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Bloomberg Transcript

Q3 2006 Earnings Call

Company Participants

- Jorgemar Almeida, Controlling Director
- Jose Marcos Treiger, Investor Relations
- Juarez Saliba, Mining Business Director
- Otavio Lazcano, CFO

Other Participants

- Eric Ollom, Analyst
- Gerald Lacozey, Analyst
- Jamie Nicholson, Analyst
- Jessica Gonzales, Analyst
- Marcus Asomsau, Analyst
- Marina Rohe, Analyst
- Unidentified Speaker

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to CSN Third Quarter 2006 Earnings Conference Call. Today with us we have Otavio Lazcano, CFO, Jose Marcos Treiger, IR Officer. (Operator Instructions) We have simultaneous webcasts that may be accessed through the Investor Relations section of CSN's website, www.csn.com.br/ir or www.mz-ir.com/webcast/csn/3T06/?e. The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call. There will be a replay service for this call on the website.

Before proceeding let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of CSN management and on the 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 conditions, industry conditions and other operating factors could also affect the future results of CSN and could cause results to differ materially from those expressed in such forward-looking statements. Now I'll turn the conference over to Mr. Treiger who will present CSN's operating and financial highlights of the quarter. Mr. Treiger, you may begin your conference.

Jose Marcos Treiger

Thank you. Good morning, everyone and thank you for joining our conference call. My name is Jose Marcos Treiger. I am the Investor Relations officer here at CSN. And together with our officers and executive officers I will be coordinating the presentation today. We will present the Third Quarter 2006 results as well as the most up-to-date information on the merger with Wheeling Pittsburgh which is underway.

Let's move ahead now and let us get started with our slide of number 3. Here on slide number 3 we are presenting a briefing, a small briefing on Brazilian and the worldwide steel industry. Well our view is that worldwide demand might be stronger than normally perceived by the market nowadays. In fact the steel utilization intensity per GDP unit has significantly increased let's say skyscrapers are being built in Asia, in the Persian Gulf, civil construction structures never tried before are being built right now, gigantic bridges, even connecting countries, mega projects associated in massive investments in ground. And off-shore oil drilling, new oil platforms, new refineries, new pipelines, the new automotive industry in China, in India and so on. Additionally the international scenario has been presenting low inflation levels in several countries.

This factor coupled with the recent drop in oil prices points to a probable maintenance of the international economic growth. Europe's growth should and could near 2.5%. The United States should not grow less than that although despite its recent economic slowdown. China and India will probably keep their high growth rates as well pushing Japan, Korea and remaining Asian countries to follow the same track.

As a matter of fact the Chinese government is restructuring its local steel industry leading to a reduction in exports, strengthening the Chinese consolidation frame, reducing secondary and marginal capacities and even reducing local fiscal incentives to export -- for exports, to export markets. Therefore, our view, CSN's view is that the outlook for the worldwide steel industry in 2006 and 2007 might be, again, a very positive one. This said, let us move now to our next slide which has a number 4 where we show the highlights of CSN's Third Quarter of 2006.

The Third Quarter of 2006 was marked by the return to operations of CSN's Blast Furnace #3 which reached full capacity in the first two weeks of August recently. Proved steel output totaled 1.3 million tons and raw steel output reached 1.1 million tons. In the slide we highlight some main developments which occurred throughout the Third Quarter of the year.

As a result of the substantial increase in sales volume and prices in the domestic and international markets, net revenue of CSN surpassed R2.5 billion up by 35% when compared to the previous quarters. And our year-to-date net revenue totaled R6.5 billion. Taking into account the earning losses due to business interruption, EBITDA was R1.142 billion, up by 24% compared to the Second Quarter and even with that provision R912 million EBITDA reported is already in line with the EBITDA level throughout 2005 on average. As of sales the recovery in the domestic market volume was meaningful in the Third Quarter 16% higher than the previous quarter and 20% higher than sales in the Third

Quarter of last year. The sales mix was in line with the sales mix of 2006 and the same forward.

Another development that should be highlighted is the year-to-date CapEx which surpasses the R1 billion mark and confirms our confidence in our companies, in our sector. And the very growth of the Brazilian market. In the Third Quarter of 2006 34% of this total CapEx were directed as follows R73 million went to the Casa de Pedra expansion project which includes the mine itself, port and (teletising) plants. R138 million were directed towards technological upgrades, normal repairs and maintenance. R29 million were invested in MRS, our railway. And R69 million went to the acquisition of the remainder, the 50% remaining stake in Lusosider in Portugal.

