Y 2016 Earnings Call

Company Participants

- Romel Erwin, CEO and Technology and Quality Vice President Officer
- Ronald Seckelmann, CFO, Finance & IR Vice-President Officer and Subsidiaries Vice-President Officer
- Wilfred Bruijn-Bill, Managing Director of Mineracao Usiminas

Other Participants

- Bruno Giardano, Analyst
- Carlos de Alba, Analyst
- Gabriela Cortez, Analyst
- Karel Luketic, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Milton Sullyvan, Analyst
- Renan Criscio, Analyst
- Rodolfo D'Angele, Analyst
- Thiago Lofiego, Analyst
- Thiago Ojea, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for waiting. Welcome to the Usiminas Conference Call to discuss the results for the Fourth Quarter of 2016 and the Year 2016. At this time moment all participants are in a listen-only mode and subsequently we will open to a Q and A session where further instructions will be given to participate. (Operator Instructions) Remember that this conference call is being recorded.

This presentation is followed by slide and is being translated simultaneously over the Internet at www.usiminas.com/ri. You will also be able to obtain a company -- copy of the company's release. Participants who are listening in English can also ask questions directly to the speaker.

Before proceeding, I would like to clarify that any statements made during this conference call regarding the prospects of the company's business, as well as projections, operational and financial targets related to its growth potential are estimates based on the management's expectations regarding the future of Usiminas. These expectations are highly dependent under the performance of the steel sector, the economic situation of the country and the situation of the international market, and therefore are subject to change.

With us today are Usiminas' Executive Board Mr. Romel Erwin, CEO and Technology and Quality Vice President Officer; Mr. Ronald Seckelmann, Finance and Investor Relations Vice President Officer and Subsidiaries VP Officer; Sergio Leite, Commercial Vice President Officer; Mr. Tulio Chipoletti, Industrial Vice President; Takahiro Mori, Corporate Planning, VP Officer; Mr. Wilfred Bruijn-Bill, Managing Director of Mineracao Usiminas; Heitor Takaki, Managing Director of Usiminas Mecanica; and Cristina Morgan, Head of IR. Initially Mr. Romel Erwin will make the beginning -- will begin with opening remarks, and then Mr. Ronald Seckelmann will present the result for the fourth quarter of 2016 and the year 2016. Then executives will be available to answer the question asked. Now I give the floor to Mr. Romel Erwin.

Romel Erwin {BIO 17406447 <GO>}

Ladies and gentlemen, very good morning and I would like to thank on behalf the participation of everybody in this conference call to present the earnings results of Usiminas regarding the fourth quarter of 2016 and the year 2016. Last year, we carried out a number of actions and this helped in our results.

In January, when we shut down temporarily the Cubatao primary production, we changed its modus operandi and its production. Now we use acquired slabs and we adopted the scale of Usiminas to the size of the market today that is characterized of by a mix [ph] up in March.

We were very -- we asserted with our creditors the renegotiations of our loan. In July, we attained from the Board the approval to increase our capital and value of BRL1 billion. And finally, in September we signed the document, definite document of the restructuring process which maintains the capacity and operational capacity adapting our indebtedness profile at our short, medium and long-term prospects.

All of these facts deserve more attention when we see our results. And due to this reason, we will carry out our presentation a bit more detailed in order to facilitate your understanding of what they translate.

Now the productive capacity of Usiminas. When we compare it to the market, we have significantly reduced costs needs of CapEx. We have simplified our structures and we have improved our margins and results. Now, we operate with another level of competitive business with more productivity in the results of our action that was made as of 2015. Well, these results are visible now.

I can mention the profit that during the fourth quarter. The operation, after 11 negative quarters, now it's positive. Although due to extraordinary effects and non-recurring effects like the advance of a contract provision, also that a provision of doubtful accounts and social charges, the result was negative. What we're showing here is that the result of our operation is positive.

