Y 2013 Earnings Call

Company Participants

- Julian Alberto Eguren, Chief Executive Officer
- Marcelo Rodolfo Chara, Industrial Vice President Officer
- Paolo Felice Bassetti, Subsidiaries Vice-President Officer
- Ronald Seckelmann, Chief Financial Officer and Investor Relations Officer - Finance and Investor Relations Vice-Preside
- Sergio Leite de Andrade, Commercial Vice President Officer
- Silvia Pinheiro, Financial Investor Relations
- Unidentified Speaker
- Wilfred Bruijn, Managing Director

Other Participants

- Carlos de Alba, Analyst
- Ivano Westin, Analyst
- Marcelo Aguiar, Analyst
- Renato Antunes, Analyst
- Rodolfo D Angele, Analyst
- Roy Yackulic, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant

Presentation

Operator

Good morning. Thank you for waiting. This is Usiminas Conference Call. All participants are in a listen-only mode. Later we'll open for Q&A, when further instructions will be given. (Operator Instructions) I'd like to remind you that this conference call is being broadcast live and recorded.

Let me now give the floor to Silvia Pinheiro from FIRB, Financial Investor Relations. Please go ahead.

Silvia Pinheiro

Good morning, ladies and gentlemen. Welcome to Usiminas conference call to discuss the fourth quarter 2013 and full year results. I would like to mention that this conference together with slides is being broadcast live on the company's Investor Relations website at www.usiminas.com/ir, where you can also obtain copies for the release. Participants listening to the conference in English may also have questions directly to speakers. Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of Securities Litigation Reform Act of 1996. They regard the potential projections based on expectations of the management regarding the future of Usiminas. These expectations are highly dependent on the performance of steel industry, the economic scenario in international markets, therefore, they are subject to change.

With us today we have the Executive Board of Usiminas, Julian Eguren, President; Ronald Seckelmann, Finance and Investor Relations Vice President; Sergio Leite, Commercial Vice President; Marcelo Chara, Industrial Vice President Officer; Romel Erwin, Technology and Quality Vice President; Paolo Bassetti, Vice President of Subsidiaries; Nobuhiro Yamamoto, Corporate Planning Vice President Officer; Vanderlei Schiller, Human Resources and Organizational Development Vice President; Wilfred Bruijn, Bill [ph] Managing Director of Mineracao Usiminas and Dias Goncalves, IR Manager.

Initially Mr. Julian will open with some initial considerations. Next, Mr. Seckelmann, will comment on the fourth quarter of 2013. Later, the executives will be available for questions. Now, I'll give the floor to Mr. Eguren, please you may proceed.

Julian Alberto Eguren {BIO 16005078 <GO>}

Good afternoon. I would like to thank you all for attending yet another call of Usiminas, together we'll analyze the figures for the year and talk about the reduction and the competitive drive of the company. In our meetings, we have always highlighted the commitment that Usiminas has with a discipline in cost, more industrial efficiency and integration with customers. These are the parameters of our management and based on them, we will like to preview the 2013, very sure that we are ever more on the right path.

The figures for the fourth quarter even with the natural seasonality effect were more consistent than the figures for 2012 in the same period. Our teams not only reversed the net losses of 2012, but also tripled the gross profit and elevated the EBITDA significantly. Despite of the challenges posed by the economic scenario, the sales volume was the highest in the last five years meeting this level in ultimate analysis, expresses the location of our team to supply the Brazilian industrial chain with differentiated services, new products and high technological content.

Mineracao Usiminas also closed the year with expressive results. Sales of iron ore from MUSA had with record figures, at the same time that expansion of capacity to 12 million tons advances in its ramp-up. Another point that we would like to highlight, the financial profile of Usiminas is more balanced, allowing us a better cash management via anticipated payment and volatile payment of our debt. Our gross debt dropped almost 15% during 2013 and the net leverage remained stroppy [ph]. Through a coordinated work of all the areas, our teams optimized CapEx and maintained the working capital at adequate levels.

All this, out of control, incorporated to the industrial culture during the first phase of our management will be active in this year. And however, this basis of more industrial stability, financial and commercial stability, we look forward to a second phase of development of our company. These two phase can be summarized in two wide objectives, the first one productivity. We will try to improve even more the performance of our equipment with the productive configuration of our lines and reduction of consumption, but in parallel we needed to intensify the preparation of our team to this model of productivity management.

