Company Participants

- André Bier Gerdau Johannpeter
- André Pires

Other Participants

- Ivano Westin
- Marcelo Aguiar
- Marcos Assumpção
- Renato Antunes
- Thiago Lofiego

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon. Welcome to Gerdau's Conference Call to discuss the Earnings of the First Quarter of 2014. At this time, all participants are in listen-only mode, and afterwards there will be a question-and-answer session.

I would like to highlight that any statements that may be made during this conference call related to Gerdau's business outlook as well as operating, financials, projections and goals are only assumptions based on the management's expectations vis-à-vis the future of the company. Although Gerdau believes its comments are based on reasonable assumptions, there is no guarantee that future events might not affect these assessments.

Today with us we have Mr. André Gerdau Johannpeter, President and CEO; and André Pires, Vice President and IRO.

Now, I'd like to give the floor to Mr. André Gerdau Johannpeter. You may proceed, sir.

André Bier Gerdau Johannpeter

Thank you. Good afternoon, everyone. Welcome to Gerdau's earnings conference call. As usual, we'll start our analysis assessing the world steel market scenario. And then, we'll address Gerdau's performance in the first quarter of 2014, and the outlook for the year in regions where the company is present.

Please note that we'll be talking about the quarter's performance vis-à-vis the same period of the previous year. Afterwards, André Pires will give a detailed presentation of Gerdau's financial performance. And then we'll take your questions.

(02:02) if you're following us over the Web, we are now on Slide 2, the world steel production totaled 404 million tons in the first quarter of 2015, growing 2.2%. Excluding China, production worldwide increased by 2.5%, reaching 203 million tons. In Brazil, there was an increase of 1.5% in production reaching 2.8 (sic) [8.3] (02:31) million tons. In Latin America, the growth was 2.8% year-on-year totaling 7.8 million tons. And steel production in the U.S. was 21.5 million tons, virtually the same volume produced last year.

What about the outlook? According to the IMF, the global GDP is expected to grow 3.6% in 2014. With this scenario in mind, the World Steel Association recently announced that steel consumption in the world is expected to increase 3.1%, reaching 1,527 million tons.

Now, let us talk about Gerdau's performance on Slide 3. Net sales amounted to BRL10,600 million, growing by 15.1% year-on-year. This was mainly due to foreign exchange effects related to the conversion from U.S. dollars to real, higher shipments of our own iron ore and higher volumes of steel sold in Brazil and other Latin American markets.

Income before interest taxes, depreciation, and amortization, or EBITDA, totaled BRL1.2 billion this quarter, an increase of 48.6% year-on-year. The significant variation in percentage as André Pires will show later, stems from a better performance in the majority of the company BOs, but also from the lower comparative base in the first quarter of 2013 when performance was significantly lower due to maintenance work in some of our mills.

Investments for CapEx. In the first quarter, our investments were BRL676 million. These are projects that have been previously announced, that are in progress.

Now let us talk about each one of our operations starting with Brazil on Slide 4, excluding specialty steel mills in Brazil. In the first quarter, we sold 1.4 million tons in the domestic market, growing 2% vis-à-vis the previous year.

As to exports, Gerdau's exports from Brazil, there was a drop of 60%, totaling 155,000 tons mainly due to lower prices in the international markets, and also casual maintenance in one of the blast furnaces in the Ouro Branco Mill in Minas Gerais in the last weeks of March and first weeks of April.

As to the Brazilian economy, according to the focus report, our GDP is expected to increase 1.6% in 2014. Steel consumption in turn will amount to 27.2 million tons, growing 3% vis-à-vis 2013, according to Aço Brasil institute.

As to the main sectors, expectation were as follows. For civil construction, GDP is expected to grow 1%, manufacturing industry growing 1.3% and agriculture and livestock growing 2.6% in 2014.

Now, let us talk about our North American operations, excluding Mexico and Specialty Steel plants. We are now on Slide 5. During the first quarter, Gerdau sold 1.5 million tons in the U.S. and Canada or 4.2% less than the same period of last year. This was adversely affected by the strong winter in the region and significant increase in imports.

