Q1 2005 Earnings Call

Company Participants

- Lauro Rezende, Investment Managing Director & IRO
- Luis Martinez, Commercial Director

Other Participants

- Daniel Altman, Analyst
- Denis Parisien, Analyst
- Eric Ollom, Analyst
- Lasselle Wilderman, Analyst
- Raphael Biderman, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to CSN's First Quarter 2005 earnings conference call. Today we have with us Benjamin Steinbruch, CEO, Lauro Rezende, Investment Managing Director and Investor Relations Officer, Juarez Saliba, Mining Director, Nelson Cunha, Engineering Managing Director, Jorgemar Aleida, Controlling Director, Luis Martinez, Commercial Director, Marcos Leite Ferreira, Head of Investor Relations. (Operator Instructions).

We have a simultaneous webcast that may be accessed through the Investor Relations section of CSN's website; www.csn.com.br. The slide presentation may be downloaded from this website. Please feel free to flick through the slides during the conference call. There will be a replay service for this call on the website.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of CSN management. And on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstance 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. Lauro Rezende, who will present CSN's operating and financial highlights of the quarter. Mr. Lauro, you may begin your conference.

Lauro Rezende {BIO 1959027 <GO>}

Good morning, ladies and gentlemen. Thank you for participating in our First Quarter 2005 results conference call. We will begin our presentation by commenting on some of the main highlights for the First Quarter 2005.

Moving to slide number two, please, the highlights of the First Quarter 2005 were in all an increase in the profitability and reduction of debt of the Company.

Despite a 53% increase in net revenue in quarter over quarter, due to better prices, EBITDA has registered a 69% increase. And EBITDA margin was 49%, a 4% pointage over when compared to the First Quarter of 2004.

CSN has recorded a consolidated net income of BRL717m, more than twice as much as the result of the same period of 2004.

Profitability was positively impacted by an increased participation of galvanized products in CSN's sales mix as a consequence of higher production throughout both GalvaSud and CSN Parana plants.

Net debt was reduced by BRL1.2b, reaching BRL3.5 billion as of March 31 2005. This is 25% lower than the net debt as of December 31 2004. As a consequence, net debt over EBITDA ratio was reduced from 0.98 times to 0.65 times, taking in account the last 12 months of consolidated EBITDA.

CSN has moved towards the strengthening of the mining business units in the First Quarter. The Company has signed its first actual contract for 54.7 million tons of iron ore over the next ten years, with the international market price as referenced for the contract.

CSN has also acquired ERSA, a company formed by tin mining and melting assets and base raw material for the production of tin and tin plate related products, which are one of our high value added products in the sales mix.

Moving on to slide number three, in slide number three we see the consolidated revenue and sales volume breakdown by market. During this quarter, the sales volume has totaled 1.2 million ton, 15% higher than the Fourth Quarter 2004. And up by 5% when compared to the same period last year. The increase is primarily due to improved performance of the automotive industry appliance and packaging factories in Brazil.

Net revenue grew by 10% and 50% respectively, when compared to the Fourth Quarter 2005 and the same period last year. This is mainly due to an increase in price that we will be able to put in place throughout 2004.

The Company has roughly 75% of the volume sold in the domestic market, in line with Company expectations by the end of 2004.

On the next slide, number four, we can see the total volume by product and the domestic market volume by market unit.

The analysis of annual sales by product shows that the sale of high value added products, especially tin plate and galvanized products, have represented 52% of the total sales volume, compared to 46% share in the First Quarter 2004.

This reflects the good performance of the international operations, both CSN USA (inaudible). And the increasing production and sales of our Parana (units) and the start in the second half of GalvaSud at full production.

The first part 2005, the production of galvanized products totaled 310,000 tons, up by 26% when compared with the same period of last year. GalvaSud has produced 75,000 tons, compared with only 20,000 tons produced in the same period of 2004.

In 2005, with Galvanized operating at a higher production pace throughout the year. And increasing sales of (Galvaluminum) products, both produced in our Parana units, the sale of high value added products may soon be (winded).

Sales by market unit did not change significant. Therefore, keeping the balance for the Company by sector unchanged.