Therefore, there is another objective which we deem very important for the development of our talents. A very wide program for training of young professionals is being designed to ensure the systems of the company and its route towards the future.

In the nutshell we can see that the basis, which have been planted in the last two years, will find in 2014, a boom to grow even more, we are continuously advancing, building a fundamental integration to our customers and to our value chain in Brazil. All our team is concentrated to position Usiminas at a level of excellence which it deserves. This is our commitment and we are managing to reach it step-by-step with a lot of discipline and teamwork. Thank you very much.

Ronald Seckelmann {BIO 3722329 <GO>}

Good afternoon, everybody. I will now start giving you a summary of our results for the fourth quarter of 2013 and the whole year of 2013 vis-a-vis 2012. You can follow the slides over the web. First slide shows some indicators, both financial and operational comparing 2013 to 2012. Here you see that as far as steel sales go, in spite of a drop in the total, vis-a-vis 2012, if we regard only the laminated products we see that there was a stability vis-a-vis 2012.

So we sold inventory, especially slabs. Iron ore sales grew 10% year-after-year, reaching 6.8 million tons. The financial results were really to be highlighted with a growth of adjusted EBITDA of more than 126% growing [ph] from 700 to 1.8 billion in 2013. And the reversal of the net profit from 2012 almost R$600 million to a net profit still small, but a net income in 2012.

The next slide shows the quarterly production from 2009. We see that in 2013, we had the highest sales and still in the last five years. The next slide shows quarterly evolution of EBITDA in the steel business and the annual evolution of these indicators. In annual terms we went from 2% in 2012 to 10% reaching a high amount in 2013 as you can see here and the quarter figure shows the seasonality effect already expected. The next slide shows the evolution of sales in iron ore, a very important growth of 21%, which was driven by the domestic market and a very important growth also in the year 10%. At the end of the year, the production capacity of mining with the conclusion of Friables Project is around 12 million tons.

Next slide, we see the evolution of EBITDA. For Mining, you see a robust growth in the last quarter and the maintenance of margin is around 50%. And the next slide shows the quarterly evolution and annual evolution of consolidated EBITDA, where in spite of the seasonal effect of the fourth quarter, the results were not very much impacted and the evolution was very strong year-on-year.

Next slide, we see the evolution -- significant evolution actually in all indicators. Gross profit, which grew more than 1 billion year-on-year. The operating result before the financial losses, which evolved in the same amount almost R$1 million and the net income which went from a loss last year and grew a little less than the other indicators, basically to the impact of financial expenses to the devaluation of real, which was around 15% in 2013.

Next we see our working capital, which has been stable around R$2.6 billion. This is a level which was reached at the end of 2012 and which has been maintained in 2013.

Next you see CapEx. We clearly see here the end of investment cycles and still now the first phase of mining a little more -- little less than R$1 billion in 2013, a little less than we had expected actually, some of it will be carried on to 2014, we can talk about this next.

The next slide shows the evolution of financial indicators where you see the reduction of the gross debt, reduction of our leverage rates, you see that with the accreditation of the leverage at comfortable levels, we can manage our cash more rationally, no more streamlined way, we can work with less cash and start to reduce our gross debt.

The next slide shows the message that Julian has just given us in his opening remarks. We see that we have finished the first phases of control, which will go one being enforced from now on. But now we have the opportunity to work more in a more dedicated way in our front, in productivity, operational efficiency, more integration with our customers, reducing the leverage, which is going to be the focus of our administration and especially company's profitability recovery.

We're open now for questions.

Questions And Answers

Operator

Ladies and gentlemen, we'll start now, the Q&A session. (Operator Instructions) Let me remind you that this conference is exclusively dedicated to Investors and Market Analysts. Any questions from journalists should be forwarded to our company at 31-3499-8918 or in the following e-mail imprensa@usiminas.com.

Our first question comes from Renato Antunes, Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

Good afternoon. Thank you very much for the opportunity. The first question is about total demand in Brazil. I'd like to hear from you how you see 2014, because there is a lot of uncertainty, but if you could tell us -- give us some color about the steel demand in Brazil, maybe you could talk about the automotive industry. If there is any impact due to a probability of power rationing.

