

Q2 2004 Earnings Call

Company Participants

- Leonardo Horta, Investor Relations Director
- Thomas Carlton, Unknown

Other Participants

- Andrej Perez, Analyst
- Daniel Altman, Analyst
- Edmol Chadus, Analyst
- Marcello Argiar, Analyst
- Paolo Sikiare, Analyst
- Patrick Conrad, Analyst
- Rodrigo Bajals, Analyst

Presentation

Operator

Ladies and gentlemen. Thank you for standing by. We will now begin CST's Second Quarter 2004 results conference call. (Operator Instructions). I now would like to turn the conference over to Mr. Thomas Carlton [ph]. Please go ahead sir.

Thomas Carlton {BIO 17912629 <GO>}

Good morning, ladies and gentlemen. and welcome to CST's conference call to discuss the Second Quarter 2004 results. Before proceeding let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996.

Therefore actual performance may differ materially from that anticipated in any forward-looking comments as a result of macro economic conditions, market risks and another factors.

Please also be advised that there will be a playback available for this call. For instructions on accessing this playback, please contact us here Sao Paulo at 55-11-3897-6857.

With us today is Mr. Leonardo Horta, CST's Investor Relations Director. Mr. Horta will be commenting on the company's Second Quarter 2004 results. It is now my pleasure to turn the call over to him. Mr. Horta, you may now begin.

Leonardo Horta {BIO 1528013 <GO>}

Thank you, very much, Thomas. Thank you, to all of you that show interest to follow this conference call. We will have to -- intentionally to follow our model. It means I will be talking and highlight some points for about fifteen minutes. And after that we turn the comment to the operator for the question-and-answer session.

At this time, most probably, would be the most difficult one for me to restrain myself to these fifteen minutes. We have to confess that we are very enthusiastic for the results that the company have achieved at this quarter. And personally, in my entire career, I never have been able to release the result so round like this one that we are doing this quarter.

I am not saying that just based on the financial results that were record for the company for several reasons, among them because we foresee better results for these future quarters. And also that -- because these results of this quarter reflect a non-recurrent gain that itself and not be repeat for the next quarters. By even with that, we do expect the next quarters better than the one that we have just released.

The reason for enthusiasm is based on the value reporting amount. We always have been reporting the book (inaudible) or highlighted the fundamentals of the company. But up to here we did not have so significant results or recognitions being released in the same quarters -- in the same quarter.

From a market prospective, the price have been a record, \$309, for slabs. Our previous record was in 1995, \$275. But, as we said, the prospective for the remaining quarters are even better. We foresee for the Third Quarters a slab price in their neighborhood of 340 to 350. But would leave the average of the year conservatively to the neighborhood of 320 to 330. It means the First Quarter price we expect to be even higher than the Third Quarter was.

But the main reason for being that happy andenthusiastic is more than the market prospective but the result that we have achieved, marketing wise, for hot coils in Brazil. As a matter of fact, we have already achieved the market share that we aimed to reach for this market. We are selling to the customers. That compliments us better.

It means that we can add more value and then brings us better margins. And also it's considerable [ph] for -- in this aspect is that those target client already consider us as the preferred supplier in Brazil for their hot coil needs.

Some operational and production prospective. We have a several gains to be highlighted. We would like to bring your attention to a couple of them. First is the coke production.

In a quarter that several of our competitors, were short of coke and were obliged to reduce their production, we have produced in full and high quality. And reaching cost that are about a third to a quarter of the market price for coke on a spot base.

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This leads me to comment about the overall cost performance. If we would compare cost of goods sold where you have gap this quarter vis-à-vis the Second Quarter previous year, will see a increase of 60%.

The most up to date data that was the released by World Steel Dynamics indicates that the cost average for this lapse have increased in this year in average for 27%. That being said, this is proof that we are distancing ourselves on cost. And -- but it's not just cost, it's also quality.