On slide number five, we present a composition of production costs for the parent company alone. Total production costs grew 16% in comparison to the First Quarter 2004, primarily due to the price increase in coal and coke.

Another factor that produced a significant change was the transformation costs, which rose 7% due to higher costs with preventive maintenance, which were anticipated for the First Quarter period.

As a positive impact, we had a BRL48 million reduction in the purchase of hot rolled coils from third parties. In comparison to the previous quarter, there was a 9% decrease in total costs, primarily due to a 15% reduction in raw material costs, such as coke, whose price had fell from $445 per ton to $408 per ton.

On slide number six, we show the EBITDA margin evolution between the First Quarter of 2004 and the First Quarter of 2005.

EBITDA in the First Quarter of 2004 -- 2005, sorry, has reached BRL1.4b, compared to BRL833 million in the same period of 2004, representing an increase of 69%. The margin has increased to 49% in the First Quarter 2005, 4percentage points higher than the same period of the previous year.

Improvements are presented in both absolute and marginal terms, showing not only the good movement in the steel market itself. But also including the sales mix and CSN operating efficiently.

Any comparison of our margin in this quarter to the Fourth Quarter of 2004 should be considering the non-recurring effects of the MRS and Itasa consolidation. And the accounting adjustments of PIS/Cofins taxes in Brazil in that quarter.

On slide number seven, we have some financial highlights for the quarter. Gross profit has reached BRL1.4 billion in the First Quarter of this year, 64% higher than in the same period of 2004. Such increase is the result of a higher average price for steel and a higher sales volume.

And the higher EBITDA margin this quarter compared to the First Quarter 2004 is due to both price level and increased participation of the high value added products in the mix.

The financial results improved due to positive impacts of (legislation). High income tax expenses and social contributions are primarily linked to better results from operations. Net income has reached BRL717 million compared to BRL333 million for the same period of the previous year. And BRL531 million for the Fourth Quarter 2004, representing a growth of 115% and 35% respectively.

In slide number eight, we present the net income variation breakdown comparing the First Quarters of 2004 and 2005. First of all, the main (part) contribution were higher gross profits, mainly due to better average prices. And in a smaller proportion, a 55,000 tons increase in sales volume.

Offsetting those gains, the high average production costs, with raw material prices increased, namely coke and external -- coal and external coke.

Our positive contribution was the better financial result, as a consequence of our lower average volume and low average cost of debt.

In negative components, we have first the high income tax expenses and social contribution tax, especially due to better results from operations. Second are increasing net expenses, with contingency provisions (in other) operational expenses. Third, non-recurrent gains arising from extra income of MRS and Itasa for the First Quarter 2004. And higher goodwill amortization beginning the second half of 2004.

And last, higher sales expenses and increasing administrative expenses for the First Quarter 2004, mainly due to the consolidation of MRS and Itasa into our consolidated position on the balance sheet.

On slide number nine, we have the breakdown of the net income variation when comparing the First Quarter 2005 to the last quarter of 2004. Please be aware that most of the change during this period reflects MRS and Itasa consolidation on our numbers. As the main positive contribution, we have the non-recurring operational expenses for the rest -- sorry, for the first part of 2004. Those include high contingency provisions and high sales and administrative expenses, due to the consolidation effect of MRS and Itasa.

Improvement in the financial results and equity income came from the MRS and Itasa consolidation as well. As negative factors, we have first a high income and social tax contribution, mainly due to the higher profits. And decreased tax benefits from proposed use of (inaudible), is interest on average. Second, lower gross profit as a consequence of the MRS and Itasa consolidation in the Fourth Quarter of 2004. Without this effect, there would have been a (part revaluation) of BRL142m, primarily due to higher sales volume.

On slide number ten, we analyze cash and gross and net debt evolution over the last quarters. Net debt was reduced by BRL1.2b, a 25% decrease during the First Quarter 2005 when compared to December 2004. This is a result of cash generation, reduction in working capital and lower financial expenses.

