

## Q2 2003 Earnings Call

### Company Participants

- Benjamin Steinbruch, CEO
- Luciana Ferreira, Head of Investor Relations
- Vasco Dias, Commercial Managing Director

### Other Participants

- Andreas Perez, Analyst
- Corporate Participantunidentified Corporate Participant
- Daniel Altman, Analyst
- Fabio Zagardi, Analyst
- Katie Blacklock, Analyst
- Marcelo Kayath, Analyst
- Powell Disoria, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, I would like to welcome everyone to the CSN Second Quarter 2003 Conference Call. Today with us, we have Benjamin Steinbruch, Chief Executive Officer; Albano Chagas, Operating Managing Director; Vasco Dias, Commercial Managing Director; Lauro Rezende, Investment Managing Director; and Luciana Ferreira (ph.), Head of Investor Relations. Also this conference call is being simultaneously web cast over the internet and maybe accessed through the Investor Relations section of CSN's website [www.csn.com.br](http://www.csn.com.br). The CSN slide presentation may also be obtained from this website. Please feel free to look through the slides during the conference call. There will be a replay facility for this call on the website. We would also like to remind you that this conference call is being recorded and all participants will be in a listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. Should any participant need assistance during the call, please press '\*' '0' to reach the operator. 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's management and on information currently available to the company. They involve risks, uncertainties. And assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic condition, industry condition. And other operating factors could also affect the future results of CSN and could cause results to differ

materially from those expressed in such forward-looking statements. Now I'll turn the conference over to Ms. (Luciana Ferreira) who will present CSN's operating and financial highlights for the quarter. Luciana, you may begin your teleconference.

## Luciana Ferreira {BIO 15106436 <GO>}

Good morning, all and thank you for being here with us today. Present today is also (inaudible), head of the financial department. We all will be available to answer your questions during the Q&A session following this presentation. In the first slide, there's a lot of '03 highlight. We have the highlights of our achievements in this quarter. First (quarter) presented a strong revenue growth of over 50% in spite of a slight drop in volume. Our margins also remained strong this quarter with (income) EBITDA of 80% to \$739 million reals. And margin expansion of 7percentage points to 48%. Because of sales growth and variable stability, our net income was 135 million real compared to a loss of 210 million reals in the Second Quarter of 2002. And more people will -- international (export) market (led us to issue) in this spirit to \$250 million in one and two year notes and to make an export receivable safer to securitization into (Trans), one of seven years at 7.28% and another of three years at viable cost of 2.75%. We also have now completed the purchase of a 50% stake in (user CD), a Portuguese galvanize and tin plate rolling company.

Second (part) of steel goods already include proportional consolidation of this company. And as of July this year moves us to the (inaudible) formal commercial officer for the packaging sector (inaudible). They attend to this sector to supply (inaudible) from now on which should be in the range of 200,000 Pounds per year. This serves in this expansion of the (inaudible) EBITDA, I have on my mind have also progressed. The Board should analyze this proposal by the beginning of the Fourth Quarter.

Moving on to the next slide, we have volume breakdown in the slide number 3. In the Second Quarter, sales volume totaled 1.2 million Pounds of which 30% was exported. Domestic sales volume this quarter was affected by continued lower economic growth. Also the auto sector, which had benefited in the First Quarter from high demands, from prior exports, did not see the same levels of demand in the Second Quarter. Our domestic sales though in the first half still have the same distribution 19 to 10 for the autumn industry, 10% for construction, 30% for distribution, 22% for packaging. And 19% for home appliance. In addition we were able to increase our market share in the construction and home appliance segment. The decline in sales volume was concentrated in low value-added plans; therefore mix improved again this quarter, which contributed to higher profitability. (inaudible) were 39% of our sales this quarter compared to 35-37% in the previous quarter and 34% in the Second Quarter last year. Consolidated sales volumes were slightly lower at 1.1 million tones because of inventory building at (inaudible).

Now moving to the financials, we have in the slide four financial highlights Second Quarter '03 with the '02. Pricing and mix improvement continued to drive higher profitability even with lower volumes and the less favorable exchange rates, EBITDA margin remained at just below the 50% level than last quarter at 48%. (Average) income fell to a loss 125 million reals because of the appreciation of the real that lowered the value of state and offshore components in local currency. Net financial expense improved to 108 million reals

versus 970 million reals last year. While taxes increased because of higher pre-tax profits and the numbers that we received of assets alone.