Let us move now to slide number 5 please. On this slide, number 5, we are showing a detailed breakdown of CSN's consolidated sales and revenues by market. In the Third Quarter sales volume in the domestic market, almost 800,000 tons increased as said by 16% over the previous quarter. Revenue from domestic market sales in the quarter was over R1.8 billion representing a 3% increase in the total CSN's market share compared to the Third Quarter '05 figures.

Market share gain was 5% compared to the previous quarter. Also throughout July and September 2006 63% of our sales were best into the domestic market and 37% of the export market. As of prices the company increased average prices by 7% in the domestic market and by 10% in the export market. Let us move now, please, to slide number 6.

Now in slide number 6 we see the changes in our sales mix by product and by market segment. For sales mix by segment, volumes sold were in line with the figures reported in the previous quarter. The distribution segment once again had the consumption ranking and accounting for 40% of sales followed by packaging with 21%, home appliances and OEM with 15%, civil construction with 10% and the automotive sector with 13% of shipments.

As of the products mix, CSN maintains its focus obviously on high value-added products keeping its market share of more than 99% (in King Place) in an economy of 185 million inhabitants and increasing its share in galvanized products in the Third Quarter as well. Let us move now together to slide number 7 please.

Here on slide number 7 we show the breakdown of our production costs in the parent company CSN. Costs in the Third Quarter were still under the impact of additional slabs purchased which were obligatory. We did purchase slabs from third parties due to the Blast Furnace #3 accident in the beginning of the year. The Third Quarter costs were 17% higher therefore compared to the Second Quarter. This increase reflects higher consumption of raw materials added to an increase in general manufacturing costs as a result of the return of the operations of the Blast Furnace #3 itself. In the year-on-year comparison our costs increased by 21% obviously due to the consumption of purchased slabs. It is important though to highlight that our Blast Furnace #3 resumed its full production capacity in August 2006. Over the next quarters we will probably return to our competitive cost levels which have always been one of CSN's most important trademarks.

Let us move now to our analysis of slide number 8, please. On slide number 8 we are showing the net income, EBITDA and EBITDA margin breakdown. The company's EBITDA totaled R912 million in the period, 92% higher than the previous quarter. This EBITDA increase was due to an improvement in sales and better prices in the Third Quarter. Including the booking of earning losses as a result of business interruption, EBITDA reached R1.142 billion up by 24% over the Second Quarter of 2006 EBITDA level.

Year-to-date considering this provision of earning losses due to business interruption EBITDA amounted to more than R3 billion. The company reported a net income of R334 million in the quarter. Year-to-date net income surpassed also the mark of R1 billion. It is important to notice that EBITDA margin in the chart is net of adjustments for earnings losses due to business interruption to avoid obviously any distortion.

Now let's take a look at the next slide, slide number 9. Our slide number 9 shows the breakdown of CSN's indebtedness and the company's cash balance figures. Net debt increased by R191 million over the previous quarter due to 1) R333 million in dividend payments, CapEx of R380 million also in the Third Quarter. And a R316 million in interest paid out. The decline in the gross debt was due to payment of the remaining short-term loans especially the R300 million paid in August 2006.

Now if you please let us move together to slide number 10. In slide number 10 you can see a bridge chart showing the change in CSN's net debt. In December 2005 CSN's net debt was R4.7 billion. The chart shows first the decline in debt through a positive change of R2.2 billion of EBITDA. From this point on during the first nine months of the year net debt growth was due to a R2.1 billion in dividend and interest -- and on equity payments. R900 million in investments which were distributed as follows, R400 million in investments out of which R150 million of them in the expansion of the port, R300 million in maintenance, R100 million in acquisition and consolidation of (Prada), R100 million investment undertaken by subsidiaries of which R$83 million referred to MRS railway system, cost of debt added R500 million. All in all in net debt reached R6.2 billion on September 30th, 2006.

Now let us analyze our next slide with number 11. In slide 11 we have again a brief chart detailing the decrease in consolidated net income in the year-on-year comparison. First it is important to note that changes highlighted in this very chart are already net of income and social contribution taxes. In 2006 lower gross income is primarily due to the impact of the Blast Furnace #3 accident in the beginning of the year. The lower output volume as a result of the stoppage in Blast Furnace affected sales and production cost per unit due to lower dilution of fixed costs. Additionally CSN had to buy slabs in the market to reduce the impact and the supply of our raw products to our clients.

