Q4 2007 Earnings Call

Company Participants

- Juarez Saliba, Exec.-Ofc., Head-Mining Ops.
- Luis Fernando Martinez, Head-Sales
- Otavio de Garcia Lazcano, CFO

Other Participants

- Carlos de Alba, Analyst
- David Martin, Analyst
- Denis Parisien, Analyst
- Eric Ollom, Analyst
- Jamie Nicholson, Analyst
- Leonardo Correa, Analyst
- Marcelo Aguiar, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the CSN Fourth Quarter 2007 earnings conference call. Today, we have with us the Company's executive officers. (Operator Instructions)

(inaudible)--The slide presentation may be downloaded from this website. Please feel free to flip through the slides during this conference call. There will be a replay service for this call on the website.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward looking statements are based on the beliefs and assumptions of CSN management and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of CSN and could also result to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Otavio de Garcia Lazcano, who will present CSN operating and financial highlights of the quarter. Mr. Lazcano, you may begin your conference.

Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Good morning, everybody. Thank you very much for joining us on CSN's 2007 earnings conference call. It's always our pleasure to share with you our views on our Company and our industrial segment. Let me start the presentation with comments on economic environment, beginning on slide number one with international scenario.

We believe that the same factors which were supporting sky-high prices on the steel industry over the last four years are still in place. I mean cost pressures are all over the place. Iron ore price went up by 65%. Market expectation is that coal price will go up by 100%. Coal is being traded for $500 per tonne. We also have the consolidation move in the industry, which helps companies to impose price discipline into the market. Completely different environment from what we had maybe five or 10 years ago.

Particularly as to U.S., the strengthening of -- I mean the devaluation of the dollar against all the other currencies, historical low levels in the distributors and cost pressures and the need to import, on an annual basis, 30 million tons of finished products gives an additional boost and this is the reason why price went up already.

As to Europe, a reduction of the volume being imported from China will help to sustain sky-high prices. And as to Asia and China, there is a reduction in the growth rate of investments now and actually several companies are shutting down capacity. We also have -- tax benefit on exports from China to other countries were cancelled. So everything supporting a very benign economic environment for steel businesses in general.

Now, on slide number two, comments on the business environment in Brazil. 2007 was as good as it gets. Total production of steel products went up by 9% to a total of 34 million tonnes. Demand for flat and long steel products went up by 17% when compared to 2006. All the industrial segments were reporting amazing results. For example, auto makers, they sold 2.4 million units in 2007, a 28% increase. Agricultural business, 65,000 additional units, I mean machines, were produced, an increase of 41%. Home appliances went up by at least 10%. Even construction went up by 5.5%. So 2007 was an amazing year for a Steel business in Brazil in general.

As to 2008, the Bloomberg analysts is now forecasting GDP growth of at least 4.5%. The country is still benefiting from the step of monetary tools being used by the central bank and the treasury department and the fiscal policy as well.

Now, moving to slide number three, main highlights. We reported a net income of BRL2.9b, 150% increase when compared to 2006. The Company sold a record of 5.4 million tonnes of finished products. It's a record. Net revenues from sales of BRL11.4b, another record. Consolidated EBITDA of BRL4.9b, a record as well. Production of crude steel products went up by 52% to a total of 5.3 million tonnes. Production of finished products went up by 21% to a total of 5 million tonnes.

The ratio of net indebtedness to EBITDA went down from 1.7 times to 1 time, reflecting basically the cash flow being generated by the Company. The net debt at the end of

2007 was just BRL4.8b, which gives us muscles to execute all the investments that we have in our pipeline.

CSN shares in Brazil went up by 157%. In U.S., our ADRs went up by 216%.

As to the Iron Ore business of the Company, CSN produced and acquired from others a total of 21 million tonnes of iron ore products, consolidating our position in this industrial segment. We sold a total of 10.5 million tonnes. 5.1 million tonnes out of the 10.5 million tonnes total sales was sold abroad to international customers. The balance of 5.4 million tonnes was sold locally. Everything on top of our own consumption of 7.1 million tonnes of iron ore to support the existing steel operations.

Moving to the next slide we have the breakdown of net revenues from sales and sales volume. Beginning with the chart on your left hand side, we sold in the Fourth Quarter a total of 1.4 million tonnes of product. It is an 18% increase when compared to volume being sold in the same period -- during the same period in the previous year, a 5% increase when compared to the Third Quarter of '07. Year over year, total volume went up by 22%. We sold almost 1.8 million tonnes in the international market, an increase of 13%. And we sold to the domestic economy, when we can generate higher margins, a total of 3.6 million tonnes, up 28%.