And the second question is about the price of steel in the domestic market, it seems a very welcome evolution in the second half of 2013. So what's the price that you expect to see in 2014 in Brazil?

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Hi, this is Sergio Leite de Andrade. Good afternoon. After the first question, when you asked about the demand for 2014 and you expressed the certain concern, which is the market concern of certain uncertainty. I'd say that the demand for 2014 is grounded on the expectation for growth. Today we're talking about 1.9% or 2% growth. This means that the country will grow much less than what it would need to grow.

However, in 2012 it grew 1%; 2013, we still don't have the results, it's going to be around 2. So the growth of the Brazilian economy will be more or less aligned just like in the last three years. If the economy grows, there will be an increase in the steel consumption. So, we expect a small increase in steel consumption.

We're also working under the expectation of reducing import, not very high one, but we closed 2011 with a market share of 11% and we expect this year to be around 10%. So this is a promising projection for the Brazilian steel producing companies.

Our work in the domestic market and as Julian said, our teams are totally dedicated to meet the needs of our customers to add value to our products. In 2013, we finished an investment cycle, which placed Usiminas at the state-of-the-art in all lines of products. We have included the stripping number 3 which closes the cycle, so we are at the state-of-the-art, we are right now at a very intense process due to the need to develop new products to meet the markets.

The solutions are also very much integrated to meet the needs of our customers with just in time deliveries that many services, we are all mobilized to position ourselves, which really good team in the most integrated way possible and leveraging businesses. This is our efficient regarding the demand for 2014.

As to price basis, what we can say is that we have some facts, in January, we adjusted the price to the automotive industry as it was expected and according to our annual agreements, and as of January 1st, we also increased the prices on material for distribution to around 6%. From now on we have to wait, we don't know what's going to happen in the domestic and international scenarios, we don't know about the dynamics of the world economy. We have to wait and see. Thank you.

Operator

Our next question comes from Rodolfo D Angele, JPMorgan.

Q - Rodolfo D Angele {BIO 1541593 <GO>}

My first question is to Julian. This year was a year for a turnaround, this is very clear. And you gave us some idea about the productivity and in development of people, this is your guideline. I would like to ask you, or someone in your company to give us some color in terms of specific initiatives, how do these translate into specific initiatives and the financial impacts that may come to Usiminas. Do you have anything regarding but -- anything you'd like to share with us?

The second question is about CapEx, Ronald said that this was little below our expectations in 2013. What is your budget for 2014, do you have any update regarding the mining project, the continuation of expansion and also the normalized CapEx after delivery of the major projects?

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Rodolfo, good afternoon. Thank you for the questions. In terms of productivity and development of talents [ph], we have the two drivers that will be more exploited in caps now. In terms of productivity, this is a driver that has a lot to do with the improvement of operations in the segment of international benchmarks or rather the following up of international benchmarks and the empowerment of teams. So we are constantly repositioning the scenario, reviewing and discussing all the time what the optimum scenarios for industrial configurations would be. Marcelo will also be able to give you some details, some concrete details on that.

As to training what we've seen is that we have to reassess all our workforce, our own and contracted labor. We are always constantly looking for the improvement of our labor. We want to optimize, stop time, down time, (inaudible) at the time for intervention with equipment. Today we are developing a training plan for our personnel reaching not only our employees, but also the out-sourced people or the contracted people with two alternatives to reduce the intervention of equipment in terms of time and the costs of intervention by improving the quality. Marcelo, would you like to say a few words about the industrial configuration?

A - Marcelo Rodolfo Chara {BIO 17579058 <GO>}

As Julian said, one of the key aspect is the maximization of the industrial sectors being more efficient in terms of the productive configuration. To give you a few examples, we've gone from eight machines to six machines, three -- from three hot rolled strip mills to three, we are going from six lines of continuous speckling [ph] to four. This impacts the fixed costs and the -- our operating efficiency to reach the demands of our customers with a more flexible and operating with developed projects to maximize the synergy in terms of service hiring in all services that's support both mills. So we are intensively qualifying our providers and we're constantly training our labor to provide for the most efficient operation in our mills.