These effects which were coupled in terms of costs and in sales accounted for about 80% of the change in accumulated gross income. The remaining 20% can be explained by lower average prices in the period. Nonetheless these negative affects from the accident were offset by $424 million accounted as compensation for earning losses due to business interruption. This amount is supported through the report prepared by the consulting firm hired by the insurance companies and therefore has, as usual, a very conservative bias. The R553 million effect shown in the chart is net of the Brazilian taxes PIS and for fees as well as net of income and social contribution taxes.

Let us move on now to our next slide which highlights the improvements in negotiations with Wheeling Pittsburgh.

In this very slide of number 12 we would like to remind you the main topics of the merger between CSN LLC and Wheeling Pittsburgh. On October 25, 2006 we signed an agreement through which CSN would contribute with CSN LLC assets for a 49.5% stake in a new company to be created from the merger of operations between Wheeling Pittsburgh and CSN LLC in Indiana. This transaction entails a loan from CSN totaling $225 million and this amount in turn is convertible to the new company's shares in the future. Thus CSN's stake in this new company could increase to -- up to 64%.

This loan would be distributed as follows -- $75 million would be directed to increase hot rolled steel output in Wheeling Pittsburgh from 3.4 million short tons presently to 4 million. Another $75 million would be utilized to add 350,000 metric tons of additional capacity in our galvanized steel production at CSN LLC at Terra Haute. The remaining $75 million would be used as working capital by the new company.

Let us move now to slide number 13 where we will detail the enhancement in CSN's proposal offer to Wheeling Pittsburgh's shareholders just a few days ago. On this next slide we can see the enhancement recently proposed. On November 6, 2006 CSN offered new enhanced conditions to Wheeling Pittsburgh shareholders. Under these for each share of Wheeling Pittsburgh Corporation shareholders will have the choice of electing to receive either a share of common stock in the new combined company, Class A share. Second, a depository share that requires CSN to pay $30 per share in cash for four years after the merger. This will be B class share. And third a combination of A and B shares. Each B share will represent the same class of common stock as the A share that is deposited with a depository and will be subject to a modified purchase by CSN for $30 per share on the fourth anniversary of the merger. The total number of these shares will be limited by approximately 50% of the total of A and B shares issued to Wheeling Pittsburgh's shareholders in the merger.

The merger implementation still depends of certain conditions, the election of Wheeling Pittsburgh's new Board of Directors scheduled to take place on November 17, the approval of this transaction by local authorities and the approval of the merger by Wheeling Pittsburgh's shareholders on a special meeting of shareholders scheduled for January 2007.

Now let us move onto the very last slide of this first part of our conference call. As said this is our last slide and here we highlight the substantial appreciation in CSN's share prices over the last five years. Our shares appreciated by over the outstanding amount of 1000%. Meanwhile CSN's market cap increased from R3.6 billion to nearly R17 billion in the same time. Also, over the same period CSN ranked as one of the largest dividend payers in our country. Since the company has paid over R9 billion in dividends and interest on equity to shareholders, with equal payments per share, to controlling shareholders and to minority shareholders in accordance with the highest levels of proper governance standards.

Well this ends the first part of our conference call. And I would like to, in the name of CSN, thank you for participating in this first part. And at this point I would like to open the floor to questions and answers. Your questions are going to be answered by my colleagues, officers and executive officers of CSN. Thank you.

Questions And Answers

Operator

(Operator Instructions) Our first question is coming from (Marcus Asomsau) of Merrill Lynch.

Q - Marcus Asomsau

Good afternoon, gentlemen. First question I would like to ask for -- to Juarez, it's regarding Casa de Pedra CapEx. If we add all the CapEx from the Casa de Pedra expended this year, year-to-date we would amount to R222 million. So far. And actually if you look through the presentations, the last presentation that we have from CSN, we have a CapEx of $383 million for this year. I would like Juarez, if you could, explain a little bit of this delay in CapEx and if this is going to be expended in 2007 and also to give an update regarding the project?

A - Juarez Saliba {BIO 16483817 <GO>}

Hello, this is Juarez. Well, there is no -- there is no delay in the CapEx in 2006. The only problem is that we spent some more time with the contractors and suppliers in order to finalize the contracts. And the product limitation of the benefication plant in Casa de Pedra. And the amounts will be paid on the first moments, the downpayment will be paid in the fall part of 2006.

