Q3 2005 Earnings Call

Company Participants

- Joel Alves, Export Director
- Juarez Saliba, Mining Business Director
- Luis Martinez, Commercial Director
- Otavio Lazcano, Financial Director

Other Participants

- Charles Bradford, Analyst
- Daniel Altman, Analyst
- Denis Parisien, Analyst
- Edmo Chagas, Analyst
- Jaime Nicholson, Analyst
- Jennifer Corrou, Analyst
- Marcelo Aguiar, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to CSN's Third Quarter 2005 earnings conference call. Today we have with us Eneas Garcia Diniz, Production Executive Officer, Juarez Saliba, Mining Business Director, Jorgemar Almeida, Controlling Director, Luis Martinez, Commercial Director, Otavio Lazcano, Financial Director, Joel (Alves), Export Director. And Marcos Leite Ferreira, Head of Investor Relations.

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 section. At that time, further instructions will be given. (Operator Instructions) We have simultaneous webcast that may be accessed through the Investor Relations section of CSN's website, www.csn.com.br. The slide presentation may be downloaded from this website. Please feel free to 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 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. Otavio, who will present CSN's operating and financial highlights of the quarter. Mr. Otavio, you may begin your conference.

Otavio Lazcano {BIO 4999009 <GO>}

Good morning, to everybody. Thank you, all for joining us for the Third Quarter '05 earnings conference call. Let's begin our corporate presentation with highlights in the next slide.

As to the first nine months of 2005, the Company reported net revenues from sales of BRL7.6b, a 6% increase from the same period in the previous year. The Company also reported a consolidated EBITDA of BRL3.5b, a 5% increase, margin EBITDA, consolidated and for the parent company, of 46.4% and 50.1% respectively, net income equivalent to 83% of the result reported for 2004 of BRL1.7b, 14% above the same results reported for the same period in the previous year.

As to the Third Quarter, consolidated and parent company EBITDA margin of 41.4% and 46% -- 45% respectively, I'm sorry. We had stable prices in the domestic market and net income went up by 19% or approximately BRL100 million to almost BRL0.5 billion in the second -- from the Second Quarter, a net margin of 22%. We also reported a reduction of total cost of production of 7%. And a reduction of 4% of the production costs per ton. To finalize, the Company reported that its net indebtedness went down by BRL400m.

Moving forward to next slide, revenues and sales volume by market, beginning with the chart on your left hand side. The Company reported sales of 1.181 million tons of finished products, 44,000 tons or 4% above the previous quarter. And absolutely in line with the volumes sold in the Third Quarter of 2003 and 2004. During the first nine months of 2005, the Company reported a sales volume of 3.515 million tons of finished products, 5% below the same period in 2004. As to sales allocation, in the Third Quarter of '05 exports accounted for 48% of total sales.

On your right hand side. And as to sales breakdown by market, although the Company managed to charge stable price to its domestic customers, net revenues from sales in this market came down by 20% in the Third Quarter. On the other hand, net revenues from sales on export business went up by 7%. Aggregate net revenues from sales decreased by 13% in the Third Quarter from the Second Quarter of '05. And during the first nine months of 2005, again, net revenues from sales went up by 6%.

Moving to the next slide, as to sales breakdown by products. And again beginning with the chart on your left hand side, sales mix remained pretty stable in the Third Quarter of

'05. And coated products accounted for 54% of net revenues from sales and 48% of total volumes sold. We would like to highlight the price increase for coated products, 5% for galvanized products and 0.5% for tin new products, which offset lower price for hot and cold rolled products. And supporting our view that our portfolio of high value-added products is definitely less exposed to the ups and downs of the economic cycles.

As to sales breakdown by market segment, we would like to highlight the increasing total domestic market share from 28 to 29%. And the market share on retail distribution market segment from 32 to 36%, both in the Third Quarter of '05.

Moving to the next slide, production costs parent company. Total production costs and production costs per ton came down by 7% and 4.4% respectively. Given the reduction of crude steel production to 1.317 million tons in the Third Quarter of '05, consumptions of raw materials, mainly coke and scrap, came down by almost BRL100m, partially offset by high expenses with natural gas that we used to substitute a portion of the imported coke.

As to raw material costs, the average cost per ton of coke of $126 per ton fully reflects the terms negotiated back in April with coal suppliers. As to coke, average cost increased from $380 per ton to $393 per ton. Management decided to use more productive and more expensive coke in the Third Quarter.