The US$200 million funding obtained in January 2005 and the appropriation of interest due has resulted in an increase in gross debt on March 2005. In the end of the quarter, the net debt has totaled $1.3b, representing 0.65 times the total EBITDA accumulated for the last four quarters, or 0.62 times the annualized EBITDA for the First Quarter of 2005. It is also important to note that the Company increased average its debt -- has increased its average debt maturity from eight to nine years, as well as reduced its costs from 8.5 to 8% per annum.

On slide 11, we highlight the main items of the CapEx in the quarter. CapEx in the quarter has totaled BRL152m, primarily in projects related to maintenance operating and technological excellence of the plants.

The two main ongoing investment projects of CSN, the Casa de Pedra mining expansion and Cement Project, was registered as important developments in this quarter. On the Casa de Pedra front, the first iron ore sales contract was signed on March 21. It's a ten-year contract, prices referred to the international price to the Asian market. And total volume to be delivered equals to 54.7 million tons over a ten-year period.

Taking into account the new and existing contracts, almost the entire output for the mine of 2005 -- 2006 has already been sold. And it's worth highlighting that the investment pace is in line with the planned schedule, both in the mine and the port capacity expansions.

In the Cement Project, the main highlights are the purchase of equipment for the grinding mills. And the start of marketing as scheduled. And the BNDES funding is in the final analysis stage. We probably will be able to sign this contract in less than 60 days.

In slide number 12, we present the outlook for the following quarters. Despite a general production drop, due to a shortage in electricity supply and the resulting anticipation of preventive maintenance, the Company expects that the full year production will be not impacted negatively. We expect total sales volume to be in line with last year's forecast, reaching 5.3 million tons of final products by year-end. We focus on domestic markets, which should represent approximately 75% of sales.

Average price is expected to remain flat in domestic markets. But in the other hand there still remains a lot of uncertainties regarding inventory levels and their mobilization in the United States and Europe. Current (inventory) levels are higher than normal and are expected to return to normality in the next couple of quarters, also allowing a possible price increase, if that happens, by the last quarter of 2005.

CSN has concluded some coal products negotiations. Confirming what's been released by management expectations, the new coke prices are in the range of $100 to $110 per ton and the final contracts to be due in April and July therefore.

Coke prices should be lower these upcoming quarters, with the position of inventories level outside, the full coke costs will be better reflected on lower coke prices over the next quarters.

With this, we have concluded our presentation for the First Quarter of 2005. And we are now able to answer your questions during the Q&A session. Thank you, very much.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question is coming from Raphael Biderman of BBVA.

Q - Raphael Biderman {BIO 1529743 <GO>}

Hi. Good afternoon for everybody, Lauro. And congratulations for the result. My first question is regarding a statement the Company has made that they intend to acquire assets from CVRD, the Antitrust Agency, for (specifically) to sell assets. I'd like to know if this, in (competitors') iron ore mine. And if that is the case, what is the amount of resources you are intending to spend on that; $500m, $200m, $1b? What are the orders of valuation that you think (inaudible) security could work, considering the very high valuations of CVRD right now?

Also, I'd like to have other questions regarding also iron ore. After having closed this very good contract of -- with -- for exports on iron ore with CVRD, CVRD expresses their pre-emptive rights, are you negotiating other export contracts and how are negotiations going? The fact that CVRD had exerted their pre-emptive rights, has this cooled down the negotiations with suppliers in the sense that a supplier that wants a long-term contract might observe the fact that CVRD can exert their pre-emptive rights, might disrupt the negotiations, can disrupt the negotiations, with like an (Asian steel mill), for instance?

A - Lauro Rezende {BIO 1959027 <GO>}

Thank you for your questions. First of all, regarding the acquisition, or possible acquisition, of CVRD assets, what we have mentioned. And I have said to everyone, is that we intend to have (this year still) a mining business. And this mining business should be treated as a mining business and will become an important part of CSN going forward.

That said, we intend to have a mining business, of course, linked to steel, don't want to get into more, let's say, different things. We don't want to get in non-ferrous materials. We don't want to get none related to steel. We don't want to get into the precious metals or something like that. Our intention is the other mining arm, let's say, that is linked to steel. So we're able to draw some synergy out of it. But it should work and behave as a business on its own.