Our revenues dropped 17% vis-a-vis the year 2015. Nevertheless, our margins increased 5% and the EBITDA 127%. The adaptation to reduce our cost is clear in the general and management expenses, 19.5% lower vis-a-vis the year 2015, as well as the CPV 20.4% lower than in 2015. We are totally aware of our challenges. The results that we obtained throughout the year and during the fourth quarter encourages us. Nothing that should have been done, was not done. Everything was done. We were able to finalize everything.

Now, we continue pursuant for improvement and you can see on our financial and economic results we have the recognition of clients and institutions for the development of new products and for our market share.

Now the foundation of everything is in our team's commitment with transparency on how we deal with our assets that has been built throughout 60 years, the strength of our competitiveness, technical knowledge and the capacity of transforming our customers in service, all of this through products and services that are differentiated.

So now I give the floor to Ronald, so he can present our earnings results. Thank you very much.

Ronald Seckelmann {BIO 3722329 <GO>}

Thank you very much. Good morning, good afternoon, I mean. My comments will -- I will extend myself a bit more in my comments because we will talk about the quarter and as well as the entire year compared to the past year. Well, here we have our operating and financial indicators quarter after quarter. There was a drop of sales volume in steel and iron ore. We will understand better why this took place. We had a drop in the adjusted EBITDA and an increase in net loss. I would like to make a comment about the operating and financial results and provide the explanation for the increase of net loss you will see in income tax and social charges.

Now when we go to our next slide. Here I'm breaking out the steel sales volume and here we can see that what lead to this drop of 7% in the total of steel sales were exports, which dropped half and sales in the domestic market increased around 1%.

When we go to our next slide, the quarterly evolution of the EBITDA and EBITDA margin that are adjusted of the steel industry. I would like to see that the right hand column, the green represent the results that we've published, these are the results that are announced, while the left hand column shows the breakout of this result.

I would like to draw your attention. And here we have the non-recurring events on the left hand side and I would like to draw your attention to part of the blue column. This is something that we consider, a recurring result of our operations in steel and we do realize that since last quarter of 2015 when we had a recurring result of 125 million that was negative, in the beginning of the year it rose to 25, in the second quarter to 93, 332 third quarter, and 342 during the fourth quarter of last year.

So a constant improvement and the view that the year 2016 had two different semesters, the first semester and the semester. In the first semester, we have the effects of the shutdown of Cubatao operations, the cost that this incurred. And in second semester, we started to reap the results of all the actions that have been deployed for some time.

Now on next slide we'll show our iron ore and here you can see a strong drop in the volume of export. In the third quarter of last year, our exports helped us to elevate the sales. The domestic sales are highly stable, mainly selling through Ipatinga plant.

The next slide shows the evolution of the EBITDA and EBITDA margin in mining, practically stable throughout this year. Now our results are more positive, but have been strongly affected until the last quarter of last year because of the prices of steel. Now steel processing, this is the Usiminas solution versus the distribution and how we provide services to our customer. We strongly evolved throughout the year and the last quarter was impacted by the adjustments of the end of the year, but highly representative.

The next chart shows our capital goods and here we -- our business was strongly affected by the lack of investments in the country mainly in the field of infrastructure. Proceeding the evolution with the EBITDA and the EBITDA margin consolidated are also broken out the same way. The right hand bar showing the results reported on a quarterly basis.

On the left hand side, we have the break-out of the results that were reported on a quarterly basis and here we highlight the EBITDA, recurring EBITDA and the extraordinary effects that impacted this EBITDA. Once again, you can see that during the second semester of last year we went to another level, 344 million during the third quarter and 350 million during the fourth quarter.

We proceed, we will see year-on-year results. And here we have operational and financial indicator of strong drop in steel sales. There was also drop in iron ore sales. Nevertheless, a significant increase in the adjusted EBITDA and a strong reduction in the net loss line, that would be net profit. And in 2015 this result includes an impairment of the mining assets of over BRL2 billion and here we would like to highlight that the results of 2016 also includes a partial evolution of this impairment of over BRL300 million.