A - Julian Alberto Eguren {BIO 16005078 <GO>}

The CapEx, okay, you asked about CapEx. At the beginning of last year, we were taking of a CapEx of 1.4 billion [ph], we ended up being a little less than 1 million, little short of 1 billion. Our projects are still ongoing. There is one project, which is a little late in terms of disbursement but not execution, which is for our Ipatinga Mill, and the Coke Plant, so we are going to be 200, 300 above what expected, we'll have a bio-data [ph] for 2014 that we could speak of, but to talk about a normalized CapEx, well, I'd say it's around 1 billion or something a little less than that considering the steel and mining areas.

It's very hard to think about a maintenance CapEx or sustaining CapEx, because our mills always needs repairs and maintenance but internal terms I think it should expect expansion projects 1 billion per year and a little more due to the review of last year.

Operator

Next question comes from Thiago Lofiego, Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Going back to (inaudible), could you tell us where you see the premium of local steels, is that the imported ones, are you comfortable with this premium, is there a space for growth? And the second question, a more specific to you. About the automotive industry, could you talk about the exports to Argentina or imports of Argentina, rather is this something of concern for you, because you have a relevant position in this area?

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Regarding the price differential which you're addressing as premium, in the beginning of February, we are between zero and 5%. This is a balanced level. The scenario that we see now is a stable scenario, price wise. I'd say we're comfortable with it and we've seen that the exchange rate has been fluctuating. Therefore, this level oscillate a bit.

So we need to keep track of international prices as we've always done and the movement in terms of currencies. In terms of the automotive industry, our expectation for 2014 is to have something very close to 2013 to see a very great changes in terms of the automotive production, nor in terms of sales.

Regarding the exports to Argentina, the automotive industry has not taken a chance, we have to wait to see. But in short, our expectation is to have a year very similar to 2013.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you.

Operator

Our next question comes from Ivano Westin, Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Good afternoon. Thank you for the opportunity to ask a question. First of all, I'd like to talk about MUSA's contract. Our port services -- port service operation, you said that you have an amount regarding penalty of 193 million and that this amount has not being accounted for MUSA. What is your projection, what is the end result of this negotiation. Do you expect to increase this volume take or pay or are you going to go after the financial amount.

The second point is about covenants. You said that in December 2013, you did not cover the contract condition of total debt-to-EBITDA, but this was renegotiated with the creditors. I would like to have some more color in that?

A - Ronald Seckelmann {BIO 3722329 <GO>}

This is Ronald. The fact that our receivables has not been entered into the books. This is about the accounting criteria. We've taken all the measures to ensure our rights in terms of this contract clause, we're comfortable that somehow we're going to end up exercising our right. Before that we haven't accounted for is just the matter of being conservative regarding this aspect because the time for receiving these amounts is not clearly defined but you're totally comfortable that our relationship with the (inaudible) and the new owners being a long-term relationship will help us discuss in a very adequate way how to claim our right which is as I said, fully assured. And I'm going to give the floor to Bill, if you want to add something to this.

A - Wilfred Bruijn {BIO 16707173 <GO>}

Well, let me talk about the covenant. The covenant we refer to is a covenant which we have for JBIC, which is the Japanese bank of industrial development, which is beyond the gross debt covenants and it's 3.5 over EBITDA. This year we were at 3.9, all the other covenants that we have, including debentures are net debt also 3.5 times and we are totally within the limits and even with the JBIC, JBIC the expectation is that in the next measurement period in June this year, we shall be below the limit, I hope that answered your question. I'm going to give the floor to Bill, he's going to talk about our contract Port of Sudeste.

Good afternoon. Regarding the contract with Port of Sudeste, we are waiting to see -- waiting for the negotiations to conclude. So (inaudible) and MMX, we expect that from what we here in the market, we expect that this a range of it for the port should be concluded soon. As soon as this happens, we'll sit down with the new company to check volumes and take our pay and so on.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you very much. But taking the chance of talking to you, I'd like to know about the expectation of mining, when you're going to have a definition, when you're going to disclose to the market whether Compact project will be feasible or not. Could you give us the guidance regarding volume, if there is a project for more than 30 million? Any kind of guidance will be quite welcome.