In the U.S., Gerdau's main investments are concentrated in mills in Saint Paul in Minnesota State, as well as in Midlothian and Beaumont in Texas. In Saint Paul's business, a new continued casting system is being installed replacing the existing equipment. As a result, the annual installed capacity of the mill will increase from 450,000 to 550,000 tons in 2014. As to the mills in Texas, investments are earmarked to enhance product quality and productivity in the plants, which will also be concluded over 2014.

As to the U.S. economy, recently the U.S. Department of Commerce announced that the country's GDP increased only 0.1% in the first quarter, being adversely affected by the tough winter. However, it's important to highlight that the first sign of recovery in the steel market, driven by expected improvement in the U.S. economy in future months. A good example is the Purchasing Managers Index, PMI. It was 53.7 points in March, any number about 50 points is representative of growth. According to the IMF, the U.S. GDP is expected to grow 2.8%, and therefore steel consumption in the country after a drop of 0.6% last year, will increase by 4% over the year, totally virtually 100 million tons.

In Latin America, excluding Brazil, Gerdau sold 681,000 tons or 5.4% more than the first three months of 2013. As to Gerdau's investment in the region, I'd like to highlight that a new melt shop started to be built in Argentina in late February, adding a total production capacity of 650,000 tons of steel per year. Startup is scheduled for 2016 and the melt shop will allow us to lower the volume of imported steel in the country.

In addition, we keep on investing in the construction of a new mill of structured steel through our joint venture Gerdau Corsa in Mexico. The majority of the equipment has already been delivered by manufacturers and civil construction is at full speed. The new plant (09:27) are scheduled for the end of second half of 2014. We'll have an annual installed capacity of 1 million tons of steel and 700,000 tons of rolled steel products. The project will supply basically to the metallic construction and manufacturing segments in Mexico.

The majority of Latin American countries are expected to have a GDP growth in 2014, particularly Peru, an increase of 5.5%, Colombia 4.5% and Chile 3.6%. Steel consumption in turn is expected to grow 3.7% reaching 43 million tons. We keep on monitoring very carefully the higher level of imports – steel imports in the region.

Let us talk now about our Specialty Steel operation on Slide 6. And now we are talking about our operations in Brazil, U.S., Spain and India. In our Specialty Steel BO, shipment added to more than 13.6% growth vis-à-vis the first quarter of 2013, positively affected by higher demand in all regions, particularly India. In Brazil, the light vehicles segment had a drop in sales, minus 2% in the first quarter of 2014 vis-à-vis the same period of the previous year.

And this is due to the gradual reduction of the IPI discount, restrictions to loans and increase in vehicle prices due to introduction of new mandatory safety equipment. As to the production of light vehicles in the same period, there was a significant drop of 9% owing to the strong drop in vehicle exports to Argentina. In the heavy-duty vehicles segment, sales went down 11% and production was 2% lower. Right now, there is uncertainty as to the performance of the automotive market and the pace on cut down on production and (11:46) vacations recently announced by OEMs, in addition to the rising prices and more stringent loan conditions.

In terms of investments in the Specialty Steel segment, we highlight the expansion of Pindamonhangaba Mill in São Paulo, whose production is basically targeted to the automotive industry. By the end of 2013, a new rolling mill was started as planned, increasing the installed capacity from 700,000 tons to 1.2 million tons. Final disbursement was performed in the first quarter of 2014.

In North America, despite a strong winter season, light-duty vehicle sales increased 1.4% in the first quarter year-on-year. In the same segment, production also went up 1.4%. The heavy-duty vehicle segment showed strong response in early 2014. Data on this quarter are not available yet, but sales are expected to grow about 5%, and production will increase approximately 10% vis-à-vis the same quarter of 2013. In our Monroe plant in Michigan State in the U.S., we have the installation of a new degasser and startup is scheduled for May 2014.

In addition, six new roll stands are being installed in the bar rolling mill and a new reheating furnace, all scheduled to start-up by yearend. Consequently, Monroe's mill installed capacity will total 800,000 tons per year.

In Europe, the main market of Specialty Steel have maintained the rebound achieved in the second quarter of 2013. The number of automobile registrations, for instance, has increased 8.6% year-on-year. The outlook for future months is even better, consolidating the first year of recovery in the region.

In India however, shipments of light and heavy-duty vehicles kept on going down in the beginning of 2014, due to lower consumer confidence. In light vehicles, sales went down 7% and production went down 8%. However, in heavy vehicles, there was an increase of 8% and 19%, respectively, in sales and production. For future months, the Indian economy is expected to show rebound. At Gerdau, we successfully improved our certification for automotive clients favoring our shipment acceleration curve and our production in India.

