

Q4 2011 Earnings Call

Company Participants

- Daniel dos Santos, Mining Director
- David Salama, Investor Relations Officer
- Hojero dos Santos, Controller
- Juarez Avelar Saliba, Executive Officer, Mining Business
- Luis Martinez, Commercial Director
- Unidentified Speaker, Commercial Mining Director

Other Participants

- Jon Brandt, Analyst
- Luiz Fornari, Analyst
- Miguel Menezes Falcao, Analyst
- Renato Antunes, Analyst
- Richard Rudgley, Analyst
- Rodolfo Angele, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to CSN's full-year 2011 and Fourth Quarter 2011 earnings conference call. Today we have with us the Company's executive officers.

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 over, there will be a question-and-answer session.

At that time, further instructions will be given. (Operator Instructions). We have a simultaneous webcast that may be accessed through CSN's 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 this call on the website.

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We would like to inform that due to the number of participants, the Company will answer only up to two questions per participant with no right to reply and therefore we kindly ask that all the questions are made at once as soon as the line is opened by the operator.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of CSN Management and on information currently available to the Company.

They involve risk, 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. David Salama, CSN's Investor Relations Officer who will present the Company's operating and financial highlights for the period. You may begin your conference call, sir.

David Salama {BIO 17456021 <GO>}

Good morning. And thank you for participating in CSN's 2011 earnings conference call. With me today in this presentation are the Company's officers.

Now let's begin on slide three which shows our consolidated results for the year of 2011. Under the slide we have the consolidated highlights for the year. Net revenue in 2011 reached BRL16.5 billion, a Company record and 14% above 2010.

Gross profit in the year amounted to BRL6.7 billion, an increase of 2% in comparison with the previous year. The EBITDA totaled BRL6.5 billion in 2011, an increase of 2% over 2010.

The EBITDA margin in 2011 reached 39%, consistent with the Company's margins in the last years. In 2011, net income totaled BRL3.7 billion, 46% higher than 2010, positively impacted by the sale of Company stake in Riversdale in April 2011 which generate approximately BRL700 million.

Now let's move to slide four which shows our EBITDA evolution. The EBITDA in 2011 of BRL6.5 billion was 2% higher than 2010. It's important to highlight the following.

First, iron ore sales volume reached 29.3 million tonnes, 16% higher in relation to 2010 considering 100% of Namisa sales. Our average iron ore prices of around \$135 per tonne increased by (30%) when compared to the average iron ore prices in 2010.

Steel sales volume of 4.9 million tonnes was 2% higher than the volume sold in 2010. On the other hand, the following factors had a negative impact on our EBITDA, higher

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productive inputs prices in both steel and mining segments and smaller average steel price in 2011.

Now, let's move to slide five which shows our results by segment. Here we have the net revenue and the EBITDA by segment. It's important to highlight once again the growth of our mining segment in the CSN results.

In 2011, mining net revenue accounted for 35% of our consolidated net revenue compared to 24% in 2010. Regarding EBITDA, the mining segment contributed with 55% of consolidated EBITDA, while in 2010 this share was 37%.

Now, let's move to slide six where we will present some of our steel segment figures. Let's begin with the chart on the top left side. In 2011, steel sales totaled 4.9 million tonnes, an increase of 2% when compared to 2010.

Of this total, 86% was sold in domestic market, 10% through overseas subsidiaries in Portugal and US. And 4% was export. The top right chart shows the steel segment net revenue which reached BRL9.5 billion in 2011, a reduction of 4.5% in relation to 2010 basically due to smaller average sales prices in 2011.

The two charts on the bottom show the EBITDA and the EBITDA margin. In 2011, the steel segments EBITDA reached BRL2.6 billion, 32% lower than in 2010 mainly due to the reduction in net revenue and the increasing cost of goods sold which directly impacted our EBITDA margin which stood at 27%.

