Q1 2004 Earnings Call

Company Participants

- Lauro Rezende, Investments Managing Director
- Nelson Kunya, Operations Managing Director
- Otavio Lazcano, Financial Director
- Vasco Dias, Commercial Managing Director

Other Participants

- Adrian Perink, Analyst
- Daniel Altman, Analyst
- Joseph Carving, Analyst
- Louis Mann, Analyst
- Paulo Desora, Analyst
- Raphael Betterman, Analyst
- Roberto Nofell, Analyst
- Unidentified Speaker
- Velana Watchnitz, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to CSN First Quarter 2004 results conference call. Today with us we have Vasco Dias, Commercial Managing Director, Lauro Rezende, Investments Managing Director, Nelson Kunya [ph], Operations Managing Director, Otavio Lazcano, Financial Director, Luciana Ferreira, Head of Investor Relations. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation.

After the company's remarks are completed, there will be a question-and-answer section. At that time, further instructions will be given. Should any participant need assistance during this call, please press star, zero to reach the operator. We have a simultaneous Webcast that may be accessed through the investor relations section of CSN's Web site; www.csn.com.br. The slide presentation may be downloaded from this Web site. Please feel free to flip through the slides during the conference call. There will be a replay facility for this call on the Web site. 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. Lauro Rezende, who will present CSN's operating and financial highlights of the quarter. Mr. Lauro, you may begin your conference.

Lauro Rezende {BIO 1959027 <GO>}

Thank you. Good morning, ladies and gentlemen. At this time, we'd like to thank you and welcome everyone to CSN's First Quarter 2004 results conference call. We'd like to begin our presentation commenting on the highlights for the First Quarter of 2004. The main highlight was the 18% increase in net revenues, leading to an improvement in our EBITDA, which amounts to almost $300 million, an increase of 6% compared to the same period of previous years. Compared to the previous quarter, the EBITDA margin was up by nine percentage points, reaching 45%.

CSN net income was 333 million reais, with a net margin of 18%, up by 5.3% when compared to last quarter 2003. In addition to these operation and financial highlights, we also approve in the First Quarter of 2004 the (inaudible) capital in the amount of; and (inaudible) an amount of 10 reais per thousand shares, with payment scheduled for June 11. We also would like to highlight the share (inaudible) information (inaudible) unit price improve the liquidity conditions of the security in the market, cut costs and improve the relationship with our shareholders.

In the next slide, we show our sales breakdown. The sales volume total; 1.1 million tons in the quarter; a 4.2 growth compared with the same period of the previous year. Confirming the trend announcement in the Fourth Quarter, the matched sales participation increased by seven [ph] percentage points when compared to the previous quarter, representing 68% of the total sales volume. This increase was mainly due to the expectation of a larger market [ph] sales in the First Quarter and due to the company strategy of postponing exports when even high international prices are expected. Consequently, the export volume decreased by 32% compared to the previous quarter. For the coming period, we plan to keep the export mix between 35 and 40%. The sales mix by region all have changed when compared to 2003. Since the sales volume [ph] dropped, sales for China only decreased by 13% and sales for U.S. and Europe, which are a more stable market in terms of price in the long run, increased significantly.

An important point to highlight is the improvement of our mix of products sold with the continuing increase in participation of value-added products such as (inaudible) and galvanized products. These two items represent 46% of the total volume sold in the First Quarter, compared to 40% in the previous quarter and 38% in the same period of 2003. We expect participation to remain at this level, due to the consolidation of Lusosider and CSN USA, our key [ph] operations. And the start operations of CSN Parana.

Continuing our presentation in the next slide, we show a revenue by market and how they are [ph] matched to market rated on. The net revenue increased by 17.7% compared with the same period of the previous year. We expect them to rise in prices and increase our volume sold in the quarter. Domestic market represented 69% of the acquired net revenue compared to 68 and 67% [ph] in the First Quarter 2003 and Fourth Quarter 2003 respectively. The highlight (inaudible) market breakdown was the sales for social [ph] distribution compared to the First Quarter 2003. These markets show an increase of 26% and 19% respectively or three percentage points and five percentage points increasing in the participation in the overall sales.

In the next slide, we have the financial highlights for the quarter. The gross income reached 841 million compared to 821 million in the First Quarter 2003 and 806 million in the Fourth Quarter 2003. The gross margin in the quarter was 45%, down by seven percentage points when compared to the same period of the previous year, due to lower foreign exchange rates over exports and high production costs. However, compared to the previous quarter, the gross margin has increased by five percentage points, due to the rising prices and sales mix with higher value-added products. For the same reason, our EBITDA margin dropped by five percentage points when compared to the First Quarter of 2003. But has increased by nine percentage points when comparing to Fourth Quarter 2003.

The operating income totaled 658 million, a decrease of 2% when compared to the same period of the previous year due to higher costs for exports. However, compared to the previous quarter, the operating income holds by 330 million, mainly due to lower provisions for contingencies. CSN's net income in the First Quarter 2004 was 333 million reais, 16% lower in comparing to the same period the previous year and 6% higher when comparing to the previous quarter. The net margin was 18%, slightly higher than the 16% net margins recorded in the Fourth Quarter of 2003. But a decrease of seven percentage points, when comparing to the net margin quarter in the same period of the previous year.