The average cost per ton of coke at the end of the Third Quarter was already at $328 per ton. And the management strongly believes that all inventories of more expensive raw materials will be consumed by the end of this year. Still on coke, the Company recently announced the purchase of approximately 50% of its coke needs for 2006 for $151 per ton, supporting our view that cost structure in 2006 tends to be even more competitive than what it already is.

Moving forward to the next slide, indebtedness and cash position. The Company reported net financial results of BRL39 million compared to BRL214 million in the previous quarter. The improvement is derived mainly from the strengthening of the real and its impact on the dollar-denominated outstanding indebtedness of the Company. And our decision to unwind a BRL138 million provision for income and social taxes from previous years. This decision to unwind the provision is fully supported by external auditor, our external legal advisers. And it is in accordance with Financial Accounting Standards Board -- International Accounting Standards Board. And the procedures and guidelines established by the (Ipracom).

As to net indebtedness, it came down by BRL400 million and the ratio of net indebtedness to EBITDA remains pretty stable at just one time.

We would like to highlight that the average life of our existing indebtedness increased throughout the years after the issuance of the perpetual bond back in July. The average cost in dollar terms is nowadays 8% per annum.

During the first nine months of 2005, the real-denominated cost of debt for the Company was 9.3% per annum in reais again, or equivalent to 49% of CDI, the equivalent to LIBOR interest rate in Brazil.

Moving to the next slide, effects on consolidated net income, nine months '04, nine months '05. We can see that the Company had better financial results, BRL273m, in 2005. Gross income went up by BRL132m. Amortization of the foreign exchange variation that we had back in 2004 and we didn't have in 2005. We ended up paying more income and social contribution taxes, BRL288m. Others accounted for BRL4 million and then we had the BRL1.653 billion net income in 2005.

Next slide, effects on consolidated net income, Second Quarter '05, Third Quarter '05. We had smaller operation -- operating expenses, I'm sorry, of BRL196m, mainly derived by our decision to unwind a provision that we previously had. We reported better financial results of BRL175m, smaller expenses with income and social contribution taxes of BRL49m. Gross income came down by BRL308m. Others accounted for BRL14 million and then we ended up with net income of BRL517 million in the Third Quarter '05.

Next slide, again, effects on consolidated net income Third Quarter '05 -- sorry, Third Quarter'04, Third Quarter '05. Smaller operating expenses of BRL135m, for the same reasons previously explained. Smaller expenses with income and social contribution taxes of BRL122m. A smaller gross income of BRL432m. Others accounted for just BRL5m. And, again, BRL517 million net income in the previous quarter.

Next slide represents financial highlights. Net revenues from sales of BRL7.6b, a 6% increase when compared to the same period in the previous year. Gross profit of BRL3.5b, a 4% increase. Gross margin of 46%, 1percentage point below the number reported for the previous period. EBITDA was BRL3.5b, 5% above results reported for the previous year. A net income of almost BRL1.7 billion and net margin of 22%, or 2percentage points above net margin reported for the previous year.

Moving to the next slide, outlook for the Fourth Quarter of '05. We already started to face really strong demand conditions from the U.S. market. In this regard, the Company will be allocating a bigger percentage of its export business to the U.S. market during the Fourth Quarter of '05.

We believe that adjustment of our inventory levels in Brazil and Europe will continue. We also believe that we will continue to receive news from -- mainly from the Chinese government, in order to avoid the major flood of inefficient and cheap steel products in the international arena.

As for price, we believe that we'll have stable prices in U.S. market and the domestic market. And higher prices in Europe and in Asia.

As to the outlook for 2006, we already saw coke prices going down quite fast and dramatically. We believe that there is a good likelihood that coal price will follow soon. We are expecting better demand conditions in the domestic market, due to the major elections that we will be facing in Brazil and due to the process of reducing interest rates already started by the Brazilian Central Bank.

And as to CSN, again, management would like to highlight that definitely the Company will have a much more competitive cost structure, mainly because we will be relying on a smaller coke price and, most likely, coal price.

So, this is the presentation that we have. Thank you, all and now we are open to start the Q&A session.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question is coming from Daniel Altman with Bear Stearns.