As to the sales allocation, during the second half, the sales allocation of the Company was 72% local sales, I mean domestic sales. And 28% international sales. It's important to highlight that, during the First Quarter of 2008 we had an improvement in the sales allocation of the Company. We are, as of now selling more than 80% of the total production locally. Again, domestic sales, we can generate higher margins to our shareholders.

Now, moving to the chart on your right hand side, we recorded BRL3 billion net revenues from sales during the Fourth Quarter of '07, a 17% increase when compared to net revenues from sales being reported during the Fourth Quarter for '06, flat net revenues from sales when compared to the Third Quarter of '07. Year over year, net revenues from sales went up by an amazing 27%.

Moving to the next slide, we have sales breakdown by product and industrial segment. Again, beginning with the chart on your left hand side, no major change at all in the portfolio of products of the Company. I mean, hot bands accounted for 30% of the total volume being sold by the Company. Our market share on the product is 31%. Cold rolled products accounted for 14% of the total volume being sold. Market share is 20% on the product.

Galvanized and coated products account -- I mean galvanized products accounted for 31% of the total volume being sold. Our market share is amazing 45% of the total volume sold within Brazil. As for tin plate, 17% of the total volume sold by the Company. An amazing market share of 98% in the domestic economy. It's almost a monopoly. And as to slabs, slabs accounted for 7% of the total volume being sold by the Company. Slabs are not really a product that we have in our portfolio. Over the last five years, the Company did a major effort in order to shift its portfolio of products towards the more high value added ones.

Moving to the chart on your right hand side, you can see that steel represents 84% of the total net revenues from sales generated by the Company. Iron ore just 6%. Iron ore will be more relevant in 2008. Iron ore will account for at least 20% of the net revenues from sales reported by the Company by the end of 2008.

Moving to the next slide, production costs. No major change at all in 2007 when compared to 2006 other than slabs and hot bands that the Company acquired from orders during 2006 to keep its rolling mills operating at full speed after the accident with the equipment adjacent to the blast furnace number three.

During the Fourth Quarter, production costs were equivalent to BRL1.2b, a 6% reduction when compared to the previous quarter. In 2007, production costs were equivalent to almost BRL4.8b, flat when compared to 2006. So the Company reported 23% increase in net revenues from sales and flat production costs.

Moving to the next slide, EBITDA and EBITDA margin. The Company reported a BRL1.3 billion consolidated EBITDA during the Fourth Quarter. It is a 29% increase when compared to the Fourth Quarter of '06. EBITDA margin was 42%. Year over year, the consolidated EBITDA went up by BRL1.7 billion and EBITDA margin went up by 760 basis points.

Moving to the next slide, we have credit[ph] ratios. Beginning now with the chart on your right hand side, the average life of outstanding debt of the Company is, roughly speaking, 10 years. The cost is 8% in dollar per annum in dollar terms. The cash available within the Company enables us to pay or to face all the outstanding debt that will come due until 2012.

Then, moving to the chart on your left hand side, you can see the ratio of net indebtedness to EBITDA over time. And as I already said, went down from 1.7 times to 1 time, even after investments of BRL1.6b, legal deposits of BRL1.1 billion and BRL700 million in dividend -- as dividend payments. The Company can -- generated a lot of cash, has been generating a lot of cash, no question about it.

Moving to the next slide, it's a bridge of the net income of the Company reported in 2006 and 2007. We reported -- and beginning, again, on your left hand side, we reported a net income of BRL1.2 billion in 2006. Gross profit went up by BRL1.7 billion in 2007. We had better financial results of BRL1.5b. We have -- we had tax benefits -- I mean social taxes on financial -- I mean interest income of BRL300m. It's a provision that we reverted. We made BRL300 million out of our attempt to acquire a controlling stake at Corus right in the First Quarter of '07.

On the other hand, we no longer have the provision for business interruption. I mean, we had in 2006 a provision for business interruption on the accident with the equipment adjacent to the blast furnace. It's a non-recurrent item. So we no longer have those kinds of effects embedded in 2007 financials. We have provisions on tax contingencies equivalent to BRL500m. Higher profitability, higher taxes being collected by the Company, also BRL500m. Additional operating expenses of BRL200 million and others BRL200m. Then, we have the net income in 2007 of BRL2.9b.

Next slide, it's a bridge or analysis of the net indebtedness of the Company. Again, beginning with the column on your left hand side, net indebtedness at the end of '06 was BRL6.7b. 2007, the Company reported a BRL4.9 billion EBITDA -- consolidated EBITDA. As a result of the transaction on Corus, we made BRL1.1 billion cash to the business. We had net financial income in 2007 of BRL300m. We got another advance payment from the insurance companies equivalent to BRL300 million as well.