Now, let us talk about our Iron Ore operation. Starting this year, our Iron Ore activities which used to be reported under our Brazilian BO, are now posted separately as a new Iron Ore BO. In the first quarter of the year, our shipment of iron ore totaled 2 million tons, 912,000 tons year-on-year. Out of this total of 2 million tons, 812,000 tons was sent to Gerdau's mills, and 1.2 million tons to the market. Shipment volumes were well above the first quarter of 2013. In addition, our current installed capacity of 11.5 million tons per year is expected to reach 18 million tons by 2016.

To conclude, now on Slide 7 some comments.

Let me highlight that in the first quarter, Gerdau had a good performance vis-à-vis previous year, thanks to the management efforts, the positive foreign exchange effect, and improved demand in different markets. For future quarters, we'll keep on doing our best to improve our operating efficiency, optimize our working capital, and enhance our indebtedness profile pursuing continued improvement in our results.

We also keep on investing in our strategic projects like the expansion of our iron-ore and flat steel production in Brazil, in order to remain selective in our CapEx assessments. As to the Brazilian market, we would like to highlight that we've been following up the rising demand, despite the low economic growth in the country. In that sense, we will continue to provide unique service to our customers and increase the competitiveness of our operations, and our results despite the scenario of uncertainty that might be affected by the World Cup and elections in Brazil.

However, in other markets like Latin America, North America, and Europe, the economy gave sign of continuous improvement therefore generating benefits to our business.

Now, I'd like to give the floor to André Pires, and after his presentation, I will be back and you'll be ready for the Q&A session. Thank you very much.

André Pires

Thank you, André, and good afternoon, everyone. Now, I would like to talk about the consolidated results of the first quarter of 2014, vis-à-vis the same quarter of 2013 and give you some details about each one of the business operations, and then I will be ending my presentation by talking about the capital structure.

Let's go to Slide 8 in your presentation. Net sales increased by 15.1% in Q1 2014 on a year-on-year basis. Whereas the cost of shipments increased by 11.9%. As a consequence, the gross margin went from 9.9% in Q1 2013 to 12.5% in Q1 2014. EBITDA reached BRL1.2 billion, consolidated in 1Q 2014, a 49% increase on a year-on-year basis.

If we look at the bridge chart on the left of the slide, we can see that the main contribution to the EBITDA increase was the growth in our net sales that were higher than the growth in the cost of shipment. With that, the EBITDA margin went from 8.8% in Q1 2013 to 11.3% in Q1 2014.

And the lower negative financial result in Q1 2014 stems mainly from the higher positive exchange rate variation on the U.S. dollar denominated liabilities, both in relation to Q1 2013 and Q4 2013, period in which it was negative. With the better operating performance in Q1 2014, net income when compared to Q1 2013 increased reaching BRL440 million. In relation to Q4 2013, net income had a reduction of 10.6% due to the lower operating result of Q1 2014.

Now talking about dividends. Based on earnings of company's referring to the performance of Q1 2014, we will be paying our dividends amounting to BRL44.7 million to shareholders in Metalúrgica Gerdau, BRL0.11 per share and BRL119.3 million to shareholders in Gerdau SA, BRL0.07 per share. The dividends will be paid out on May 13 based on the positions held on May 21.

Now on screen number 9. The results of each one of the BOs starting with Brazil. The drop in the shipment volumes was strongly influenced by the drop in exports. In the domestic market, there was a 2% growth in the volumes when compared to Q1 2014. When we compare Q1 2014 to Q1 2013, the 5.7% increase in net sales came from the higher net sales per ton, 19.7% increase and a better market mix that offset the reductions in the volume shipped.

The cost of goods sold in Q1 2014 had a reduction. However, it was smaller than the drop in the volumes shipped. This occurred due to the lower dilution of fixed cost and the higher cost of raw materials. Nevertheless, gross profit grew by 45.7% in the period. I would like to mention as André said, the initiatives of efficiency gains mainly in the synergies project which is the consolidation of the operations of Ouro Branco Mill with the long steel mills.