And this is another perspective I'd like to bring to your attention. We have -- we had our ISO 14000 renewed this year, for that is lapsed and we have been granted it for the hot coils.

And in this aspect we would like to also call your attention that we don't use short cut when we talk about quality certification and we are certified by the DNV that's perceived that the most robust one in this aspect.

Human resource-wise, we are very happy to mention that we have reached in annualized base economic productivity of \$400,000 per person. We posted a record for us and very much meaningful, if would compare with other companies mainly our industry and even outside of our industry.

Also we would like to mention that the company people is very much committed and very much motivated. And they approve of that, that in our biannual research that we do, we have reached 80% satisfaction among our employees. This is very mark -- this is remarkable. Mainly you should consider that this research was done a couple of months after our incident when we lost five colleagues.

On our finance side, beside the sharp reduction of debt, we would like to mention the premature of the two agreement with KFW that would finance all imports from Europe. And also to mention that we are close to our signature with -- our finance with JBIC [ph] that may happen in this month or over the next month.

That means that the financing for the import equipment is assured and we keep progress with BNDS for the DOMAP [ph] one. The peak invariants [ph] of this finance always lead us to sign those agreements later than we do for the imported portion.

On the top of it. And take out the advantage of this spacial opportunity, we have already signed an agreement with the EIB and we are about to sign similar loan agreement with KFW and JBIC. And we have a very good chance to sign a competitive one with IDB.

So, from the society prospective, we see as very remarkable to have been granted their license for expansion. This is much more than a bureaucratic act. But reflects the confidence that the society has on the company performance environmentally wise.

The Esp rito Santo state is known in Brasil for being the most strict or, at minimum, one of the most strict on environmental law and being a very a open process that we obtained this license is for us very strong sign of the confident the society has on us in this aspect.

For the things to be perfect, we would need a better recognition from the capital market. And in fact this would be only at that point that we suffered in this quarter. As a mater of fact, if we take market value of that company by June 30, it was just 2.4 times the annualized bid [ph] for this semester.

The market, knowing that the performance for the quarters will be significant better than the first, one makes our share a bargain. And this is, of course, disappointment for the quarter, also brings new opportunities for the future.

So these are basically my words -- initial words. And with that I would like to return the comment to the operator for the question-and-answers session.

Questions And Answers

Operator

Thank you.

(Operator Instructions)

Our first question is from Andrej Perez from Morgan Stanley.

Q - Andrej Perez

Hi, Leonardo. Just two quick questions, one, on the cost side, if you can tell us how much of the recent increases in iron ore are fully reflected in the Second Quarter? Should we also expect a bit of a spillover into the Third Quarter?

And, more from a strategic point of view, maybe if you could give us some insights into what Arcelor is thinking, in terms of merging the various subsidiaries within Brazil, where CST could fall into this?

And I think more importantly for you directly what are their plans regarding Vega do Sul, you know. If CST will take a higher stake in this or how will all this play out?

A - Leonardo Horta {BIO 1528013 <GO>}

Okay. Andrej, related to your first question, iron ore is fully contemplated on the Second Quarter, as well it was in the First Quarter one.

Related to it, coal, that you did not ask. But let me take the chance to answer you, as we had mentioned a quarter ago, the worst is coming. It means we do expect a high impact

on the coal cost increase from the Third Quarter onwards. The impact that we are foreseen of this is about 20%.

Related to Vega do Sul, Vega do Sul has been a full success, producing above its learning curve forecast. As we remember, the learning curve, we went that by February 2005. But it is already selling 60% of its production to the automobile market, meaning automobile manufacturing as well as auto part work.

This is above what we were expecting for this moment in time. And this -- the main -- several reasons contribute to that. A very relevant one was the shareholders' situation that one of our major competitors -- the major competitor for this plant has faced. So this brought to Vega some opportunities that we have not foreseen before.

The chance for CST increased its stake in Vega it's -- as we have anticipated the market, this is something that may happen in the future and, in fact, that this was in CST's plan.