In the following slide, the details of this 345 million reals increase in net income. In slide (five), the graph that compares net income between (inaudible), we have the first factor of higher price responsible for 457 million reals positive impact. Also amortization of the exchange rates (deferral) of 2001 was higher in 2002, which accounted for \$74 million reals improvement this year. On the other hand, production cost-per-ton grew causing a 191 million reals negative impact due to higher raw material cost like coal consumption. And outsource of (hot boils), labor costs, which were affected by rates readjustment in May, higher depreciation cost by the revaluation of assets and obstinate with 2003. Foreign exchange rate variation had a 30 million reals negative impact considering the after impact of financial and accretive results. Other items including higher value-added sales mix caused a 35 million reals improvement on net income. On slide (6) we show financial highlights comparing first half '03 with first half '02. Gross profits increase is 82% with sales up over 52%. Margins improved significantly due to the higher price and a better sales mix. EBITDA grew 85% to 1.5 billion reals and the margin rose 8percentage points to 49%. Equity (increase) declined its (inaudible) losses on offshore subsidiaries since the real appreciated in the period. On the other hand financial results improved as the (inaudible) appreciated and taxes were higher; hence profits low.

In the next slide, the breakdown of this increase to net income; on slide 7, we have the graph showing the main factors that contributed to this 948 million reals increase in net income. Price and sales mix were the biggest drivers behind this increase contributing with 885 million reals. Exchange rate amortization was low in 2003 contributing to this 269 million reals improvement. The reversal of the tax provision related to the summer plans occurred in the First Quarter of '03 had a positive impact of 115 million reals. The main negative factors affecting the bottom line were the impact of the increase in raw materials, labor. And depreciation on cost as already mentioned responsible for a negative 186 million reals. Other factors including in (dropping) volumes lowered net income by 35 million reals.

Slide eight would show consolidated debt and cash (liability) in reals. Our gross debt remained stable this quarter while our net debt grew by 738 million real. Net debt-EBITDA ratio this quarter (intruded) to 1.8 times versus 1.5 times last quarter, due to the dividend distribution. Cash during this quarter was used for the recent payment, \$800 million real or CAPEX \$111 million real, employee profit sharing. And other regular cash uses such as (using) CAP to debt service in banks. We maintain our commitment to reduce net debt by the end of 2003 as the expected two quarters of junk cash generation and the next expected business is to be used in just for the first half of 2004. We think that's attributable. We also have been voicing on expanding the (inaudible) debt and one of the first steps was issuance of the information, which it was material capitalization of 37m.

In slide 9, we have hedged finance and short-term debt. Our foreign currency denominated debt is \$1.9 million and is 100% hedged. Mostly through swap that has an average maturity of 250 days. Short-term maturities are roughly 900 million reals. And it was proved through finance line only 25% of our total debt or \$590 million matures within one year. In October, we'll pay US Commercial, tapering the amount of \$8m. In the first

half of 2004, we have 2 bond issues in the pre-payment process (services) in the amount of \$185 million and with (litigations) and in trade finance during the next 12 months sum up to \$168 million and \$476 million respectively. Currently our average cost of (goods sent) is 6% in both. And with that we complete our presentation today. Thank you, all for listening. We would like to open this call to your questions.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. If you do have a question or comment, you may press '1' followed by '4' on your touchtone phones. If you're on a speakerphone, we do ask you to please pick up your handset to minimize any background noise and if at any point your question has been answered you may remove yourself from the queue by pressing the '#' key. Once again ladies and gentlemen. if you do have a question or comment you may press '1' followed by '4' on your touchtone phones. Please hold while we poll for questions. Thank you. Our first question is coming from Wilfred Ortiz (ph.) of J.P. Morgan.

### Q - Corporate Participantunidentified Corporate Participant

Hi (Wilfred).

### Operator

Mr. Ortiz, your line is live at this time. Do you have a question? We'll move on to our next question, which is coming from Marcelo Kayath (ph.) of Credit Suisse First Boston.