On the next slide, we have the same analysis now for our mining segment. Let's begin once again in your -- in the top left side. In 2011, iron ore sales of CSN and Namisa totaled 29.3 million tonnes, a Company record. And 16% higher in relation to 2010. Of this total, exports represented 95% or 28 million tonnes.

It's important to highlight that besides our -- the sales (for third parties) represented in this graph, CSN consumed 6.8 million tonnes in our (inaudible) Rio de Janeiro. Moving on the chart, the top right side, you can see the growth in net revenue of 64% in 2011 reaching BRL5.6 billion -- BRL5.9 billion, another Company record, reflecting mainly the higher prices in 2011.

Now, let's look at the EBITDA on the bottom. In 2011, the EBITDA totaled BRL3.8 billion, 54% higher when compared with 2010. The EBITDA margin stood at 63% in 2011, a reduction of 4 percentage points compared to 2010.

Let's move now to slide eight where we have our net debt evolution. By the end of December 2011, the net debt totaled BRL12.5 billion, an increase of approximately BRL400 million over the end of September. This was essentially due to the following factors.

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First, CapEx of approximately BRL1.3 billion; two, BRL800 million from disbursement related to debt charges. On the other hand, CSN generated an EBITDA of BRL1.5 billion in the Fourth Quarter of 2011 and reduced by BRL600 million the working capital allocated to the business.

Moving on to the slide 9. And here we focus on the net debt/EBITDA ratio. The net debt/EBITDA ratio reached 1.9 at the end of the Fourth Quarter of 2011, considering the 2011 EBITDA of BRL6.5 billion, a slight increase in relation with the position of 1.7 in September. The Companhia has a very flexible debt profile with a cash position of BRL15.4 billion by the end of 2011.

That brings me to the end of our presentation. We will now move on to the Q-and-A session. Thank you.

Questions And Answers

Operator

Thank you, sir. The floor is now open for questions. (Operator Instructions) Questions will be taken in the order they are received.

We do ask that when you pose your question that you pick up your handset to provide optimum sound quality. (Operator Instructions) Also as a reminder, we ask that all your questions are made at once as soon as the line is opened by the operator. At this time, we will pause momentarily to assemble our roster.

Renato Antunes, Flow.

Q - Renato Antunes {BIO 17439917 <GO>}

I just wanted as a follow-up on the Portuguese call, you provided very detailed expectations regarding your iron ore volumes expansion. I just wanted to hear views on what would be the CapEx requirements for those expansion targets, if you could provide these it would be great.

And the second question is related -- again, at the Itaguaí Port region, we have been recently hearing a lot of speculation about the potential bidding round for (Ida De Milieu) public terminal. I just wanted to hear views on the matter, is that something that you're analyzing? That would also be great. Thank you.

A - David Salama {BIO 17456021 <GO>}

Renato, I have here Daniel dos Santos, our Mining Director, who is going to answer your questions.

A - Daniel dos Santos {BIO 6218699 <GO>}

Good day, Renato. We've already spend up to 2011 BRL2.1 billion in Casa de Pedra, BRL378 million at the Port. And BRL82 million in Namisa considering our share of 60%. In 2012, we expect to spend BRL720 million in Casa de Pedra, BRL540 million in -- at the Port, in Tecar. And considering 60% of Namisa, BRL248 million.

To be expended -- to be expended, we have BRL3.8 billion in Casa de Pedra, BRL2.9 billion at the Port. And BRL4 billion in Namisa considering 60% (there).

Q - Renato Antunes {BIO 17439917 <GO>}

The question I would like to address to Mr. Juarez regarding to the (Ida De Milieu).

A - Juarez Avelar Saliba

Well, we are aspiring for the Port authority to release the final terms of the bid. We are not sure that when it will take place. But anyway we are waiting for. We are quite interested because the new area is quite -- we have a lot of synergy with the current area we have in the Tecar Port.