EBITDA for Brazil grew by 47.4% due to the increase in the gross profit giving us an increase of 5.7 percentage points with the EBITDA margin that went from 14.3% in Q1 2013 to 20% in Q1 2014.

I would like to remind you that in this quarter, we are already comparing the activities of the Brazil BO excluding the Iron Ore operations and then we can see very clearly the contribution by the synergies project that gave us an improvement in operating margins from this BO.

It's important to mention that the higher EBITDA and the higher EBITDA margin in Q4 2013 in relation to the first quarter of 2014 was influenced by the gains in the sale of assets, which was not repeated in the first quarter of 2014.

Now going to screen number 10, in North America reduction of 4.2% in the shipment volumes in Q1 2014 vis-à-vis Q1 2013 and this was due mainly to the effects of the strong winter that affected production and the sale of products besides the higher imports in the period.

The higher net sales and the higher cost of sales were occasioned by the effect of the exchange rate variation. Net of that, both the net sales and the cost of goods sold would be lower due to the drop in the volume sold in the period. Net sales also suffered the impact of the net sales per ton, which led to a reduction in the gross margin in this Q1.

EBITDA went down from BRL148 million in Q1 2013 to BRL 70 million in Q1 2014 due to the lower gross profit and EBITDA margin also had this reduction. And as of March, we started to see a recovery in this activity and consequently in the volume shipped as well as an important improvement in the prices environment in North America.

Now going to Slide 11 talking about Latin America. The shipment volume grew by 5.4% in Q1 2014, on a year-on-year basis due to the better market conditions in the region. Net sales grew by 22.3% in the quarter due to the higher net sales per ton, growing by 16% and also the higher volume shipped. The 15.7% increase in this cost of shipment in Q1 2014 in relation to Q1 2013, was lower than the growth of the net sales per ton. Because of that, gross profit continued to increase, a trend that has been occurring in the last few quarters for this BO, going from BRL95 million in Q1 2013 to BRL185 million in Q1 2014.

I would like to mention that many initiatives for improvements and efficiency gains in this BO. EBITDA was BRL143 million with a significant improvement vis-à-vis Q1 2013. EBITDA margin reached 10.2% in this quarter, vis-à-vis 4.6% in the same period last year.

Now going to Slide 12, we will be talking about the Specialty Steel BO. This is where we had a 13.6% increase in shipment volumes in Q1 2014 on a year-on-year comparison, stemming from the growth in shipments in all countries that Gerdau operates, highlighting here India, that started to operate the rolling mill at the beginning of 2013. The increases in the net sales and cost of goods sold occurred due to the exchange rate variation in the period due to the many different currencies, where Gerdau has units and the higher volume shipped.

The growth in the gross profit came from the higher dilution of fixed costs and because of that, the increase in the cost of goods sold was proportionately lower than the increase in net sales. EBITDA 31% increased in Q1 2014 to BRL203 million. EBITDA margin went from 8.5% in Q1 2013 to 9% in Q1 2014.

Slide 13. Iron Ore BO, as mentioned by André, this is now reported separately as of this quarter. Shipment from this operation in Q1 2014 vis-à-vis Q1 2013 had a substantial increase due to the sale of iron ore to third parties that started to intensify in Q4 2013 mainly due to the ramp up of our capacity to 11.5 million tons this year.

Net sales in Q1 2014 also grew significantly vis-à-vis the same period in last year with the higher volume sold as I said and the increase of net sales per ton impacted by export in Q1 2014. Cost of goods sold for Q1 2014 vis-à-vis Q1 2013 grew due to the exports trade and the higher volume shipped.

The increase in the gross profit in Q1 2014 vis-à-vis Q1 2013 happened due to the higher volume shipped with a consequent higher dilution of fixed cost and also the growth in net sales per ton. As a consequence, EBITDA for the first quarter of 2014 in this business operation was a BRL121 million, EBITDA margin 38.3%.

To finalize on Slide 14, I would like to mention our indebtedness and the liquidity of the company. The gross debt on March 31, 2014 was BRL16.4 billion, stable vis-à-vis December 2013. The weighted average cost of debt was 6.8% a year with the average amortization term of 5.1 years. The gross debt exposure to foreign currency went from 79.5% in December 2013 to 76.5% in March 2014.