On the negative side of the equation, we've made investments of BRL1.6b. We paid dividends, BRL700m. We acquired another iron ore body, BRL600m. Legal deposits, BRL1 billion and income tax and social contribution being paid an amount of BRL900m. Then, we come to the net debt reported of BRL4.8b, just BRL4.8b.

On the next few slides, we have pictures of the investments being executed by the Company. The first one is a view of the main pit, iron ore pit. On your right, you can see the iron ore stockyard being operated by the Company in Rio de Janeiro, in Sepetiba, where we have just seaport terminals. Okay?

Then, next is -- next slide, we have on your left hand side another -- a picture of the stockyard and the conveyor belts. On your right hand side, you will see iron ore being loaded in a ship.

Next slide, you see pictures of the investments being executed by the Company to produce 600,000 tons of long steel products by the end of 2008. Then, next slide, pictures of the cement plant that we are building. Just remember, everybody, the first phase of the investment will be concluded by the second half of 2008. We will have 1.3 million tonnes annual capacity. Then, as soon as the second phase is completed, total capacity will be 2.7 million tonnes per annum.

Then, before we pass on to a Q&A session, we are about to finalize the economic feasibility study to increase iron ore production to a total of 100 million tonnes by 2012. We -- as to flat steel production, we are waiting the government, the Minas Gerais -- State of Minas Gerais government finalize the building of industrial district in Minas Gerais so that we can start the process of getting environmental licenses and then start the investment to produce a total of 4.5 million tonnes of rolled steel in Minas Gerais, right there by our own iron ore mine.

As to the Itaguai project to produce a total of 4.5 million tonnes of rolled steel in Rio de Janeiro, right there by our own seaport terminal, there is a delay in the negotiations with the government. I mean the State of Rio de Janeiro's government. In the meantime, we are moving forward with the process of getting the environmental licenses for this investment in Rio de Janeiro. And as soon as we have -- as soon as we can finalize or complete this agreement with the government of Rio de Janeiro, we will start the investment as well.

And we are also contemplating a 1.5 million tonnes incremental blast furnace within our main site of production in Volta Redonda, utilizing basically all the infrastructure that we had supporting the operations of the blast furnace number one, which was shut down by the end of the '80s. So we can benefit from all the (inaudible) and the infrastructure existing within our main site of production. And the plan is to increase production from Volta Redonda on incremental 1.5 million tonnes of rolled steel being produced each and every year.

So this is the presentation. Now, we want to open the conference call for the Q&A session. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Your first question is coming from Pedro Rimali[ph] from Goldman Sachs. Please go ahead. Mr. Rimali, your line is live. Your next question is coming from Denis Parisien of Santander. Please go ahead.

Q - Denis Parisien {BIO 20333702 <GO>}

Good morning. Thank you very much for the call and congratulations on your results. I have three questions, if you don't mind. One is your sales mix deteriorated in the sense that you had a higher proportion of slabs and a lower proportion of galvanized in your most recent quarter that dragged down your revenue per tonne and your EBITDA per tonne. I'm wondering what we could expect going forward into the First Quarter of this year and for 2008 as a whole on the sales mix and revenue per tonne.

Excuse me. Second, I'd like if you could give me -- give us a little bit more color on the increases in taxes payable for BRL537 million that generated -- helped generate a very significant turnaround in your working capital and your net working assets and helped generate a large free cash flow.

And third, I'd like to know if you have any update for us on the process of registering your 2015 notes and the difference of opinion you had with the SEC? Thanks.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Denis, it's Otavio. The first question will be answered by Luis Fernando Martinez. He's the Head of Sales of the Company. And the two other questions I will be answering. Okay?

Q - Denis Parisien {BIO 20333702 <GO>}

Great.

A - Luis Fernando Martinez {BIO 7187744 <GO>}

Okay. Denis. Good morning. This is Luis Fernando Martinez speaking. First, I would like to reinforce that, regarding to our market strategy, we have to remember that we had already implemented -- we had already changed our sales mix last year. We moved from 63% from local market to 72% in the last two quarters. And just to give you some other information, in the First Quarter of 2008, we are planning to have 80% focus in the local market.

One of the things that is very important to reinforce, CSN has a unique position in the Brazilian market due to market conditions right now. We have building products market, auto market and home appliances and other industry applications. Both of these markets are sparking steel right now in Brazilian market and CSN will benefit of this market, due to our product mix. So we have idle capacity in our plant in the southeast of the country, in Paran[ph]. And also in GalvaSud.