So we are preparing ourselves to participate on this bid. But I cannot guarantee to you when it will take place or even if it will take place. But we will be prepared as soon as we have the bid released to the bidders, okay?

Operator

Jon Brandt, HSBC.

Q - Jon Brandt {BIO 5506998 <GO>}

If I could just clarify from the previous answer, the BRL3.8 billion in CapEx at Casa de Pedra, is that total what's left or the total amount to be -- for the entire project? And the second question is your debt -- the debt profile continues to deteriorate slightly and now at 1.93 times net debt to EBITDA and considering the CapEx spends that you have coming up over the next few years, is there a maximum debt level that you would be comfortable with?

I understand you have a lot of cash on the balance sheet and other assets that you could sell. But if you could just talk a little bit about your debt profile and how comfortable you are with that? Thank you.

A - Daniel dos Santos {BIO 6218699 <GO>}

Okay, in total in Casa de Pedra it's planned to be spend BRL5.9 billion.

A - Juarez Avelar Saliba

Well, just to wrap up, as Daniel told you we have almost BRL6 billion as total CapEx for the mine. Well, let's move to the debt profile and CapEx for the next few years, okay? We have a long-term view about our debt profile. And we believe that the results of the

Company and together with the liquidity we already have in our Company, we can finance the CapEx with no big problems, okay?

So we expect to -- our net debt/EBITDA ratio to go up a little bit from 2012 up to 2015. But after 2015 we are forecasting that this ratio will go down very quickly and if we don't commit with additional big investments in the medium-term, we could come to a net debt/EBITDA by 2018-'19 below 1.

So we are quite comfortable. We know that we have some -- because we are talking about -- we are talking about not only about CapEx for the mining operations, we are talking about CapEx for the steel as well, logistics. And everything, cement and everything. So we are talking about CapEx of approximately \$20 billion in the next five years.

So it means that an average of \$4 billion per year in the next five years. So as I told you we are forecasting to go by 2015 to something in the range of between 2.5 and 3 in terms of net debt over EBITDA and after we conclude the projects mainly in mining, the EBITDA generation will be so high that we can reduce this ratio very quickly.

So that's our forecast. And many people is always asking us about why we are keeping such a high liquidity in the next few years. So the reason why we are keeping this liquidity in the Company is because we need liquidity together with the EBITDA generation finance the CapEx in the next five years. This CapEx returns a very high level to the Company in the short term.

Operator

Richard Rudgley, Glenbrook Capital.

Q - Richard Rudgley {BIO 21754190 <GO>}

I wondered if you could give us any guidance on dividends please.

A - David Salama {BIO 17456021 <GO>}

You know that our policy related to dividends all the time is to maximize the results to our shareholders. In this way, we are taking in account also in the same time all the CapEx that Mr. Saliba just mentioned.

In this way, we have this important CapEx and we want to maintain a stable flow inside the Company. And we believe that it's possible in some way to do both things in the next coming years.

Operator

(Operator Instructions) Miguel Menezes Falcao, UBS.

Q - Miguel Menezes Falcao {BIO 17481409 <GO>}

Miguel Falcao from UBS. Could you speak a little bit about the mining segment EBITDA margin, why did it fall in 2011. And particularly in 4Q. And how that affects your plans to expand further the iron ore business? Thank you.

A - David Salama {BIO 17456021 <GO>}

Daniel is going to answer your question.

A - Daniel dos Santos {BIO 6218699 <GO>}

Yes, in fact I will answer the first part of the question that is related to the costs of the mine in the last quarter of 2011. We implement a lot of improvements at the mine to prepare the pits to operate according our expansion plan.

So we spend some money and we have an increase of the cost regarding to strip ratio, a higher strip ratio than is normal because of this preparation for the expansions.

A - David Salama {BIO 17456021 <GO>}

Now, (Geraldo), our Commercial Mining Director is going to answer your second question.