So we believe that we will fulfil the expectation related to the CapEx for Casa de Pedra in 2006. Regarding the update, about the project, I can tell you that the port, the first phase of the port, the 8 million tons capacity will be ready in the beginning of 2007. And we expect to load the first vessel in January of 2007. And the second phase of the port will give us the capacity of 30 million tons per year will be ready probably in the end of Fourth Quarter of 2007. So the 30 million tons capacity at the port will be fulfilled during 2007.

Regarding the Casa de Pedra Mine, as I told you before, the mine equipments are already 100% acquired and almost 70% delivered. So we have a very good capacity of -- to handle material at the mine today. And our stripping ratio in Casa De Pedra Mine in 2006 will be about 1.3, it's a very high stripping ratio because we are preparing the mine for the higher capacity. And for 2007 based on the mine equipment we have, we are able to reach almost 1.6 stripping ratio at the mine, it's a very high level of stripping ratio. But it's necessary to open the mine for the new capacity.

Regarding the benefication plant . 100% of the contracts are already signed. And we are now discussing with the contractors and suppliers to try to reduce the timetable for the implementation of the benefication plant . But roughly, we -- the second half of 2007, we have the first phase of the next stage of the next phase of Casa de Pedra benefication plant ready, the second half of 2007.

And in the second half of 2008 the 40 million tons capacity, the benefication plant of Casa de Pedra will be reached. And then we are working now on the project for the additional capacity for the port and for the benefication plant , in order to reach 53 million tons in Casa de Pedra Mine and 50 million tons at the port.

Q - Marcus Asomsau

Okay. Thank you. Next question I would like to ask maybe to Otavio, it's regarding the cement business. You wrote in the press release that you just got the environmental license for this project. How could we start to project this new business in our models? Would CSN start to -- some production of cement already in the Fourth Quarter of '07 as you wrote in the previous press release?

A - Otavio Lazcano {BIO 4999009 <GO>}

This is Otavio speaking. Do we have (Marcos Marinho) on the phone line?

Q - Unidentified Speaker

No, unfortunately he had a meeting he could not participate here, I'm sorry.

A - Otavio Lazcano {BIO 4999009 <GO>}

Okay, the project as you know is $180 million project to produce roughly speaking 3 million tons of value cement products. You saw in our press release that the project has been developed in accordance with the schedule that we made public a few months ago. So no major surprises as to the implementation of the project. As to your capabilities do we start to project cash flows, the company will continue to make public news regarding the construction of the plant. And then sooner rather than later you should start to incorporate in your own analogies of CSN, incremental cash flows deriving from this project.

Q - Marcus Asomsau

Okay. Thank you. And just one last follow-up from the previous call. It wasn't clear for me what is going to be -- what could be the guidance for the volumes in the Fourth Quarter. If we add the 3.2 million tons that were sold year-to-date and subtract from the guidance of 5 million tons we would have arrived to 1.8 million tons for this quarter. But I believe that this may be too strong for next quarter. Maybe you guys could just clarify what could be the guidance for next quarter. And also the mix?

A - Otavio Lazcano {BIO 4999009 <GO>}

I'm passing your question here to our colleague, (Martinez). Martinez, could you please explain again, our plans for the last quarter, please?

Q - Unidentified Speaker

Okay, Marcos. We had the opportunity to talk this morning about the guidance. We are still keeping the guidance for this year. So in other words we are talking about having in rough numbers, 1.5 to 1.8 million tons in the last quarter. Obviously we are taking into account that we are going to keep our share in the local market. We are also considering some slabs that we need to sell for the last quarter. And also, we have a very strong program to decrease our inventory also inLittle Cedar and also in Terre Haute, Indiana. So basically those are our major points for keeping the guidance for the last quarter.

Q - Marcus Asomsau

Okay Martinez. So if we assume that you went to say 1.8 million tons and you will maintain your sales, your monthly sales in the domestic market of around 300,000 tons we would get to 900,000 tons for the quarter. So it would get to a mix of 50% in the domestic market in the Fourth Quarter if you reach the 1.8 million tons, right?

Q - Unidentified Speaker

No, not 50%. We are considering a range of 250 to 280. It doesn't mean 50% of the local market. Basically we are keeping our share in the number of 32 to 33% of last quarter, this is the target.

Q - Marcus Asomsau

Okay. Thank you.

Operator

Thank you. Your next question is coming from Marina Rohe from Bear Stearns.

Q - Marina Rohe

Hello. Good morning. I'd like to know if you have any sense for the timing in receiving the insurance claims if you were thinking about a one-year horizon or if you think you could receive this amount a little bit earlier? Thank you.