Related to the Arcelor plans to Brazil, it is too early in time for me to say anything besides what has already been released by Arcelor itself. And based on the release, they have announced their vision to create a holding company in Brasil that would hold its stakes in the other companies. And they see it as a vehicle to invite the others, the minority shareholders, to join them in this holding company.

So -- but I do not have any personal information besides the one that were able to release by them in the United States and deeper [ph] in Europe.

Andrej Perez. Okay. Great, thank you.

Thank you, very much.

Operator

The next question comes from Patrick Conrad from Santandor. Please go ahead, sir.

Q - Patrick Conrad {BIO 3605236 <GO>}

Thank you. I would like to know your perception regarding fuel prices and main raw materials costs such as coal and iron ore for next year, if you already have any?

A - Leonardo Horta {BIO 1528013 <GO>}

That's unfortunate. I am not to prepare to answer you in the seriousness that you would demand. So, we did not go for this exercise in deep yet. So I would position you later -- the market later, because we do not have a firm and final position about that.

Q - Patrick Conrad {BIO 3605236 <GO>}

Thank you.

Operator

Thank you for your question, sir. Our next question comes from Rodrigo Bajals from Pertual. Please go ahead sir.

Q - Rodrigo Bajals

First, congratulations on the great results. My questions is regarding labor prices, in particular for the US.

We have seen some contracts being set as high as \$500 per ton. And I wonder, since CST usually signs six-month contracts and there is a huge demand for slabs in the US for the First Quarter, how good that price -- I mean not really \$500. But \$400 per ton would be a good proxy for net price in the First Quarter of 2005?

A - Leonardo Horta {BIO 1528013 <GO>}

Rodrigo, first of all thank you very much for your comment.

Related to the pricing, we -- this your question, given the chance, should better explain how is the mechanism to pricing the slabs in -- for CST.

About 20% of our prod -- slab production is our exposure to squat market. Most of the time, the squat market is priced below the contract or the long-term relationship one. This has been an exception, 2004. And I would say that one more exception that has happened in 2004.

For the first time in the history that the squat price was above the contract one for the entire year. It has -- always has happened, at maximum, one quarter per year. This was one exception as well. For the squat market, CST has already spoken to a nation [ph] that had opportunities to pay around \$500 for the -- to the -- to get the slabs to be delivered in the First Quarter.

How is the contract once the price is fixed? We are dealing with people -- about 18 companies -- that are in the market for year after a year. So everyone knows quite well what were the reasons that have lead someone to pay significantly above the market condition. Most probably is special opportunities that they can enjoy or a problem -- operational problem that they are face.

So, that being said, the prices recently is -- you take away those exceptions and this is the market price that is the reference to fix individual price. For example we had, in the United States, companies that were able to enjoy the surcharge mechanisms.

Others that the automobile industry did not agree at all with those price increases. A third case is that automobile contracts that were renewed were for some companies. So these are the particularities that are considered after you establish the reference price.

So, that being said, I would say that the price average for the First Quarter will be above \$400. We expect the First Quarter for 2005 to be about it. And I personally believe the average price for next year, 2005, will not be below that \$300 range to \$330 that we indicate as average price for 2004.

So this is basically what we have to say in this aspect for this.

Q - Rodrigo Bajals

Okay, thank you. Just a final remark. If you consider that in the Second Quarter of 2005 we should have an, I don't know, increase of, let say, 15% and also a significant co-increase that you -- since the squat market is much higher than contract prices, we believe that in the Second Quarter it would be a very difficult environmental lower prices.

In other words, there is a strong support for prices in the Second Quarter of 2005. Do you?

A - Leonardo Horta {BIO 1528013 <GO>}

As we said, we did go through a detail exercise about that. But conceptually, I fully agree with you. We don't expect an iron ore price decline next year, we don't expect coal price decline next year.