Q - Daniel Altman {BIO 1855515 <GO>}

Hi. Good morning. Just a couple of questions, firstly on the reversal of provisions you took in the Third Quarter. Is this something that is going to happen again or did you just reverse everything that you had in this quarter?

And the second question is regarding your outlook for the Fourth Quarter of '05. I was surprised to see you say that you're looking for a recovery in Asia, amongst other things and also production cuts in Asia. I'm just wondering how confident you are about having a positive outlook for 4Q '05?

A - Otavio Lazcano {BIO 4999009 <GO>}

Hi, Daniel. It's Otavio. I will answer the first question and then I will pass the word to my colleagues from the sale department.

As to the provision, it is really a one-time event. And you all know that on a quarterly basis we have meetings with our external auditor and legal advisors in order to reassess what is the likelihood of being successful on such tax adjustments. And then, in this quarter, we ended up with a strong recommendation from external auditor and external legal advisors to unwind those provisions. So, it's a one-time event. You -- I don't think that you'll see it in the next few quarters.

A - Joel Alves {BIO 21357466 <GO>}

Okay, Daniel. It's Joel Alves speaking, Export Director. Regarding the outlook for Fourth Quarter, we foresee that the Asian market is now moving -- slightly moving up after this announcement of production cuts in China. But definitely we are sold for the Fourth Quarter.

So, the outlook assumes that we have now a distribution of sales that includes a lot of galvanized and tin plate, including U.S. and Europe. So, this outlook is the performance of the sales of CSN for Fourth Quarter. This will be better than Third Quarter in prices and with the expressive volumes, okay?

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. And if I could, just one more question on -- this time on Casa de Pedra. How long do you think the CVRD, assuming that they appeal to the court system in Brazil, how long do you think they can drag this through the courts before the right of first refusal is officially and permanently eliminated?

A - Juarez Saliba {BIO 16483817 <GO>}

Okay, Daniel, this is Juarez Saliba.

We cannot guarantee how long we will spend in order to -- CVRD decide about its option regarding Casa de Pedra or Ferteco. And I have nothing to say about this, because it's a CVRD decision.

But I can only tell you that we -- they -- originally the cut -- the impact was a commission in Brazil. They gave to CVRD 30 days after their decision to make CVRD's decision. And it started for a while and the time we will start running again very soon and they probably have another 25 days to make that decision.

But we don't know exactly what kind of decision they will make. But they can waive the first refusal right, or they can decide to sell Ferteco. So, we cannot tell anything about this. This is a CVRD decision and we cannot guarantee anything.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Do you think this could go -- in the worse case scenario, do you think this could go several years before right of first refusal's removed?

A - Juarez Saliba {BIO 16483817 <GO>}

Sincerely, we don't really know because it could be a very, very fast decision, if CVRD decides to waive the first refusal rights. But if they don't do that, they can decide about Ferteco, or even if they go to the court, they have the right. And we don't know how long it can take. But anyway, we -- I'd like to emphasize that we, here in CSN, we cannot guarantee the exact time for a final decision of CVRD.

What we can guarantee to the market is that, independently of CVRD's decision, the project -- the implementation of the project's really very well. And we already sold -- we are almost sold out for 2006. And we -- and again, independently of the CVRD decision, we can keep selling, or with only -- the only restriction is that we need to offer this part to CVRD previously to signing the contract to another set of customers.

In other words, we -- independently of the CVRD decision, we will keep selling our ore as we made this year when CVRD exercised the right against the contract that we had negotiated with Mitsubishi.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay, thanks very much.

A - Juarez Saliba {BIO 16483817 <GO>}

Welcome.

Operator

Thank you. Our next question is coming from Denis Parisien with Standard New York. Please go ahead.

Q - Denis Parisien {BIO 20333702 <GO>}

Hi, guys. I'm wondering, the $2 billion or so on your balance sheet that you now have through recent debt transactions, what are the plans for that now? Are we still -- are you still looking at purchasing rolling capacity in the U.S. and Europe. And expanding your output, your furnace capacity in Brazil?

I know that in the past we've discussed this and you've made the point that you like to keep a good cushion of liquidity on your balance sheet. But of course that question goes up and down from quarter to quarter. What do you see as the optimal level of cash? Are you going to pay down any more debt? Can you give us a little bit of color on that, please? Thanks.

A - Otavio Lazcano {BIO 4999009 <GO>}

Okay, Denis. It's Otavio speaking. As to the $2 billion in cash immediately available that we have on our balance sheet, we don't have a specific need for this at this point in time.