Throughout the year the evolution of sales volume and steel, here we can see, we can see that a significant part of the drop of sale registered year-on-year that was 26%, also we had a drop in exports 64%. We can see a drop of 12% in sales in the domestic market totally aligned with what happened in the market by and large. The domestic demand for flat steel dropped along the same lines or perhaps a bit more. Here we can see on a yearly basis the evolution of the steel results in terms of EBITDA and EBITDA margin using the same concept.

Here we have the result that was published on the right hand side and the break out of these results and highlighting the recurring results on the left hand side. Between 2015 and 2016, there has been strong evolution in our recurring results.

Our next slide shows the evolution of our past years in iron ore sales. Last year when we compare it to 2015, there was a strong drop in the domestic market sale. We mainly sold through Usiminas plant and this reflects the shutdown of steel production in Cubatao plant.

The next slide shows the evolution throughout the years and the EBITDA results in mining. 2015, we had a negative result and we recovered in 2016. It's small compared to what we achieved in 2012 and 2013, but we did recover. Here we have Usiminas solution that suffered throughout 2014 and 2015 and recovered in 2016 and probably a recovery trend throughout the year 2017.

On our next slide, Usiminas Mecanica, capital goods segment, after two years, very good 2014, 2015, 2016 was a very weak year reflecting the drop of generalized investments in the country. Here we can see the yearly evolution of consolidated results. As we showed in former slides, on the right hand side we have published results and on the left column we have the breakout of these results highlighting the results that we consider recurring, including and excluding the sale of non-recurring costs and also an advanced contract termination.

We also have G&A evolution that is the control of our administrative and management expenses and we compare the accumulated expenses throughout the fourth quarter last year and the one of the year 2015, you will verify a drop of almost 20%. We would like to remind you that over 80% of these expenses were personnel. In Brazil, they are still indexed to past inflation.

Here, we have our working capital, an increase in working capital quarter after quarter and increase of working capital when we compare it to the same quarter of the last year. One of the obvious explanation for the increase is the increase of cost of raw material. Our inventory of coal and iron ore were more expensive at the end of the year, but rather obvious -- not for obvious explanations given in the next page that shows the increase of inventory and steel inventories and finished product. In reality here we have slab inventory.

Today, with Cubatao, we have a different model while Ipatinga plant is an integrated plant. In Cubatao plant produces rolled product on purchased slabs. But anyhow at the end of last year before the collective bargaining holidays, we increased the stock of finished goods. That starts to adjust itself throughout the first quarter and so forth.

Here, we have the evolution of our net growth indebtedness. Here we see year after year the effect of the appreciation of our currency real also impacting our debt that is in foreign currency.

Now, we have our debt profile -- after the renegotiation of our debt that was in September last year we have a more consolidated debt profile when we compare it to past year and that we had our CapEx evolution that in 2016 was below the guidance that we announced in the beginning of 2016. We said that it would be around 350 million and in the middle of the year, we mentioned 300 million. We ended the year below this figure without shutting down any project and with no losses in important investments for the maintenance of our activities.

These are my comments and now we are at your disposal to answer any questions.

Questions And Answers

Operator

(Operator Instructions) Our first question from Thiago Lofiego, Bradesco BBI.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you very much. Good afternoon. Congratulations for your results. I have two questions here. The first one regarding your situation with Sumitomo now. Could you update us on not distributing the cash what alternatives have you found? And when we see the cash generation that you had in the quarter, I believe that you earned a bit of cash during the quarter. What kind of risk do you see here to perhaps you will have to go to the market in order to increase capital?

My second question is, if you could better quantify the impact of coal during the first two quarters, if you believe that this impact can be offset with more volume and for example, prices and contracts with the automotive industry? What kind of margins do you expect of the first and the second semester?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Hello, Thiago. Thank you very much for your question. Now regarding capital reduction at MUSA, the AGE event, our general assembly in mid-year where Sumitomo vetoed our proposal of capital reduction, this is something that have to be seen within a process that started in February last year when we initiated the first conversations and we started negotiating with our MUSA partners. Therefore, it's not the first event and it will not be the last event or events certainly [ph] talking with Sumitomo trying to define a number of parameters. We are also defining and trying to resolve other pending matters that we have in this agreement. And we are totally reassured that this will not be an obstacle for our negotiation. This will take place probably before the deadline that is June of 2016 and it's an ongoing process.