In the next slide, we explain the change in net income with further details. In slide number six, we have a detailed breakdown of the main changes that reduced net income in 2004, when comparing to the First Quarter 2003. The main positive contributions were; first, an increase of 31 million in gross income, mainly due to the high average price throughout the first part of 2004. Our (inaudible) gain was faster [ph] upset by higher production costs. Second, the positive contribution of 11 million due to higher average income from Air Mya Rosiska [ph], the railroad company. Nevertheless, the high debt costs caused a negative contribution of 126 million, mainly affected by the lower comparison base in the First Quarter of 2003 since, in that period, the debt cost accounted for share ordinary gains arising from the renegotiation of slabs [ph] and the reverses and extension of local product slabs.

In slide number seven, we have the breakdown of the change in the net income between the First Quarter 2004 and the First Quarter 2003. The positive contributions are no recurring expenses of 139 million, including provisions for losses in Electroglas [ph] and provisions for receivables of MAE [ph], the Brazilian wholesale markets for energy, among energy, among others. Lower provisions for contingencies in FAN [ph], one of our services areas and CSN totaling 84 million reais. In addition, we have the increase in the gross income of 90 [ph] million due to the high average prices in the quarter, although this price gain was partly of the sale [ph] by reduction in sales volume. It does that to an external gain of 22 million by the reduction of freight costs.

The negative contributions were as follows. First, the positive effect in the Fourth Quarter of 2003 related to (inaudible) of the summer climate in Brazil and to the tax credit from Intersenapsi [ph], part offset by the income tax find [ph], following the income tax (inaudible) above to 30% limit. All this totaling a negative position of 145 million reais. Second, the higher net debt cost bring in another key contribution of 73 million reais. Third, the reduction in action income from MIS [ph] in the amount of 45 million reais since a tax credit due to economic [ph] losses were resisted [ph] in the Fourth Quarter 2003 in that railroad. All distribution [ph] plus the other changes in the amount of negative, in the amount of negative 17 million, led to an increase of 18 million in net income of 2004 when compared to Fourth Quarter 2003.

Finally, we would like to comment on share change debt and also debt cash position at the end of First Quarter 2004. The decrease of $179 million in net debt in the period lower than the EBITDA of 833 million was mainly due to increase in the working capital of the company, following the strategic decision to increase inventories and the payment of income tax and social contribution related to the fiscal year of 2003. Since the net income recorded by offshore companies are only charged at the end of the year and paid in the beginning of the following period, that effect was felt in the First Quarter of 2004.

The analyzed cost of net debt was equivalent to 81% of CDI, the interbank deposit rates in Brazil, an improvement comparing to the 100% subsidiary expected by the company early on. This reduction of costs in the family [ph] of the continued policy of completing hedging, our foreign exchange program [ph], 75% of the gross action [ph] nominating for incurrence, mainly U.S. dollars. We reiterate that the current net debt over analyzed EBITDA ratio is 1.4 times, in line with the expectations bestowed previous in our year 2003 earnings release. The company expects to keep the ratio between one time and 1.2 times EBITDA until the end of 2004 fiscal year. Our short-term debt contribution decreased and currently, we have an average maturity in our long-term debt of about six years.

We'd like to end this presentation, reiterate our confidence in the central analysis [ph] in the country. Despite recent product-taking movements in the stock markets, we are confident our strategy will bring improvements in our margin and profitability has already proven, in this quarter results, to show the solid evolution when comparing to Fourth Quarter 2003. So, those were our main comments; those were our main comments in our performance in the quarter and we are able to take your questions that you may have. Thank you, very much.

Questions And Answers

Operator

Thank you. The floor is now open for questions. If you have a question, please press star, one on your touch-tone telephone at this time. If, at any point, your question has been answered, you may remove yourself from the queue by pressing the pound key. We do ask that while you pose your question that you please pick up your handset to provide optimum sound quality. Once again, ladies and gentlemen. that is star, one on your touch-tone telephone at this time. Just one moment while I poll for questions. Your first question is coming from Paulo Desora [ph] with ITAU [ph]. Please go ahead with your question.

Q - Paulo Desora

Hello? My question is regarding exactly the drop in net debt vis-Ã -vis the increase in working capital. You mentioned your inventories as the main reason for increasing in your working capital. But your suppliers have also dropped almost 200 million reais in the quarter. Why that reduction in suppliers support and what should we expect in terms of inventories, receivables and suppliers going forward to; for (inaudible) to project this working capital that was amazingly reduced during this quarter?

A - Otavio Lazcano {BIO 4999009 <GO>}

Hi, Paulo. It's Otavio speaking. How's everything?

Q - Paulo Desora

Fine.