What I can tell you is that we are -- we were in a process of extending the life of our existing indebtedness. And then, given that markets -- the capital markets' conditions improved dramatically in the last few months, we ended up issuing that instrument in the capital markets, in order to fund ourselves in advance for a financial transaction that will come due in the next few quarters or the next year. Okay?

As to investments, our plan is to seriously consider our metallurgy investment here in Brazil to produce 5 million tons of slabs. We are also seriously considering investment in U.S., as CSN LLC. So that we can have a better access to the U.S. market, even also to our customers there, the full manual, or something full manual on the steel industrial segment to the customers in the U.S. market. And we are also considering investments in Europe through subsidiary in Portugal.

So, our strategy is the same. We want to invest heavily in metallurgy capacity here in Brazil, to put more together with volume use that will be acquired in one of the biggest consumption centers. And no questions that the optimal structure does really mean investing in CNS LLC. And also a new subsidy in Europe.

Q - Denis Parisien {BIO 20333702 <GO>}

Thank you. If I might follow up a little bit. So are you suggesting -- it sounded like at the beginning of your answer you were talking about using some of the cash to pay upcoming maturities. Can you give us any flavor? Are we going to keep -- are you going to keep -- just reduce some of your cash position, pay down some debts. So your net debt to EBITDA ratio should stay around where it is now?

A - Otavio Lazcano {BIO 4999009 <GO>}

As to the next transaction that you can do, we have almost $500 million transaction coming through at the end of December this year. Okay? Then, in December 2006, we have another debenture, a debenture that we placed here in Brazilian capital markets. Outstanding also now is, roughly speaking, additional $400m. Okay?

As to the ratio of net indebtedness to EBITDA, you should not expect us to have a ratio higher than two times at the peak of the investment cycle. Okay?

Q - Denis Parisien {BIO 20333702 <GO>}

Thanks for that additional color. I appreciate it very much. Last question. You mentioned last conference call that you were intending to regain some of the market share that you lost in the Second Quarter. But we see in the most recent quarter your sales mix was much more oriented toward the export market, prices stable. We're all happy, of course, to see prices stable in the domestic market. But have you given up that market share permanently, do you think. And you're going to be more export oriented now? Can you give us any guidance toward market share in the domestic market and your sales mix in the Fourth Quarter and 2006? Thanks.

A - Luis Martinez {BIO 7187744 <GO>}

Okay, Daniel. This is Luis Martinez speaking. Let me give you some -- a short snapshot of the Brazilian market for 2005, comparing it to 2004.

In 2004, the total Brazilian market of flat products was 10 million tons of steel a year. For this year we are forecasting to close the market of flat products in Brazil in the range of 9.4 to 9.5 million tons of steel a year. Since then it is a struggling and continuous focus in having more coated products line in terms of tin plate, in terms of pre-painted coils, in terms of galvalume.

Talking specifically about market share, if you take into account the shortfall of the market comparing 2004 and 2004, we recovered 1% in total market share comparing 2004 and 2005. One of the things that we have to point out is that, take into account our strategy to put more coated products and more galvanized in the market, we decided to increase our participation in distribution market. Distribution market has a lot of applications regarding to coated products. And we increased our market share to 32 to 36%, comparing quarter to quarter.

Obviously, we have some space trying to regain some market share in the auto industry. And we are working very, very hard trying to put more value-added products throughout to industry and trying to recover our market share to a range of 18 to 22% by the end of 2005 or early 2006.

Regarding to guidance to market -- not to market share, to local markets and export, we are forecasting towards in a range of 60 to 65% of local market this year, trying to catch the good results or the good profit in our operation in U.S., take into account the movement -- the price movement in U.S. market right now.

In terms of talking more about Brazilian markets, one of the things that we have to point out is all the inventories in the whole supply chain, considering distribution and industry, now are -- most of them are completely equalized. So, for the next year, early 2006, we are forecasting to have a better -- much better local market considering not only the elections. But also our lower interest rates here in Brazil. Okay?

Q - Denis Parisien {BIO 20333702 <GO>}

Thank you, very much.

A - Luis Martinez {BIO 7187744 <GO>}

Okay.

Operator

Thank you. Our next question is coming from Edmo Chagas with UBS.

