Ore, are you selling any of your volumes on the spot market or on CIF basis, or are them all of in FOB?

A - Luis Martinez {BIO 7187744 <GO>}

We are now selling all of our exportation FOB based. Of course we have an important quantity of that is being delivered to Asia from our consortium members. That's an important part of our exportation. We are also exporting to Europe that are a benchmark market. And for China we are negotiating every vessel by vessel, I'd say that. And our reference is always the benchmark.

And I would like to clarify on information that our average price in the Second Quarter was \$51 per tonne. That means that our strategy was right and our FOB prices were better than our competitors.

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

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A question on steel prices. The premium -- when I look at the prices -- global -- international prices versus Brazil prices, obviously there is a premium. There has always been a premium. Now it seems that a lot of people are doing the math assuming the cost of imports, the tariffs, the freight, the ocean freight and the land freight. But that was always the case. It always cost some money to bring the material from outside into Brazil and deliver it to the client. So maybe the freight there obviously has changed, it's now more expensive. But, still, that situation prevailed all along. And yet it seems that the premium remains at relatively high levels. The currency is very stronger and the imports, as you were mentioning earlier in the call, have really remained high, or higher than last year. How sustainable do you really think that these premiums are. And how likely is it that you will increase prices in September or October without really creating a big incentive for imports to get into Brazil? Thank you, very much.

A - Luis Martinez {BIO 7187744 <GO>}

Hello, Carlos. Good afternoon. This is Martinez speaking again. In terms of premium price, let me give you an example regarding to the hot bend and hot rolled coils. 20% to 25% is the current premium over imported landed material here in Brazil. But I have to point out that we used to have premiums higher than this. Something like 30% to 35% in the past six or seven months.

One of the things that is very important for us to analyze the situation, taking to account all the factors that are really important to our economy. Obviously, depending on the situation, we are ready to have a price increase if the market allows. Now we are working fully capacity in GalvaSud, our automobile plant in Rio de Janeiro.

And also we have a very important plant of hot dipped galvanized products in galvalume and coil -- coated coils in Parana very close to Curitiba completely sold out. So we are very optimistic about the local market this year. We are planning to sell at least 85% in the local market. And that's one of the reasons I think we can at least keep the premium. But, obviously, if the market allows we are going to catch this wave again.

Okay, thank you so much.

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

Thank you, Martinez. And just my final question. And I apologize for all these questions, it's in terms of cash flows. Paulo, I was looking at the cash flow statement. And it seems that year to date the cash from ops has been a negative. But I understand that during the Second Quarter all of the slabs and HRC that were -- material that was bought from third parties at probably high prices has been -- has come off your inventories. When do you expect to see this trend changing and generate some cash from ops? Thank you.

A - Paulo Penido {BIO 4384213 <GO>}

Okay. Our inventory of slabs amounted to 873,000 tonnes at the end of the First Quarter. It was reduced to 705,000 tonnes at the end of the Second Quarter. We still have -- as you can see, we still have slabs that were produced at a higher cost using high cost coal that we bought and we will gradually reduce it. So, good news, our margins and our costs

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tend to gradually reduced. By the end of the year we expect to have a full benefit of the new lower cost of raw materials. It takes time. We are doing it on a gradual basis.

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

Thank you, very much.

A - Paulo Penido {BIO 4384213 <GO>}

Okay, you're welcome. Thank you.

Operator

Thank you. Your next question comes from the line of Denis Parisien with Santander.

Q - Denis Parisien {BIO 20333702 <GO>}

Good morning. Thanks for the call. Further on the question of cost, if I might ask, you were talking about the inventory of slabs produced with higher cost raw material. How much do you still have in inventory of higher cost coal in your inventories. And when will that run off, please?

My second question is there's been a -- past couple of quarters, sorry, an increasing gap between what we calculate as your pure EBITDA excluding extraordinary or non-recurring. So-called, other income and expenses. I would like to look at it without that number. And a couple of quarters ago there was no gap. And that gap has been increasing when you add back the so-called other income and expenses.

And my third question is do you plan to do any capital markets transactions in the next six months in the second half of the year, bonds or equity? Thanks.

A - Paulo Penido {BIO 4384213 <GO>}

Okay, let me go in parts. First, we have zero inventory of coal -- high cost coal since the end of -- back in March on the stock? Yes, it was in March. Our Director of Supplies is in the table. He confirm it.

