Q4 2008 Earnings Call

Company Participants

- Jayme Nicoloato, Mining Director
- Luis Martinez, Commercial Director
- Otavio de Garcia Lazcano, CEO

Other Participants

- Carlos de Alba, Analyst
- David Martin, Analyst
- Denis Parisien, Analyst
- Felipe Hare, Analyst
- Francisco Schumacher, Analyst
- Marcos Asantio, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to the CSN Fourth Quarter 2008 And Full-Year 2008 Earnings Conference Call. Today, we have with us the Company's Executive Officer. We would like to inform you that this event is being recorded. And all participants will be in a listen-only mode during the Company's presentation. After the Company's remarks are over, there will be a question and answer session. At that time, other instructions will be given.

(Operator Instructions)

We have simultaneous webcast that may be accessed through the CSN Investor Relations website at www.csn.com.br/ir. 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 the call on the website.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of CSN management and on information currently available on 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 call over to Mr. Otavio de Garcia Lazcano, who will present CSN's operating and financial highlights of the period. Mr. Lazcano, you may begin your conference.

Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Good afternoon. Thank you, all, for joining us on the 2008 earnings conference call. Let's start with financial -- main financial highlights. Net revenues from sales of BRL14 billion in 2008 were 22% above number reported for the previous year. It is a record for the Company. Net revenues from sales during the Fourth Quarter of BRL3.4 billion were 12% above net revenues from sales reported during the Fourth Quarter of '07.

The consolidated EBITDA was equivalent to BRL6.6 billion, 35% higher than in 2007. It's another record for the Company. During the Fourth Quarter, consolidated EBITDA was equivalent to BRL1.5 billion, 20% above the previous quarter.

As to EBITDA margin, it was 47% during 2008. It is -- I mean, you know CSN has been reporting EBITDA margins above 40% for more than eight years in a row. During the Fourth Quarter, EBITDA margin was 45%, three percentage points above number reported in the previous quarter during the previous year.

The net income was equivalent to BRL5.8 billion. It's another record for the Company. The same applies to the net income reported during the Fourth Quarter of BRL3.9 billion.

All in all, sales volume equivalents to 18 million tons in 2008 is another record for the Company. Sales volume was 73% above sales volume reported during the previous year.

As to sales allocation, parent-only numbers, we sold 92% of steel production locally, where we can charge higher price to our customers. Consolidated figures, we sold 85% of total sales volume -- I mean, steel sales volume to local customers.

And finally, as to our market share in the steel business, our market share was 39% in the flat steel business, five percentage points above number reported back in 2007.

Now moving to the next slide, where we present revenues and sales breakdown by market and volume, beginning with the chart on your left-hand side at the top of the PowerPoint slide, we sold 900,000 tons of steel products during the Fourth Quarter of '08. It's 14% below sales volume reported during the previous quarter. In 2008, as the year, we sold 4.9 million tons of finished products. Sales volume was down by 9%, reflecting more challenging economic environment in Brazil and abroad.

Moving clockwise to the right, iron ore sales volume, as I said, increased by 73% to 18 million tons, more than 18 million tons in 2008. Now at the bottom of the slide, still on your right, net revenues from sales from mining operations went up by 180% to almost BRL2.1 billion in 2008. And finally, at the bottom on your left, net revenues from sales from the steel operations went up by 10% in 2008 from BRL9.5 billion to BRL10.5 billion.

Moving to the next slide, where we compare sales volume by product and market segment, and once again beginning with the chart on your left-hand side at the top, you can see that there is no major change at all on the portfolio of products sold by the Company. I mean, hot bands still account for 36%, cold rolled coils 16%, galvanized and tin plates together almost 47%, and slabs just 1%.

Once again, moving towards the right, net revenues from sales by (additional) segment, we want to highlight that iron ore division is becoming more relevant each and every quarter within CSN umbrella. I mean, iron ore sales accountable for 22% of total net revenues from sales of the Company during the Fourth Quarter of '08.

Now at the bottom of the slide, still on your right, we present market share by business segment. We have dominant market share positions on various industry segments. I mean, 47% market share in distribution or the retailers, civil construction 37%, home appliance 37%, and automotive and auto parts 22%.

And finally, market share by product, hot bands, it's 34% market share in Brazil, cold rolled products 27%, galvanized 50%, and tin plates 99% of the market share in Brazil, which means that each and every package made of steel was actually made and sold by CSN in Brazil accounts with more than 180 million (habitats).

Moving to the next slide, we present production costs for the parent company. Once again, there is no major change in the production costs of the Company. Coke and coal still account for more than 30% of the production costs of the Company. Total production costs were equivalent to BRL1.5 billion during the Fourth Quarter of '08. It went up by almost BRL350 million.