Q - Edmo Chagas {BIO 1786085 <GO>}

Yes. Good morning. I have two questions. First one is on your cost outlook for the First Quarter in 2006. You mentioned a potential reduction in your coal costs, given that you bought the coke at a lower price compared to, well, to previous quarters. I would like to know what kind of cost pressures or cost declines you have made (inaudible) in the Fourth Quarter and in 2006?

Then second question. Related to your potential investment in Casa de Pedra to bring the capacity to 50 million tons, could you give an idea of a timeframe for that investment? What kind of investment is necessary to expand capacity and any (surety) of CapEx needed to do that investment?

A - Otavio Lazcano {BIO 4999009 <GO>}

Okay, Edmo, it's Otavio again. Beginning with your question on cost structure for the Fourth Quarter of '05 and 2006, beginning with coke, in the Third Quarter coke accounted for 90% of the cost structure of the Company. But, as you saw, consumption of coke came down dramatically. We were using natural gas to substitute a portion of the coke -- a part of the coke that we use in our blast furnaces. Okay?

But on a regular basis coke accounts for 20% of the total costs of the Company. We begun 2005 using coke for -- coke about $400 per ton and the foreign exchange rate was $260.2 -- sorry, BRL2.65 per dollar. Okay? We recently announced the purchase of 50% of our coke needs for 2006. We paid for it $151 per ton and the foreign exchange rate is 2.20. So definitively, as to coke cost structure in 2006 and the Fourth Quarter of 2005 we'll be really more competitive.

We believe that there is a good likelihood that coal price will follow suit. Okay? Coal accounts for additional 20% of the cost structure of the Company. All the other costs are well beyond our control. I don't know if we are self-sufficient of iron ore. We even sell iron ore to other customers. Tin, we have our own tin mine, we are self-sufficient. Oil generation, we are self-sufficient. Labor costs in Brazil, unions are more concerned about keeping existing jobs than anything else. So our view is really that coal price and -- most likely coal price will help us to have a much more competitive cost structure in -- mainly in 2006.

Q - Edmo Chagas {BIO 1786085 <GO>}

Okay. Thank you.

A - Juarez Saliba {BIO 16483817 <GO>}

This is Juarez Saliba. Regarding the Casa de Pedra question, the additional 10 million tons (inaudible) capacity in Casa de Pedra, we are just analyzing the feasibility study. And we are forecasting the -- to have the final study in the beginning of next year, to be January or February of next year. And -- but we cannot guarantee the CapEx for this project. But I can guarantee that probably it's lower than the CapEx per ton for the expansion to 40 million tons per year, because it's a brownfield project in the mine and at the port.

And as you know, the additional capacity of 10 million tons is being developed on the higher silica content reserve in Casa de Pedra. Then most of the run-up mine that we will feed the (inaudible) plant is being considered to be removed from the mine in the 40 million tons project as waste. Not as waste but as (inaudible) from the mine. So the value of the investment is in mine equipment operating under some minor technology (inaudible) equipment, is almost zero, because almost 100% of the addition of run-up mine is already mined.

And in other words, we are considering that this additional capacity is, in fact, we reduce our operational expenditure. And the CapEx probably is lower than the present project we are developing for 40 million tons per year. But the final numbers we will have in the beginning of next -- First Quarter of next year.

Q - Edmo Chagas {BIO 1786085 <GO>}

Okay. So it means that it's likely the addition of 10 million tons of capacity could come in a stream, together with your one batch of 40 million tons, anyway?

A - Juarez Saliba {BIO 16483817 <GO>}

Yes. But when we reach the 40 million tons in the original project, we will be starting up the additional 10 million tons project. In other words, probably in the end of 2008 we will reach 40 million tons and during the 2009 year we will reach the 50 million ton per year capacity.

Q - Edmo Chagas {BIO 1786085 <GO>}

Okay, understood. Thank you.

A - Juarez Saliba {BIO 16483817 <GO>}

You're welcome.

Operator

Thank you. (Operator Instructions) Our next question is coming from Jaime Nicholson with CSFB.

Q - Jaime Nicholson

Hi. Good morning. Most of my questions have been addressed. But I was just wondering if, regarding the 5m-ton potential expansion project for slabs, what do you think the timing of that decision would be and how much would the aggregate cost be?

A - Otavio Lazcano {BIO 4999009 <GO>}

The decision on the new metallurgy project will be made by the beginning of next year.