So since we decided to move from exports to local marketing, obviously we are going to increase our supply of hot rolled coils in Brazil. Nevertheless, in the First Quarter, we are planning to increase our sales in the galvanized market and tin plate market for local customers in Brazil, due to the market conditions nowadays.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Denis, as to your first question on the provision for tax contingencies, part of it, the smaller part of it, is basically in time value of money. We have to adjust all the provisions of the Company by the base rate interest -- the base interest rate in Brazil. The bulk of it are really additional provisions that we inserted in our financials.

We truly believe that no other provisions will be necessary over the next few quarters or years. Actually, we have a strong feel that the Company will succeed in all those tax contingencies in the judiciary in Brazil. And there is a high likelihood that we will end up reverting, at least partially, the provisions embedded in our financials. Okay?

Then, your last question was on the exchange for the 2015 Eurobond. The Company intends to file its 20-F over the next 45 days, 45 or 60 days. This is -- the 20-F will be the document to support the F-4 required to exchange the bonds. So sooner rather than later those bonds will be exchanged for the definitive ones.

Q - Denis Parisien {BIO 20333702 <GO>}

Okay. Great.

Operator

Thank you.

Q - Denis Parisien {BIO 20333702 <GO>}

So you've resolved the difference of opinion with the SEC over the other tax treatment?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Yes. Just to be 100% transparent with you all on the conference call, we were insisting on keeping all those provisions for tax contingencies in our financials. SEC had a view that no provisions were required at all. We will always treat all the shareholders fairly, okay? We will always be 100% transparent with you. We -- and now, we can say that the SEC has the same view as ours. So they changed their view on the subject. And as soon as we file the 20-F, okay, we'll be able to file the F-4 and then exchange the notes for the definitive ones.

Q - Denis Parisien {BIO 20333702 <GO>}

Great, thank you. And on the other -- sorry, the answer to the second question, there was -- the increase in taxes payable, the cash flow question we're not likely to see those reversed and be a use of cash.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

No.

Q - Denis Parisien {BIO 20333702 <GO>}

Those are likely permanent.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Yes. There won't be surprises down the road. Quite the opposite. We have been -- made it really clear to all the shareholders the nature of the provisions. We have a long, exhausting note to the financials. It's note to the financials number 18. You can take a look at it and then, if you want, you can give me a ring later on to further talk about it.

Q - Denis Parisien {BIO 20333702 <GO>}

Thank you very much. Very much appreciate the color.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

You are more than welcome.

Operator

Thank you. Your next question is coming from Eric Ollom at ING. Please go ahead.

Q - Eric Ollom {BIO 4374335 <GO>}

Hi. Good afternoon, I guess, everybody. And congratulations for the results. My question has to do with the slab facilities. Can you just share with us, if everything goes according to plan and I understand that there is a delay on the Rio facility, what will be the CapEx schedule and production schedules in the next few years for these? I have some numbers from the Third Quarter and I'm just wondering if there's any changes in them. Thank you.

A - Juarez Saliba {BIO 16483817 <GO>}

Hello. This is Juarez. Talking about the schedule of implementation of our slab new project, I'd like to emphasize that just recently, in fact in December last year, we signed an agreement with the government of the State of Minas Gerais in Brazil, where is located the Casa de Pedra mine. And the State of Minas Gerais, they are implementing a new industrial district just beside the Casa de Pedra mine and we intend to build a new slab plant there in that location. In fact, the --

We have several types of environmental permits in Brazil. The first one is the hardest to get, is the previous license. After that, we need the installation license. And after getting this installation license, we can start the construction of the project. Then, at the end of the construction, we can get the operational license. So the hardest permit to get in this regard is the previous license, the first one.

And in this case, the case that the government of Minas Gerais is building a new industrial district, they are responsible to get -- the government of Minas Gerais, they are responsible to get this previous license. Only after they get this previous license -- in other words, they need to apply to the previous license, to prepare all the documents. And the State is also responsible to grant the previous license. In other words, everything is in the governmental hands, okay. And after that, only after that, we will start applying for the installation license.

In Brazil regulation, you get -- you need at least one year to get this previous license and, after this previous license is granted, you -- with no more than six months you can get the installation license. So we already signed the agreement with the government. They are working very hard now to prepare everything for the previous license. And after that, in other words in one year from now, we believe that we can get the installation license and then we can start the construction.

On the same time, during this one year, we are finalizing the feasibility study, the economical and technical study and finishing that basically in January for the implementation of the plant. We are also, during this time this year, starting the process of procurement of equipment and all the necessary infrastructure that has to be done and everything.

On the other side, regarding the second slab plant in Itaguai, we are still negotiating with the State of Rio de Janeiro, where is located the plant, just beside the port, the agreement for the implementation of this steel plant. Differently from Minas Gerais, Itaguai -- the Itaguai site already belongs to CSN and we had already applied for the previous license almost 1.5 year ago. We already got this environmental -- this previous license. We have this license already granted to CSN.