We had higher expenses with coal of BRL150 million, higher expenses with coke of BRL54 million. And we acquired from others slabs and hot bands. The monetary value is BRL330 million.

In 2008, the year, total production costs were equivalent to BRL5.4 billion, an increase of almost BRL1 billion, given higher expenses on coal once again of BRL300 million, higher expenses on coke of also BRL300 million as well and slabs and hot bands that we bought from others. The monetary value is almost BRL450 million.

Moving to the next slide, where we present few financial metrics of the Company, once again starting with the chart on your left-hand side at the top, as stated before, EBITDA margin always above 40%, which shows a lot of competitiveness from CSN in the industrial segments it participates. Moving clockwise to your right, net income once again BRL5.8 billion. Net income is a record for the Company.

Now at the bottom of the PowerPoint slide but still on your right, the Company reported -- the Company had a return on equity of 70% in 2008. And the sales ratio up to now is 41%. The Company declared dividends, total dividends, of BRL1.6 billion up to now and, finally, return on capital employed of 24% in 2008.

Moving to the next slide, where we present few credit metrics, once again beginning with the chart on your left-hand side at the top, net debt by the end of 2008 was BRL5.3 million. There is an effect of BRL3.9 billion as a consequence of the advance payment made by NAMISA for the future supply of (supply rights) and the rights to use in the future our seaport terminal -- I mean, the seaport terminal of CSN. It's a payment in advance from NAMISA as a customer of CSN, the parent company. And it's an obligation of CSN parent company to NAMISA to in the future supply iron ore and given access to the seaport terminal to NAMISA.

The ratio of net debt to EBITDA was slightly below one times. So the Company has a lot of leverage capacity, has actually no debt at all with financial institutions. And finally, at the bottom of the PowerPoint slide on the right, you can see that the cash that we have on hand -- I mean, it's more than sufficient to face all the financial obligations of the Company until 2014. So the cash that we have on hand, I mean, in theory could be used to pay outstanding debt of the Company from today until 2014.

Next slide, we compare net income reported in 2008 with the net income reported by the Company in 2007. We reported BRL2.9 billion net income in 2007. We had a BRL4 billion gain on the sale of 40% stake of NAMISA to a consortium of Asian investors. Gross profit went up by BRL2.3 billion. We collected additional proceeds from the insurance companies on the accident with the (first collector) to the blast furnace number three, BRL200 million.

Financial results we had in 2008 -- (poorer) financial results than financial results reported in 2007 equivalent to BRL3.1 billion. We had a few nonrecurrent items, such as the gains the Company reported back in 2007 on its attempt to acquire Corus in UK. Back in 2007, we reported a gain of BRL300 million out of this transaction. It was a break-up fee negotiated by CSN with Corus during the auction environment created by the legal -- the monetary authorities there in UK. Then we have additional -- I mean, incremental selling expenses of BRL200 million and finally the BRL5.8 billion net income in 2008.

Next slide -- this is the last one before Q&A -- we compare net debt as of December '08 with the net debt reported by the Company back in December '07. In December '07, we reported a net debt of BRL4.8 billion. We invested BRL2.9 billion in the expansion of steel, iron ore, logistics, cement operations. We paid back to the shareholders BRL2.3 billion as dividends and interest on capital.

We had financial expenses of BRL2.8 billion, including losses on the total return swap on our own ADRs of BRL1.3 billion. We paid taxes of BRL1 billion. We are no longer reporting the results of the equity swap as cash or cash equivalents or short-term debt. It is nowadays reported as reserve cash for margin calls and so on. And the impact is BRL1.5 billion.

When we compare 2008 net debt to 2007 net debt, we bought back from the market BRL300 million in shares. We had other impacts of BRL200 million. Then we have the net impact of the transaction on NAMISA of BRL3.9 billion. Then we have the consolidated EBITDA of BRL6.6 billion and, finally, the total debt by December '08 of BRL5.3 billion.

Once again, wasn't for this change in accounting procedure for the equity swap and wasn't for the recognition of the advanced payment made by NAMISA to CSN for the future supply of (hard) (inaudible) and access to our seaport terminal, the net debt of the Company would be just BRL400 million. So the Company doesn't have at all -- I mean, the Company doesn't have -- the Company has cash on hand that would enable it to pay back all outstanding debts with financial institutions.

So that's it as to the corporate presentation. I now invite you all to participate in the Q&A session. Thank you.

Questions And Answers

Operator

(Operator Instructions) Your first question comes from (Felipe Hare) of Merrill Lynch.