Q - Jaime Nicholson

And the amount of investment?

A - Otavio Lazcano {BIO 4999009 <GO>}

It depends on our capability to buy equipment and technology from other suppliers. As you probably heard, in our industrial segment Chinese technology and equipment looks like that it is really cheaper than the price tag on the equivalent technology and equipment supplied by the usual suspects from Europe and the U.S. So, depending on our capability to develop new suppliers of technology and equipment, budget tends to be a little bit smaller than what was recently announced by the Company.

Q - Jaime Nicholson

Okay. So we will hear that potentially early next year, when you make the decision?

A - Otavio Lazcano {BIO 4999009 <GO>}

Sooner rather than later. Okay?

Q - Jaime Nicholson

Okay. And then secondly, do you have any targeted amount for dividends and potential share buybacks relating to '05 and '06?

A - Otavio Lazcano {BIO 4999009 <GO>}

As to (inaudible), the Company will be distributing to all the shareholders whatever amount is left after we have financed the investment plans of the Company and after we keep our capital structure a balanced and conservative one. Okay? As to the share buyback program, we use it as a tool to get rid of any unnecessary productivity in the share price.

Q - Jaime Nicholson

Okay. So no target amount?

A - Otavio Lazcano {BIO 4999009 <GO>}

I wouldn't be able to tell you.

Q - Jaime Nicholson

Okay. Thanks very much.

A - Otavio Lazcano {BIO 4999009 <GO>}

Welcome.

Operator

Thank you. Our next question is coming from Charles Bradford with Bradford Research.

Q - Charles Bradford {BIO 1495739 <GO>}

Good morning. I would like to ask you more about the CSN LLC in the U.S. Now that the hot band market has heated up a bit, are you having trouble getting supplies?

A - Joel Alves {BIO 21357466 <GO>}

It's Joel speaking, just for the record. Normally in LLC, you ask about facing problems to supply. You are right, the hot coil market in the U.S. is hit. But we are managing to provide from different sources. And some of the supplies made directly from Brazil we can use two alternatives for supplying glass or we can supply cold rolls and we are not facing problems yet.

Q - Charles Bradford {BIO 1495739 <GO>}

Thank you.

A - Joel Alves {BIO 21357466 <GO>}

Okay.

Operator

Thank you. (Operator Instructions) Our next question is coming from Jennifer Corrou with Citigroup Investments.

Q - Jennifer Corrou {BIO 1503791 <GO>}

Hi. You mentioned earlier that you were expecting prices in the Brazilian market to be flat in the Fourth Quarter. Can you tell us whether that is flat in dollar or reais terms?

And then can you talk about what's going on with your export ratio. And what your target export ratio and target volume numbers are for 2006?

A - Luis Martinez {BIO 7187744 <GO>}

Yes. This is Luis Martinez speaking. Let me start with the second question. We are forecasting to have, for the next year, a range of 60 to 65% of local market sales and the remaining portion to the exports.

Regarding to prices, we are forecasting to have very stable prices in the local market, not only for the movement that we are facing in the worldwide market, mainly driven by the U.S. But we are considering that most of our customers here in Brazil, not only the distribution market, are now burning their inventories. So there is no reason or there is no fundamentals for having lower prices in the last quarter. And obviously we are considering the local currency, reais.

Q - Jennifer Corrou {BIO 1503791 <GO>}

And what's your target volume figure for '06?

A - Luis Martinez {BIO 7187744 <GO>}

Could you say it again, please? Volume for 2006, around 5 million tons a year total market, including exports.

Q - Jennifer Corrou {BIO 1503791 <GO>}

Okay. And then can you explain in better detail the change in working capital, this significant move that happened in the quarter?

A - Otavio Lazcano {BIO 4999009 <GO>}

There's a good explanation, a good description of the change in working capital invested in our business in the press release on page nine. Okay? And I will make sure that you receive it by email, okay? But the change in working capital is mainly derived by -- yes.

As to taxes, we were not able -- we had previously an amount of taxes to be paid, which is expected to be higher than the amount of tax to be paid at this point in time. So as a source of funds, it means that we are paying taxes faster than what we were previously. And that is the reason why you have this increase of BRL650 million in working capital invested in our business. But I will make sure that you receive the press release.