Cash reduction BRL702 million from December 2013 to March 2014 occurred due to the increase in the working capital, which is normal in the first quarter of each year. With that, the net debt also grew, but even with the increase in net debt, the net debt/EBITDA indicated was maintained at 2.5 times as EBITDA continued to grow in March 2014.

The cash conversion cycle had an increase of four days vis-à-vis December 2013, due to the increase in working capital mainly in the clients accounts receivable line in relation to March 2013. Even with the same absolute value of working capital, there was a 13-day reduction in the cash conversion cycle showing the continuous focus of the company, and the use of working capital.

Before finalizing, I would like to say a few words about the liability management operation that we have just carried out. On April 9, 2014, we issued a 30-year maturity bond with a 7.25% a year coupon amounted to $500 million, and the proceeds were used for the rolling over of our debt, and for general purposes for the company. On April 10, 2014, we announced an exchange offer of part of the bond with maturity between – in 2017 and 2020 for a new bond maturing 2024 and a 5.893% coupon up to $1.25 billion.

Additionally, we announced a tender offer for part of the bonds maturing 2017 and 2020 up to $250 million, which means a total amount of the $1.5 billion of exchange plus a tender. Both operations will be concluded still within the first half of May. With these operations, the average debt amortization term will be higher than seven years.

And as of now, Andre and I will be available to answer any questions that you might have. Thank you very much.

Q&A

Operator

Thiago Lofiego from Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you for the question. I have two questions. One has to do with the United States. So could you talk about your model expectation for North America in the second quarter? And where the metal spread is now, and signs of rebound in the U.S. market.

The second question has to do with Brazil. At the beginning, you have already mentioned that, but maybe you can give us some color about the demand expectation for the domestic market for the next few quarters. Do you see any possibility of a drop in demand, maybe in the second quarter or the third quarter, and taking into account the risks that you mentioned besides the rationing risk and World Cup, elections, et cetera, this year is slightly different from the other. So maybe you could you give us some color about that.

A - André Pires

Good afternoon, Thiago. Thank you. This is André Pires. Starting with the United States. As we said during the presentation, in fact, winter was exceptionally cold, and everybody knows that. And as of March, we started to see a major reaction, both from the demand viewpoint, and the general price environment as well, and we can say the same for April. So the feeling that we have is that there is an improvement in demand, and there is also an opportunity for expansion in our margins.

Besides, you asked us to talk about spreads, and you have been tracking this as well as all the other analysts. And for quite some time, the metal spread was lower than $400 per short ton, and now it's starting to break this barrier again. So this is an important sign for all of us.

Regarding the outlook, if we look at the data supplied by the Department of Commerce, every week the non-residential construction sector, which is basically what they call construction put in place, and the value is in dollars, it's monetary. There was a growth in the last 12 months up to March of about 5.9%. Now, the important thing about this growth is that if we look at private construction representing two-thirds of the demand, this growth was 11% in the same period whereas construction, let's say, public funds continued to be weak.

So this is evidence as far as we are concerned that there is a recovery in the residential construction area, in the home building area, and of course there remains a lot to be recovered because of the sharp drop after the crisis, but the signs are positive and now I would like to give the floor to André.

A - André Bier Gerdau Johannpeter

Thiago, good afternoon. About Brazil, I think it's important for us to separate the different segments that we cater to in the consumer market. Well, let's talk about infrastructure. There are quite a lot of projects. They are delayed, of course. We have been seeing this every quarter, but many hydropower plants being built and the whole preparation for the World Cup regarding infrastructure and highways and railways and urban transportation systems and so on and so forth.

As far as home building, it's stable with some growth in every business going very well in the last few years and should be repeating this performance and what is really suffering in Brazil is manufacturing industry for quite some time due to the level of the exchange rate and also because of the Brazil cost, and because of that, we have been suffering with the import of product.

So 3% growth in consumption this is the estimate, so we see with favorable eyes the remainder of the year. As far as the World Cup is concerned, it's very difficult to foresee what kind of impact, what level of impact, this will have, whether we will have holidays or not, there will be demonstrations or not, and what kind of impact all this could have on consumption and the supply of steel and so on and so forth. And we have experienced with the World Cup abroad, let's say, but life goes on. But with so many gains, I think it's very hard to foresee. And the other point regarding rationing. We have been following all the news and the evolution of this and the Brazil (35:55) data and their talks with the government and the Ministry of Mines and Energy to see what kind of a scenario we'll have.