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Compact project as you know is a key project for the future of MUSA of Usiminas mining. So the effort we dedicate to it in terms of studies, analysis, engineering, scenarios, in other words from all perspective, the final analysis being concluded. We're supported by international consultants who'll provide us the best route for technological process, the most efficient means of allocating CapEx and as soon as this concluded and we expected this would happen around the end of the first quarter, we'll be able to disclose more details, because we have -- we are facing different scenarios and we have to pick one.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you very much.

Operator

Our next question comes from (inaudible), HSBC.

Q - Unidentified Participant

Good afternoon, I have two questions, the first one to Ronald. You're talking about the price for domestic steel, you said that there has been an increase for distribution of 6%. I'd like to know whether you expect an increase in the industrial level of the same magnitude and could you talk a little bit about these increases, if there is any difficulties, there is any push back in the domestic market to deploy these increases, especially looking at the competition in the domestic market and also the line of hot steel, we saw an increase of CPC per ton in the fourth quarter and you said that there is some non-recurring aspects in this cost. So could you give us some color on that and how much by the improvement should we expect?

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

This is Sergio Leite. I'm going to answer your first question. In terms of prices in the internal market, we apply after the January 1, an increase of around 6% for hot and cold stripped and not for plates, so far. The deployment had no problem whatsoever. And as we always do, as soon as we increase for distribution, we negotiate with the industry and the industry usually occurs in the first, second or third month. This is an ongoing negotiation right now and as far as we see there won't be any problem in the industry in negotiating these increases in prices.

A - Wilfred Bruijn {BIO 16707173 <GO>}

Now, Bill, talking about the CPC per ton, in the fourth quarter, we actually had some event, which had an impact on the CPC per ton, which was a little higher all of them non-recurring. The first one was, the new plant from Mumbai, part of the CLS [ph] project. So we chose -- we chose to discontinue some old plants, a (inaudible) plant and this accelerated the depreciation and this had an impact on the CPC per ton.

The second one, inventory adjustment which are usually done at the end of the year, we had an adjustment, which also impacted our CPC per ton. The product sales mix, part of it done with the inventory, a little more expensive than our average. So the combination of these three factors lead us to have this slight increase in the CPC per ton. And the remainder is directly related not return, but in the CPC in general to the sales volume, which was much above the quarters that we had before.

Thank you.

Operator

Our next question comes from Carlos de Alba, Morgan Stanley.

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

Yeah, thank you very much. The first question is regarding the outlook for iron ore production and shipments in 2014, could you comment on that. And specifically for the export how much exports do you think you can do this year and through what port if you're going do them directly or if you plan to continue selling a much higher volume in the domestic market than in the export market?

A - Unidentified Speaker

Okay. Good afternoon. So, you asked about our efficiency in terms of sales and exports for 2014. I can tell you that it's too early in the year, to give you a firm projection. However, we are working to have a volume for export and a volume for the domestic market. We want to grow our sales share vis-a-vis for 2013. But it's still too early to give you figures, either for exports or for the domestic market. I can only tell you that we have already five ships assured for the first half of the year and the other project I would like to wait a little to comment on, when we are more sure.

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

Alright. And those five ships for the first half, are they spread across the six months more or less evenly or are they're going to be focus on one quarter or another either, I would appreciate those details? And also (inaudible) to make my second question, which is we (inaudible) what our production decline about 10% year-on-year, if you could explain what drove that and do you think this is the new level that we continue to see going forward or do you expect to see a (inaudible) 2014 and beyond. Thank you.

A - Julian Alberto Eguren {BIO 16005078 <GO>}

And just to add the information the five ships that we have projected for the first half of the year will be evenly spread. There will be no concentration in the quarter. Any colors regarding the production volumes for our (inaudible) that you are talking about in our investor question, we have developed some strategies of production, which in a way to meet the demand. Therefore, we are operating with a very balanced scheme in terms of adjustments and use of fuel, raw materials or to define what are the best distribution strategy is in our mills. So we are an industrial system that is integrated, so we allocate and develop the best strategy to provide the delivery to our customer on a timely basis.

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

Thank you very much. And if I may, I'll ask a question for Sergio, perhaps, what is the risk both having the higher inflows from Argentina, given the situation that we're facing there. Is there any and if you can comment on that, I would really appreciate it. Thank you very much all.

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Well, regarding Argentina's situation, well, we've said a little bit about it, it's too early to draw any conclusions. We have to wait a little bit more. Our expectation is that we won't have great impact on this year.