Q - Jennifer Corrou {BIO 1503791 <GO>}

I have a copy of the press release. I just want to make sure. So what you are saying is you had previously deferred taxes. And now what you need to do is actually pay those taxes. So this is a cash outlay?

A - Otavio Lazcano {BIO 4999009 <GO>}

Yes, you got it.

Q - Jennifer Corrou {BIO 1503791 <GO>}

And what was the reason for deferring them previously?

A - Otavio Lazcano {BIO 4999009 <GO>}

Would you mind if I check with my accounting department and come back to you later?

Q - Jennifer Corrou {BIO 1503791 <GO>}

Yes, that's fine.

A - Otavio Lazcano {BIO 4999009 <GO>}

Sorry.

Q - Jennifer Corrou {BIO 1503791 <GO>}

That's okay. And then can you just -- sorry, last question, what happened with the thermal plant during the quarter?

A - Otavio Lazcano {BIO 4999009 <GO>}

Sorry, I didn't follow you.

Q - Jennifer Corrou {BIO 1503791 <GO>}

The thermo-electric plant, you had less production there?

A - Otavio Lazcano {BIO 4999009 <GO>}

It's still very well maintained. That's a stoppage just for maintenance.

Q - Jennifer Corrou {BIO 1503791 <GO>}

Okay.

A - Otavio Lazcano {BIO 4999009 <GO>}

Okay? And then we ended up buying more power from Greece.

Q - Jennifer Corrou {BIO 1503791 <GO>}

Okay.

A - Otavio Lazcano {BIO 4999009 <GO>}

Okay?

Q - Jennifer Corrou {BIO 1503791 <GO>}

But that's not a recurring event?

A - Otavio Lazcano {BIO 4999009 <GO>}

No, far from being it.

Q - Jennifer Corrou {BIO 1503791 <GO>}

Thank you.

A - Otavio Lazcano {BIO 4999009 <GO>}

You're welcome.

Operator

Thank you. Our next question is coming from Marcelo Aguiar with Merrill Lynch.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Hi, Otavio. Earlier you guys mentioned that the slab cost for 2006 should be, I believe, close to 110. I am just curious if it is cash cost or this is a nominal cost?

A - Otavio Lazcano {BIO 4999009 <GO>}

It does include depreciation, Marcelo.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Does include, right?

A - Otavio Lazcano {BIO 4999009 <GO>}

Does include depreciation.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

So cash cost should be, what, 195, 190?

A - Otavio Lazcano {BIO 4999009 <GO>}

185. 185, 180.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. And just another easy question for you. Your CapEx for 2006, what is growth and what is maintenance? Which is the current estimate that the management has regards this investment that needs to be approved?

A - Otavio Lazcano {BIO 4999009 <GO>}

As a rule of thumb, just for maintenance CapEx of steel production facilities will be exactly 40% of the EBIT depreciation. Okay? Roughly speaking, $250m, $300 million each and every year. On top of that, we have the investment for the Casa de Pedra project. We gave out good disclosure on that in the press release and the previous corporate presentation of the Company. And on top of that, the Company is seriously considering a metallurgy project, investment to increase metallurgy capacity. And a decision will be announced by the beginning of next year.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. And the last one, looking at your press release, we noticed that the spread between your domestic prices and export prices, at least in the hot roll line unit, it is something like 55%, basically, in the Third Quarter. I just would like to check with you guys that, assuming that Brazilian currency will be as strong as it is today for next year, which is the sustainable spread that we could see between, again, let's say hot roll domestic and the world? Because this 55%, in my opinion this is unsustainable.

A - Luis Martinez {BIO 7187744 <GO>}

Okay. Marcelo, this is Luis Martinez speaking again. First of all, we have to not to forget that we have at least 15%, or 15 to 18% of dollar effect in these premiums. So this is a very, very large amount that we have to take into account.

Second part, comparing prices, hot roll prices in Brazil and other parts of the world, here in Brazil we have to consider that we have a much more premium product, comparing with products that we are exporting right now. Just to give you an example, we have a very, very good -- very strong portfolio in terms of hot roll to the outer parts in the industry in Brazil. So it's allowed us to charge a spread at least of 30 to 35% over the export prices.