That said, of course, if by any point in time there are good opportunities on the market, being those CVRD or non-CVRD assets, we're going to take a look, analyze. And if we think it does make sense for expansion of our mining arms, we may present offers. Bids to those companies.

This CVRD issue is basically a question about one reporter a few days ago, that had asked us during the conference if by any chance there was a sale, if you are interested to buy. Of course we are. CVRD assets are good assets. And depending on price, of course, we will be willing to look at it and possibly make a move.

Regarding valuations, very tough to say what valuation may be, because depending on the asset you're talking about, that can change dramatically. For instance, in the (inaudible) system that is more on the news because of the SDE and (CAB) propositions. CVRD has great mines and not so great mines. So, it really depends a lot on which assets you're talking about. So we don't want to put out wild guesses regarding what kind of assets, maybe I acquire some (inaudible).

Q - Raphael Biderman {BIO 1529743 <GO>}

Can you give a guidance in terms of we are paying at the maximum, I don't know, three times, four times EBITDA multiple or x dollars per ton, for example, sometimes it's too early to tell that?

A - Lauro Rezende {BIO 1959027 <GO>}

Well, it's very difficult to say something like that, because it really depends on what the market will be at the point and what's the position of the asset itself. The assets they have are much, much more valid than the other one. So, it's very -- it's actually very tough to say one way or the other. It would be a major wild guess. I don't feel comfortable in the actual number that can be proven completely wrong at some point in time.

As we said, if you get -- an example of this is the acquisition of the tin mine. It's related to steel. We are the largest user of tin in Brazil. We still might have a possibility to supply my whole needs and maybe a little more. So we decided to go forward because we think the price was right and the opportunity was right. Each and every opportunity going forward, being CVRD or not, will be analyzed in the same sense, in the same light. But giving specific numbers it simply won't work, because assets (inaudible) a lot between them.

Q - Raphael Biderman {BIO 1529743 <GO>}

And regarding new iron ore contract negotiations --

A - Lauro Rezende {BIO 1959027 <GO>}

Okay, the new iron ore profit negotiations, we are negotiating as of now. New iron ore contracts, okay. The right (inaudible) that CVRD has hasn't been up to now an impediment or a major roadblock. But it doesn't help either.

Of course, I think there will be much -- we'll be much better off without this CVRD interference in our business and the business of selling iron ore. But that hasn't been up to now an impediment to do the business.

Q - Raphael Biderman {BIO 1529743 <GO>}

Okay. And you are confident that ESP could eliminate (inaudible) the first refusal? I've been talking to some small mining companies in (Menagiries) and they did have a promise, it really blocks their access to railways and that kind of thing. Do you think DSD could start becoming more concerned of CVRD's monopoly?

A - Lauro Rezende {BIO 1959027 <GO>}

Well, I think they are. If you read their -- the outcome of the recommendation they had made to (CADI), then it's pretty clear that they are very worried about the monopolistic power that had arised from the severe imposition plus the acquisition they made for last two, three years. If the (CADI) will ratify this view, well, it's yet to be seen. But of course, that's (factual) rights.

You don't want monopolies mainly on something that's vital to a lot of people as infrastructure, transportation, right? So. And we have right now with CVRD on -- mainly on MRS board, with the way the MRS board is structured, of course, CVRD can make the life of smaller people difficult. That's a reality. If they're going to do that or not is another case, if the government will ratify this view and adjust the positions respectively. Therefore, it's yet to be seen. But, of course, it's not easy for a small mine, as (Menagiries), to take (ore) out of it. And not only because of MRS. But because before I have (produced) my (inaudible), the only ports able to export iron ore from Brazil belongs to CVRD today.

That will change once I have my port ready. The first stage of the port should be ready by this year-end. We are planning the first shipment of iron ore outside to our international customers by January of 2006 at a rate of 8 million tons a year. And then at a rate of maximum 31 million tons a year by January 2007.

But before that, actually, even if you were able to get into the trade, you need to get a port. And all the ports as of now belong to CVRD too.

Q - Raphael Biderman {BIO 1529743 <GO>}

Okay. Thank you, Lauro. Thank you, very much for the explanation.

A - Lauro Rezende {BIO 1959027 <GO>}

Thank you, my pleasure.