In terms of a capital markets deal, the Company is always considering the right windows of -- in the market to build a better maturity profile for its debt. So we may access the market in the second half of the year. That's something that will depend on the market conditions and on the reality that we may face after the August vacation that most of the market is taking right now.

In terms of the details in the gap of the EBITDA calculation, I would ask, please call our IR specialists. They can go on a line by line on a detailed analysis for you to explain the details of the gap. I don't have all the figures here to share with you please.

Q - Denis Parisien {BIO 20333702 <GO>}

Thanks, we will do so. On the capital markets transaction, would you take out something that -- some higher costs that you currently have, or would you increase your total debt? Would this -- a refinancing operation or capital raising?

A - Paulo Penido {BIO 4384213 <GO>}

We have maturities of debt amounting a little bit more than \$1 billion in the second half of the year. We may be refinancing part of it and we may increase a little bit our total debt number in order to have a better, I would say, a stronger cash position. But, as I said, it will depend on market conditions. It will depend on a number of issues. But it can happen. It can happen an increase on the total debt level up to the end of the year.

Q - Denis Parisien {BIO 20333702 <GO>}

Thank you. And if I might ask just a final question? The question about registering the 2015 notes has been pending for an awfully long time. I'm wondering if there's any news there or maybe we should just stop asking that question and you could maybe tell us that you don't plan on ever registering that note.

A - Paulo Penido {BIO 4384213 <GO>}

Okay, you are right, we did not the process to register the bond. We have some ongoing discussions with the SEC. We may do it. But nothing to anticipate at this point in time regarding this issue.

Q - Denis Parisien {BIO 20333702 <GO>}

Thank you.

A - Paulo Penido {BIO 4384213 <GO>}

Okay, you're welcome. Thank you.

Operator

Your next question comes from the line of Marcelo Aguillo with Gap Asset Management.

Q - Marcelo Aguillo

Hi. In the Portuguese conference there was a question about if you might be interested in doing something similar to what you did with NAMISA on the remaining stake, or even Casa de Pedra. And you replied by saying that you're having several studies and conversations about your assets in general. I just want to make sure I understood correctly or not. A conversation on your other assets includes conversations in your Iron Ore assets. That's my question, please.

A - Unidentified Speaker

Marcelo, this is Jaime speaking. Thank you for all your questions.

As Juarez mentioned during this morning call, CSN is always open to analyze new M&A or new options. Of course our intention is to maximize the value for our shareholders. And of course Casa de Pedra and our Iron Ore business is a strong business that is growing rapidly and has a very good -- it's a very good cash generator. Then of course we are always discussing business. But of course we don't have nothing to disclose about that in that manner -- in that moment. Thank you.

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Q - Marcelo Aguillo

Okay, thanks.

Operator

Thank you. (Operator Instructions). Your next question comes from the line of Clara Kuroga [ph] with Raymond James.

Q - Clara Kuroga

Hi. Good afternoon. Thanks for the call. I got two questions. In the first place I wanted to know the amount of revenues in the quarter related to the drive through adjustment of Iron Ore prices?

And in second place, what was the cause of the strong deposits made during the quarter and if we should expect similar disbursements in the near term? Thank you.

A - Paulo Penido {BIO 4384213 <GO>}

Clara, we had some technical problems in hearing. Just to double check, your first question was related to iron ore price. Is it right?

Q - Clara Kuroga

Yes, related to the drive through adjustment of iron ore prices.

A - Paulo Penido {BIO 4384213 <GO>}

Okay. So I'll take advantage of Jaime who is here to answer this question, okay?

A - Unidentified Speaker

Well, just to clarify, you are asking about the Second Quarter price, or you want some information about the current market? What's your main question, just to clarify?

Q - Francisco Schumacher {BIO 17132452 <GO>}

Hi, this is Francisco Schumacher. Our question is related to if you have recognized revenues due to the -- as the final benchmark price was a discount of 28% and not the 30% that you have account -- that you have provisioned in the First Quarter. That 2%, have you recognized it in this quarter?

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A - Unidentified Speaker

Yes. Our price, we sold --- we did 7% of the 28% benchmark price. Then the 30% remaining, we don't -- nothing to make a write off on that because we just price it 7% of 2008.

Regarding the current price, we are recovering 1.8 and we are also looking for some increase in benchmark price. We are selling benchmark price for Europe, for Asia. And even for China, the spot price are recovering and we are having the opportunity to sell to China, recovering the price and selling it in some opportunities even higher than benchmark price now.