So, that being said, the \$275 cash cost that World Steel Dynamics indicated that was the average for the industry position in April of 2004, most probably, we will be increasing. Being that correct, I fully agreed with you. That supports your reasoning that the price cannot decline by the Second Quarter onwards.

Operator

Thank you for your question, sir. Our next question comes from Daniel Altman from Bear Sterns. Please go ahead, sir.

Q - Daniel Altman {BIO 1855515 <GO>}

I once again congratulations on the great quarter. Two questions.

First on the tax issue. In the Second Quarter -- I know that you provided very good disclosure. But just to make sure I understand -- was there any cash impact to the company from the reversal you took and can you -- how will this affect your tax rate going forward, both what you provision and what you pay, let's say, in the second half in 2005?

Sorry. Second question is on CapEx. If you could break out -- I've seen different numbers in terms of the total project cost, you are probably getting closer now to having a number. Can you tell us what the CapEx would be on an annual basis in '05 and '06?

Thanks.

A - Leonardo Horta {BIO 1528013 <GO>}

Daniel, yes. Again, thanks for your kind remarks.

Related to the tax, tax is like -- tax credit [ph] is like money. It has no extent. but, having that in mind, let me go a little deeper and, please, give the proper discount if my reasoning does not prove reasonable. This is because of the (inaudible) reconcile, something that this has no extent and explanation that to be given to from this point onwards.

We basically have used all the tax credit for some Federal Tax up to now, at this point. The main reason is that the higher than expected profit, lead us to utilize the tax that we had available sooner than we were expecting.

So this decision came in a very appropriate time because we reestablished the amount of turned off credit. So it means that we keep not disbursing for the tax on the Third Quarter onwards.

But otherwise, if we do not have this decision, we would instruct you to disburse for them. So it would go to the statement -- the cash flow statement and it would -- as we calculate the profit for the company. The impact of the -- this decision is that the amount that you will calculate as profit for the company.

The point about that you did not ask. But please let me use this chance to put together is Adeni [ph]. Adeni is something that allow us -- is incentive that allow us to pay just 25% of the profit that we make for slabs and coils.

So this, what means? Means that with Abeni in place, you utilize those credits longer than you would to have full impact of the tax without Adeni. So the tax benefit that we -- this combination of both will have an impact in the cash flow that we did not expect without it from the Third Quarter onwards.

So, sorry if I gave you so long explanation and not be very, let's say, precise fig -- quantitative-wise. I don't know if it answered your question, Daniel?

Q - Daniel Altman {BIO 1855515 <GO>}

Yes, pretty much. But just to quantify it. So you have -- we should look at the credit in the Second Quarter that you took plus the additional amount that you mentioned now and consider that to be your total tax shield for the upcoming quarters or month?

How -- based on your internal numbers, how long do you think you can go without paying cash taxes?

A - Leonardo Horta {BIO 1528013 <GO>}

Depends. How do you forecast our profits?

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Q - Daniel Altman {BIO 1855515 <GO>}

We're using -- using your numbers. So usually pretty accurate.

A - Leonardo Horta {BIO 1528013 <GO>}

Sorry, Daniel.

This -- we have mentioned that this is for BRL 293 million. This can be increased next week because, of the same quarter, you will be judging a separate process that we asked for extra 10% adjustment on those deductions.

So this may increase. But we cannot -- I would say that up to the next year, we will not be paying tax.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay.

A - Leonardo Horta {BIO 1528013 <GO>}

But, I have to say that we chose to pay as soon as better, because it means that, once again, we have needs for cap -- the profit.

Related to the CapEx, I also would like to thank you for your question, because, first of all, I will have to apologize to you all, because I have promised you that at this time I would be precise-ing the value of the expansion and we were unable to do it because it did not close out the contract as we were expecting.

So I have to postpone one quarter, if I may, the detailed amount of it. What I can tell you, that because of the license -- the environmental license has been delayed by three months, we did not start the final contract negotiations. And -- but we also precise that the stock time -- stocked update. That is now July -- early July 2006, Okay?