Operator

Thank you. Our next question is coming from Daniel Altman of Bear Stearns.

Q - Daniel Altman {BIO 1855515 <GO>}

Hi. Good morning. A couple of questions. First of all, following up from the iron ore question, can you go through the basis of your argument to (CADI) regarding the right of first refusal? I know that they are going to develop their own argument. But it seems to me like it was part of an agreement, a private agreement, that you agreed or arrived to with CVRD. I'm wondering what the legal basis would be for you to now argue that that agreement is no longer valid. Maybe we'll start with that.

A - Lauro Rezende {BIO 1959027 <GO>}

Okay. Hi, Daniel. Lauro. Not going to dig too much on that, that's basically one thing. What I'm trying to say is that no matter whatever private agreement you may reach on, if this condition -- if the conditions have changed during a certain period of time, they have the right to intervene to avoid concentration above what they think can jeopardize market competition.

When those agreements were signed in 2001, you had then two other companies, or iron ore companies, that owns stakes on the transportation and on port facilities. They were independent from CVRD. And then we talk mainly of (Kiamia), for example. So, back then, I think the view of the government is this creates enough competition, let's say. After the acquisition from CVRD of (Kiamia), for example, that gives CVRD at least, is what is stated there, a much greater power regarding not only the production of iron ore. But the transportation system on railroads and ports.

So therefore, you have a change of conditions between what we had back than and what we have right now.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay, thank you. The second question is on steel pricing, if you've seen any reductions in your sales price, I guess in the export market, looking at the second and Third Quarters versus the First Quarter? Thanks.

A - Luis Martinez {BIO 17456025 <GO>}

Okay, Daniel. This is Luis Martinez speaking. For the local market, we are forecasting to have our price stable to June at least. We analyzed that we are going to do in the third and Fourth Quarter. But depending on the market, we have room to have a price increase in the Third Quarter of this year.

Talking about the exports, we have to analyze in different situations. In Europe, for example, we have a feeling that the market is really stable, due to the -- mainly for (Archelor) and (these things). That's in production. So, we have stable pricing in Europe. And in China we have more inventory than expected for this time of the year. But we are forecasting that China will be less important for the Fourth Quarter and Third Quarter. And we are feeling that we are going to have a good demand for China, considering that they are net importers in high value added products.

Okay. Regarding to tin plate, this is another very important point, we are fully booked in terms of tin plate in internal markets and also we are really astonished with some good prices in exports for tin plate. So, we are expecting to have to be fully focused for now on until the end of the year.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. So despite what we've seen in terms of falling spot prices in Europe for flat products, you're not seeing an adjustment down in your export price to Europe?

A - Luis Martinez {BIO 17456025 <GO>}

Yes. For the Second Quarter, we are interested in having 75% of the local market. Maybe for the Third Quarter, maybe, we need to be an adjustment for export, not for Europe. But for Asia.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay, thanks very much.

A - Luis Martinez {BIO 17456025 <GO>}

Okay.

Operator

Thank you. (Operator Instructions) Our next question is coming from Denis Parisien of Standard New York Securities.

Q - Denis Parisien {BIO 20333702 <GO>}

Hi, guys. Congratulations on the results. I'm wondering, in terms of the very large accumulation of cash on your balance sheet, I'm wondering if you think that's an efficient level and if not, what you think is an efficient cash level for you to hold?

And with respect to uses of cash, I'm wondering what your current -- what the current status of your plans are now for expansion of steel capacity, a brownfield or greenfield in Brazil acquisition of rolling capacity in USCU dividends to upstream. And for the funding of the Steinberg family purchase of the (Rabinovitch) family shares in (inaudible) steel? I know there is some news on that and (inaudible) did it convert and help fund that. But if you could -- I'm just interested in general on uses of cash, given that very large accumulation on your balance sheet. Thanks.

A - Lauro Rezende {BIO 1959027 <GO>}

Okay. I think -- it's Lauro speaking. First of all, we do have a sizeable amount of cash today. But bear in mind that we have proposed and the AGM has accepted a large payment of dividends that, at current rates, should be something like $900m, right. So, that will be reduced substantially by probably June, when the dividend payment is to be done. So, we're going to get back to something like ($1b).