Q - Felipe Hare

Hello. Good afternoon, everyone. Hello, Otavio. So I have two questions here. The first one is related to the steel market if you could give us some guidance on how you're seeing the overall demand for 2009 in the domestic steel industry and if there's any chance of another price decline either in the Second Quarter or in the second half of the year.

And my second question is regarding iron ore. I just would like to understand better this pricing mechanism that you are applying in 2008 and if there's any kind of provisional pricing settlement that you're doing with the Asian steelmakers. Thank you.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Okay. I will try to answer the first question. Then I will pass the word onto Jayme, the Mining Director of the Company. Okay? As to the current environment for steel business in 2009, (inaudible) sales volume during the First Quarter went down by X percentage points. But in March, we just started to receive the first positive signals what can be the start of a turn with demand conditions in Brazil at least. I mean, we are (not on base). We are forecasting sales of 270,000 tons in the domestic -- monthly sales of 270,000 tons of steel products in the domestic economy.

If you analyze this figure, you will end up with almost 3.5 million tons of steel products being sold within Brazil. So we are back at the 70%-30% sales allocation that the Company had until mid-2007.

As to any potential, I mean, price decrease for steel products in Brazil, I don't think it will happen in the near term for various reasons -- logistics and additional working capital required from the perspective of a potential importer. Can you imagine an automaker calling its bank in the US and saying, "Hi. guess what. I need $1 billion additional, I mean, working capital credit line so that I can finance the imports of steel to Brazil?"

There is no liquidity out there at all to finance imports. And you know that from the day to place (inaudible) order to the date the product is done, it takes 50 days. To put it -- to load it in a vessel, send to Brazil, it takes additional at least 30 days. Then you have to clear the customs, put the coil on the back of a truck sent to your facility before you can open the coil, add value to it, sell it to your own final customer. And guess what. You have to give some time to acquire customers so that he can face his own financial obligation with you.

So there is a lot of additional working capital required from the perspective of a potential importer. And there is no liquidity at all out there for the customers we serve. Okay? So I don't think that there's room for price reductions in Brazil over the next few months, really don't think. And as I said, we have just started to receive the first positive signals from demand conditions in Brazil. Okay?

So Jayme, can you please help me with the second question on iron ore?

A - Jayme Nicoloato

Yes, of course, the economic environment for iron ore is very challenging. Since December last year, we started a new (inaudible) in order to increase our sales. And it seems based on the base mark price for 2008, we see 70% of the sales in cash, and the other 30% is supported by a letter of credit and based on the 2009 benchmark price. That's what we are doing with the market. We are not selling the spot market. We are negotiating with our clients vessel by vessel because we are not forgetting the future for iron ore. Then we are making all the sales in the short term (by) having long-term contracts.

Q - Felipe Hare

Okay, Jayme, if I may follow up on that question, so these sales that are 30% based on the 2009 benchmark prices, you are not giving any kind of provisional pricing discount to your customers, right?

A - Jayme Nicoloato

Absolutely. I'm not giving any discount to our customers. Okay? It's only -- we are only guaranteeing the 2009 benchmark price.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Jayme, if I may step in for just one second, it's important to highlight that 70% of the sales volume was done on 2008 benchmark prices. 30% of the volume, the sales volume, the price we will charge is the 2009 price that will be negotiated between the largest iron ore producers and the customers worldwide.

We have a lot of misunderstanding in the market. A few analysts took it wrong, took it as a 30% discount on 100% of the sales volume of the Company, which is not the case, which is really not the case. Okay?

Q - Felipe Hare

Okay. Thank you.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Welcome.

Operator

Your next question comes from Carlos de Alba of Morgan Stanley.

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

Yes. Good afternoon. Thank you for taking the questions. First question would be in terms of the iron ore volumes that you see for 2009 if you can just give us a breakdown of what you expect (inaudible) to produce as well as (inaudible) and how much do you see yourself buying from third parties.

Then the other question I have is if you could help me understand the situation with the iron ore inventories because, I mean, on the release, it says that you produced 7.1 million tons of iron ore. But sales were only 5 million tons. So that should result in an increase in inventories. However, also in the release, it said that inventories came down 2 million tons during the -- sorry, 2 million tons during the quarter. So I'm wondering if you can just help me understand what is going on in iron ore inventories. Thank you.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Jayme, can you please help us?

A - Jayme Nicoloato

Okay. Could you please repeat the first -- the second one related to the inventories and the first one?

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

Yes. The first question was in terms of the iron ore production that you expect in (inaudible) and how much to you expect to purchase from third parties.