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

Thank you.

Operator

Our next question comes from Roy Yackulic, Bank of America.

Q - Roy Yackulic {BIO 4201939 <GO>}

Hi, thank you. I'm curious, as I look out and see your maturity schedule over the next several years. You have substantial maturities to each year, about 1.3 billion a year for four years and then just under 1 billion in this fifth year. Do you have a high cash balance, is your intent, I'm sure that you used cash to pay down maturities. But I would anticipate that perhaps are you considering a liability management exercise to rebalance maturities and to -- I guess renew your presence in the U.S. dollar debt markets, which is now quite minimum, because of the buyback that you've done?

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Good afternoon, Roy. Thank you for your question. Really the return of our financials levels at more comfortable levels allows us to do exactly what you said, liability management improving not only the investment profile, but also with the currency. We are becoming ever more a company that is dedicated to the domestic market. So our intention is to reduce our debt in foreign currency and to increase the debt in local currency.

The maturities for our next year is around R$1.4 billion, each year will be only partially renewed, in other words the tendency or the trend for a reduction of the gross debt, a change in our debt profile having a larger debt in local currency and an allocation all for the times, which are comfortable, but they're going to look for longer periods, we're going to use our cash balance, we're going to make the most of our situation of more comfortable financial rate to do exactly what you said, liability management. The idea is to focus on the reduction of our financial expenses.

If you remember what I said at the beginning of my presentation, our operating results have improved year-on-year, practically R$1 billion, however, our net income has only increased 600 million. This only is just a way of saying it's not only. But -- and this has to do with our financial expenses, in our case this is the current or the exchange rates variation. So we want to reduce our financial burden, this is a strong focus for us right now.

Q - Roy Yackulic {BIO 4201939 <GO>}

Yeah. Can I ask, I think interest coverage is around 2.3 times, which is fairly not so strong and fairly low given the fact that you do have high financial expenses. Do you have a target in mind with respect to your interest coverage or the absolute amount of interest expenses?

A - Julian Alberto Eguren {BIO 16005078 <GO>}

No, we don't have any target for that.

Q - Roy Yackulic {BIO 4201939 <GO>}

And then finally can I --

A - Unidentified Speaker

The idea is to reduce financial losses to bring the basis for the distribution of dividend at historically adequate levels.

Q - Roy Yackulic {BIO 4201939 <GO>}

And then finally, can I ask, is there any acquisition appetite now that you are in a good financial position and results are good and you do have cash?

A - Unidentified Speaker

No, not yet. We still don't have an appetite to grow by acquisitions. Of course, we are always on the look out to what's happening in the market. We won't let a good opportunity go by. We will not forget to analyze any good opportunities that may come up, but we're not actively looking for new opportunities.

Q - Roy Yackulic {BIO 4201939 <GO>}

Thank you.

Operator

Our next question comes from (inaudible).

Q - Unidentified Participant

Good afternoon. Thank you for the opportunity. I'd like to know whether you could say few words about the increasing CPC per ton in mining, we see a considerable increase. You've already talked about an increase which occurred in the release in some areas, do you have any expectation about this for the future?

A - Unidentified Speaker

Good afternoon --. This is Bill. Actually, this question has already been asked in this call, but I'll gladly re-say what I have already said. The CPC per ton had an increase in the fourth quarter, basically due to an accelerated depreciation in some plants that were deactivated due to the new plants that were rolled out. Also due to an adjustment in inventory, which is currently at the end of the year, we usually do this at the end of the year and the mix in sale along the fourth quarter, a part of this mix came from an inventory that had a little higher costs. So the combination of these factors lead us to have a CPC, which was a little higher vis-a-vis the previous quarter.

Q - Unidentified Participant

Thank you.

Operator

Our next question comes from Andreas Bokkenheuser [ph].

Q - Unidentified Participant

Yeah, hi. Thank you very much for hosting the call. Just one question from me. I'm always a little bit concerned that the government eventually and start reducing the import tariffs on steel, just given the current inflation concerns, I mean a little bit of unrational social unless we've seen in the Sao Paulo and Rio lately. I just wanted to get your view, what do you think the government is thinking at this point in time, in terms of the import tariffs? Thank you very much.