Q - Francisco Schumacher {BIO 17132452 <GO>}

Okay. (Multiple speakers) that you did on deposit. You made a BRL700 million deposit in the quarter and if we should expect similar disbursements in the near term.

A - Paulo Penido {BIO 4384213 <GO>}

We don't expect similar deposits in the near term. We have a very prudent attitude regarding the legal actions that we have. It happens sometimes in order to protect the interests of our Company and of our shareholders. So we don't anticipate it but, as you know, it may -- it can happen. But we cannot anticipate any major deposits in the short term.

Q - Francisco Schumacher {BIO 17132452 <GO>}

Okay, thanks.

A - Paulo Penido {BIO 4384213 <GO>}

Thank you.

Operator

Thank you. (Operator Instructions). Your next question comes from the line of Marcelo Aguiar with Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Hi, Paulo. Hi everyone again. Congratulations on strong results on a relative basis for the industry. A question on exports. We recently saw a pretty sharp rebound on exports from all Brazilian players. And can you elaborate a little bit on what are the type of prices you guys are selling lead. I believe you are already contracting shipments for two months ahead. So this is my first question.

A - Paulo Penido {BIO 4384213 <GO>}

Okay, I'll take advantage of Manolo who is here, our General Manager for Exports.

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A - Unidentified Speaker

Thank you for -- wait a second. Well, as we told in the last few months, we start -- we are starting to export and we have concluded all the sales for this quarter, for the Third Quarter. The total figures I cannot tell you but we were strong in the market selling mainly hot rolled coils for Asian countries and something for Europe. We are sending also cold rolled full hard for our mill in the United States and hot rolled coils to Lusosider in Portugal. There, the market has also become strong and the price they are increasing. So we are expecting good results there also.

And prices are became strong as well. Since three months ago price increased more than 40%. And now -- now, for example -- for selling now I think that we will be able to reach prices around \$550 FOB. Prices now in Europe is around 600 and cost and trade. Truly we are not in the same position in the FOB price that the Asian producers have in Russia or Ukraine because of the ocean freight. But we are getting good price. I can consider that nowadays the markets became better and better for exports.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Great to hear that. Martinez, I get back to you again on pricing in Brazil. Can you just comment? I'm pretty sure you guys, as your competitors also do, analyze the cost to import steel into Brazil. So can you comment the cost of that, assuming someone wanted to import a product from Europe? We know that the majority of the imports in Brazil has been coming from Asia. Well, let's say Europe. How much cost to import hot rolled coil these days?

A - Luis Martinez {BIO 7187744 <GO>}

Hello, Marcelo. Good afternoon. Thanks for your question again. Just to reinforce, as I mentioned two minutes ago, all way down in terms of price is already over. We don't have any expect to decrease any price in Brazilian market from now to the end of this year.

One of the things that is very important for us, the current premium between hot rolled coils from Europe, for example, make -- the majority of our imports comes from China here in Brazil. And, as Manolo mentioned, we are working in the range of 50 -- \$150 per metric tonne. Landed in Brazil we are expecting to have something almost \$700 per metric tonne imported, landed from China in Brazil.

If you take into account that we have in Brazil prices in distribution market in the range of \$870 to \$900, we have the premium that I already mentioned in the morning and now during the conference call.

One of the things that is very important to mention, Marcelo. And already I had the opportunity to read your paper regarding some price increase in Brazilian market, I absolutely agree with you that if we have space in Brazil we are going to do the price increase as soon as possible.

One of the things that I have to reinforce, we have -- we are completely sold out in GalvaSud in hot dipped galvanized for auto industry. We have completely sold out in CSL

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Parana regarding to hot dipped galvalume and coil coated. So we are ready to follow the market if the market demand goes up. If everything goes okay, I imagine that we are going to have a price increase in September. But, again, we need to understand that imported material in Brazil -- it's very, very important for us. And first we'd like to ban all the imported material before, because we have the risk to increase the price and then I'll receive a lot of material imported here in Brazil.

And the last one that is really important is the exchange rate. We need to consider an exchange rate to 1.8 or 1.85. It's very dangerous for our exports here in Brazil. But I'm very, very optimistic. I fully agree with you that if we have space, we are going to increase as much as possible, as always.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Great, Martinez. Just talking about the imports, when we look at the currency, currency come back -- come down just 10% from \$2 -- BRL2 per dollar to BRL1.80. As, as Manolo said, the international prices came up 40%. So it is -- what is your view in terms of imports going forward? Are you expecting some decrease, no decrease at all? Because looking to the terms for someone to import in Brazil right now, unless someone expects prices in Brazil to really soar, it's become pretty dangerous to import. Don't you think so?