And the second question is on the inventory changes in the iron ore inventory changes, given that the production for the quarter was 7.1 million tons and sales were on 5 million tons. And yet in the press release, it is mentioned that inventories of iron ore came down 3 million in the Fourth Quarter.

A - Jayme Nicoloato

Okay. (inaudible) responds to the questions. The first one regarding the production at (inaudible), this year, we are finishing our expansion up to 14 million per year. Okay? And our production this year will be 24 million. We are delivering the new (capacity) on July this year. And of course, there is (inaudible) forecast to reach that capacity. And our production this year will be 24 million tons.

Regarding NAMISA, NAMISA will be producing approximately 11 million. And we will be buying approximately 5 million tons on the (internal) markets. And our total (trail) will be around 13 million, as we predicted during the last conference. Then we are forecasting a new sales increase even considering this economic environment (inaudible) and even considering that we are not giving discounts to sell iron ore. And we are just in track with our forecast.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Regarding the inventories.

A - Jayme Nicoloato

Last year, we mentioned that we faced some problems with the (inaudible). And if you compare the Third Quarter with the Fourth Quarter, one of the reasons is that during the third semester, our expectations, our sales on iron ore, they were lower than the sales on the last semester of the year. And secondly, at the end of the year, we sold 2 million tons from CSN to NAMISA before closing the quarter (inaudible). And that's why we have this reduction on the inventories. And the inventories, they are necessary because (inaudible) making the expansion of the ports. And next year, our port capacity will be higher than our production capacity. That's why we need to keep this inventory. And that's why we're not reducing the production because of these, let's say, inventories.

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

And just -- when you mentioned the NAMISA 11 million tons production and the third-party purchase of 5 million tons, is that on a 100% basis or the 50% that you consolidate?

A - Jayme Nicoloato

You mean -- all the results are on a 100% basis because the closing was on the end of December. And the numbers this year will be in the 60% base. But up to December, all the numbers were 100% base, if I understood your question.

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

And I was -- when you mentioned the volume of NAMISA expected for this year of 11 million tons, is that on 100% basis or the 60% basis?

A - Jayme Nicoloato

100%. Absolutely.

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

100%.

A - Jayme Nicoloato

Production on 100% basis.

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

Okay. Okay. Fair enough. Then a follow-up question on the iron ore prices -- could you tell us how much are you assuming the 2009 benchmark settlement will be, given that you're selling 30% of the volumes at those prices?

A - Jayme Nicoloato

Of course, the benchmark price for 2009 is under discussion. And what we are expecting as our Brazilian iron ore, they have much better quality, we are expecting to recover the premium that (inaudible). And in our opinion, the negotiation for the Brazilian (side) will be better than the negotiation for the other competitors because last year our price increase was lower than the other competitors.

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

And how much lower do you expect the 2009 production relative to 2008 prices will be?

A - Jayme Nicoloato

We don't have this number. Okay? But that will be a difficult answer to predict the new price for 2009.

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

Fair enough. Then the final question, if you could give us an update on the growth projects for steel, cement, and just could talk briefly about the CapEx that you see in those projects and the volumes and the timing. Thank you very much.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Okay. Cement -- we just started to produce cement. This is the first phase of the project that was completed. And it will give us 1.1 million tons production capacity. We intend to sell in the neighborhood of (Rodonde), the state of Rio de Janeiro. This project was born with a lot of competitiveness embedded in, such as the blast furnace (slack) produced in (Rodonde) and (inaudible) our own mine in the state of Minas Gerais, not to mention that the production we intend to (send) it to the final destination through (MRS), where we track where we have a controlling stake.

The total budget is $300 million. And as I said, we just completed the first phase. The last phase will be completed by 2010. Then the total production will be roughly speaking 2.5 million.

Then if I took it right, your second question is on the (investment) for the production of (long steel).

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

Right.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Yes, long steel, we started the project one year ago. We acquired a lot of equipment already. The civil construction has started, is being done there in Rodonde. This project was also born with a lot of competitiveness embedded in. We intend to use as a raw material of (spec) slabs that cannot be further processes, of spec slabs that cannot be further reprocessed into flat steel. Those spec slabs are actually sold upon reverse auctions that are huge discounts for final customers. It will be the perfect raw material to produce long steel.

The Company CSN was producing long steel before (inaudible). So we still have (inaudible) in the area. We still have the foundry. So this project comes with a lot of competitiveness as well. The total budget is $300 million as well. This project will be completed by 2010. I mean, the civil construction started -- is being done in Rodonde absolutely in line with the start of (these core events announced) by the Company.