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Good afternoon, Andreas. We've been talking to the Brazilian authorities and as we see it, the risk of a reductions in import tariffs were still is very low. The government is in tune with the situation of the Brazilian industry as a whole, we've been losing share in the Brazilian GDP. So from what we hear from the government we have a very low risk that it should happen.

Q - Unidentified Participant

Okay. Thank you very much.

Operator

Our next question comes from Marcelo Aguiar, Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Good afternoon, thank you for the opportunity. I have two questions. First, going back to steel products export. Looking at the performance of international prices in real's for the hot-strip, we see a substantial hikes due to the real-dollar [ph] an increase year-on-year of 20% using market prices and your cost did not show the same increase. So could you explain the dynamics at what level of exchange rate would it change the mix in imports, because the hot-strip increase was 24% year-on-year and the cost hasn't change as much? This is the first question, I'll ask the second one next.

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Marcelo, we are concentrating our export in North America and a little bit to the States that which you see in our results to Asia is more of the inventory material. But we've been keeping track of this price variations and we've been working to concentrate the focus of our business in the domestic market. The increase in export for the fourth quarter was much due to the seasonality. We're trying to operate both plant in an optimized cost with focus in the domestic market. Today we're not focusing on the strategies for the exports, our basic strategy is to meet the demands of Argentina and Chile, where prices are in line with our domestic market prices, and I believe this will be the case for this year too. This is our strategy.

A - Marcelo Rodolfo Chara {BIO 17579058 <GO>}

Excuse me, I would like to understand one aspect. Of course, the CapEx is 8 billion, if you generate any (inaudible) per ton, this impacts the company and I mean, I would like to understand your strategy why not turning to your operations, so there is any EBITDA that would be positive?

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Marcelo, when we leave this level of production in Sally [ph]. We see a high probability of increasing our marginal cost. So this might lead to a decrease in the margins or render our business not feasible. So we are very much regarding the marginal costs.

A - Unidentified Speaker

Marcelo, just to add to what has been said, because what you're seeing is certainly right in this dynamic of international prices, there are some opportunities in the foreign market. So, our planning department is constantly assessing the situation and doing their math to see the opportunities that we have in the market. So we are always keeping track of what's happening everywhere and should an opportunity occur and if we can and we're going to try and capitalize these alternatives. You can be sure of that.

Q - Unidentified Participant

Second question is about the domestic market demand. Do you see, because you have the car parts and machine and equipment industry, are they more optimistic about growing the share vis-a-vis the imports? Do you think the current exchange rate is still too low to revert the indirect imports which reach what I guess, 5 billion tons as a peak for recently?

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Marcelo, let me be very objective here. The direct imports is the main problem of the steel chain in Brazil. We still don't see a trend for reducing imports -- in direct import. In spite of the devaluation of real, you should see that other currencies also devaluated vis-a-vis the dollars. So for our customers, we still don't see an increase in their competitiveness, so that they could reduce the indirect imports. Indirect imports is a very present topic for us and we cannot state that for 2014. We'll see a decrease in indirect imports. It's been growing year-on-year and there is nothing that shows us that it will be reduced in 2014.

Operator

Our next question comes from, Ivano Westin, Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you for the follow-up. In the steel area business, I would like to hear about two aspects. First, the plates, we just had a significant reduction, is this due to seasonality, is it due to a higher volume in the third quarter, was there any additional reason and could you give us some color about January, the volume and increases or what's happening?

A - Julian Alberto Eguren {BIO 16005078 <GO>}

In terms of plates, we've seen a drop of 23%. Part of this drop has to do with seasonality. But in part this is due to the projects and infrastructures which are still not taking off in Brazil. In the second and third quarter, we've had a higher volume of projects demand in plates. In the fourth quarter, there was a reduction of such projects. So it's the two things. The industry -- the infrastructure industry and seasonality.

Q - Ivano Westin {BIO 17552393 <GO>}

Could you tell me a little bit about the sales and the figures for January. Could you give us guidance for January and February?

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Unfortunately, we cannot talk about the current quarter. I'm sorry.

Q - Ivano Westin {BIO 17552393 <GO>}

Okay, thank you anyway for the opportunity to ask questions.

Operator

Our next question comes from (inaudible) Itau Asset Management.