Hoping that I have answered your question.

Q - Daniel Altman {BIO 1855515 <GO>}

Yes. Thank you.

Operator

Thank you for your question. Our next question comes from Edmol Chadus [ph] from UBS. Please go ahead, sir.

Q - Edmol Chadus

Okay, thank you. Good afternoon. Congratulations on the results, Leonardo of that.

My question is related to your possibility going forward. Looking to what you are expecting Third Quarter and Fourth Quarter for slab and hot rolled pricing, do you think that you have higher profitability selling slabs or hot rolled?

And then do you think that you could reduce the amount of hot rolled sold if possibilities slabs higher to sell more slabs during in the second half of the year?

A - Leonardo Horta {BIO 1528013 <GO>}

Thank you, too, for your kind remarks.

Related to your question, the prof -- our profitabilities, most probably, would be higher for the next quarter than it was at this quarter. We envision price increases higher than the pressure that we are under for the cost, being the most remarkable cost pressure that coal one.

Beside this, the other pressure that we may have is for the First Quarter as our salaries are annually negotiated with the unions. But, beside this, we don't foresee any significant cost increase beyond those two. And price, we do see a increase.

When you talk about profitability, we have to talk in short-term and long-term. We have invested in this hot strip mill basically to serve the Brazilian market. And we cannot take short-term decisions. Based on an abnormal situation, when the prices domestically are lower, significantly lower than the export one, the international one.

What we are seeing is that the domestic price gap have been reduced vis-a-vis the international one. And this is the situ -- the picture that we see for the next two quarters. We see the domestic price increasing above the international one. And by consequence reducing this gap.

When we talk about margin for the coils, the coils add additional margin, marginal margin to the slab business. So when you would analyze the return on the hot coils, we have to tell you that we keeping very happy with the investment with it. The returns have being higher than we have expected, is that it would take this marginal approach.

Q - Edmol Chadus

Thank you. So, in summary, no major changes to your product mix going forward?

A - Leonardo Horta {BIO 1528013 <GO>}

No. In fact, we have a very strong convincement that we should export 25% of the coils being produced.

Q - Edmol Chadus

Okay. Thank you, Leonardo. Congratulations once again.

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A - Leonardo Horta {BIO 1528013 <GO>}

Thank you, again.

Operator

(Operator Instructions)

Our next question comes from Hiram Sikiare [ph] from Itawu [ph], please go ahead.

Q - Paolo Sikiare

Hi, Leonardo. Actually this is Paolo. I have a question to you regarding hot -- hot rolled prices. If you could give the signs for us in terms of price increase in the local market, how much you have already increased prices this year and what are your projections for second half in terms of price readjustment in the local market?

And my second question is regarding your total sales for 2005 and 2006, if you are planning the area, expanding a little bit capacity on your production adjustments. What's your expectations on production for next year and 2006?

A - Leonardo Horta {BIO 1528013 <GO>}

Thank you, Paolo, for your questions. First, we -- let me -- I'll -- while Christiano would try to support your question about how much the price was increased this -- up till now for the coils. I will try to support -- somebody is trying to find out the support for -- to answer you related to the first question.

About future increases, I would like to recall your attention that we don't increase price. Different than the other players in Brazil, we do not release our least price list. We negotiate price on one-on-one basis. What we see is the market increasing the reference by 10% now and about 15% later in this year.

So we may see, based on the -- our competitors have announced, as I as said, they have a different policy than us. They released a price list and so they are releasing to the public that they intend to increase by this amount.

In your case, you would -- we negotiate case-by-case. And we have other things to bring to the table. Likewise our high -- the higher quality of our product. The higher -- the best service that has been recognized that we are providing in the domestic markets.

So -- likewise, everyone else, we is forced to put large web value to this relation and after that to bring it, to recognize it to the opportunity capture part of it. But, once again, different than our competitors, we do it -- negotiate one-on-one basis.