Q - Unidentified Speaker

Otavio, could you please help me with this answer?

A - Otavio Lazcano {BIO 4999009 <GO>}

Yes, our best estimate as to the total loss of the revenue from the accident is roughly speaking $500 million on business interruption and an additional $100 million on damaged equipment. We got already from the insurance company $75 million I believe it was back in July. We were informed by the reinsurance institute here in Brazil that an additional advanced payment of $162 million will be made over the next few days. And we got today, early in the morning $50 million from this additional 162. So before year end there is no question that at least $240 million will be collected by the company.

As to the order, $300 million, okay, our expectation is that we'll be able to collect over the next six months. Why? The book of the losses are derived from business interruption, it's margin loss. Now we have made public our Third Quarter results and there again, consultants, accountants, people we forwarded with the adjustment of the accident, will be able to calculate what is the margin loss accrual during the Third Quarter.

So sooner rather than later I believe that we will be able to collect an additional $300 million that is missing.

Q - Marina Rohe

Okay. Thank you, very much.

A - Otavio Lazcano {BIO 4999009 <GO>}

Your welcome.

Operator

Your next question is coming from Jessica Gonzales of JMP Capital Group.

Jessica Gonzales. Hello, good morning. I have a couple of questions. First of all I would like to know additional information regarding the new version of provision of the financial results. And also I would like detailed information regarding the derivative operations. Thank you.

A - Jose Marcos Treiger

Well in relationship to the reversion of provisions I would appreciate it if Jorgemar could give us a hand on that. And the second part of your question I would like to address it to our CFO, Otavio Lazcano.

Jorgemar, are you on the line?

A - Jorgemar Almeida

Yes, I am. The revision is a provision for contingency in the Second Quarter around 200 million.

A - Jose Marcos Treiger

R200 million --?

A - Jorgemar Almeida

Right. Yes.

Jose Marcos Treiger Thank you. Otavio, could you please compliment this answer?

A - Otavio Lazcano {BIO 4999009 <GO>}

As to the financial results. We have, up to now, interest charge equivalent to 76% of the base rate in Brazil. So well below the level, or the interest that for example the Brazilian government has been paying to bondholders out there.

But specifically on the Third Quarter results, the debt financial expenses accounting line, reflects a higher level of net indebtedness because, as I said, a few seconds ago, up to now we were not able to collect 100% of the proceeds on the insurance policies. So we have a higher level of net debt. And also it reflects the minor devaluation of the Real against the dollar, from 2.16 to 2.17 during the Third Quarter.

We only use derivatives for hedging proposals. We don't play with derivatives. We don't try to make money using financial products. We know that our business is really to produce and sell steel products. That's what I can say.

Q - Jessica Gonzales {BIO 20444666 <GO>}

Okay. Thank you. And I'd like to thank the Investor Relations, especially (Renata Cater) for all the attention to help build my plan.

A - Jose Marcos Treiger

You are more than welcome.

Operator

Thank you. Your next question is coming from Eric Ollom of ING.

Q - Eric Ollom {BIO 4374335 <GO>}

Hi. Good morning, everybody. Could you just give us a little bit more detail on production expectations for the Fourth Quarter if you do achieve the 1.8 million ton volume sales -- you did mention you're going to draw down some inventories.

And then secondly can you share with us any sort of year end guidance for '06 in terms of revenues, EBITDA and CapEx? Thank you.

A - Jose Marcos Treiger

Eneas, maybe you could help us answering this question.

A - Otavio Lazcano {BIO 4999009 <GO>}

Eric, this is Otavio speaking, Eneas had to step out for just one sec. In terms of production, what the company can say is really that we are back at full speed since July or August. So what you can expect from us during the Fourth Quarter is really to operate at full speed other than the regular day-to-day maintenance of the other equipment.

As to your question on guidance for 2006 I'm sorry. But you understand that we cannot really give you guidance in terms of net revenue from sales, volumes, size of locations and so on. You have one specific topic on EBITDA margin. And then I can tell you that our company has been reporting EBITDA margin slightly above 40% over the last four years and shareholders should not expect anything different from it over the next few years.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. Fair enough, I understand. Could you just give us what is your expectations for the CapEx for the full year '06 and let's say also for '07?