And now, we applied -- about four months ago, we applied for the installation license. We believe that, in the end of Second Quarter 2008, the installation license will be granted. And if we finish the negotiation with the State of Rio de Janeiro at the same time, we can start immediately to do the development of this steel plant.

So we have some small delays. Regarding the -- all the plants of slabs in Brazil, the feasibility studies are done and are approved by our Board and we are ready to -- as soon as we get the environmental permits and -- we can start immediately to implement these projects. We believe that the first slabs being produced in both sites will be around end of 2011, beginning of 2012. And that's the current position we have about the slab production in Casa[ph].

On other side, the Volta Redonda site, where is located our main facilities, we are also applying for environmental permits to build a new blast furnace and increase the capacity of slabs of up to 1.5 million tonnes per year in Volta Redonda. We believe that maybe this project can be finished before, because all the infrastructure is already done. The facilities, the -- everything is done. This new blast furnace will be using the current facilities we have in Volta Redonda. So we are very soon, more three years, basically, we can start producing the first tonnage of our new slabs in Casa.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. And could you just share with us the -- I know you're still doing feasibility studies and bidding everything out. But can you just share with us the approximate CapEx budget for these projects, just refresh that for us?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

When -- it's Otavio speaking. When we first started to execute the current feasibility study, we were -- we had in the budget $580 per tonne. For the obvious reasons, foreign exchange rate, the price of -- price and availability of technology and equipment abroad -- for the obvious reasons, the budget is being revised on a continuous basis. As soon as we have a definitive package of information to make available to you all, we will do so. At this time, it's too early to make comments, definitive comments, as to the CapEx to support all those projects.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. Thank you. I appreciate it.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Welcome.

Operator

Thank you. Your next question is coming from Jamie Nicholson with Credit Suisse. Please go ahead.

Q - Jamie Nicholson {BIO 1540918 <GO>}

Hi. Thanks for the call. Can you update us on your acquisition strategy? I know you mentioned, I believe, on your Portuguese call that you were unlikely to be bidding for CESP. But can you elaborate a little bit on what your interest might be in the energy sector, whether you might partner with somebody, if that's a sector to make acquisitions? And also, a general update on what type of acquisitions you might be considering in this market, rolling mills or whatever. Thank you.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Okay. It's Otavio Garcia speaking again. As to your first question on CESP, the sale of -- the auction for the sale of CESP, it is a long, long, long shot, okay? Basically, we bought a ticket to have access to their data room so that we could better locate ourselves as to the assets and -- in this industrial segment.

For the obvious reasons a lot of power will be required to support the future investments of the Company. Our idea is to continue to work with the concept that we have. For example, nowadays in Volta Redonda we have been using gas for the blast furnace, coke fab and still show up to produce 60%, 70% of our power needs.

So it's a long, long, long shot. I really don't think that CSN will participate in the auction for CESP. Actually -- the deadline for the participants was yesterday or two days ago and CSN didn't present the financial instruments. I mean the guarantee required to participate in the auction, to be 100% transparent with you.

As to acquisition strategy on iron ore and steel, beginning with steel, we are still looking for outlets abroad where we could further process slabs produced in Brazil. The Company is not anxious about it. We don't have as a goal to rank among the five largest steel producers on earth. Actually our goal is more like being the most cost efficient steel company on earth during the economic cycle. So we are not anxious about it.

We keep an eye on what is going on out there. From time to time, investment banking business brings to us a very interesting investment case. But just whilst there is a lot of investment discipline within the Company the goal is really to keep our position as the most profitable steel business over the economic cycles.

As to iron ore and mining in general, for the obviously reasons we want to increase the portfolio of products that we have nowadays. We want to expand the business of iron ore. And if someone comes up with a nice idea or another commodity, there is no question the Company will take it seriously.

Q - Jamie Nicholson {BIO 1540918 <GO>}

So like, would you be interested, for example, in possible acquisitions like in the coal sector, for example?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

If someone comes up with a nice idea, no question we would take it seriously.

Q - Jamie Nicholson {BIO 1540918 <GO>}

Okay. Thanks for that additional color. And one other question, if I may. I noticed the margins decreased in the Fourth Quarter versus the Third Quarter. And I know your comments on expectation for increasing costs and your outlook for 2008. Can you -- do you have any guidance on what you expect your EBITDA margin to be in '08 given what you're expecting on the cost front, pricing and sales mix? Can you give us a margin guidance?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Yes. 2008 you can expect an even higher margin than what the Company has been reporting because the Iron Ore business will be more relevant within our portfolio of assets. Okay? And the margin, the outlook of business is really higher than the already sky-high margin that we have been reporting on the Steel business, okay? So I believe this way I can -- I answer your question.