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

And any updates, finally, on the green fields for flat steel?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Yes. The green field projects, they have a longer payback. It actually takes from four to five years before we can generate the first incremental dollar as net revenues from sales. So those projects are being revised by the Company. On one hand, we are really in the first phase/stage of execution of these -- of those projects. It is -- I mean, base engineering, the process of getting the environmental licenses. So cash disbursements are negligible if any at this stage. But anyway, given the change in economic scenario, those projects are being revised by the Company.

They were not cancelled by the Company at all. But given the new economic environment worldwide, those projects are being revised. But we continue to execute those preliminary steps before we can actually build it. I mean, getting environmental licenses, base engineering, talking to the suppliers of equipment and technology and so on. And no major cash disbursements we will clear at all before we have -- before we become once again capable to forecast future supply and demand conditions for our projects.

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

Okay. And what is the total 2009 CapEx budget?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Don't take it for granted because, I mean, the budget for this Company -- all the other ones became a sort of moving target. Today, the stock market is down by 3.5%. Last week, it went up by almost 7% or 8%. So it's been a bumpy road if you know what I mean.

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

Yes.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

So don't take it for granted. But I believe it's fair to say that the Company will be investing roughly speaking $1 billion during 2009.

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

Okay. Thank you very much.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

We are moving ahead at full speed with the expansion of Casa de Pedra. All the investments require -- I mean, in the logistics, extra logistics, to support the expansion of Casa de Pedra and NAMISA. We are moving ahead at full speed with the cement project, the project to produce long steel. The only ones lagging behind are those green field projects because we have a longer payback period.

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

Thank you, Otavio.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Welcome.

Operator

Your next question comes from David Martin of Deutsche Bank.

Q - David Martin {BIO 5583151 <GO>}

Yes. Thank you. On steel, I believe your steel output exceeded your sales in the quarter. Could you comment on the scale of any outages you have planned in the first half of the year and your steel inventories?

Then secondly, you did consume some purchase slabs I believe in the Fourth Quarter. Can you comment on your inventories for slabs, which I'm assuming you purchased at some point in the middle part of '08? And will those continue to weigh on your costs in the first half of the year?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Okay. I believe I got it. 2008 economic environment for steel industrial segment mainly in Brazil was so good, so good that we decided to postpone (every plan) we were planning for the blast furnace number two of the Company. The blast furnace number two accounts for roughly speaking 30%, 35% of total group steel production. Last Saturday, we just started the revamp of this blast furnace. This blast furnace produces 4,000 tons of group steel each and every day. Okay?

As to your question -- and it'll take 50 days before the revamp is done. Then we can -- I mean, once again, it starts to produce good steel in this smaller blast furnace of ours. The other one accounts for 70% of total good steel production. I mean, we continue to operate it at full speed at almost 10,000 tons per day speed. Okay?

Then as to your question on inventories, weaker demand conditions in Brazil and abroad beginning in November and then January and February, even worse demand conditions in Brazil and abroad, we ended up accumulating inventories of 700,000 tons of finished products. Okay?

Including -- and we also had slabs -- how much? Including slabs, we were producing slabs so that we could keep the rolling wheels of the Company operating at a high capacity utilization rate during the revamp of the blast furnace number two. So this is the reason why you saw in our financials an increase in the amount of working capital invested in the business. You also saw that we tried to take a part of it back from the suppliers. I mean, on average, we are paying back to our suppliers on 100 days instead of the -- what was that -- instead of 81 days during the Third Quarter of '08. So we are trying to take it back from the suppliers. We are -- actually, we are renegotiating other commercial and financial terms embedded in the contracts that we had with suppliers of, for example, coal and coke for shipping.

And finally, if I took it right, you asked us to make some statements as to the production costs during the First Quarter of '09. We no longer have physical inventories of very expensive coal and coke within the Company. And we acquired a part of it in the spot market at $140, $145, $135 per ton. But on the other hand, as I said, we are talking to the suppliers of mainly coke and coal of the Company so that we can cancel or maybe renegotiate the commercial and financial terms embedded in contracts for the supply of raw materials that we were expecting to get until next July. So those are the comments that I can make as to the -- I mean, cost structure of the Company during the First Quarter of '09.

Depending on how (inaudible), the management of this company is doing those negotiations with the suppliers of raw materials. Then we can, I mean, improve the margin. Maybe we can end up improving the margins of the Company during the First Quarter. And as I said, we don't have -- we no longer have physical inventories of very expensive raw materials acquired during 2008.