### Q - Marcelo Kayath {BIO 2169773 <GO>}

Hello gentlemen good morning. I wanted to ask you about the net debt position. Can you please clarify what we can expect about the net debt position towards the end of the year and if you have change your expectations about the leveraging of the balance sheet, not only towards the end of the year but also towards 2004? Thank you.

### Q - Corporate Participantunidentified Corporate Participant

Hi Marcelo, this is soto(inaudible) speaking. How is everything? Listen, our management expectation for net and debt as at the end of 2003 is below 1.5 times EBITDA. As you saw the company generated a lot of cash during the first half of 2003 and if the company continues to report the same kind of result then automatically the company will be able to achieve this goal and from now on the company will continue to focus on debt reduction. Okay.

### Q - Marcelo Kayath {BIO 2169773 <GO>}

So you would see the increase in the net debt position in the Second Quarter as a seasonal factor related to the dividend payment and working capital investment that you have to make in the Second Quarter?

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### Q - Corporate Participantunidentified Corporate Participant

You are absolutely right. It was due to the 800 million reals dividend paid and approximately 290 million reals in working capital (easy) investment in our business.

### Q - Marcelo Kayath {BIO 2169773 <GO>}

The second question, Octovio(inaudible) is really about the trends in the steel market. What can you tell us about not only the domestic market in the third and the Fourth Quarter's but also what would you expect for CSN, especially in light of the new development that is are you going to have (seasonal) in the second half of the year? Are you going to have to more integration (when we) will see this. So can you help us in understanding the market in Brazil and also how CSN benefits or not from this environment going forward?

### Q - Corporate Participantunidentified Corporate Participant

Hi (Marcelo), this is voch(inaudible) speaking. We foresee for the second half the internal market in the same level of the Second Quarter. We do not expect important growth in internal market. And basically, we are counting the same level of sales, as I said in internal market and a significant increase in the export market whether by moving for (the actual) 30% and export sales something above (4%) of the export sales. It aims off to market since beginning of the June China is quoting a lot of product again. The market is very hot, the external market. And we do not see problems to allocate a bigger volume in this kind of market. Concerning our portfolio, as you know, we'll start selling from the Third Quarter Golvolune(inaudible) and then later (inaudible) the products. Our pre-market were very positive. We really were fully booked for all volume and this probably will contribute for increasing our net margin. That's basically -- I'm not working with any increase of price in internal markets but we think that the price will remain stable in internal market. And we're looking with increase -- a slight increase in price, mainly for hot rolled and cold rolled products for external markets, that by the way is already happening. This is the general overview for the second half.

### Q - Marcelo Kayath {BIO 2169773 <GO>}

(inaudible) let me make sure that it is clear, when you talk about (Gavaloom) and pre-painted products you are talking about Cisa right?

### Q - Corporate Participantunidentified Corporate Participant

Yes.

### Q - Marcelo Kayath {BIO 2169773 <GO>}

How much does that help your overall strategy in the domestic market and also you forgot to mention (Luzzoz Fither) how does that help your volumes and your strategy overall?

### Q - Corporate Participantunidentified Corporate Participant

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Look (Fither) is, as you know, is in the starting curve. We devolved to (inaudible) (Fither) over the Third Quarter will be small, Fourth Quarter will be bigger. And then of course (counting) (Fither) a nearly full operation next year. This will help a lot because we (inaudible) gavaloom as you know. And pre-painted a lot of (inaudible). (inaudible) are important and pre-paint to have all (inaudible). Then this certainly will help me a lot both in the civic construction area, (inaudible). And in home appliance. (inaudible) that's we're (inaudible) a strong competition to hot-rolled market today. We would deviate our hot-rolled, part of hot-rolled products either (inaudible) to produce a product with more aggregated involved. Concerning (Luzzoz Fither) in June we already sent something like 7,000 tons of hot-rolled (Luzzoz Fither). And we're planning to sell in the range of 200,000 tons of hot-rolled to (Luzzoz Fither). And this is basically our strategy. It means that all our (push) volume be either more balanced because we are not fragile to increase competition in the hot-rolled markets. The other way around is not a key thing, because we think we have to keep in this market and what it (turns) you a hot-rolled product to produce something with more aggregated (volume). That's basically -- what we see for the second half and next year of course

### Q - Marcelo Kayath {BIO 2169773 <GO>}

Okay that's helpful thanks a lot.