You're probably never going to see us having very low amounts of cash for one reason. We are in Brazil and markets tend to be fine for a period of time and bad for some other period of time, right. So, we're going to carry a larger war chest than some other people in this business, because we are a developing country, because we are in a developing market. So, we tend to have a larger cash position in order to avoid being caught short with some market situations.

That said, I don't think that, as we have today, our over BRL2 billion cash position is sensible. But that was due mainly because of the large dividend payment that should be done by June. That will reduce that to something like BRL1.3 billion roughly. We are going to tend to see us having at least one year of financial payments in cash, because that, we think, should -- we should be able to weather whatever problem or issues that the market may have going forward, a possible further appreciation of Real, a possibility of large (inaudible) that may draw funds from emerging markets in (QS) itself. All those issues are good uses for that.

And today, coupled with that, we have, as you mentioned, a few large products being pushed forward, that is mainly the mining expansion. There is about an almost $800 million project that we haven't signed the final financing agreement yet. Those financial agreements are being worked out. But some of them, mainly with BNDES, we expect to start signing them in 60 days. But they haven't been signed yet.

So, we have taken a cautionary stance, as we always did back in -- since, I think, eight years ago. Therefore, for instance, this Company although it's very capital intensive, were able to weather the emerging markets issues and Brazil issues that in '99, 2000, 2001, 2002, without having any issues or any problems relating with funding itself, its operations, its investments, or being a huge dividend payer throughout those periods.

Regarding the position of the expansion of the steel productions in Brazil and acquisition (of ERSA), that's a plan we have. We have been following a lot of developments in markets in E.U. and United States. But unfortunately we don't have yet anything to announce soon. We are working out. We know a lot of the market. We still think that does make sense to the strategy of increasing our capacity of production of (our) steel up to slabs in Brazil and then rolling over to Europe. But we don't have, as of now, a final decision on those projects.

Regarding the financing of (Diques de Rugia), what I can tell is that on Friday, (Diques de Rugia) has issued a repurchase order for the outstanding inventory they have and the new financing has been already contracted. And those terms of this new financing probably will be public very soon. I think from now to Q3 -- two weeks most, those should be public in Brazil. I'm sorry I can't give you any detail. But they are not published as of now. But shouldn't be much different from what they have as of now.

Regarding the purchase of (one person) to other in the (Diques de Rugia), that was a deal made on the (person itself). And it will be financed by the seller itself to another -- to the purchase. So, we will be financed by the two branches of the (Rabinovitch) family to the two branches of the Steinberg family on their own.

But as you have seen, we have been for a long time and we will remain a very good dividend payer. Not because of any shareholder issue. But because this Company. And the Company has proven it already, is a very high cash generation company, a company that can make money on any point and at any point in the cycle. And this new project, namely the mining project, will only add to that. The mining project is a very profitable project. But more than that is an extremely high cash generation project.

So, we still think that the net debt should be between 0.6/0.7 to 1 times our normalized EBITDA going forward. But going below this level seems uneconomical from our point of view, because, different from a lot of other companies outside, I will never, at least not in the short term, we have this very nice kick of having very low debt and then jumping up to investment grade. So a deal should get us to those very nice (inaudible) very few basis points.

We're always going to have, although one of the most profitable and the best cash generation companies in the industry, our orders will be subject to some degree of Brazil risk. So, it doesn't work out for us simply working with very low, low debt positions.

Q - Denis Parisien {BIO 20333702 <GO>}

Thanks for all that and I understand what you're saying about having a precautionary balance. It just seems to me that if you kept a lower gross debt you could also keep a lower cash level and reduce your financial expenses. But that's just my perspective. I'm a (inaudible) analyst, not an equity analyst. So, I tend to look at things like that.

A - Lauro Rezende {BIO 1959027 <GO>}

I see. Listen, being (inaudible) give me credit for one thing. This cash on hand, I know you have to think that I may spend that at any point in time, right. And that's something that you should be worried about, of course. You have to remember that that gives me a very good (inaudible) against market-wide fluctuations, mainly on emerging markets, because sometimes on emerging markets it's not a question of how expensive our line may be. But actually a question of will be there a new financing line or not, right. And this cash position has in the past. And has -- and gives us now, the ability to weather those kinds of problems without having to resort to things that we don't want to have, like cutting deeply on dividends or something like that.