A - Otavio Lazcano {BIO 4999009 <GO>}

Listen, you know that the shape of the Uticu; U.S. Uticu in Brazil is really flat and low. So, given that the company has a huge cash position; you probably saw that it's even above $1.2 billion. And given that, the correct lines that the bankers are offering us to finance the (inaudible) of raw materials, mainly coal and coke, has an acquired interest above whatever U.S. dollar investment grade of instrument of Brazil, we decided to use our cash. Otherwise, we would be destroying economic band [ph]. Okay? I mean, liable rate plus 50 basis points is really above our one-year slab; cost distribution slab in Brazil; and it was more efficient product company with $1.2 billion, we use its cash to pay the purchase of raw materials in advance instead of financing it with the bankers. And that's it.

Q - Paulo Desora

Okay.

Q - Unidentified Speaker

And ...

Q - Paulo Desora

... continue at these levels going forward.

A - Otavio Lazcano {BIO 4999009 <GO>}

Depending on the shape of the U.S. dollar Uticu in Brazil, the company will continue with this strategy, Okay? I think we cannot finance the purchase of raw material and, at the same time, strike on value because there is an implied negative interest at (inaudible). I'm sure that you understand.

Q - Paulo Desora

Yes.

A - Otavio Lazcano {BIO 4999009 <GO>}

Okay?

Q - Paulo Desora

Okay. And, if you guys could please comment on your price dependence for local market and international market vis-Ã -vis First Quarter, what should we expect second and Third Quarter, based on First Quarter?

Q - Unidentified Speaker

Okay, Paulo. Concerning volumes, you can see that the volumes for internal markets were stable. The induction was in the export sales and this was intentional because the price for Second Quarter have shown appreciation; a strong appreciation was seen in First Quarter. Then, in terms of EBITDA, was expect stronger sales in the Second Quarter than in the First Quarter, with better price and better margins. This is our strategy and it's going to take place in Second Quarter.

Q - Paulo Desora

Could you (inaudible) a level of exports for Second Quarter?

Q - Unidentified Speaker

Excuse me?

Q - Paulo Desora

A level of exports for Second Quarter?

Q - Unidentified Speaker

It will be around 40%, follow 40%.

Q - Paulo Desora

And in terms of volume?

Q - Unidentified Speaker

Okay. You can expect something like between $500,000 and $600,000.

Q - Paulo Desora

Okay.

Q - Unidentified Speaker

That would be; that we'll be exporting in the Second Quarter, more or less.

Q - Paulo Desora

And in terms of price?

Q - Unidentified Speaker

In terms of price, the price in Second Quarter, the average; it depends on the product we're talking about. But we will find appreciation both in hot [ph] coal and the hardship [ph] galvanizing (inaudible). Then we expect stronger results. Concerning; this is concerning volumes. Concerning price in the general markets and the external markets, the price invests [ph] are stronger than the rest of the world, as you know. And then, while increasing our sales in the Second Quarter, for United States, mainly hardship galvanizing (inaudible).

Internal markets would be stable. I do not expect any important change, nor in price, nor in volumes for the Second Quarter concerning internal market. I think that the big difference would be in the export sales; better volumes, better margin, better price.

Q - Paulo Desora

And what about that increase on prices that you put out recently?

Q - Unidentified Speaker

Yes, we have increased the price, as you know, aiming to reduce the gap, mainly for hot [ph] coal because the gap in the hardship [ph] galvanizing model. We managed to increase the price. But again, the price mainly was (inaudible) moving again. Then, I think that we will adopt Second Quarter with a gap between the internal market and external market, the bid on the product, something around 50 [ph] percentage dollar per ton. This, I think, will be the gap for the end of Second Quarter.

Q - Paulo Desora

Higher in the local or in export?

Q - Unidentified Speaker

Higher in the export sales, driven mainly by U.S. for galvanized products and for Europe, for hot [ph] coals.

Q - Paulo Desora

Thank you.

Q - Unidentified Speaker

Okay.

Operator

Thank you. Your next question is coming from Daniel Altman with Bear Stearns. Please pose your question.

Q - Daniel Altman {BIO 1855515 <GO>}

Hi, it's Daniel from Bear. Just again, to work through the math on your shipments for the First Quarter and what we can anticipate for the Second Quarter, it looks like, comparing First Quarter to Fourth Quarter, you might have deferred as much as, I don't know, 250,000 tons. I'm just wondering if that's the number to get to the Second Quarter total shipments if we want to take the 1.3 million run rate and then add an extra 250,000 tons to that, to reflect the deferred shipments. So, something like 1.55 or 1.6 million even tonnage for the quarter.

Q - Unidentified Speaker

Daniel, we have to think about CSN on a consolidated base, talking about CSNE [ph], shipments from CSNE [ph], our expected sales for Second Quarter will be internal market total sales, internal market plus external sales, our forecast for CSNE [ph] is around $1.4 million. So, then the (inaudible) that you have add from that, our consolidated sales from Lusosider in Portugal and LLC. We're talking about CSNE [ph] only. Our forecast, is I'm saying, in the order of $1.4 million for the Second Quarter. It implies an important reduction in stocks, as you can see. And we will probably reduce around $200,000 in stocks. It's better margin, better price, as I mentioned before.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. And the other question is, in the press release, in the outlook section, you talk about field prices staying very high levels, at least through Third Quarter of '04. I'm wondering if there's something that you see happening in the Fourth Quarter of '04 that maybe write the paragraph just like that.