### Operator

Thank you, our next question is coming from Andreas Perez (ph.) of Morgan Stanley.

### Q - Andreas Perez

Hi Luciano, Tavo (inaudible). Just two questions -- one, on your domestic steel prices it appears that now prices locally are trading at a (inaudible) premium to the export market. I was wondering if you'd think that this is sustainable going into the second half of the year, especially if we do see the currency pullback to the (28) level or so? And secondly if you could just go over your hedging policy again, if you are planning on making any changes to that, now that seems that real is strengthened or I should say stabilized for a bit of a stronger level.

### Q - Corporate Participantunidentified Corporate Participant

Yes, (Ross) speaking. Concerning the spreads in the general market against standard market price, first we're not working this dollar in a two point strategy. As mentioned before while working with a price of 300-325 at the end of year. Today, more and more of hot-cold and Cold-Rolled spread is being used for galvanized adhesive plates. This too is stable something around \$50. But as I mentioned for cold and for Hot-Rolled products this situation is improving, in the Asia. China is asking for all our products again. Prices are improving in the range of \$320-335. So again, I am not working into this 2.8. I think that pricing in general market is stable and spreads are at the historical normal levels.

Yes. And regarding the hedging strategy of the company, you won't see us playing with the foreign exchange rates. We know that our business is to make money from production and sales of steel products. And as a consequence the company will consider to be fully hedged. Lot of days we only have linear instruments in our portfolio -- mainly

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linear instruments in our portfolio. We have a portfolio of swaps, the book of it is constituted by swaps and then we have smaller transactions using options. And again, the company will continue to be fully hedged against foreign exchange variation. Actually the bulk of the economies in our country and abroad are expecting foreign exchange rate at the end of the year slightly above 320 levels. So there is no reason why a company like us -- (activities) of company like us should be playing with foreign exchange rate and other microeconomic variables.

## Q - Andreas Perez

Okay. Great, thank you.

## Operator

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

## Q - Daniel Altman {BIO 1855515 <GO>}

Hi. Good morning. It's Daniel from Bear Stearns. Just the three quick questions -- one, if you can quantify your working capital increase? What component of working capital was gross the most? Also if you can quantify your cash taxes for the quarter; I know what your allocation was for your -- but I'd like to know what the actual cash component was? And then thirdly, if you can talk about the departures of JosÃ© Paulo and how that affects your strategy vis-Ã-vis growth outside of Brazil, thanks?

## Q - Corporate Participantunidentified Corporate Participant

Daniel, let me just tell you, we don't have the interviewing report in English yet but as we soon as we have -- it should be in a week but I know you can report to this so I can send you the cash flow that we have been in Portuguese. There you have the difference in working capital around 260 million reais, okay, mainly from inventories. Okay and (Otavio) will help you on the cash part.

Yes, if pharmaceutical report Daniel, you are asking about our composition of cash position. We have been playing basically with value (inaudible) Brazilian Government bonds, okay. In order to have all the liquidity that we need in order to -- If we need to finance our operations and sales and so on and we always give at least \$100 million cash position abroad. Okay. This way we believe that we can provide the company with all the liquidity that it needs in order to finance its financial obligations, financial operations and face potentially another liquidity crisis and financial crisis and so on. We are living in a much more volatile environment than expected just a few years ago. Regarding the change in working capital leads, Luciana will be sending you -- the cash flow, okay. And then we will be able to see that it was mainly due to the -- we decided to restore the level of inventories. As you'd probably remember at the end of 2002, we sold a huge amount of products that we kept at this time in our inventories. And then we are restoring these to the regular and phased levels, okay. And as a consequence we have as Luciana has said approximately 250 million reais in working capital.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay. And (inaudible) on the taxes, you provisioned about 185 million reais. I wonder how much of that was actually paid in cash?

**Q - Corporate Participant**unidentified Corporate Participant

(inaudible). Hello (Dan).

**Q - Daniel Altman** {BIO 1855515 <GO>}

Yes, I actually didn't hear the answer. It got a little blurry there.

**Q - Corporate Participant**unidentified Corporate Participant

Taxes effectively saved approximately 60 million reais -- 60 million reais.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay. Great.