So we may see our price increasing higher than them because we have these opportunity capture on the pricing some recognitions that have been granted to us recently.

Q - Paolo Sikiare

In terms of your production, I know that you are adjusting your mapping capacity to increase a little bit for next year and 2006. If you could give a guidance for this in terms of total production?

A - Leonardo Horta {BIO 1528013 <GO>}

Related to that, Paolo, what we do intent to do is like -- that is something that the scale that we sell to Vega would allow us to do is increase the hot rolled production by hot charge.

It means -- as you know, the (inaudible) of hot strip mill is the reheat [ph] furnace. So if you are allowed to feed the hot wood with -- if not hot. But warm -- with lead, this save us time and cost on the reheat furnace and this allow us to produce more.

And as Vega do Sul is going to reach their nominal capacity, we may go with hot strip mill up to 2.3 million tons per year.

Q - Paolo Sikiare

Okay. This is another question on regarding Vega do Sul. You mentioned that the company is analyzing eventually increasing its stake on Vega do Sul.

When should we expect this to happen? This year, next year? Is it something that depending on output this year, or it is more on a slabs level decision?

A - Leonardo Horta {BIO 1528013 <GO>}

That was agreed that these would be a joint decision after the plant would reach the nominal capacity and would have more comfortable -- more comfort to forecast the value of that by itself. But I would like take this chance, Paul, if you would allow, me to mention -- to dispel something that we have mentioned to the -- in the previous conference.

Vega has been so successful that they are analyzing and would probably -- the Board will see Vega do -- -do Sul Board will approve a marginal investment that would allow us to take the 200,000 tons of pickling -- pickled products and transform them on cold rolled one.

The initial market mix -- the product mix for Vega was 400,000 pounds of galvanized, 300,000 pounds of cold rolled. And 200,000 pounds of pickled. So, being this investment approved, Vega can go up to 500,000 pounds of pickled and keeping the 400,000 pounds of galvanized.

So this would be proving the product mix.

Operator

Thank you for your question. Our next question comes from Marcello Argiar from Merrill Lynch. Please go ahead, sir.

Q - Marcello Argiar

Hi, Leonardo. Again, congratulations on the results. We spoke about that in the Portuguese call. And I would ask you about export mix of hot rolled in the Second Quarter, if you can break down the export mix for hot rolled. This was the first question.

A - Leonardo Horta {BIO 1528013 <GO>}

Okay. Marcel, thank you again for your remark -- kind remark.

We are basically exporting to Latin America nowadays. We have some exports to Asia, to Europe. But the major market for us has been Latin America itself. But at this semester, as we have mentioned before, we start to export to United States just to have us the chance should meet this export to the American authorities and encounter daily scrutiny.

So, up to the Second Quarter, we basically export to Latin America and some exports to Europe and Asia.

Q - Marcello Argiar

Just a clarification, that numeric prices look like Brazilian? I mean Argentina, Chile?

A - Leonardo Horta {BIO 1528013 <GO>}

No, no they are higher. They are much more closer to the international (inaudible). They are related to the international price. The situation in Brazil, that is an exception right now. It is small exception.

Q - Marcello Argiar

Okay. The second question would be in the line of previously asked question of, probably your guys are looking for, which is the change in average price change per quarter for rolled -- domestic price of hot rolled in the First Quarter, Second Quarter.

And I believe you guys are genuinely negotiating on quarterly basis. Third quarter prices are already set, right?

A - Leonardo Horta {BIO 1528013 <GO>}

About -- yes, we have negotiated. But I have to apologize. But we will not be taking about domestic market in this effort. This was the consensus that I had reached to with com -- our commercial people.

So the disclosure, the guidance that I've given to you, we believe that's enough for you to better forecast -- precise forecast the company results. And up to this moment we did not

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-- the consensus in the company is that we should not release the domestic price in efforts to prompt the foreign one, export one.

Sorry for that.