We don't see major risks unless the normal risks that you have in the negotiation. Now regarding, well, our cash position, yes, there has been a cash position reduction quarter on quarter. Well, the explanation is working capital. Working capital increased in the end of the year. And a good part of this is the finished goods inventories and this dilutes itself and goes back to normal levels throughout the first months of the year. I believe this will not bring us greater consequences. We do not believe that there is need to increase capital in short and in medium term.

Now, regarding the price of the coal, as we already mentioned that we will see the reflection of this during the first two quarters. I don't have any figures to give you. I can't quantify this. You mentioned aspects that minimize the increasing costs and unavoidably will take place because the cost of coal will be higher.

Now, regarding the increase of sales volume during the first two quarters, we don't expect a great increase. The trend is that sales in the two following quarters will be stable. Now, there is an increase in prices in the automobile industry and I'm absolutely sure that you will ask specific questions about prices and I will give the floor to Sergio to answer that issue.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you very much, Ronald.

Operator

(Operator Instructions) Our next question is from Karel from Bank of America Merrill Lynch.

Q - Karel Luketic {BIO 16467278 <GO>}

Good afternoon to everyone. Thank you very much for answering question. I would like to piggyback on one of the comments on prices. Sergio, could you update the general outlook of prices in the domestic market? How is it compared to imported material? Have you adjusted prices, to what type of customer and how this will be reflected in the second quarter?

And my second question, when you talk about cash generation, Romel, what is your expectation and what benefit you will have in the drop of interest rate in financial expenses and our guidance of our CapEx of 2017/2018 bearing in mind the last year's performance if you could give us an outlook of this?

Q - Renan Criscio {BIO 18747357 <GO>}

Good afternoon. So regarding prices, number one, I would like to say that during the month of January we increased in our distribution center of hot rolled and cold rolled. Regarding the automobile industry, we negotiated during the second semester of last year and these negotiations resulted in an increase of around 25% in prices. Now, these prices involve contracts -- yearly contracts. So these prices have already been in force during this quarter with the exception with Honda and Toyota that their fiscal year ends -- goes from March to April. So we negotiated these contracts during the second semester of last year and this will be materialized during the second quarter of this year. We are negotiating right now with the industry by and large and we expect that by the end of the first quarter we will end our negotiation with the industry.

Now, regarding the price difference, well, currently our price difference, that is between 10% and 50%. This is the price difference, this price differential is within upper level, but our prospect regarding price for the upcoming months is stability. We do not expect any major changes regarding price.

A - Romel Erwin {BIO 17406447 <GO>}

Karel, you asked about the interest rate. As a matter of fact, the drop in the interest rate represents a certain relief for -- just for you to have an idea for each 100 basis points. And the drop of the interest rate, we can calculate a reduction on our first interest rate of BRL45 million. So, just for you to have an idea of what happened and what may happen throughout this year. Now, regarding our CapEx, our CapEx guidance today is 2017. I can tell you that it will be around BRL300 million.

Q - Karel Luketic {BIO 16467278 <GO>}

Thank you very much.

Operator

Our next question is from Thiago Ojea, Citibank.

Q - Thiago Ojea {BIO 17363756 <GO>}

Good morning and thank you very much for this opportunity. I would like to ask a question regarding the demand. I know that during the upcoming months, there will be stability in domestic sales, but if in your budget you have expectations regarding the demand of 2017 in the domestic market? And there has been a significant drop in export and the average prices for imports increased. Can you reconcile why was there a drop and a specific reason and what prospects do you see in terms of exports for the upcoming months?

