

Q1 2010 Earnings Call

Company Participants

- Luis Martinez, Commercial Director
- Paulo Penido Pinto Marques, CFO
- Unidentified Speaker, Unknown

Other Participants

- Carlos de Alba, Analyst
- Erik McKee, Analyst
- Leonardo Correa, Analyst
- Pius Alleluyah, Analyst
- Rodrigo Barros, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to the CSN First Quarter 2010 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 section. At that time, further instructions will be given. (Operator Instructions). We have simultaneous webcast that may be accessed through the -- through CSN's investor relations website at www.csn.com.br/ir. The slide presentation may be downloaded from the website.

Please feel free to flip through the slides during the conference call. There will be a replay service for this call on the website.

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

They involve 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

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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. Paulo Penido Pinto Marques who will present CSN's operating and financial highlights for the period.

Mr. Penido, you may begin the conference.

Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Okay, thank you. Good morning or good afternoon for everybody. I would like to make an introduction based on our 15-page presentation that is available in our webcast. I will make it very quick. If we jump to page three please, we have some highlights of our performance. I would like to -- just to mention that our steel product sales were in line what was our goals, our expected volumes.

Our volumes for iron ore sales were a little bit below our expected level, mostly due to the heavy rains that we faced in Rio in the First Quarter and beginning of the Second Quarter. Here in Brazil, we all know the problems that was caused there. But we -- in spite of it, we had a quite good, I would say sales level in terms of (moneys) in local currency. In terms of moneys, we received a very good cash generation. We came back to the 41% EBITDA level. So CSN is back to the track and we have all the conditions to perform a very good year this year.

If we go to page 4, we'll see in more details what I have said. We can see that the steel sales volume reached 1.26 million tonnes. And we got BRL2.5 billion on it. So average price is close to BRL2,000 per tonne. And that our mix remains very rich following the strategy of the Company.

If we go to the following page, page five please, we see what I have said that the sales volumes for mining or for iron ore were a little bit below expected. Our goal was to be in excess of 6 million tonnes due to the rain. But not bad. We can recover it during the year. We can do a number of (enhancements) in the -- during the year to catch up.

On page 6, we have the net revenues in the period. They reached BRL3.18 billion, being 80% on the steel sales, steel product sales. And the remaining portion being 14% in mining, 5% in infrastructure. And the rest in cement and other business.

On page 7, we show the cost structure of the Company. No big change, the Company still has the traditional breakdown of cost. So that's something that is going as expected.

On page 8, as I said in the introduction, our EBITDA margin went back to 41%. So it shows that (it grown) from the very bad and very challenging First Quarter of 2009 when we had just 28% EBITDA margin. Now we are back, say, to the 40% level -- back to 41%. And with a very good, I would say, perspective to have a better level of margin as a result of expected price increase in iron ore as an example.

If we move to page 9, we have some profitability indicators, one in terms of return on equity and also return on the dividend payout ratio of the Company that is preserved and maintained as expected at a high level, I may say.

On page 10, that has the result of our (growth) in the EBITDA. Our net debt/EBITDA ratio reduced from 1.7 to 1.56 times which is a quite comfortable level of leverage for the Company. So CSN remains as a very liquid Company, our cash position is today in excess of BRL9 billion.

On page 11, we -- you can see more details why our net result reduced. Basically, we had some -- I would say impact of some tax restructuring agreements that we did in Brazil, accounting of the impacts. And I would say that it's not something that we'll repeat in the next -- in the following quarters at this level -- I would say net income will come back to the normal levels, as -- that are expected for the rest of the year.

On page 12, we see that our EBITDA basically was sufficient to meet all the investments, cost of debt, working capital necessities of the quarter. And basically our net debt remained flat comparing the First Quarter of 2009 and the First Quarter of 2010.

On page 13, you all know the volatility of the shares. You all know that we have been performing better than the -- most of the other Brazilian shares or most of the areas in the US.

Page 14 just shows a comparison between the top mining companies and the top steel companies in the world. Our market cap, by the end of March, was about \$29 billion. So that's just to give an order of magnitude of the size of our market cap.

That -- this was the introduction that I was planning to do. We are now open for the q-and-a section. Thank you.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Your first question comes from the line of Carlos de Alba with Morgan Stanley.

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

Yes. Good morning. Thank you for taking the call -- the question. The first one I have is regarding to steel prices in Brazil. You obviously announced already a 10% increase to be implemented over the coming month. Do you see any room to increase prices in the second half of the year in Brazil?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Okay, I will take advantage of the presence of Mr. Martinez here, our Commercial Director. And he will talk about domestic price of steel. Please.

A - Luis Martinez {BIO 7187744 <GO>}

Hello, Carlos. Good afternoon. Regarding to prices, one of the things that we like to understand and to analyze, first of all, related to supply and demand of -- and demand in Brazil. We are facing a very, very strong market in Brazil, not only in distribution but all sectors in the industry. So it's very favorable for us right now.