Q - Unidentified Speaker

I was commenting mainly based on what you have in your hands at the moment. As you know, the Second Quarter is done, we're completely sold out until end of June. And then we have (inaudible) end price and are they high for Third Quarter, I was starting out talking about volumes for Third Quarter, I do not see any change in demand or any change in price. That's why I'm very confident about price volume for Third Quarter. I think, by the end of the year, it's difficult now to make a forecast. And (inaudible), that is to anticipated. So, I see Second Quarter, certainly. And Third Quarter; strong quarters. But Fourth Quarter is difficult to anticipate.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. And just, sorry, one last question. I apologize. The strategy to withhold shipments for the Second Quarter, was that at all influenced by difficulties in finding, I guess, freight and; or ships to transport the product during the First Quarter?

Q - Unidentified Speaker

It was mainly a reduction from our (inaudible) export sales for Asia and then learning to allocate these more in Europe for hot [ph] coal and for coal to the products U.S. And we captured our inventory and (inaudible) in Second Quarter. But not mingled with difficulties in shipment.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Thanks very much.

Q - Unidentified Speaker

Thank you.

Operator

Once again, ladies and gentlemen. if you have a question, please press star, one on your touch-tone telephone at this time. Your next question is coming from Raphael Betterman [ph] with DBDA [ph]. Please go ahead with your question.

Q - Raphael Betterman

Good afternoon. I just want to check if I understood correctly, if you could revise the spread between the domestic prices and the international price of still imported to Brazil. How much you are seeing that. And you have given some guidance, sometimes, for the Second Quarter of volumes, total volumes and of exports. I just want to check if, on the domestic market, you are seeing increase of sales as well.

Q - Unidentified Speaker

Okay. We are started with the spread. What I mentioned that I see for; at the end of Second Quarter, a gap between internal market and external market of around $50-70 dollars in favor of the export sales. In terms of volumes, I see Second Quarter stable. I do not expect industrial (inaudible) increase in the internal market. Then we will be supplied normally our internal customers and it will be increasing performance for export sales.

Q - Raphael Betterman

Okay. Okay. Thank you.

Q - Unidentified Speaker

Okay.

Operator

Thank you. Your next question is coming from Joseph Carving [ph] with Deutsche Bank. Please pose your question.

Q - Joseph Carving

Yes. Thank you, very much. I just wanted to follow up on Daniel's question because, obviously, it's very critical for field markets going forward, international prices and we're at unprecedented prices. And I was wondering if you could talk a little bit about why you think steel prices are as high as they are today and where you think steel prices are going to be in 2005 and 2006. And I don't expect you to get it exactly to the ton. But if you give some sense of how you think the market; why the market's gotten strong of late and some sense of where you think this market is going, looking out more medium term, because certainly financial investors seem much more concerned than what you've indicated in terms of where steel prices are going. So I'd appreciate it if you could just give us some feeling of where you see prices going in 2005, 2006. Thank you.

A - Vasco Dias {BIO 19950371 <GO>}

Okay. This is Vasco speaking again. This is a very difficult question for us. But what I could say and I haven't mentioned before in a previous conference. But for certain 2005 and 2006, I don't know exactly what the price will be. But certainly, it will be in a higher level than used to be two years ago. Price today was (inaudible) price of what's going around; 120; all price I'm giving to you are FOB [ph] price. And I'm talking about 500 range for Fourth Quarter, 600 for gold [ph], 700 for golded [ph] products, 800 for (inaudible) plate [ph]. And those price are in the higher level than in past. And with all the; this is more or less what happened, I used to say with the oil industry, after all the consolidation (inaudible) of capacity shut down (inaudible), the same things happen in the steel industry.

There's a lot consolidation and we cannot forget the increase of the raw material. So, it's difficult to say where the price will be. But I could guess that they'll be that much higher than they used to be in the levels of 200 for (inaudible). I think you never see again right at that level. Then there could be at this level if it's higher or if it's lower. But certainly; and I'm not a (inaudible); in another level that used to be much higher is what I would say to you.

Q - Joseph Carving

Are you seeing any signs of capacity, new capacity coming on line? You talk about the consolidation in the industry. Are you; are you seeing any signs of new capacity coming on that has worsened to you?

A - Vasco Dias {BIO 19950371 <GO>}

No, I think eventually you can have; you can have some new capacity within the (inaudible) market, a position when our kind of products (inaudible). But it's in the further consolidation will happen. And I think that the further consolidation certainly will happen. It will be more than compensate, eventually in new capacity. So, I think that the steel business then to go for a more, even more balanced position than today. So, I'm optimistic in terms of what part [ph], what level price are going to shift at that level [ph]. And as I said before, I think that will be much higher than used to be in the past.

Q - Joseph Carving

Thank you, very much. I appreciate your comments.