Q - Denis Parisien {BIO 20333702 <GO>}

Yes, sir. Point well taken. I'll leave the questions to other people. I'll come back. I have some more questions; I'll come back later. Thanks.

A - Lauro Rezende {BIO 1959027 <GO>}

Thank you.

Operator

Thank you. (Operator Instructions) Our next question comes from Eric Ollom of ING.

Q - Eric Ollom {BIO 4374335 <GO>}

Yes, hi. Good -- I guess it's good afternoon now everybody. A lot of my questions on the debt side have been answered, I guess. I would just ask what are your capital market plans for the balance of 2005? You've stated in prior conference calls that you will not be coming back to the market. I understand there'll be a certain amount of BNDES financing made available. Could you just go over what your plans are in terms of refinancing and/or expansion financing for 2005?

A - Lauro Rezende {BIO 1959027 <GO>}

Okay. Well, refinancing for 2005 is very little. I have basically, I think, a few -- a small position on (inaudible) bonds being due this year. As we mentioned, we probably won't be accessing capital markets again. But for one or other (opportunities viewed) that we may see fit. But at current levels probably, if you want to do something like that, it won't be the case of doing a straight (Eurobond) or something like that. But something a little more structured, like a small position on securitization or something like that. It's much more efficient these days. I don't have anything taken up today. I do export a lot the (inaudible) projects, the mining projects will only add to this (inaudible) level substantially today. So, I don't think we should do anything like that.

So, my refinancing needs are in the range of $75 to $100 million most. And that can easily be absorbed either by a small securitization (new tranche), or by cash in hand.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay, thank you.

A - Lauro Rezende {BIO 1959027 <GO>}

In the BNDES case, in the investment case, investment position, we should, as we mentioned before, have -- I think that should be around $500 million this year. That's mainly due to the iron ore projects. And a little bit of cement, $20 million on the cement projects, ($20m) dollars in cement projects. So, this can be done by other cash-in-hands, or most likely BNDES. The deals we are taking with BNDES today and doesn't of course preclude deals with some other partners, BNDES should be financing something like half of it this year. And there is upcoming negotiations with some (inaudible) agencies in Japan and Europe, regarding the import of some products from those places. People like (BBC) in Canada, or (US EXI) Bank, (Cofoart) in France, the (JB) in Japan and so on. (PFW) in Germany. And so on.

So, we're most probably going to end up financing our new lines out of this $520m, something like between $400 and $450m, I think, by the end of the year.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay, thank you.

A - Lauro Rezende {BIO 1959027 <GO>}

Thank you.

Operator

Thank you. Our next question is coming from (Lasselle Wilderman), BVCA.

Q - Lasselle Wilderman

Hello, it's just a follow-up on the question and the answer you gave to Daniel. You said that you were analyzing increasing prices in the domestic market for the Third Quarter. I'm not so sure CSN gave this guidance. But USIMINAS was saying like three to four months ago that domestic prices, they would not go up, they don't think of it going up, they would think of remaining stable because domestic prices still lags (the import parity). And basically what they would be doing was that if international prices drop, they would use this lagging as a cushion for not to reduce domestic prices. But now you say that you are considering increasing prices. I know you have not reached --

A - Lauro Rezende {BIO 1959027 <GO>}

(inaudible). I think there was a misunderstanding at some point in time. Sorry, if you did not have (our explanation), it should be. What we said is that we haven't seen that much of a softening of sales). The worst has happened to United States, not that much in Europe, not that much in Asia. And we think that if all goes well, prices in local markets should remain stable at least up to the end of the Third Quarter. And if the cut of production in Europe. And the rebound of the economy that we think should happen during the Third Quarter, there is a possibility of price increase by the Fourth Quarter of 2005.

Q - Lasselle Wilderman

On the basis, if international prices rises, you mean?

A - Lauro Rezende {BIO 1959027 <GO>}

If international prices rise by the end of the year, there is -- if international prices remains as it is of now, there's very, very (loose) increases in prices in Brazil.