We do not know yet whether they will ration or not. We hope there will be no rationing. However, we have a major asset which is our production in Ouro Branco, the integrated route, where we have our own generation of energy, practically 70% of our needs. And we have also our plants scattered all over Brazil. So, we can react very quickly should there be rationing, which is not a scenario we work with to date. Well, that's it.

Q - Thiago Lofiego {BIO 16359318 <GO>}

And maybe André Pires, you could answer. If in Q2, you will have an impact on volume because of the rigorous winter or was this concentrated on Q1?

A - André Pires

No, it was concentrated on Q1. The negative impact of the rigorous winter was concentrated on the first quarter, and the second quarter volumes should go back to normal levels and improve significantly vis-à-vis the first quarter.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you, André.

A - André Pires

Thank you.

Operator

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

Q - Ivano Westin {BIO 17552393 <GO>}

Good afternoon, André Pires. Thank you for the questions. About the Brazil unit, you made it clear - you made it very clear the scenario for volume. So what about the price parity today for rebars? And what is your expectation of prices for the second quarter?

The second one has to do with mining. You had good results with a healthy margin. So what is your expectation for the evolution of cash cost in mining and improvement in margins, and if after the results and the strong volumes in Q1, you will be revising your guidance up for the year?

A - André Pires

Ivano, this is André Pires. Regarding prices, we usually talk about this scene. And we continue to consider that we are competitive in general here in Brazil. In regard to your question about mining, our cash cost will certainly improve as we accelerate production in our units in Miguel Burnier and (38:38). So there is nothing concrete that I could add to what was just said, but with the cash cost level that we have today, we consider our operation as being highly competitive.

Regarding production, basically we have not changed vis-à-vis what we have been saying for one year already about 2014. We reached the end of 2013 with 11.5 million tons production capacity, production we believe that we can do 9.5 million tons, depending on some circumstances, and we continue to maintain the same expectation that we had been maintaining, delivering what we said we would be delivering and continuing with the projection of reaching 8 million tons capacity in 2016. So we maintain the expectations that we mentioned before. Would you like to add something?

A - André Bier Gerdau Johannpeter

No, it's quite clear, Pires. Thank you very much for the questions.

Q - Ivano Westin {BIO 17552393 <GO>}

Allow me just one point. Within your strategy, could you go back to your talks with prospect that might be interested in buying your mining operations or...

A - André Bier Gerdau Johannpeter

Well, this is André. No, today, our focus is on our target to reach production this year and ramp up afterwards. So this is not on our radar screen at all. We are not looking for a partner.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you.

Operator

Our next question is from Marcelo Aguiar, Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you for taking my question. Let me go back to mining. If you look at the results of BO for Iron Ore, you show the mining cost or the iron ore cost that is relatively low around $40 in the first quarter. I'd just like to have a better understanding. If you take into account you don't have a port that you have to pay (41:00) railway the cost seems to be very low. So could you give us a breakdown of third-party shipment? How much was for exports or domestic markets, maybe it might help to explain the cost of $40?

Another point is about cost in Brazil. We received a strong cost increase per ton, according to the upside data, 11% quarter-on-quarter. I would like to better understand what's behind this cost increase quarter-on-quarter, and also the cost per ton in Brazil? What you envisage for the second quarter? These are my questions.

A - André Pires

Marcelo, André Pires speaking. Let me talk about mining first. We are not going to disclose or breakdown into domestic or international market or exports. But we've been trying to benefit from opportunities in the domestic market. However, we keep on exporting a lot of the iron ore to third parties. Basically, these exports are sent to China and Europe, and we have frequent access to this market.

As to the increased cost per ton, we can see some effects in Brazil. Like we said before, we had a downtime for maintenance of the blast furnace in Ouro Branco Mill. And also, some things related to iron ore costs that are expected to go down again. We always have a lagging effect for two months or three months vis-à-vis the iron ore cost, and because the price went down a little bit, it was higher in the fourth quarter related to the third quarter, and that has an impact on the first quarter. So possibly that will be a benefit in the drop in iron ore in Ouro Branco operation. I guess, these are the major effects, and also, another effect for the last 12 months, with exchange depreciation, there is another import that sometimes has some conversion or impact from dollars into reals.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you.