Operator

Thank you. Your next question is coming from Velana Watchnitz [ph] with TLO Price [ph]. Please pose your question.

Q - Velana Watchnitz

Thank you. Hi, everyone. I've basically two questions. First, I would like if you could explain a little bit more about the switch to natural gas and the blast furnace and the advantages and how they could impact on cash costs. And then, if you could maybe briefly comment on the increase in the compensation for directors that was approved at the last stockholder meeting. Those are my questions.

Q - Unidentified Speaker

Thank you. First of all, in the natural gases. In the press release, there was a slight in correction. Okay? We're going to have, by the end of this year, Okay; both gas furnaces working with natural gas. But at the end of 2004, they won't be able to substitute yet the whole purchase coke, sorry. Okay? They will be working, we are working the process where we will be able to substitute a portion of the coke with natural gas. But the whole amount of (inaudible) by coke won't be able to be substituted by the end of this year yet. Okay? Because on our last; on our new blast furnace, the last one on the; there was a return in 2001. Okay? We're going to start pulling out this process by September or October this year. Okay? And it won't be; it will be ready and working. But won't be on full rate by December, 2004 yet. Okay? So, we're sorry about that.

Q - Velana Watchnitz

Okay.

Q - Unidentified Speaker

Okay? So, what we are doing, basically, Okay, in this process is pulling out an extra burner in the blast furnace. So we will able to burn, Okay, together with the PCI [ph]; coal (inaudible), natural gas. So we will be able to substitute to the portion of the feed [ph] in coal and coke. Coke here PCI [ph] or more coke in to the blast furnace via natural gas. What the company will do going forward is do a balance of prices, which way is more economical to do, we're going to adopt. Okay? We have done that in the past. The blast furnace was not regarding 2001. The blast furnace number two [ph], does have this gas parts installed [ph]. The number three, Okay? The gas part was not reinstalled back in 2001 and we are doing that this year.

Regarding the compensation of the administration, Okay? That's basically an idea the company has to change the way the executives are based in CSN. We, as a company, we don't have a stock option plan. Okay? And the company is evaluating the possibility of pull out stock option plan to the executives easier [ph]. Okay? It is not decided, either proved by the board. But it is an option of the board, we (inaudible). That's while you saw this change on the last AGM [ph].

Q - Velana Watchnitz

Okay. Thank you.

Q - Unidentified Speaker

Thank you.

Operator

Thank you. Your next question is coming from Louis Mann [ph] with CSN. Please pose your question.

Q - Louis Mann {BIO 19196441 <GO>}

Yes, hi (inaudible). Louis from (inaudible). My question is related to the cash cost side of the equation. What you can tell us in terms of iron ore, coke and coal and flat [ph] capacity? I mean, what should I assume on these inputs for the, let's say, the short term, midterm, that could justify further higher-than-expected price reductions on the medium to long term? It's probably too soon to talk about iron ore. But as a supplier and a user, you're definitely the best one to talk about it.

Q - Unidentified Speaker

Okay. So, let me start with the iron ore first, Okay? Well, the iron ore; CSN does have a major advantage on other companies because we have a captive [ph] iron ore mine, Okay? It's a (inaudible) compacted mine and we are (inaudible) to spend the (inaudible) mine to 40 million tons, Okay? And the strategy is on track and we're going to have the 40-million ton capacity by 2006. Okay? By mid-2006. Today, what we can tell you about iron ore prices is that they seem pretty strong and holding. Okay? We don't saw any sign of these in connection of price in iron ore near the month. Okay? We are, as of now, discussing with several parts regarding long-term contract for the (inaudible) federal [ph] better output. Okay? And we expect, between now and the end of the year, be able to announce, hoping much sooner than that, to be able to announce a few long-term contracts regarding the supply of (inaudible) iron ore mine to foreign companies; for any steel companies. Okay?

Fight [ph] has peaked back in March. Now has ceased [ph] just a little bit, not much. You can talk about, probably, something like a 5% decrease in freight prices, Okay? But you have to remember they reach extremely, extremely high levels, even when you consider, sometimes, even the availability of (inaudible) itself to exports. You know, it has eased a little bit. But we're not feeling that it is going to have that much of easing further down the road. Okay?

Q - Louis Mann {BIO 19196441 <GO>}

Yes. But what about coke and coal?

Q - Unidentified Speaker

Coke and coal, what we have right now is that coke, for instant, has if you may say so, has stopped. But has stopped at the 400 plus level; $400 plus level per ton. Okay? There's two substantial short [ph] of coke worldwide. And we haven't seen yet any easing on that; on that sense, Okay? Coke prices, when measured year by year, you're probably going to have an increase between 20 and 50% depend on the quality of coal you're talking about.

Q - Louis Mann {BIO 19196441 <GO>}

Okay. When you balance demand; strong demand and potential pressure comes from the cost side, not only for you. But thinking as an industry, what's on your view is that this time more relevant to the terminated [ph] prices, internationally speaking? I'm not really, I would like to hear your comments also on an industry basis because you have a return [ph] margin. But that's not reality for a lot of players internationally. So, just your thoughts on that; raw material versus demand; raw material prices versus demand.