Q - David Martin {BIO 5583151 <GO>}

Okay. I'm going to add an additional question. On First Quarter prices, can you give us an estimate of what the magnitude of the price decline we should model for the domestic market in the First Quarter? Then secondly, your debt amortizations which you have in your PowerPoint slide, I believe the '09 figure is roughly $1.3 billion. What's the nature of that maturity? Is that something you'll refinance or just use cash to pay?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

The nature of those (lines) is basically working capital, okay, that we can refinance. In Brazil, even the central bank and the treasury department are using a part of their (acquired) reserves to give to companies such as CSN and all the others access to working capital credit lines.

And your first question was on the price we have been charging in the First Quarter. Export sales volume came down dramatically. So as always, we have been dedicating the bulk of our sales to the domestic economy. And we have been charging on average local customers on hot bands $850 per ton, cold rolled coils $950 per ton, galvanized $1,100 per ton, and tin plate $1,200, $1,300 per ton. It's important to highlight the nature of our portfolio of products. I mean, coated products account for almost 50% of the sales volume of the Company. Those products are less (extreme) to the ups and downs of the macroeconomic scenario.

Q - David Martin {BIO 5583151 <GO>}

And I'm sorry. Those are current prices?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Current price, price that we are charging our local customers in Brazil.

Q - David Martin {BIO 5583151 <GO>}

Okay. Thank you.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Welcome.

Operator

Your next question comes from Marcos Asantio of ITAO.

Q - Marcos Asantio

Good afternoon, gentlemen. The first question, Otavio, if you could just clarify the question on the net debt increase coming from the NAMISA operation, there are some questions regarding like why this long-term agreement was included on net debt. Is this net debt going to be used on the calculation of covenants for the Company? And over the long-term, this long-term debt will be reduced? And what will be the counter-entry in your balance sheet with the reduction on the asset side? Or it would be -- just to clarify what's the counter-entry on your balance sheet.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Okay, Marcos. Thank you for your question. It is BRL7 billion, more than BRL7 billion, advanced payment from one of our customers, mainly to NAMISA. Then by just (going to this), we have a 60% stake on NAMISA. So this is the reason why there is an impact, I mean, on the net debt of the Company. It is an advanced payment from one of our customers. And we have a 60% stake by coincidence in this customer.

It is an accounting procedure. We were talking to the external auditor of the Company for days before we ended up with a decision to report the way we presented. It's more accounting rather than anything else. It's important to highlight that there is no restriction at all to use 100% of the cash proceeds collected out of this transaction of NAMISA to do whatever thing we decide to do, like investments, paying dividends, paying back debt, buying back our own shares from the market.

So if I were on your shoes, I would not consider this advanced payment from a customer as a financial obligation of the Company. We actually will pay back this sort of indebtedness with hard (inaudible) from Casa de Pedra and giving access to the seaport terminal of ours in (inaudible) the state of Rio de Janeiro.

Finally, our company -- we don't have any kind of financial covenants embedded in this set of documents which supported outstanding euro bonds of the Company, for example. So we don't have financial covenants. So there is no need at all to calculate all those metrics that companies have to negotiate with their creditors from time to time.

Q - Marcos Asantio

Okay. And like throughout time, what's going to be the counter-entry on the balance sheet for the reduction on the debt?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Over time, the Company is recognizing revenue in its income statement. Okay? And to offset this revenue recognition, we will reduce this balance of this account named advanced payment from the customer. So we have a debit of BRL7 billion in the cash and cash equivalents accounting accounts. And we have a credit of BRL7 billion on accounts named advanced payments from a customer. Over time, we will have -- we will recognize the revenue, a credit. And we will have as an offsetting accounting register a reduction of this obligation with -- on the advanced payment from a customer, if you know what I mean.

Q - Marcos Asantio

Okay. Thank you very much, Otavio.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

That's how it works. Is it clear?

Q - Marcos Asantio

Okay. All right, just one question on iron ore also to clarify the issue on the prices that you're charging for the 2009 sales already, like 70% on benchmarks 2008 and 30% on benchmarks 2009 -- what is actually the price that you are charging to the client right now? What is he paying you?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

We will pass the word onto Jayme. Jayme, can you please help me here?

A - Jayme Nicoloato

Hi, Marcos. We are pricing the benchmark price, 2008 benchmark price, that depends on the (inaudible) of the product. But it's around $75 per ton as that'll be (inaudible). As (ammunition), we have this payment in 70%, okay, that we are receiving when we are just finishing to roll the vessel. And the other 30% we agreed with our clients to pay supported by a letter of credit based on the 2009 benchmark price. That's what we are doing. Okay? And we are making this (inaudible) December. I don't know if I answered your question in total.

Q - Marcos Asantio

Yes. It was clear. Thank you.