Operator

Next question is from Renato Antunes from Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

Good afternoon, everyone. Thank you for taking my question. Still about costs in Brazil. I would like to hear from you how you see the scrap market in Brazil. If is this client to be organized where exports too low but also growing. Do you think the scrap prices are high and therefore that might impair cost and performance over 2014, that's my first question?

Second question is about the United States. I wonder if you could comment on anti-dumping. There is a preliminary decision about its anti-dumping rate that was slightly lower to Turkey and higher to Mexico. What are your expectations? Do you think it might be a benefit or not, or a better dilution of fixed costs with higher volume, more oriented to the second half of the year? Thank you.

A - André Bier Gerdau Johannpeter

Renato, good afternoon. André speaking. Answering your question about scrap, I won't get into specific detail on price. But by and large, in Brazil we always have the option to use more pig iron, this is always a mix we use. And because there is a limit of scrap in Brazil, we also use pig iron, and we can use more or less based on supply and demand. Exports are relatively stable for scrap I mean. So there is some balance in the market and we expect to have flat prices, flat scrap prices. And once again, we can always use more pig iron as an alternative.

In terms of anti-dumping in the U.S, for Mexico for some producers, they have 10% and 15%, which was our expectation. As for Turkey, it is different. It was lower than our expectation 12.2%. However, these are preliminary data. We expect to have the numbers revised to be better studied and analyzed so they can have more data and the number might be up, but we still have to wait and see. In September, we have the final decision.

It's very hard to assess any impact. The market is so huge and these are two countries that export a lot, but there are others too. We also have domestic competition mills, so it's very hard to tell the direct impact considering anti-dumping practices.

Q - Renato Antunes {BIO 17439917 <GO>}

Thank you.

A - André Bier Gerdau Johannpeter

Thank you.

Operator

Our next question is from Marcos Assumpção, Itaú BBA.

Q - Marcos Assumpção

Good afternoon, everyone. My first question has to do with volume in the U.S. The first quarter was slightly weaker, so what is the outlook now? Do you consider a rebound in the second quarter and what is your perspective of Gerdau's volume in the U.S over 2014? I would like to remind you that in previous quarters, performance was slightly below the market and we expected to see a rebound in market share.

A - André Pires

Hi, Marcos, André Pires speaking. The expectation for growth in the long product market in the U.S. is around 4%, not just the long products, but general steel consumption in the U.S. growing by 4% in 2014. Our expectation for the full year is to grow slightly more than that, we believe from 5% to 6% would be a reasonable assumption. Obviously, we also take into account current market conditions. If the market keeps on improving as it is now probably it will even more significant.

Q - Marcos Assumpção

Okay. My second question has to do with indebtedness. You did an excellent job in the liability management of the company, but focusing on cash generation at Gerdau, when would we expect to see a reduction in the company's net debt? In other words, I think everybody is beginning to see improved EBITDA considering slightly better results in the U.S. and also in the future in Brazil. What about CapEx? It might go down as of 2015 and maybe we can see more cash generation and lower net debt. When should we expect to see this?

A - André Pires

Marcus, Pires speaking. Based on our estimates and when we look at the future, like you said, about CapEx and also considering our EBITDA and debt levels, we believe we'll keep on showing stability or even a reduction in the net debt/EBITDA ratio. Based on what we see in our expectations, by 2014, we expect to see a lower ratio. That's our expectation and the continuity of this outstanding issue for 2015. So our efforts for liquidity management and balance sheet management that started last year still continues. Obviously, there is short-term observation. In the first quarter, we also have, in fact, driven by working capital, which is normal in our business, but the trend in the mid- to long-horizon is to keep on having de-leverage, that's something we can tell for sure.

Q - Marcos Assumpção

Thank you. Great.

Operator

Now we close the Q&A session. I would like to give the floor back to Mr. André Gerdau Johannpeter and Mr. André Pires for their closing remarks.

A - André Bier Gerdau Johannpeter

Thank you very much. I thank everybody for the participation, the interest and the questions in our call. And should you have any further doubts or questions, please contact our Investor Relations area.

I would like to invite you to participate on July 30, our next conference call regarding the results of the second quarter of 2014. Have a very good day.

Operator

Gerdau's conference call is closed. We thank you for participating, and wish you a very good afternoon.