Another point that we have to take into consideration is regarding to imports level in Brazil. Just to let you know, last quarter we received something like 800,000 metric tonnes. It's a very strong number comparing with last year, 2009 whole year, 1.2 million tonnes.

So this is another point that we have to analyze. In terms of raw materials, you know very well what is happening in coal and iron ore. And there is no real doubt that we need to correct in our prices mainly fueled by raw materials price.

We are planning to have -- we already announced it in the market in the Second Quarter, a price increase in the range of 10%. One of the things that is brand new, it's regarding to tin plate. We decided to increase the tin plate price in Brazil in May.

And we are now analyzing what we are going to do in the Third Quarter, take into account all the situation in the market. And also we -- of our competitors.

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

Thank you, Martinez. And I'll take the opportunity that you're on the line; could you tell us what the margin -- the EBITDA margin for steel -- just the steel operations was in the First Quarter?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Okay. EBITDA margin --

A - Luis Martinez {BIO 7187744 <GO>}

44%.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

-- for steel in the First Quarter, 44%. I didn't memorize all the numbers yet, 44%.

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

44%, okay, thank you. And the cement business, if you recall?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Sorry?

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

And the cement business?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Cement is still very low; it's close to zero. It's positive but close to zero, because we are in a startup phase. Just to mention, as everybody remembers, a year ago, we inaugurated the first production capacity plant of (1.5) million tonnes.

Now, this month we have inaugurated a second plant of 1.4 -- additional 1.4 million tonnes. We have reached now 2.8 million tonnes in production capacity. So it's a startup. So EBITDA margin is still very low. And just to mention our capacity of cement today, capacity is 2.4 million tonnes. And our planned sales for this year 1.1 million tonnes, 1.2 million tonnes.

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

Okay, thank you, Paulo. My final question will be on the potential IPO of the entire iron ore business. Is there any update in terms of timing? How are things progressing with your partners in the Namisa business. And what has been the response to your approach in this regard? Thank you.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Okay, as everybody knows, we have announced of our intention to do an IPO of our mining activities. Good news that we are ready to do a dropdown of our assets, or to separate our mining assets, all the homework is done. And now, at this point we are negotiating with our shareholders in NAMISA, if they agree to merge in our -- to merge Casa de Pedra and Namisa, reason is very simple, there are synergies if we do so.

Of course, we have to respect that these shareholders are very important shareholders, very important partners. And there is I would say a way to do it. And it will take some time. So we have no news to announce other than we are ready to do the separation of the business.

It took a long time to get all the license, all the permissions to operate the Company is done, all the internal IP work, all these things are done also. And it's a normal negotiation. It may take some time. And we are trying to make time as short as possible.

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

Okay, thank you very much, Paulo. My last question would be if you can give us an update to -- on the full guidance for iron ore shipments in the year and if possible that you can break that between Casa de Pedra and Namisa?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Okay. Our guidance for this year is close to 32 million tonnes as a result of this heavy rain in the First Quarter, as a result of all the situation that we're living.

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

Right.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

If you see the 5.6 million tonnes in the First Quarter, it's quite a challenge. But you have to take into consideration that we are inaugurating a number of units in our mine facilities. (Jamie) is here at my side. So he can explain this if necessary.

The number of, I would say, facilities that we are being able to do this startup, starting now. And including the Second Quarter and the Third Quarter of the year in order to have sales close to (20) million tonnes in the second half of the year in order to reach this 32 million tonne guidance that we are giving now for mining sales. It considers 100% of Namisa volumes.

And the goal for Namisa this year is 20 million, the goal for (Casa) 12 million tonnes. So maybe James can say a little bit about the quickness of that coming to -- if you want to.

A - Unidentified Speaker

Hi, Carlos, Good morning, for you in New York.

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

Good morning, how are you, Jamie?

A - Unidentified Speaker

Good. As Paulo mentioned, we are in the process of starting up our 40 million tonnes per year -- per annum capacity at Casa de Pedra. And we are also in the process of starting up our 45 million tonnes around the port. And we should be reaching around 3 million tonnes per month at the mine. And at the port at the same time around July this year.

And we are very optimistic with our guidance and on -- we have faced a lot of problems because of the heavy rainfall in this Third Quarter -- in this First Quarter of the year 2010. And also in the first week of April, the beginning of the Second Quarter and we are in the process of recovering capacity

And the good news on that is that we will be -- we are losing more capacity in the, let's say, fairer moment of the market where the prices are going up and you are not falling. The market knows that the price over (109) and we are expecting a good moment for the iron ore. And in fact, we are very bullish on the for the rest of the year.

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

Okay. Thank you, very much all.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Thank you.