A - Unidentified Speaker

As we followed in the last quarter of last year, there was a reduction -- a significant reduction in the prices, in the index prices in China and our pricing schemes did follow at the monthly or a quarterly or a given period of time that is (important) period for these prices. And this average price follows the market price. Thus our prices became lower in the Fourth Quarter.

Operator

Felipe Hirai, Merrill Lynch.

Q - Unidentified Participant

Hi, actually this is (Carol). Looking at your mining projects, what we have seen, we would like to know what were the main issues in the past mainly in the Namisa project development and what you think has changed now? That's my first question.

A - Daniel dos Santos {BIO 6218699 <GO>}

No, there is no change in the expansion plans for Namisa.

Q - Unidentified Participant

No, I mean, what were the main issues you encountered in the past in developing the Namisa project? What do you think is delaying the project development so far?

A - Daniel dos Santos {BIO 6218699 <GO>}

In fact we don't have major issues. The projects are according our last review of the expansion plans and we have the normal procedures of license that are ongoing.

Q - Unidentified Participant

Okay. Any decision -- I mean, regarding the shareholders, any issues regarding decisions with the shareholders in the Namisa specifically?

A - Daniel dos Santos {BIO 6218699 <GO>}

No, no problems with the shareholders. We are pretty close. We have regular meetings every month. We have no problem with the shareholders in Namisa.

Q - Unidentified Participant

Okay. Great. My second question just regarding your guidance for steel volumes in 2012, if you could please detail that.

A - Luis Martinez {BIO 7187744 <GO>}

Felipe, this is Martinez again. We are just considering the guidance for next year, 4.9 million tonnes in Brazil and also we have to take into account that we have capacity in Germany right now and we are considering a volume something like 800,000 metric tonnes a year. So in other words, 5.7 million tonnes for this year. And also take into account that we are going to have minimum 85% for the local markets, 10% for our subsidiaries and 3% or 4% for tin plate in Latin America.

Operator

(Operator Instructions) Again, we will pause momentarily to assemble our roster.

Luiz Fornari, Barclays.

Q - Luiz Fornari {BIO 17449670 <GO>}

I have just one quick question. If you could give us an update on the investments on the long-steel plants, how is this (evolving) and if you could give us also a guidance for the other two plants of the long-steel, it would be great.

A - Luis Martinez {BIO 7187744 <GO>}

Okay. We expect to have ready the first plant by the end of this year. In this way the startup is going to happen in the beginning of next year. It's a total investment of BRL1.2 billion of which we spent until this moment BRL670 million and the rest is going to be spent during the next month. And we are continually revisiting our plants relating to the other two plants that we expect to put in place in other locations.

Operator

Rodolfo Angele, JP Morgan.

Q - Rodolfo Angele {BIO 1541593 <GO>}

Just a quick question on the taxes. I was wondering if you could comment why the Company showed the tax credit and what you expect for the coming quarters?

A - David Salama {BIO 17456021 <GO>}

Hi Rodolfo, I have here (Hojero dos Santos), our controller. And he is going to give you some details about our taxation.

A - Hojero dos Santos

Actually the effective tax rate in the Fourth Quarter was very positively impacted by the exchange difference on our debt denominated in US dollars since the real appreciation against the US dollar. So we generate loss in Brazil that was (expo-deductible). We would expect to have the opposite way in the Fourth Quarter of 2012 which is the same exchange difference. But in an average our taxation rate would be around 15%-20%. That's our regular tax rate for the year.

Operator

It appears that we have no further questions at this time. I will now turn the conference over to the Company for any closing remarks. Gentlemen?

A - David Salama {BIO 17456021 <GO>}

I would like to thank everyone's participation in this conference call. Our investor team is available to answer any questions that you may have. Have a nice day.

Operator

Thank you, sir and to the rest of management for your time and you also have a nice day. We thank you all for attending today's conference call. This concludes the CSN's Fourth Quarter 2011 and 2011 earnings conference call. At this time you may disconnect your lines. Thank you.

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