Q - Jamie Nicholson {BIO 1540918 <GO>}

Can you give us a magnitude, like 45% or close to the 50%?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Really I would say that EBITDA margin tends to be really close or even higher than 50% over the last few years.

Q - Jamie Nicholson {BIO 1540918 <GO>}

Okay. Great.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

It's a commitment from the management of the Company to you all.

Q - Jamie Nicholson {BIO 1540918 <GO>}

Thank you very much, Otavio.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Welcome.

Operator

(Operator Instructions) Your next question is coming from Carlos De Alba with Morgan Stanley. Please go ahead.

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

Hi. Good afternoon. Thank you very much for taking the question. Two -- there are two of them. First one is could you give us an update on your slab production cost? You reported that number in the third and the Second Quarters. I wonder if you could give us what is the total slab production cost for 2007.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Just a sec please. The cash cost -- the cash cost per tonne of slab is, roughly speaking, $300 per tonne.

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

Okay. Thank you. And the other question is in terms of the product mix. So you suggested in 2008 or at least for the First Quarter of 2008 80% of the total volume will be in the domestic market. So here two additional questions would be is that also the expectation for the whole year?

And if you can give us some even rough breakdown of how the domestic sales will be achieved between hot rolled, cold rolled, galvanized and tin products would be appreciated.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

I will make a few comments and then I will pass the word on to Luis Fernando Martinez who is the Head of Sales of the Company. You have to believe on us. Economic environment in Brazil is as good as it gets, as of now. We have been standing on average since the beginning of the year at almost 365,000 tonnes in the domestic economy, on top of export. So 365,000 tonnes in the domestic economy in January, February and our book of orders for March.

During the Fourth Quarter of '07, the highest or the fastest season for the Company, we were selling on average already 340, just 340,000 tonnes in the domestic economy. Demand for flat steel products went up by 18% in 2007. The Bloomberg analysts are forecasting a 10% increase in the demand for flat steel products in 2008 which means that the minimum supply conditions will be really, really, really tight in Brazil. Okay?

A - Luis Fernando Martinez {BIO 7187744 <GO>}

Okay, Carlos. Luis Martinez speaking. Just to reinforce, in the First Quarter we are working in a level of 80% local market sales for CSN. Just to mention, as I mentioned before in the conference call, CSN has a unique position in terms of capacity. We have idle capacity in GalvaSud which is our auto plant in Rio de Janeiro and also idle capacity in our South East plant in Paran[ph]. Both of them are supplying markets that are really pumping in Brazil. Auto industry, building products and home appliance and industry are growing much more than we expect in the First Quarter. So we are working minimum 80% of local markets in our sales mix.

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

Is that allowing for the whole year as well?

A - Luis Fernando Martinez {BIO 7187744 <GO>}

For the whole year we are planning to increase. But we don't have these numbers so far. But since we have a very strong market, CSN has idle capacity, obviously we are going to grow this number by -- from now on to the end of the year.

And the second question?

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

How much of this 80% is going to be galvanized, cold rolled, hot rolled?

A - Luis Fernando Martinez {BIO 7187744 <GO>}

Yes. We are planning to have at least 51% of coated products. I mean galvanized, galvanon[ph], cold rolled, coated products and tin plate.

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

Okay.

A - Luis Fernando Martinez {BIO 7187744 <GO>}

Okay?

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

And cold rolled, do you have a sense?

A - Luis Fernando Martinez {BIO 7187744 <GO>}

Cold rolled is something like 17, 18.

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

Okay. Excellent.

A - Luis Fernando Martinez {BIO 7187744 <GO>}

Then hot rolled, just to give you another slice, cold rolled we -- in the hot rolled we are very well positioned in the auto industry. So in terms of hot rolled, we can also add value in our hot rolled coils since we are selling and we are turning our sales mix to industry instead of selling only for distribution. So we are going to have also a price increase in the hot rolled sales in Brazil.

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

Thank you very much.

A - Luis Fernando Martinez {BIO 7187744 <GO>}

Okay. Thank you.

Operator

Thank you. Your next question is coming from David Martin with Deutsche Bank. Please go ahead.

Q - David Martin {BIO 5583151 <GO>}

Yes. Thank you. I had a couple of questions. First of all, coming back to expansions and CapEx, can you quantify what the CapEx budget is for 2008?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

2008, the Company will be investing a total of BRL2 billion in all those different distribution segments, including service, logistics -- your logistics. And mainly the expansion of the Iron Ore business.