**Q - Corporate Participant**unidentified Corporate Participant

And (Daniel) talking about the policy, beside to look for other opportunities, we will continue it in the same strategy, may be going faster in the implements of the decisions that we already decide. So everything will continue the same.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay. Thanks very much.

**Operator**

Once again if you do have a question or comment, you may press 'one' followed by 'four' on your touch-tone phones at this time. Our next question is coming from Powell Disoria (ph.) of Bank of Itau (ph.).

**Q - Powell Disoria**

Yes. My question is regarding operational margins going forward, we know that CNS (cut out) fee will be incorporated in your balance sheet from the second half onwards and also we have seen some drop in operational margins from the 49-50 level to this 47-48 level. I was wondering if you could give us a guidance of what was going to be the operational margins for the company going forward with incorporation loss of CNS. Alves, do you have operational margins for second half of the year?

**Q - Corporate Participant**unidentified Corporate Participant

Powell, this is (Alves) speaking here.

**Q - Powell Disoria**



Okay.

### Q - Corporate Participantunidentified Corporate Participant

Concerning for the operational margins for the second half, as we mentioned before, with the increase in export sales and keeping at least the same level of sales in internal market and we are going to do it through our increasing production even though (inaudible) the plus the stocks that we have (formed) in our subsidiaries. So we plan -- we are not changing our projections for the operational margin for the second half. So we basically the judgment -- we are optimist for the second half. Volumes will increase. And again, keeping the internal market and increasing the export sales, prices for Hot-Rolled, Cold-Rolled are hot at the moment. So we are working with dollar between 300 and 325 again up this year. So we are keeping our projections at the level of the first part of the year for the end of the year.

### A - Benjamin Steinbruch {BIO 1499059 <GO>}

On that line, probably -- it's Benjamin who is speaking -- we continuously work to reduce the cost. We will work strongly in the second semester as Vasco mentioned, I think that the margin we'll keep the same. And we expect the dollar at the end of the year 325 and we will increase the exploitation of our production and sell the stocks that we have. So I believe that we are reaching the minimum -- that same margins that we worked in the first semester.

### Q - Corporate Participantunidentified Corporate Participant

But I may add -- (inaudible) speaking out. I may add something -- its expenses in the First Quarter and the Second Quarter for this year, they are exactly the same -- the expense. The cost of goods sold was increased because of the fact that we have increased our inventories in our finished products in the company. Now, as we are going to have much stronger deliveries in the second half, as we have done our deliveries to more export than we had in the first half, we are going to bring back these inventories to a level where we have in the beginning of the year. This means that our cost of goods sold is going to be driven in the same level as the First Quarter of this year. So probably for your question, I mean the cost of goods sold is going to be in line in the First Quarter now from what we had in the First Quarter of this year.

### Q - Powell Disoria

Okay. And Albano, could you give us an update on your strategy of growth on increment in new blast furnace and then about (inaudible) and also the expansion of (inaudible). What is your latest update on CAPEX and then timing for this investments?

### Q - Corporate Participantunidentified Corporate Participant

I will ask Lauro Rezende who is with us in Sao Paulo to -- yes, Lauro in Sao Paulo, Luciana.

(inaudible). Regarding this investment indecision, we have choose to investments in, let's say, in evaluation, one is (inaudible), okay, to something like 30 million pounds of products, okay, who has probably an extra of 60 million pounds in balance okay, okay. This

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is only a valuation as up-to-date. We hope to penalize this product by the last quarter of 2003 and present to the Board investment numbers. They are (preliminized) as of today, seems like very compelling reasons to go forward, okay. We don't want to get you -- a number of investment for (inaudible) because the work is not finalized yet but returns on that investment are on a preliminary basis, we do not have the (inaudible). But yet they seem pretty compelling, okay. So we hope that you could present that report to approval by the end of this year. On the expansion on (inaudible) we are under (inaudible); we hope that we can reach a final number by the end of this year and present it to the Board. The idea is to review (inaudible) as and we still are in the evaluation phase. Those (inaudible) the idea is that will be done on a (part finance) basis or most of it on a (part finance) basis. And we hope that you could present that by the end of the year.

### Q - Powell Disoria

(inaudible)I understood but you think it is likely the (inaudible) plant near the (inaudible), that's correct?