Q - Unidentified Speaker

Demand. Okay, what's seems pretty much reality today, in our point of view, is that you're right, you know. But what's driving pricing today is demand, not cost. Okay? The interest is not organized in a fashion or consolidated enough to be able to push prices because of costs at all. Okay? So, a lot of these cost extras were to be absorbed by the companies if the price hasn't pushed that far, Okay? So, what's really pushing price today is further demand, at least on our point of view. Okay? But what seems pretty (inaudible) is that you actually, we don't have (inaudible) structure in the world itself, should be able to hold a Asia-growing, Okay; in the pace, they were growing in Japan and China; grow in the pace and growing. Coupled together with a rebound in U.S. and a good European year. Okay? There simply is not enough infrastructure, Okay, put out there to couple with all this stuff, Okay? That the same price. So, at the same time, sorry. So, there will be a reflection in prices, Okay?

We think that the industry is consolidating, is doing a better job than simply getting out in a place like that to simply put out new capacity. We didn't saw that much new capacity all [ph] come into stream [ph]. And similar to that, what most we saw all around the industry is (inaudible), we squeeze in a little bit more here and there out of (inaudible) capacity to enjoy higher prices throughout the year. But we think that that won't change that much because we don't see any of the major economic (inaudible) having a big downturn, Okay? Everybody's about; talking about China, soft lending; either soft lending or hard lending. We, for instance, don't see China coming from a 10 plus growth to a zero or negative growth in one year or two years. Okay? You don't pull [ph] off and put out the economy debt [ph] size in one year with a (inaudible). Okay? Unless you have an extraordinary event like a revolutionary war or something like that. So, we don't expect that to happen.

So, we expect prices to be; to remain high, Okay? They will probably be a little cooled off by the (inaudible) and you already see that. There is; the market is a little bit, let's say, nervous for the last two weeks because of perspective (inaudible) in U.S. There were some movements from the Chinese government to cool down a little of the growing that they are experiencing. So, industry-wise, I think, Okay, if gold [ph] were it's goals. You know. And the industry stays on the current shape because, on our point of view, the industry needs more consolidation. There will be margins returning to lower levels, not the big levels, at least industry-wise, that people had experienced in the Fourth Quarter of last year and this Fourth Quarter.

Q - Louis Mann {BIO 19196441 <GO>}

Okay. Thank you.

Operator

Thank you. Your next question is coming from Paulo Desora [ph] with ITAU [ph]. Please go ahead with your question.

Q - Paulo Desora

Hello. It's regarding the local market. Your volumes were pretty flat in the First Quarter. What's your expectations on (inaudible) for the fourth; for the next quarters regarding local market?

A - Vasco Dias {BIO 19950371 <GO>}

As I mentioned before, I'm not expecting any growth with respect to a stable market. (inaudible) line with previous quarter.

Q - Paulo Desora

IBS [ph] is projecting 7% growth on local markets. But you mean that your strategy will be much more focused on export and, of course, you should not reap an increase in volume in the local market? That's the strategy.

A - Vasco Dias {BIO 19950371 <GO>}

The strategy for the Second Quarter is to increase our participation in the export sales, keeping the internal market stable (inaudible) supply all my (inaudible) with internal market Second Quarter. And (inaudible) the sales in the U.S. and Europe.

Q - Paulo Desora

And after that, Vasco?

A - Vasco Dias {BIO 19950371 <GO>}

Excuse me?

Q - Paulo Desora

And after the Second Quarter, what should we expect for local (inaudible)?

A - Vasco Dias {BIO 19950371 <GO>}

Well, you ...

Q - Paulo Desora

... year basis. What ...

A - Vasco Dias {BIO 19950371 <GO>}

... will be a 65 internal market, to around 65 internal market, 35 [ph] export sales. For the Second Quarter, these will be 40% for the export sales. For the year will be 35.

Q - Paulo Desora

Okay. That's it. Thank you.

A - Vasco Dias {BIO 19950371 <GO>}

Okay.

Operator

Once again, ladies and gentlemen. if you have a question, please press star, one on your touch-tone telephone as this time. Your next question is coming from Raphael Betterman [ph] with DBDA [ph]. Please go ahead with your question.

Q - Raphael Betterman

There's just one more question. You were talking about natural gas on the previous question. I'd like to know if you could give some guidance in terms of how much coke you will be acquiring for per (inaudible) this year. You used to have, I think, if my numbers are correct, 15% of your coal and coke acquisitions are external. How much would you change of the natural gas for this year and for next year? If you can give some guidance on that. And also if you are making any changes on your guidance for iron ore. Oh. And last, can you answer one more question regarding reevaluation of the reserves of Casa Gipedro [ph]. When we visit there, you mentioned that you were making a new evaluation of the size of the reserves. I'd like to know if this is finished.