Q - Lasselle Wilderman

Okay, okay. That was my doubt. Thanks a lot.

A - Lauro Rezende {BIO 1959027 <GO>}

Thank you.

Operator

Thank you. (Operator Instructions) Our next question is coming from Denis Parisien, Standard New York Securities.

Q - Denis Parisien {BIO 20333702 <GO>}

Hi. I'm wondering, on working capital, where you had a significant gain in the most recent quarter that added to, that's going to lead to your free cash flow. Obviously, because of the bottleneck in transportation in the Fourth Quarter last year and the production interruption in the First Quarter this year, we're expecting a decline in inventories. But the very large extension of payables had an even bigger impact in the First Quarter. I'm wondering if that's going to be reversed, if that's sustainable? What should we expect on working capital in general in the coming quarters? Thanks.

A - Lauro Rezende {BIO 1959027 <GO>}

Well, the working capital in general in coming quarters, they probably should be down a little bit. That's mainly due for lesser inventories going forward. And then we talked basically about raw material. As we have mentioned during the presentation, we expect raw material prices. And that's mainly coke, to be reduced going forward. So, I'm actually using coke that is now around the $400 level that I had bought in 2004. For coke, there is about the $240/$250 level that I'm buying as of now. So, that would be one point of reduction.

That will be offset, although we don't think that would be fully offset, by some high exports, when we do the second and maybe the Third Quarters of this year. Although, we still maintain our guidance that by year-end we should have around 75% local, 25% exports. So, the main -- the drop was in that sense. And we think going forward we should see a reduction but it won't be a major reduction on the working capital going forward, because there is a very positive effect. And that's mainly on the cost of raw material, mainly coke. But on the other hand, higher exports absorb more capital because the terms of payment are simply larger than the local terms of payment.

Q - Denis Parisien {BIO 20333702 <GO>}

But since you're expecting to keep the 75% domestic, 25% export, then basically what you're saying is the working capital level that we're seeing now is pretty much sustainable. We're not going to see a big reversal on the accounts payable line?

A - Lauro Rezende {BIO 1959027 <GO>}

Exactly, exactly what I mentioned. We may see a small difference quarter to quarter because of a high export in one quarter, a low export in another quarter. But by year-end, they should remain at the same level.

Q - Denis Parisien {BIO 20333702 <GO>}

Excellent, final question from me. The shift in Easter from the Second Quarter last year to the First Quarter in 2005 had much of a dampening impact on your volumes on top of the interruption of Q3. Are we going to see maybe higher capacity utilization and higher margins in the Second Quarter on Second Quarter versus year before Second Quarter comparisons because of that shift? Thanks.

A - Lauro Rezende {BIO 1959027 <GO>}

Yes. Well, most probably, yes. Because, as we said, if there is any (more), the production would be minimal. The scenario we are working as of now is a maximum loss, if it goes wrong, a maximum loss of around 30,000 tons on a yearly basis. In sales, there won't be any problem, because of the transportation bottlenecks like the end of last year, we ended up coming up into January more, even further than we anticipated back then. So, there is probably no major change in the sales figure for this year.

And you're right, most probably margins should be better because, different from a lot of other companies, in this market, I will have a much lesser impact regarding the increase in the price of raw material, because I launch my own so I don't have an impact of moving iron ore prices. I have most of the impact already of coal. And coke, the impact actually should be positive in the sense that coke prices were far higher last year that they should be this year.

Q - Denis Parisien {BIO 20333702 <GO>}

Great, thanks very much.

A - Lauro Rezende {BIO 1959027 <GO>}

Thank you.

Operator

Mr. Lauro, that was our final question. I'll turn the floor back over to you for any closing remarks you may have, sir.

A - Lauro Rezende {BIO 1959027 <GO>}

Well, first of all, let me thank you everybody that was in this call. It was our pleasure. Let me remind you the IR team is here to answer any further enquiries you may have. Thank you, very much. Hoping to see you next quarter. Thanks, bye bye.

Operator

Thank you. This does conclude today's conference. You may disconnect your lines at this time and have a wonderful day.