Q - Unidentified Participant

Good afternoon. Still talking about the profitability of exports, the question is very much parallel, I understand that your operating with optimized costs with the current production volumes, but with the evolution that we see in terms of export prices in reals, if you need to migrate from the domestic market to abroad, if there is a weaker demand domestically and if the production volume is not optimum as it is today. Would it be profitable to make the switch, in case of a decrease in the domestic demand, I mean --?

A - Julian Alberto Eguren {BIO 16005078 <GO>}

(inaudible) this is Julian. Let me try and answer your question and I'm sure Sergio will add few details. Within this level of production, we can go from the domestic market to the export market keeping the cost at stable level, this is an alternative that we always bear in mind, and we can use for that our agreement with the commercial structure, the ton [ph] has within the region, the Americas and all. This is a tool that we always have at hand, so that we can switch quickly if needs to be. In case of the domestic demand is weaker we can swiftly change to regional markets, Colombia, Ecuador, Peru, Argentina even Mexico. So this too is an advantage we can quickly move to these markets. Thank you.

Operator

Our next question comes from Rodolfo D Angele, JP Morgan.

Q - Rodolfo D Angele {BIO 1541593 <GO>}

Hi, thank you. My question is to Bill. Bill, could you tell me how the behavior of iron ore is in the domestic market and in terms of taxes and how do you see the behavior of these two variables for 2014?

A - Wilfred Bruijn {BIO 16707173 <GO>}

Hi. We see a stable market, it's been so in the last days after a bias of slight increase in the international market. Domestically prices have a bias, also bias for increase, so we've seen it in some heated demand in terms of amounts I cannot really share any data with you. But let me tell you that we see the market very warmed up, the volume is larger, the volume we can offer is larger this year due to the Friable project, which is being rolled out very strongly. It's a high quality ore that will be supplied along the year. This helps us in terms of bonuses regarding international price seasonal, so we project a year of stability with a trend for growth in terms of costs, the costs should be kept at the same levels. If you exclude the non-recurring effects for the fourth quarter, vis-a-vis taxes we don't project any big changes.

Q - Unidentified Participant

What about (inaudible), how do you see that?

A - Julian Alberto Eguren {BIO 16005078 <GO>}

We expect that there will be more port space for 2014, the (inaudible) would be for prices to drop a little in the next month.

Q - Unidentified Participant

Thank you.

Operator

Our next question comes from Renato Antunes, Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

Thank you for the follow-up. I have two quick questions, the first one, could you talk a little bit about Usimac, what's your view for Usimac strategically looking at the next phase of Usiminas for 2013, 2015, how do you see Usimac. And the second one, going back to Argentina, when you see 2013, we've had a little more than 20% of exports to Argentina.

Could you tell us what product you're selling to Argentina, is it something specific or is it what you usually export?

A - Paolo Felice Bassetti {BIO 17276670 <GO>}

Hi, this is Paolo speaking Renato. Well, the portfolio has been developing slowly due to the delays that we have been keeping track of investments in refining and fertilizers especially. We also noticed a decrease in terms of equipments, we are just in structures and when we see the investments in mining, we see that the most important projects are moving along fine. But we are keeping an eye on all these in considering and analyzing. This has portfolio at a level which is not much higher than last year's. On the other hand, I feel that we've been adapting the level of internal expenditures of the company and expenditures with third parties for each industrial facility, we've been increasing productivity. So this has enabled us to adapt the company's cost to the current portfolio. This is to say that we are in a position of waiting, we don't see lots of risk from the cost side.

And that regarding our exports to Argentina, last year we exported 21% from the total to Argentina 15,000 tons per year more or less. Two markets are important in Argentina. The first one is the automotive industry, we exported to the car companies, due to the negotiations which are made in the source [ph] of the largest volume is to the Argentinean automobile industry. And the second one is, for plates, customers that buy plate from us. This is almost a 100% of all the exports, so it's a different mix from the other countries in North America. Thank you.

Operator

If that there are no more questions. I'd like to give the floor to Ronald Seckelmann for his final words -- final remarks.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Thank you very much for attending the call. The number and the quality of the call shows that there is a great interest in our company and for that I thank you all and hope to have you again in our next conference. Thank you.

Operator

Usiminas teleconference comes now to an end. We thank you for your attendance. Have a good afternoon. Thank you.