A - Luis Martinez {BIO 7187744 <GO>}

Yes, I absolutely agree with you. And everything goes okay, exchange rate in the range of BRL2, price increase 40%. We are going to be very, very happy this year, more than we expect. And we are going to have our price increases earlier than we forecast in our budget. But Marcelo, again, we are very, very optimistic 2010. I had the opportunity to read your paper regarding to next year, mainly considering China and other regions of the world. We are very, very bullish in terms of our plans for next year mainly in the local markets.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

And the last question, I promise, is related to the potential pickup in local demand. Because we saw in previous cycles when Brazilian domestic demand was bad, was pretty low. And then suddenly the international prices sharply increased and all the companies in Brazil sharply started to book orders to the international market and happened what you just described, which is companies being fulfilled with their lines giving to export.

In the past this has made domestic customers to start to be worried to not having steel. And this leads to a sharp pickup on orders for domestic market, plus a scenario for price increases. Do you think this type of scenario this time is materializing or do you think it's too early to talk about that?

A - Luis Martinez {BIO 7187744 <GO>}

Marcelo, I'm rooting for the first scenario to have implement here in Brazil. Obviously, in terms of coated materials in Brazil, let me say hot dipped galvanized, galvalume, coil coated and tin plate, we are completely able to receive all the orders in Brazil. We have more than -- in terms of capacity we are completely able to sell more material.

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Another thing that is very important. And we have been talking a lot with Manolo and inside the Company, we can -- even if we have some lack of capacity in terms of hot rolled coils, or even cold rolled, we can switch very, very fast our product portfolio. And if it's possible we would like to sell at least 95% for local markets, obviously.

But one of the signs that we have here in Brazil is regarding to the retail markets. In terms we have very close relationship with Nestle and Unilever in Brazil, with Whirlpool, Electrolux and all the auto companies in Brazil. All of them are forecasting that Brazilian consumer has a lot of demand to spend in goods next year. So that's one of the things we understand that 2010, starting in November this year, we are going to have a very good December, very good Christmas time. And at least a very good First Quarter 2010, okay?

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you, very much. And, again, congratulation on the results.

A - Luis Martinez {BIO 7187744 <GO>}

Okay, Marcelo, thank you. Bye.

Operator

Thank you. We have a follow up question from the line of Carlos de Alba with Morgan Stanley.

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

Yes, thank you very much. I just wanted to get your feeling. I was looking at the IBS report from June. And in that report they show that the sales of flat steel in the domestic market came down in June versus May. I wanted to see could you have any comment on this. Maybe it's just an aberration.

We all know that Brazil is going to be a very good market. But I wonder if you could comment on this one month data point. We still don't know if this is going to continue. But you probably have already seen how July went. So could you comment about this decline that IBS was reporting on flat steel sales in the domestic market in June versus May. And what have you seen in July? Thank you, very much.

A - Luis Martinez {BIO 7187744 <GO>}

Carlos, I don't know. I have to check. I will take a look in the IBS report and take into account the numbers that you mention, okay? And then probably Basil will call you to contact you to have all results sorted.

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

Thank you, Martinez.

A - Luis Martinez {BIO 7187744 <GO>}

Okay, thank you.

Operator

Your next question comes from the line of Diego Torres with ING.

Q - Diego Torres {BIO 20488213 <GO>}

Good morning. My question is regarding the perpetual debt. If you have any plan to call that debt starting on the first call date on July of 2010.

A - Paulo Penido {BIO 4384213 <GO>}

Okay, we have no decision regarding the call that we have in the perpetual bonds as of next year. That's something that we will decide and announce later.

Q - Diego Torres {BIO 20488213 <GO>}

Perfect.

A - Paulo Penido {BIO 4384213 <GO>}

There is nothing to announce at this point in time.

Q - Diego Torres {BIO 20488213 <GO>}

Perfect. Thank you.

A - Paulo Penido {BIO 4384213 <GO>}

You're welcome.

Operator

Thank you. I will now hand the conference to Mr. Paulo Penido for closing remarks. Mr. Penido, please go ahead.

A - Paulo Penido {BIO 4384213 <GO>}

Yes, I would like to thank you all for participating in this call and to remember that our Investor Relations area for any further questions that you may have. Thank you.

Operator

Thank you. This concludes today's CSN 2000 and quarter nine earnings conference call. You may now disconnect your line.

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