Operator

Your next question comes from the line of Leonardo Correa with Barclays Capital.

Q - Leonardo Correa {BIO 16441222 <GO>}

Hi. Good afternoon. My first question is for Paulo. Just also following the first question on strategy, just to get a sense of the order of preference at CSN. In terms of timelines, would it be fair to say you're looking for corporate event at mining before pursuing your internationalization strategy? So that's my first question.

And my second question is for Jaime on the mining business. Jaime, can you please give us an update on CapEx for the mining business for the next year, that would be great? And also just to clarify one number that you just mentioned. The total shipment guidance is 32 million tonnes for 2010. This includes 20 million tonnes from Namisa and 12 million tonnes from Casa de Pedra, is that correct?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

That's correct. It's 12 for Casa de Pedra and 20 million tonnes for Namisa, that's the number for 2010.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

In terms of CapEx for mining, we have a problem to spend BRL11 billion during the period of time between 2010 and 2015. Out of this number, BRL5.9 billion, basically half of it, a little bit more than half, is for Namisa, for the expansion of Namisa to reach the BRL39 million total CapEx. The rest is for Casa de Pedra and our expansion in the port.

I didn't get exactly your first question about the strategy. Can you please repeat it?

Q - Leonardo Correa {BIO 16441222 <GO>}

Yes, sure, Paulo. Just to get a sense of -- in terms of timelines of the strategy, right, because you have two things which are ongoing, one is your -- one is corporate event at the mining business, right. So spinning off the mining business, adding visibility to mining, potentially an IPO or a strategic partner. So you have that strategy. And as you're also looking, as you've been looking as you've been doing in the past, for acquisitions abroad, right, for the internationalization strategy.

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I just wanted to get a sense if there is any priority? So if you're for example, in the short-term looking for mining instead of focusing on internationalization, just to get a sense from you guys if there is any priority for CSN?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Okay. The priority for CSN is to take care of this -- the existing five or six business that we have, depends on how you see it. So we have a top priority on all this. And what I mean still, production and sales, mining, cement, logistics, energy -- these are all the business that we have to focus as a top priority.

So if you keep in mind that we are able to finance our growth in the mining activity using capital, using an IPO as we have announced, we have, I'd say, available cash innovation and available space to do an acquisition and to accelerate our plan to be a big player in the cement business.

That's why we tried to reach -- as you mentioned to buy CIMPOR. We lost this opportunity. We have the discipline not to overpay for the company. But it means that -- what I'm saying that we are still available to look for some other opportunities.

We have an organic growth plan for our cement business, as I said in the question, (inaudible) question, we just doubled our cement capacity from 1.4 million tonnes to 2.8 million tonnes -- production capacity. So this strategy is to be focused in every separated business.

Every business has a responsible person. In the case of Mining, it's Jaime. In the case of Cement, it's Mr. (Piao.) He is not here today. But he is our, I would say, our COO for the Cement business, a very highly experienced engineer that knows how to handle and how to do it. Just it should be plants for us. So there is no part of his doubt of his capacity.

And in the case of steel products, it's Mr. Eneas. So every segment in the Company has a leader, very clear established that runs the business according to the corporate governance that is set up by the Board and by our President. Is it okay for your question?

Q - Leonardo Correa {BIO 16441222 <GO>}

Yes, yes. Thank you, very much, Paulo, for the clarification.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Okay. Thank you. Thank you, Leonard.

Operator

Your next question comes from the line of Rodrigo Barros of Deutsche Bank.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Good morning, gentlemen. A couple of questions. First on the cement business, if you could guide us what is likely to be the revenues for 2010 and maybe 2011 and the implied EBITDA margin to improve our forecast?

And my second question is on iron ore. I want just to confirm based on our understanding of the former that, how can I say, if you apply what the flat numbers have given so far, that's -- it's the Company understanding that you would have an order, roughly 30%, I don't know price increasing the Third Quarter of 2010. I want to check if that's also the Company's understanding. Thank you, very much.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

I will talk about iron ore price. (David) has a projection here that we can share as guidance for cement, I would say, sales. Please David.

A - Unidentified Speaker

Hi, Rodrigo. Only to give another view, we are increasing our cement business. This year, we expect to be selling more than 1 million tonnes. In this way, we expect that our revenues they are going to rise to BRL300 million in this level.

You know that it's a growing business. But when we are going to arrive to our full capacity of 6.4 million tonnes, we expect that we are going to have more than BRL1.3 billion in terms of revenues. That's what you expect is going to happen by 2014.

It's growing -- each and every year we're going to see business growing happening. You know that we expect to have new facilities one located in the south of Brazil, another one in the state of Goias. And the third one in the northeast of Brazil. That's our strategies in organic growth. And in this way we expect to arrive to our market share above 10%.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Okay. And I'd say -- could you guide us once through the EBITDA margin, or what EBITDA margin you are currently running at for the cement business?