Q - Unidentified Speaker

Well, I'm going to answer the easy part. Okay I'm going to ask Nelson, the operations director, to answer you about the coke and the natural gas. These questions about the reserves; what they do is; what's going right now, it's if; I'm not a (inaudible) of round, of evaluation on the size of the reserve. We do expect to have this; the; new reserves with extra position by probably two months from now, 60 days from now. Okay? The preliminary number shows high increase over the current result you have, above the 10% mark. Okay?

Q - Raphael Betterman

I see. Thank you, very much.

A - Nelson Kunya

Okay. Regarding the natural gas. As Lauro said, we have just the start of the (inaudible) number two blast furnace. But to the end of the year, we will be start in our biggest furnace. It is number three blast furnace. Our test today, we are changing each; one kilo of gas, of natural gas, exchanging 1.3 kilos for coke. That's our experience up to now. The tax [ph] are going very well. And we think that, at the end of this year, we will be injecting natural gas in both blast furnace.

Q - Raphael Betterman

So, it's one kilo of natural gas substitutes three kilos of coke?

A - Nelson Kunya

(inaudible) substitute 1.3 kilos.

Q - Raphael Betterman

Oh, 1.3 kilos.

A - Nelson Kunya

1.3, Okay?

Q - Raphael Betterman

And how much would be the supplier of natural gas in blast furnace number two and number three?

Q - Unidentified Speaker

We are starting today in the number two blast furnace; we are injecting 15 kilos today. And we thinking to achieve 40 kilos at the end of this year. Okay?

Q - Raphael Betterman

Okay. And is the 15 kilos left per day or per run?

Q - Unidentified Speaker

(inaudible) ton.

Q - Raphael Betterman

Okay.

Q - Unidentified Speaker

(inaudible) plus iron ore; big iron ore, excuse me, big iron ore.

Q - Raphael Betterman

Okay.

Q - Unidentified Speaker

One ton, one kilo there; one ton of big iron [ph].

Q - Raphael Betterman

Okay.

Q - Unidentified Speaker

Okay?

Q - Raphael Betterman

Okay. Okay. Thank you. Thank you.

Operator

Thank you. Your next question is coming from Adrian Perink [ph] with Marid Asset Management. Please go ahead with your question.

Q - Adrian Perink

Good afternoon, gentlemen. I had a question for you. You've done; you've made significant progress accessing the capital markets to reduce short-term financings more recently. And bringing that down. I just wanted to get a sense of, in the short-term, what still has to be reduced and, secondly how you view the capital markets. And you talked a little on the road show about some of your options in terming that out further. So just maybe a little color on that; on that basis.

A - Otavio Lazcano {BIO 4999009 <GO>}

Okay. It's Otavio speaking again. You are absolutely right. We were able to reduce our short-term indebtedness from 55% of the total indebtedness in the beginning of 2003 to almost 25; just 25% of the total indebtedness at the end of the First Quarter 2004. On top of that, the average life of our net indebtedness ramped up from two years to almost six years as of today. We always keep an eye in the market now to see how to more; how to finance our sales and our operations in a more cost efficient way. So, I would say that the company is always studying all the alternatives up there and if we face; if we end up facing a good opportunity in the next few weeks or months, we would probably would be at least (inaudible). Okay?

I would like to stress that our cash position at the end of the First Quarter of 2004 was $1.2 billion. The next three quarters, I mean, until the end of 2004, we will be facing just $300 million of bilateral deals coming through with the bankers of the company. So, we have, I mean, our cash position is more than sufficient to, more than what we need to pay back all the financial obligations of the company in the next three years. I mean, without being obliged [ph] to renegotiate or issue any kind of that instrument in the market.

Q - Adrian Perink

Okay. And secondly, maybe just some further clarification on going out throughout the remainder of the year. You know, what are some of the bigger cash sources. You know, where is cap ex sitting? You know, obviously, you've announced the project expansion and what not. If you could just maybe run me; run me through some of those numbers?

Q - Unidentified Speaker

Okay. By the end of the year, Okay? Cap ex for the year in CSN was; for CSN (inaudible) was not big, Okay? You're talking basically of an extra 450 million reais probably. Okay, that's, on the current rate, something like $50 million, Okay?

Q - Adrian Perink

Okay.

Q - Unidentified Speaker

And we have improvements, as we saw, a bigger project, a (inaudible) project to gather the mine and the ports. Okay? Expenditure on this price this year will be in the same range; $50 million. Okay, at most. So, you're talking about, basically, on cap ex, of $100 million overall. Okay?

Q - Adrian Perink

Okay.

Q - Unidentified Speaker

The main source of financing of these products will be cash. Okay? We already have placed a lot of long-term instruments. Okay? We, because of our level of exports, Okay, we are able to probably, if we need to place another position (inaudible). Okay? That is very; almost not affected by this last week's, let's say, events, where the market get a little bit jittery. Right? So, there's one possibility. The other possibility is to finance about 70% of those projects is BNDS; the Brazilian National Development Bank. Okay?

Q - Adrian Perink

Okay.