Q - David Martin {BIO 5583151 <GO>}

Okay. Then secondly on the plans, you mentioned this feasibility study to grow the production targets for your mining operation. When would you expect that to be completed and to provide some details?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

The feasibility study, the studies are done already. We are basically fine tuning it to reflect today's prevailing market conditions. For example, a new view on the long term price for slabs and all the other products that will be produced out of those new investments. All those new assumptions will help us to -- I mean will give an additional boost to the NAV[ph] and the internal rate of return of all those investments, no question about it.

Does it answer your question?

Q - David Martin {BIO 5583151 <GO>}

Yes. Then when would you expect to communicate this new plan?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

It's not a new plan. We have been working on it for quite a long time. As Juarez as well pointed out there are a few hurdles that need to be faced by the government of the State of Minas Gerais in the case of the slab facility in the State of Minas Gerais. Then we have to finalize an agreement with the State of Rio de Janeiro so that we can really start to get the process of getting the definitive environmental license and then you start the investment itself -- themselves.

Q - David Martin {BIO 5583151 <GO>}

Okay. Then lastly I wanted to move to costs which you mentioned in your prepared remarks. Specifically, I guess I was initially wondering about coal. When do your coal contracts renew? And have you signed any renewed coal contracts and what type of price increases for coal are you now absorbing or set to absorb?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Yes. We all know that the Company is self-sufficient in almost everything. But coal and coke. For sure raw materials account for 20% of the production costs of the Company. We have inventories for both of them until mid this year. Market expectation is that coal price will go up by 100%. We have a different view. We believe that we will be able to get better commercial terms from the coal suppliers.

Q - David Martin {BIO 5583151 <GO>}

How much better? In line?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

It's difficult to say at this stage. We have already indication that we would be able to get better commercial terms from the coal suppliers. But it's too early to say.

Q - David Martin {BIO 5583151 <GO>}

Okay. Then lastly, do you buy much scrap in Brazil?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Scrap in Brazil? Yes. We buy scrap to give an additional boost to the total production of the Company. But it's not that relevant in our cost structure.

Q - David Martin {BIO 5583151 <GO>}

Yes, no, I was just curious what you're observing or what trends you're observing in scrap in Brazil currently.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

You mean our view as to scrap price in Brazil?

Q - David Martin {BIO 5583151 <GO>}

Yes.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Tends to go up. But it's not relevant in our cost structure.

Q - David Martin {BIO 5583151 <GO>}

No. I understand.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

As I said, then we all recognize it would be very difficult to blow[ph] this Company off the wall. We are self-sufficient in almost everything, other than coal. Basically coal because coke -- we have our coke batteries[ph] which produce almost 80% of our coke needs.

Q - David Martin {BIO 5583151 <GO>}

Okay. Thank you very much.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Welcome.

Operator

(Operator Instructions) Your next question is coming from Peter Grimaldi from Goldman Sachs. Please go ahead.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Hi. It's Marcelo Aguiar. I got cut the first time. I was trying to make a question. So I've got three questions, Otavio, for you. The first one is just to understand, for you Juarez, you talk about this 100 million tonnes you have now in (inaudible). The bulk of this 15 million additional, it will come from your existing resources? What I mean CSN plus Casa de Pedra, or it will come from potential partnerships, JVs or deals you -- the Company is currently analyzing.

A - Juarez Saliba {BIO 16483817 <GO>}

Marcelo, it's Juarez. These additional 15 million tonnes is coming from both. From additional expansion in our assets and also from some potential acquisition or even agreement that we are looking for and we are discussing right now with some potential partners. So this additional point is actually from both parts.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. Okay. And the second question a little bit more related to the Fourth Quarter results, I think we discussed a lot the strategies of the Company in the previous calls. In the Fourth Quarter, I saw that your steel EBITDA margin fell something like 300 bps. I'm talking about steel bit excluding the Iron Ore business. And when I took a look at prices and costs, I would like to understand what happened there because in the pricing front, the domestic market price, if I'm not wrong, it fell close to 1%. But you sold much more galvanized and tin plate. If I'm not wrong you sold something like -- it was 40% of your total domestic shipment in the Fourth Quarter was galvanized and tin plate, in the Third Quarter it was like 35. And you know the galvanized and tin plate has 40% price higher than cold rolled.

So I want to understand why you had -- I mean there's a slight decline. But looking to your mix, it seems the decline was driven further. So why the domestic prices fall quarter on quarter? This is the point one.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Marcelo, I don't know if I understood correctly your question. But anyway, we had high expense on maintenance of the equipment of the Company. The truth is that we were producing more than expected, more cold steel and finished products than expected during the Third Quarter and then we had maintenance of the equipment and a few of the other production lines during the Fourth Quarter.