A - Otavio Lazcano {BIO 4999009 <GO>}

As a rule of thumb, in order to keep the state of the art of our main sites, we have between 40% of the annual depreciation. On top of that we have investments on Casa de Perda and all the other projects. We made it public a few months ago, I'm sorry I don't have the figures here with me, I don't know if Marcos can help us. But I mean -- anyway we can send you what is public already which is the breakdown of all the other investments. And again, as a rule of thumb to keep the state of the art of our plant we need to invest from 30 to 40% of the yearly depreciation.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay, well I guess -- I'm using about 600 million for this year and 1.9 billion for next year, based on that information that you had sent out. And I guess really what I'm asking is, is that still relevant?

A - Otavio Lazcano {BIO 4999009 <GO>}

We have -- all the projects are being executed in accordance with the schedule of physical and financial events that we made public a few months ago. The only thing that we had was really on the Casa de Perda project, was the first question in this conference call. A relevant portion of the down payments to be made to contractors will happen during the Fourth Quarter. But anyway, the total for 2006 and then the following years will be similar if not identical to the breakdown of the cash disbursements that we made available to you a few months ago.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. Excellent. Thank you.

A - Otavio Lazcano {BIO 4999009 <GO>}

You are welcome.

Operator

(Operator Instructions) Your next question is coming from (Gerald Lacozey) of (Tisbury).

Q - Gerald Lacozey

Yes, hello. Actually, I have a question regarding the ramp up and the estimate of production for next year, for the steel. And perhaps if you could give some guidance as to when the new capacity is going to kick in from your 9 million expansion plans?

A - Jose Marcos Treiger

Otavio, could you give us a hand on that as well please?

A - Otavio Lazcano {BIO 4999009 <GO>}

Yes. I will pass it on to Juarez Saliba the officer responsible for the mining activities, he's more -- he can answer this question better than I.

A - Juarez Saliba {BIO 16483817 <GO>}

Okay. In terms of additional capacity (inaudible; accent) we are forecasting -- we are finalizing the basic project of our Etaviaz project. And at the same time we are working on the environmental license for the Etaviaz site. We expect to receive the previous license in the end of this year, 2006. And the installation license that is the necessary permit in order to start the movement. Not after July 2007. So we will be able to start the implementation of the project in July 2007. Based on this schedule we are supposing to have the start-up of the new Etaviaz plans in the first half of 2010. So we for sure will be working full capacity in 2011. But we are already expect some production in 2010.

Regarding the second site for slab production, the first one you'll remember is 4.5 million tons per year. The second site we are finalizing the negotiations with the government of the State of Minas Gerais and the State of Rio De Janeiro in order to make -- to disclose the place where we will implement the second site. And we are in parallel, we are working on the basic project and on the environmental license as well.

But I can tell you that we have a one-year delay from the first to the second site in terms of (inaudible; accent) slabs. In other words, our intention is to have the start-up of the second site of the slab in the first half of 2011 and so we -- the start-up will take place, let's say, in the middle of 2011. The second site is 4.5 million tons as well.

A - Otavio Lazcano {BIO 4999009 <GO>}

So again, the existing steel plant, full capacity in 2007, 8, 9, by 2010 4.5 million tons of slab will come on stream. And then in 2011 additional 4.5 million tons of slabs will come on stream.

Q - Gerald Lacozey

Okay. Thank you.

A - Otavio Lazcano {BIO 4999009 <GO>}

You're welcome.

Operator

(Operator Instructions) Your next question comes from Jamie Nicholson of Credit Suisse.

Q - Jamie Nicholson {BIO 1540918 <GO>}

Hi. Just a quick question about your 2015 bond. I was wondering if you had a time frame for launching the exchange offer to register those bonds?

A - Otavio Lazcano {BIO 4999009 <GO>}

We have to do it sooner rather than later. We are working with lawyers and accounting departments. So sooner rather than later we will have the exchange worked out there in order to exchange the existing Eurobonds for the definitive ones.

Q - Jamie Nicholson {BIO 1540918 <GO>}

Okay. Thanks so much.

A - Otavio Lazcano {BIO 4999009 <GO>}

You're welcome.

Operator

Thank you. At this time there appear to be no further questions. I would like to turn the floor back to management for any closing comments.

A - Jose Marcos Treiger

Well, again, this is Jose Marcos Treiger from CSN. I would like to thank all of you that have participated in one more conference call, quarterly conference call of our company. I would like to obviously invite you for the next one which is going to take place next year. And I would like to thank very much all of my colleagues all of my -- all the officers, executive officers of CSN that were here helping the IR team today.

Therefore thank you very much and have a very nice day. Thank you.

Operator

Thank you. This does conclude today's CSN conference call. You may now disconnect.