### Q - Corporate Participantunidentified Corporate Participant

Yes, that's one option that we are evaluating right now, because as you have the (speed) of the product in the mind that you know give us very good quality of the extremely high quality (inaudible) one option that we are evaluating as of today.

### Q - Powell Disoria

Okay and other question is regarding the local sales, market is saying that the local demand is going to drop 80% in the second half of the year instead of this first half and you were saying that your volumes are going to be flat; so basically you are seeing or gaining market share along the second half of the year; and is this the driver for this market share gain?

### Q - Corporate Participantunidentified Corporate Participant

Paulo Vazquez here,(inaudible) we -- I can see that we will have a stronger (inaudible) than our competitors. We (inaudible) for example is it stable, we are gaining market share in home appliance; that's on very high value-added products, I am talking about (inaudible) products. So if you consider the level that the industries are (inaudible) right now talk about home appliance and automotive industry, we do not see how these volume is going to go down. And being conservative and keeping the same level of sales for home appliance and automotive that in the Second Quarter was very low. Civil construction, again, the decrease in civil construction in Brazil was 25% and I am keeping the (inaudible) of sales. (A lot of) increasing as I mentioned before is export sales. So I do not see any reason to not sell in this general markets at leisure that I am selling at the moment, mainly because our portfolios are stronger and in addition to that, as you mentioned, I have now galvoline product available for sales (inaudible) in the Third Quarter. But in (inaudible) quarter. So again I'm being very conservative in the volumes in internal markets. To be frank with you, I see that we will be able to sell a slightly higher in the Third Quarter in internal markets than in the Second Quarter but I am not counting that.

### Q - Powell Disoria

And the last thing is you are surprised that (inaudible) suggest you to -- from this point onwards as your (inaudible) are increasing (inaudible) consolidated figures to start reporting your sales and all your figures on an consolidated base would be very helpful for us to better understand the trend on margins going forward to (inaudible)?

## **Q - Corporate Participantunidentified Corporate Participant**

Okay. We're going to evaluate 10-Q (for the session).

## **Operator**

Thank you. Our next question is coming from Fabio Zagardi (ph.) of HSBC (ph.).

## **Q - Fabio Zagardi**

I have three quick questions. First one on (inaudible) it was said that you had 200,000 tones of hot roll will be shipped to ship to (inaudible), what is the guidance for 2004 please; are you going for the full capacity there?

## **Q - Corporate Participantunidentified Corporate Participant**

Yes, this is Vasco (ph.) speaking again. The minimum that we can supply is 200,000 tones. Based on the agreement which had (orders). We assume that we'll be able to increase this from next year. It's not in our budget. But it's a potential that we have. (inaudible) we'll be a (two capacity) next year to review at the end of this year, beginning next year and again that's our assumption and 200,000 tons is minimum that we can supply.

## **Q - Fabio Zagardi**

Okay. Second question, I just wondered if you could, I thought if I asked, the idea behind the acquisition of hot roll oil during the Second Quarter?

## **Q - Corporate Participantunidentified Corporate Participant**

Yes. I think there are two main reasons. Hello.

## **Q - Fabio Zagardi**

Yes.

## **Q - Corporate Participantunidentified Corporate Participant**

Yes, okay. There are two main reasons. The first one is based on the needs we have to supply our subsidiaries. (SiderÃrgica) in a full operational you had a consumption of 500,000 tons of hot rolled and (inaudible) need more 200,000 tons. So, as I mentioned before, if we want to keep at least parts of our customers in hot rolled and at the same time to keep the same leg of internal market and the standard market in high-added value products, I need more hot rolled. So, this is the first reason. Thus more and more we will need hot-rolled super-reduced high-added-value products. The second one is that this year we have a specific demand of more products. Even not considering yet the full operation of Cisa and (inaudible) we have a gap while short of something around

250,000 tons of hot rolled for 2003. To accomplish it with our deliveries and our customers. So basically this year we are short up to 250,000 from the hot roll, that's why I am buying the market and from next year, if you want to keep the same market share in internal market and to accomplish with all our needs in terms of external market, we will have to increase the purchase of hot rolls.

### **Q - Fabio Zagardi**

Okay. So when you say you are short on 250,000 tons of hot roll, you mean that your needs for the second semester are going to be 190?