And for the obvious reasons it had an impact on results being reported by the Company, including EBITDA. I believe that EBITDA, first of all[ph], I believe it was about flat compared to the Third Quarter.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Yes. Thanks, Otavio. You explained the cost part. Let me rephrase the pricing part because the pricing, you get a much better mix in the domestic market. You sold -- of the total shipments in domestic market, 40% was galvanized and tin plate. And in the Third Quarter you had 35% was these products. And these products have 40% higher prices than, let's say, cold rolled in domestic market. And even though with this very good mix, your domestic price fell quarter on quarter in reais denominated. So I wondered then why, even with a much better price, I mean and the mix, I mean, you have prices fall in domestic market. Something like you had to give a discount, what is happening there?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

There were no discounts there, Marcelo. Being completely honest with you all, I cannot give a precise answer now. But I will circulate through our IR team a really precise answer to your question.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. That's good. Thank you very much.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Because prices didn't went up -- went down at all, okay. And there were no discounts at all as well. So we will prepare a precise answer and we'll make it available to you all through the IR team of the Company.

A - Luis Fernando Martinez {BIO 7187744 <GO>}

Marcelo, Martinez speaking again. Just to give you -- just to reinforce that we are talking right now, the last quarter -- in the last quarter we didn't have any type of discount in our product mix. What happened in fact, we increased our sales in hot rolled coils. If you take into account the Brazilian domestic markets, round numbers, 10 million tonnes a year. In 10 million tonnes a year, 4.5 is related to hot rolled coils. Since we decided to move our strategy to exports from local sales in the range of 72% in the local market, we grow in different markets. Not only in galvanized, not only in cold rolled, not only hot rolled. But in the case of hot rolled, our volume was much higher than we expect. That's one of the reasons we have, let's say, a different mix, different sales mix.

And in terms of discounts, I can give you a more detailed description of our movements, if you want, after the call.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. Just to -- later on, if we just can take a look, take a look at page 21 of the press release, it clearly shows that hot rolled coils fell quarter on quarter in terms of tonnage and the galvanized and tin plate increased a lot quarter on quarter. This is page 21 of the press release and not consolidated. But this is why I'm talking about the difference between price trend and mix trend. This is what I want to understand.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

So thank you for your question, Marcelo. And no question, we will answer it in a precise way through our IR team, if you don't mind.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you, gentlemen.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Thank you, Marcelo.

Operator

Thank you. Your next question is coming from Leonardo Correa with Credit Suisse. Please go ahead.

Q - Leonardo Correa {BIO 16441222 <GO>}

Hi. Good afternoon. My question is regarding the Conguez[ph] project expansion. At this stage, could you give the market any guidance on product mix from there? Recently you've been stating that your intention was to enter the new markets such as heavy plates and track segments. Are those plans maintained?

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Sorry, we had a noise on the phone line. Can you repeat again?

Q - Leonardo Correa {BIO 16441222 <GO>}

Yes. My question is regarding your Conguez[ph] expansion, if, at this stage, you can give us any guidance on the potential product mix coming from that project. In the past you stated your intention of moving into new segments for CSN, such as heavy plates and track segments. I just wanted to understand if those projects, those plans are still maintained.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

The same position, no change at all from the point of products. We will be producing heavy plates for railway tracks, long steel products and slabs out of all those projects, I mean Itaguai and Minas Gerais to supply our customers locally and abroad. There is no change at all from what was informed by the Company over the last few months.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay. Thank you.

Operator

Thank you. Your next question is coming from Eric Ollom with ING. Please go ahead.

Q - Eric Ollom {BIO 4374335 <GO>}

Yes. Hi. I just have a follow up question on the CapEx budget and I apologize if you answered this and I missed it. The BRL2 billion figure for '08, does that include maintenance and how much is the maintenance going forward? Thank you.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Yes. It does include maintenance, the day to day maintenance of the Company. BRL300m, no more than BRL400 million out of the BRL2 billion will be really maintenance of the assets that we have in our Company.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. Excellent. Thank you.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Welcome.

Operator

(Operator Instructions) There appear to be no questions at this time. I would now like to turn the floor back to Mr. Lazcano for any closing comments.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Thank you, all again for joining us in the 2007 earnings conference call. As I said, we have a year full of records. No question we will have new records in 2008, 2009, 2010, as soon as all those projects being executed by the Company come on stream.

So thank you very much and see you three months down the road.

Operator

Thank you. This does conclude today's CSN Fourth Quarter 2007 earnings conference call. You may disconnect your lines at this time and have a wonderful day.