Q - Unidentified Speaker

That has announced the intention to support is still making, in Brazil, as one of the, let's say, the core competencies of the country. Okay? But for the cause [ph] of the (inaudible) mine, we still think that we'll be able to close before the end of the year, Okay? A project financing project that will comprise the whole (inaudible) project. Okay? And that's including mine, ports, railroads and possible deportation plants. Okay? Who have been offered (inaudible) structure from some of the people who are offtakers [ph], Okay? And we're analyzing that to be able to build a private [ph] finance structure for, you know (inaudible). Okay? It is pretty much viable today. What we're expecting to reach with them is improvement [ph] on costs, maturity and so on. Okay? But we can say that we can't expect the maturity for us for an average about seven years. Okay? And of course, of (inaudible) 200 basis points.

Q - Adrian Perink

Okay.

Q - Unidentified Speaker

Okay?

Q - Adrian Perink

With regard to the announcement, outside of maybe this; the recent announcement on the stock repurchases, is there any what are your views and maybe even permissability in going forward. You know, how do you see valuation of the equity and how much further, how much further room would you provide, let's say, beyond the announcement right now for stock repurchases?

Q - Unidentified Speaker

Yes, the stock repurchase program was announced; is a 90-day project; a 90-day program, that you can buy one ...

One point two million shares.

One point two million shares, Okay?

Q - Adrian Perink

Right.

Q - Unidentified Speaker

We tend not to give guidance on level itself. Okay? Although we think, Okay, that the current valuation is very, very low, Okay? So it is a good investment for a company to sell go into replace some of its own stock back. To give an idea if you want to analyze the number we just told you, we're talking about a EBITDA around $1.5 billion, right? And a profit of something like $400 million. Okay? You're talking at a company that is on the market today for something like $3 billion. So it's two time [ph] EBITDA, Okay? Or five or a little less billion. So it's a very cheap company of today. Okay? So the company really thinks that the current stock level is depressed on our point of view.

Q - Adrian Perink

Now, does that actually, what timeframe does that cover? You know, your announcement is that covering ...

Q - Unidentified Speaker

Ninety days. Ninety day from the announcement.

Q - Adrian Perink

Ninety days. Okay.

Q - Unidentified Speaker

Ninety days from the announcement, Okay?

Q - Adrian Perink

Okay. Okay. Thank you.

Q - Unidentified Speaker

Thank you.

Operator

Once again, ladies and gentlemen. if you have a question, please press star, one on your touch-tone telephone at this time. Your next question is coming from Daniel Altman with Bear Stearns. Please pose your question. Mr. Altman, do you have a question for our speaker?

Q - Daniel Altman {BIO 1855515 <GO>}

Can you hear me now? Hello?

Q - Unidentified Speaker

Yes, Daniel, we can hear you.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Great. Thanks. Yes, my question, my first question is for Nelson [ph]. If you can talk about your strategy to substitute coke with natural gas. Is that something that other steel producers globally have looked into? It's actually the first time I've heard of this. I'm wondering if your domestic peers also are considering doing the same thing. My second question is regarding the buyback program. If you've actually started to buy back shares. Thanks.

A - Nelson Kunya

Okay. This is Nelson [ph] speaking. We used to inject natural gas in the past to 1997, we used to inject natural gas in our blast furnace. At that time, we stopped the injection because we started our PCI [ph] plants. Then, at that time, it was more economical to use coal, inject coal and coke. Now, as you know, regarding the price of coal and coke, we stopped the injection of natural gas in the blast furnace. For us, it's very new because we are injecting coal and natural gas at the same time. There are some other steel companies in the world, mainly in Russia and the U.S. that they are doing the same injection. As I said before, we are having very good results in certain injection and we are increasing, each month, we are increasing the natural gas rates. Okay?

Q - Daniel Altman {BIO 1855515 <GO>}

Okay.

A - Lauro Rezende {BIO 1959027 <GO>}

And Daniel, it's Lauro speaking, Okay? We haven't buy back any shares yet because we don't want to do that before the announcement of the results become public, Okay?

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Thanks.

A - Lauro Rezende {BIO 1959027 <GO>}

Thank you.

Operator

Thank you. Our next question is coming from Roberto Nofell [ph] with Gas Investments [ph]. Please pose your question.

Q - Roberto Nofell

Good afternoon, everyone. My question is regarding; is to regarding export prices. I was wondering if you could give us the guidance of what your slab and hot [ph] coal prices should be for the Second Quarter and the third, if you could.

A - Vasco Dias {BIO 19950371 <GO>}

Vasco speaking here. Hot coal for Second Quarter export sales will be around FOB [ph] priced, $520, $530.

Q - Roberto Nofell

And for slabs?

A - Vasco Dias {BIO 19950371 <GO>}

Again, I do not export slabs. All my slabs production, I send to our subsidiary in U.S.

Q - Roberto Nofell

Okay. And; Okay, fine. Thank you.

Q - Unidentified Speaker

Thank you.

Operator

Thank you. I'm showing no further questions. I would like to turn the floor back over to you for any closing remarks.

Q - Unidentified Speaker

Well, I want to thank everyone for your questions. You know, the team will be available for any follow-up that you may see fit. Thank you, very much for your participation in our conference. Good-bye.

Operator

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