So to compare apples and apples, now we have to account that we have in U.S. a hot roll price in the range of $500 per metric ton, against in the distribution market that we -- our lower price in Brazil in the range of 600 metric tons -- $600 a metric ton. So I think we can keep this premium in the local market for having short-time deliveries, less working capital involved and so on and so forth. So we are strong -- we are strong focused that we are going to keep this amount of premium in the Brazilian market.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Just on the (regional) part. Is it true that your customer one day decides to buy from CSN or to buy abroad, they look also to Russia and other suppliers, not just the U.S? So this is a matter of customer decision and not really your decision?

A - Luis Martinez {BIO 7187744 <GO>}

No. Not only customer decision, Marcelo. But we need to consider that we have a very, very powerful portfolio. So probably we have some customers in the distribution market that buys not only hot roll but they buy cold rolled, hot deep galvanized, galvalume and also coated products. So if you put it in a customer's shoes, we need to consider the total package. And that's what we are trying to do right now. Instead of selling just hot rolled to the customers, we are trying to put the total package to the customers. And most of our customers buys a good part of our portfolio.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. Fair enough. And the last one, just regarding CSN LLC. Just to understand, you mentioned earlier that you now (must) sell anything to your U.S. counterpart in the Fourth Quarter. And I was just wondering if you were going to sell anything in 2006?

A - Joel Alves {BIO 21357466 <GO>}

Marcelo, it's Joel Alves speaking. I didn't understand. You mentioned that we said that we are not selling in Fourth Quarter to LLC, that is?

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Yes, you mentioned this in the conference call, right?

A - Joel Alves {BIO 21357466 <GO>}

No, we didn't.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. So forget my correction.

A - Joel Alves {BIO 21357466 <GO>}

We are selling a lot. What you're not selling, of course, is hot rolled coil.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

No, that means selling hot rolled coil to Brazil through LLC, right?

A - Joel Alves {BIO 21357466 <GO>}

No. But we are not selling only hot rolled coils for processing in the LLC. That's what was said. We are selling a lot of different products through LLC and to LLC, including slabs, cold rolled and a lot of galvanized. A very rich mix. Okay?

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. Which are the tonnage, in the fourth and planned for 2006, of total products sold through Brazil to LLC?

A - Joel Alves {BIO 21357466 <GO>}

It's almost about 30% of our exports is to North America, including LLC.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you.

A - Joel Alves {BIO 21357466 <GO>}

Okay.

Operator

Thank you. (Operator Instructions) Our next question is coming from Daniel Altman with Bear Stearns.

Q - Daniel Altman {BIO 1855515 <GO>}

Hi. Thanks again. Just two additional questions, firstly on the Fourth Quarter. I just want to make sure I understood that you are predicting higher export prices, on average, versus the Third Quarter. And I wonder if you can try to quantify that? Is it a $10 or $20 improvement, or maybe even a little more than that?

The second question is on the dividends. How much do you think we should read into the changes at (Vicunia), in terms of their maturities. And how that would influence the CSN dividend? There are some people that are expecting a pretty dramatic decline in dividends in '06 for CSN as a result. Thanks.

A - Joel Alves {BIO 21357466 <GO>}

Daniel, it's Joel Alves speaking again. We have compared to 2004 in the exports, a richer mix. So if you take cold rolled, galvanized. And simply this amounts for 55%, almost 60%, of the mix of sales for exports. Coming from that, we can say that in the Fourth Quarter we have as well a very good mix of sales. And then prices varying from $20 to $40 above the Third Quarter prices in the total. So I think it's better than the Third Quarter. Okay?

A - Otavio Lazcano {BIO 4999009 <GO>}

Daniel, it's Otavio again. And as to your question on dividend flow in the next few years, I cannot speak for the controlling shareholder and its plans in the international capital markets. But I understand that he wants to benefit from the amazing liquidity conditions that Brazilian corporate names are facing at this point in time. Okay?

As to the dividend payments in 2006 and the following years, what I would like to tell you is that this Company has been reporting EBITDA margins of about 40% for more than three years in a row. We really generate a lot of cash. You know this better than the book of the options of the Company would say. Okay? And no question that the company will be continuing to distribute relevant dividend payments to all of its shareholders in the next few years.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Thanks.

Operator

Thank you. (Operator Instructions) There appear to be no further questions. I will turn the floor over to Mr. Otavio for any further or final remarks.

A - Otavio Lazcano {BIO 4999009 <GO>}

Okay. Thank you, all again for joining us for the Third Quarter '05 earnings conference call. We'll see you in the next quarter. Thank you, all.

Operator

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