### **Q - Corporate Participantunidentified Corporate Participant**

Obviously 170-190, yes, something around that, absolutely.

### **Q - Fabio Zagardi**

And does the decrease in stocks are related to this shortage on hot roll or not?

### **Q - Corporate Participantunidentified Corporate Participant**

No, the increase in stocks was based on our strategy. We -- the Second Quarter internal market was weak. But we didn't know if the internal market was (stuck with) the corporate in June; July. Then we decided not to increase its force sales or deny that we're going to increase in the third and Fourth Quarter. Waiting to see if it probably was going to happen in internal market. Now considering that we do not believe in the substantial real (its) important (inaudible) in third and Fourth Quarter internal markets, we are going to increase our total sales. How eventually we do that? With a substantial increase in its force sales and keeping the same level in the internal market. To do that, we need to reduce the very marginally our stocks in our subsidiaries. That's what we're going to do.

### **Q - Fabio Zagardi**

Okay and just a follow up on the (inaudible) again when -- so your just buying from third parties (inaudible) in aggravating value. So the net effect on your margins are then going to be positive during the second or not?

### **Q - Corporate Participantunidentified Corporate Participant**

Yes very much positive, we have a compact on fixed price (inaudible) to buy hot-rolled through the end of the year. And we are using this hot-rolled as we buy in the market to produce galvanized products and (steel) plates products both in internal markets or the external markets.

### **Q - Fabio Zagardi**

Yes sorry, I didn't get the value you said?

### **Q - Corporate Participantunidentified Corporate Participant**

We are buying hot-rolled product in the internal markets --

## Q - Fabio Zagardi

Okay.

## Q - Corporate Participantunidentified Corporate Participant

For a fixed price in (inaudible) and till the end of the year. And we are using these products to produce (inaudible) product, (steel) plates material, both in internal market or the external markets. So that it is to (inaudible).

## Q - Fabio Zagardi

Okay and my last question regards to dividends. When CSN states that it is not paying more dividends until 2004, does that mean that the cash disbursement of a new dividend announcement on regarding 2003 will be made on 2004 or no dividends at all?

## Q - Corporate Participantunidentified Corporate Participant

Well I don't I -- speak and I don't think that is appropriate at this point in time to talk about the potential dividends payments for 2004. We always, if you look at CSN -- we have been paying dividends on a regular basis to our shareholders and at the appropriate time the Company and the management will be recommending it to the Board and then the Board will decide it to do so, okay. But the message here is the following -- the increase in that investment was a seasonal thing. As I said, we paid 800 million reals in dividend and invested approximately 250 million reals in working capital needs. If you look at the strong cash generated by the Company during the second half and if you believe that the Company can continue to report certainly strong numbers then ultimately the net indebtedness of the company will go down in a significant way.

## Q - Fabio Zagardi

Okay, thanks.

## Operator

Once again, if you do have a question or comment, you may press '1' followed by '4' on your touchtone phones at this time. Our next question is coming from Katie Blacklock (ph.) of Tamzerver (ph.) Capital.

## Q - Katie Blacklock {BIO 17145068 <GO>}

Hi, I just had a quick question on the mix of exports and there was quite a change in the quarter towards tin plate and hot-rolled and away from slab. And can you just tell us that given the increase in exports that you're expecting in the second half whether we ought to expect a similar sales mix in the Second Quarter?

## A - Vasco Dias {BIO 19950371 <GO>}

Hi, Vasco speaking here. There will be a slight change in the mix. As I mentioned before, we're planning to increase from 30-40%. And these increasing export sales would be

mainly concentrated in lower added value products. It will be mainly concentrated in slabs, hot-rolled. And cold-rolled products and last in coated and tin-plate material. Yes.

**Q - Katie Blacklock** {BIO 17145068 <GO>}

Okay. Thank you.

## Operator

Once again, if there is any further questions or comments, you may press '1' followed by '4' on your touchtone phones at this time. There appear to be no further questions at this time. I'd like to turn the floor back over to Mr. (inaudible) for any closing remarks.

## Q - Corporate Participantunidentified Corporate Participant

(inaudible) everybody can -- okay everybody's listening. Just thank you all for participating and we at the IR team are at your disposal for any further questions. And this web cast is available as a replay in our website. Thank you.

## Operator

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

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