A - Jayme Nicoloato

Okay.

Q - Marcos Asantio

And just a last question to Martinez or to Otavio -- you mentioned that the current (HRC) prices in Brazil are actually at $800, $850 per ton. And Martinez mentioned in the previous call that the (inaudible) around like 40% to 45% to imported products, which actually I don't think it's sustainable because if we take a look on historical average it's between 10% to 15%. But you're like foreseeing a period of actually stable prices. How do you -- how can prices like -- do you really believe that prices can remain stable with this kind of premium?

A - Luis Martinez {BIO 7187744 <GO>}

Marcos. Good afternoon. This is Luis Martinez again. Just to keep you -- we are -- just to take into consideration our current price in hot rolled coils in a range of $850 comparing with imported material, we have in fact a premium around 40% to 43% or something like this. As I mentioned in the morning, first, we are not forecasting to have another change in prices for the Second Quarter. I don't know what's going to happen in the second semester. But for sure, in the Second Quarter, we are going to keep our prices stable.

I don't know if you remember. But I think we -- depending on the customer, we can support premium around 40%. We had already done it in some years ago. We are believing that customers are so -- are facing a lot of problems in terms of cash, in terms of financing imports. And we believe that we are (keep) this premium at least for the Second Quarter.

Q - Marcos Asantio

Okay. Thank you very much, Martinez.

Operator

(Operator Instructions) Your next question comes from Francisco Schumacher of Raymond James.

Q - Francisco Schumacher {BIO 17132452 <GO>}

Hi. I have a follow-on question regarding the iron ore pricing mechanism. You have mentioned that this mechanism started in December. And my -- I was curious on the financials what price are your recognizing? Will you account a loss for the decrease in price regarding the 30% that would be adjusted to a 2009 benchmark? Or you're still not recognizing that part of the revenue?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

As to the sales of iron ore executed during the Fourth Quarter of '08, there is no provision at all. If there is a provision, it's negligible and didn't impact at all the results of the Company during either the Fourth Quarter or the 2008 earnings announced by the Company. And as to 2009 and as I said, 30% of the sales volume will be done on 2009 benchmark prices. So to answer your question, there was no impact at all in 2008. If there is a provision, it is negligible if any. And there is no impact at all in the financials reported by the Company.

Q - Francisco Schumacher {BIO 17132452 <GO>}

And how will you do for First Quarter results? Is the price still (not agreed)?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Potentially, by the time we filed our results, the negotiations will be done, will be behind us. Then, I mean, this won't be necessary at all to create the provision or to make an adjustment of the financials of the First Quarter of '09. So by the time we file the results, we have good likelihood that all those negotiations will be behind us.

Q - Francisco Schumacher {BIO 17132452 <GO>}

Okay. And I have another question regarding your sales volumes of iron ore in the Fourth Quarter -- if there was any impact of the conveyor belts in the Fourth Quarter and because they were below my estimates.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Jayme, can you help us, please?

A - Jayme Nicoloato

Yes. We faced a big problem on our conveyor belts. And the last belt conveyor was changed on the first week of December 2008. All the problems are fixed, as I mentioned. The last intervention was on the first week of December 2008. And we are increasing our exploitation this year. And the system is working pretty well. Okay?

Q - Francisco Schumacher {BIO 17132452 <GO>}

What has changed your view because I remember in the previous results you mentioned that the problem was already solved? Was there another problem? Or just everything got delayed?

A - Jayme Nicoloato

I didn't hear your point.

Q - Francisco Schumacher {BIO 17132452 <GO>}

In the last quarter results when CSN reported third Q, I understood that this problem was already solved. Was there any other problem? Or just it was delayed?

A - Jayme Nicoloato

In fact, the problem was solved in the sense of we managed everything to receive the conveyor belts because on that time, the market was very demanding on mining equipment, mining materials, like conveyor belts. And we managed to receive all the conveyor belts. But we still had to change one of the conveyor belts during the third -- during the Fourth Quarter.

And another problem was on the beginning of December 2008, we start to face some problems in our sales because of the lack of 2009 price. That's why we decided on the end of 2008 to start with this new scheme or to increase our sales because of sales for the last month. And also this intervention, that was the last one intervention.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

(inaudible) is that all the problems on the conveyor belts are well behind us. The Company's planning to sell almost 6 million tons to international customers during the First Quarter. The plan for 2009 is to export and to sell to final customers almost 30 million tons of iron ore products. And all those problems are well behind us. The Company (already informed) the insurance and the reinsurance markets about the losses. We even gave them knowledge about what is our preliminary forecast as to the losses. So once again, what is important is that all the problems are well behind us.