Operator

Thank you for your question. We have a follow up from Daniel Altman for Bear Stearns. Please go ahead, sir.

Q - Daniel Altman {BIO 1855515 <GO>}

Hi. Thanks. First of all, can you address -- it looks -- from looking at the CSN numbers, it look like they are not purchasing hot rolled coil anymore from CST. I wonder if you can confirm that. And maybe provide a reason why that is not happening, if that's from your end or their end?

And also just if there was anything else that you think was material from the Portuguese language call, if you could -- if you could share that with us. Thanks again, Leonardo.

A - Leonardo Horta {BIO 1528013 <GO>}

Daniel, yes you're right. We have not been selling to CSN lately. From our side we are prepared to do that, just that the deals were not closed. But we are hoping to sell to them, if they would wish, on a win-win situation.

I am sorry, what was your last question Daniel?

Q - Daniel Altman {BIO 1855515 <GO>}

Just if there is anything else that was important from the Portuguese language conference call.

A - Leonardo Horta {BIO 1528013 <GO>}

No. As a -- no. As a matter of fact that we had the chance to repeat all the informations that we are giving. In fact the only thing that we mentioned to you that we forgot to mention to them is the bargain that our shares are traded right now.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Thanks a lot.

Operator

Thank you. Our final question comes from Paolo Sikiare from Itawu. Please go ahead, sir.

Q - Paolo Sikiare

Hi, Leonardo. Just a follow-up question on your coal -- coke in coal plant program for joint venture between you, the (inaudible), CVRD. We talk of this in the Portuguese conference.

I would like just to give more detail on the capacity program for this coking plant and the investment, that \$200 million. How much is splitted between the coke plant and thermal plant?

A - Leonardo Horta {BIO 1528013 <GO>}

Okay. Paolo, the analysts finally said that this special program we will cost around; it will be in the actual north side, about \$1 billion. This is \$600 million for the direct investment for the expansion, \$100 million is related with the coke and the thermal electric plant and about \$100 million for the outhter outsource that we did for the oxygen plant. The (inaudible) plant and all the others that were described the release.

Of this figure of \$300 million, about -- I am not precise about that. But it is about -- I don't know, it is about 6% for the coke plant and 40% for the thermal electric plant. And the production of those goals [ph], we will have 50% of the take, (inaudible) will have 25%, (inaudible) 12% and CVRD 5%.

And for the equity scenario -- sorry, we see that we can have the leverage of this steel companies very similar for our expansion is 70% of debt, 30% of ex. Our financing for ex, for the debt comparable with the CST one.

What else?

Q - Paolo Sikiare

Is there any [ph] capacity program the coke plant?

A - Leonardo Horta {BIO 1528013 <GO>}

The capacity is 1,550,000 tons of coke and about 130 megawatts of energy to be used or sold by the uptakers.

Q - Paolo Sikiare

Okay. Thank you. And congratulation for these results once again.

A - Leonardo Horta {BIO 1528013 <GO>}

Thank you, Paolo.

Operator

We have no further questions at this time. Mr. Horta, I turn call back over to you for closing remarks.

A - Leonardo Horta {BIO 1528013 <GO>}

Once again, I would like to thank you all for your continuous CST results. I have to say that we at the company are enthusiastic about the results that we have released. And we strongly consider that these results will enable the market to better understand our fundamentals and price data for shares.

I also would like to mention to you. And invite the ones that would consider to come, that September 17 we will be holding the CST Analysts' Day. This is the time that we hope that the analysts will visit the newer plant so we have the chance to show the recent development, the hot strip mill performing at full capacity as it is right now.

Hoping that you can see the initial works on the expansion project. And also an opportunity for the entire Board of Directors -- of Executive Directors to meet you then and learn what are your concerns, what are your advice for the company, keep it portions [ph] its direction that would be to add value to its shareholders.

So I sincerely hope to see you there. Thank you. So much.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may now disconnect.

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