A - Unidentified Speaker

Yes, not in this moment. But when we are going to arrive to the full capacity, we expect to arrive at an EBITDA margin of 30% in this business.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Yes.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Okay, thank you.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

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Rodrigo, as you know, we are in the startup phase. Our EBITDA margin for cement today is still very, very low, which is normal. And expected.

A - Unidentified Speaker

Hi, Rodrigo, this is Jaime again. If you look for the average quarter, flat index for the minor -- the month minus 4, month minus 3. And month minus 2, the average, up to the end of April is around \$150 per tonne.

Then you could expect another price increase for the Third Quarter based on the average price that's already published with up to this -- the end of April. And as I mentioned before, we are very positioned in the market. And the price now is still over (190). And it's a good assumption from your side to expect another price increase for the Third Quarter. Okay?

Q - Rodrigo Barros {BIO 5851294 <GO>}

Okay. And in terms of how do you just -- we discussed this in the previous call. Is it fair to assume free -- free extra iron ore units (inaudible) like (65)% at free content?

A - Unidentified Speaker

Yes, because the value in use is (inaudible) plus, okay. And it's well-known number. Today it's around \$5.1 per tonne, different from the \$4 per ton at the beginning of the last quarter. Then you could increase of course -- you could consider of course an increase in the revenues too.

Q - Rodrigo Barros {BIO 5851294 <GO>}

But I should use three iron units (inaudible) extra?

A - Unidentified Speaker

Yes, because --

Q - Rodrigo Barros {BIO 5851294 <GO>}

Okay.

A - Unidentified Speaker

-- first three in average is around more than that, because we have pellet fines, we have (lump pure), you have superfines. And our superfines are 64.5, our pellet fines are around 67. And our lump pure around 65. But then on the mix but, for sure, we are over 65 in average. Okay?

Q - Rodrigo Barros {BIO 5851294 <GO>}

Okay, thank you very much. Thank you.

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A - Unidentified Speaker

You're welcome.

Operator

Your next question comes from the line of (Pius Alleluyah) with Credit Suisse.

Q - Pius Alleluyah

My question has been answered. Thank you, very much.

Operator

(Operator Instructions) Your next question comes from the line of Erik McKee with Lazard.

Q - Erik McKee {BIO 4794932 <GO>}

(Technical difficulty) the call. Could you give us a sense to the cash cost that you're seeing in Casa de Pedra and Namisa and also the coal cost that you're currently consuming?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Okay, this is Paulo speaking, Erik. We prefer not to provide details in our cash cost. We prefer to provide information about our EBITDA margin for the mining activity; that was in excess of 50% now in the First Quarter of 2010. And based on the previous comments and on the market of say expected price, it tends to go up in the coming quarters. Sorry about that.

Q - Erik McKee {BIO 4794932 <GO>}

And can you talk about your coal costs?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Yes, coal costs, we buy coal basically from the US and from Australia. We have other source. But it's basically for these two major, I would say regions. And our average cost for coal in the First Quarter of 2010 was around -- was not around, was exactly \$213, I would say, per ton.

Q - Erik McKee {BIO 4794932 <GO>}

Okay. And just so I understand correctly, you're receiving an additional \$5 -- about \$5 a tonne for Fe content, for your value in use or relative to the index, is that correct?

A - Unidentified Speaker

Erik, this is Jaime again. Because these numbers are published by (Platts). And what I mentioned in the previous question was that the daily use now is over \$5 per ton. But the last quarter was around \$4.2 per ton and depend on the quarter, depend on the price, the value in use goes up to -- and what I mentioned by \$5 is they're going to use now, okay?

Q - Erik McKee {BIO 4794932 <GO>}

Okay, thank you.

A - Unidentified Speaker

They're updates.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Thanks.

Operator

(Operator Instructions) We have a follow-up question from the line of Carlos de Alba with Morgan Stanley.

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

Yes. Thank you. Just coming back to the coal supplies, are you facing any problems securing or procuring material in terms of coal either from Australia or from the US?

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Carlos, absolutely no problem. We have had a traditional relationship with our major suppliers. And we are having the quality of coal and the amount of coal that we need to run our operation at full capacity this year. We expect no problem in this area.

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

Good to hear that. Thank you, very much Paulo.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

Thank you, Carlos.

Operator

There are no further questions at this time. I'll now turn the floor back to Mr. Paulo Penido for closing remarks.

A - Paulo Penido Pinto Marques {BIO 4384213 <GO>}

I'd like to thank you all for participating in our call. We are -- we remain available for any further question. If you contact our IR area, we will be happy to talk to you. Thank you.

Operator

Thank you. This concludes today's CSN's First Quarter 2010 earnings conference call. You may now disconnect your lines at this time.

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