Q - Francisco Schumacher {BIO 17132452 <GO>}

Okay. Thank you very much.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

You're welcome.

Operator

Your next question comes from Denis Parisien of Santander.

Q - Denis Parisien {BIO 20333702 <GO>}

Hi. Thanks for the call, gentlemen. You mentioned I believe you're looking at reducing CapEx to around $1 billion next year. And I guess you'll be gradually accruing the cash on the one hand and reduction in advance for the client on the other hand, reducing your reported net debt and your uses of cash. Looking at your net leverage at this stage, I'm just wondering are you looking at potentially doing a debt transaction? Are you looking at increasing your dividend? I'm just looking at your capital structure and wondering how long your shareholders will tolerate, if you will, that degree of low adjusted net leverage. If you could give us a little bit of color there, would appreciate it.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Thank you for the question, Denis. As to dividends, the Company already announced a total dividend payment of BRL1.6 billion on top of the June 30th, 2008, set of financials. So the Board of Directors -- in accordance with the Brazilian legal framework, the Board of Directors can approve a dividend payment on the semiannual set of financials of the Company. And that's exactly what they did, a total of more than BRL1.6 billion of dividends being paid to the shareholders.

You know what is our dividend (policy). I mean, we distributed back to the shareholders all the excess cash that we accumulate from time to time. For the obvious reasons, we want to have dedicated capital structure so that we can benefit from tax shelter. So we don't think that this (end) will be a debt-free entity forever, quite the opposite. Under the assumption that they will be very (interested opportunists to) buy back our own shares from the market, execute other investments -- I mean, other than the ones we decided to move ahead, such as iron ore, logistics, cement, and so on. And most likely, we'll end up distributing more dividends and interest on capital to the shareholders.

So to summarize, I believe that CSN will end up doing all those different things, including payment of dividends to shareholders, executing investments with a short payback period and a high interest rate of return. And (as I said), we will also from time to time buy its own shares back from the market so that we keep over time dedicated capital structure to benefit from tax shelter.

Q - Denis Parisien {BIO 20333702 <GO>}

Thanks a lot. But any thoughts, any projects on the table that you're examining in terms of acquisitions, perhaps in the US and the EU as the Company has spoken about off and on for years?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

For the obvious reasons, we keep an eye on what is going out there. We know what is the market cap of all those companies in the US and in Europe. It doesn't meant that we are (inaudible) (mood) because it is a formal process of investment analysis. So from time to time, there is a nice opportunity to be studied by the Company. And from time to time, we take those investment opportunities to the officers' meeting. And depending on their view, we even take it to the Board of Directors for their own analysis. So it is a formal process of investment analysis. And it takes a lot of time before we can make our minds as to potential acquisitions. So it doesn't happen like -- I mean, like this from day to the other.

We have -- I mean, we all have a problem as to being able to forecast what is next year demand and supply environment for the steel industrial segment. And no one here we think (wants) to be a hero. So yes, we keep an eye on what's going on out there. But I mean, we won't be doing anything that could jeopardize, I mean, the results that we managed to report to our shareholders one way or the other.

Q - Denis Parisien {BIO 20333702 <GO>}

Given the Company's relatively low leverage and operating performance, are you in discussions with the rating agencies about taking -- revisiting the Company's ratings and outlook?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Yes, I have been putting a lot of pressure on them so that, I mean, they can potentially revise the rating assigned to the Company. I have -- it's my personal view. I have a feel that a company with the margins we have been reporting and with the capital structure we have after the completion -- after we concluded the transaction on NAMISA deserves a rating much better than the one we have today, no question about it. We have been putting a lot of pressure on the rating agencies.

Q - Denis Parisien {BIO 20333702 <GO>}

And --.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

On the other hand, given that we have tons of fallen angels out there, it will be, I mean, really tough to convince them the other way around.

Q - Denis Parisien {BIO 20333702 <GO>}

Sure. So any thought to debt transactions?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

We exerted already all the, I mean, the call options that we had embedded on field debt instruments we had outstanding in the market. So we are not planning to do anything at this stage. We are not really planning to do anything at this stage.

Q - Denis Parisien {BIO 20333702 <GO>}

Thanks very much. Appreciate all the color.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

You are more than welcome.

Operator

(Operator Instructions) You have no further questions at this time. I'll turn the call over to Mr. Otavio Lazcano for closing remarks. Mr. Lazcano, please go ahead.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Once again, thank you, all, very much for participating in the earnings conference call of the Company. Thank you, all. Bye, bye.

Operator

This concludes today's conference call. You may now disconnect.