And my second quarter [ph], if you could better explain, the reduction or this increase in your working capital, because you had to buy slabs. Here in the chart, we can see that there is an increase of inventory from 42 to 62 days. This includes slab for finished material. And when do you believe that this will go back to normal level that would be 40 something days?

A - Romel Erwin {BIO 17406447 <GO>}

Thiago, now regarding the demand prospects for 2017, currently we have been analyzing the prospects regarding the growth of GDP of 2017, the 7.2%. This is according to the IMF focus report of 0.48. And within this context of GDP growth, we are working with a positive prospect of the increase of consumptions in Brazil of flat steel, nothing very significant. I would say it would be 4, 5%. This is our perspective for the year 2017. And of course this will depend on how the economy performs throughout the year. We do not add any consumer sector showing a strong willingness to consume. Maybe agricultural machine shows us willingness to grow of two digits, but I believe the consumption in Brazil of flat steel is inferior to 10,000 tons, so it's not very high.

Now, regarding our exports during the fourth quarter, there was a drop. Well the downturn was decided because of the international market. If on one side there was an increase of the price of the product in the international market, there was an increase in the prices of slab, our service to the international market. Well, we're concentrated on Cubatao plant, with exception to the exports that we carry out to the automobile sector in Argentina that are produced in Ipatinga and during the fourth quarter we also observed a very peak period of mismatch between the increase of slab and the increase of product.

The increase of slabs were more impacted in acceleration than the increase in hot rolled because of coal and iron ore prices. So, we reduced our export on purpose during the fourth quarter. Now our prospects for the first quarter is a growth above 50%. The base foundation of the fourth quarter is very low.

And in domestic market, Ronald, it's a stable market, slight growth.

Thiago, now regarding your question regarding inventory. I showed you a slide about steel inventories and inventories. Here we include slabs from Ipatinga and the slabs that we bought from Cubatao -- like the case of Cubatao, for the finished products and products that are being manufactured. We don't have raw materials, everything from the slab is there. And as I mentioned, the increase wasn't finished good because of the seasonality. And before vacations, we couldn't ship everything that we had planned to ship in the end of the year. So, we shipped it in the beginning of the year. So there was an increase of the number of slabs.

And if we compare that to past year, I believe that the profile has changed because of the new model of operation of Cubatao. The industry, you said when will they go back to normality. It will, back to a different normality, so back to 40 something days. This will not happen. Probably, we will be around 50 days, okay?

Another thing is that this number of days, it is calculated based on December sales, and as the sales were lower, because it was a weaker month, than the result of the calculation of the number of days is a bit higher.

Q - Thiago Ojea {BIO 17363756 <GO>}

Okay. Thank you very much.

Operator

Our next question from Rodolfo D'Angele, JPMorgan.

Q - Rodolfo D'Angele

Good morning. I'm going to talk about cash generation. I believe that it is clear that your effort have turned into results. The chart there, Romel, shows the EBITDA margin during the second semester was excellent after capital restructuring. What concerns me is that throughout this period, the company spent a lot of cash and it spent cash even with a very low CapEx.

So I would like to know from you what have you done until today. Well, it has been positive. There is no doubt about this. We believe that this is enough and what else can we do, what else can we expect? Are there other levers for 2017 that do you have more space to cut costs, more space to attain results so that we can have a positive cash flow recovery?

Another thing is that I believe that the provision for doubtful accounts was a bit higher here. What is the situation of your customers, why do you have a higher provision for doubtful accounts and if there is any concern regarding the financial situation of your customers?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Rodolfo, now, you know burning cash, well, we've -- I'll give you some explanation. During the second semester of 2016 between interest rates and restructuring costs of our debt, taxes, commission, advance payments over tax and interest payments regarding our new debts we settled in September and we created a new debt. So, we consider this a renegotiation of our debt. But technically speaking we eliminated old debt and created a new debt.

Throughout the second semester between interest rate and restructuring costs, we were over BRL600 million and there was an increase in working capital and this explains part of this business. If you analyze our cash generation per ton of sold products at the end of the year we totaled a level that was very decent of cash generation per ton of sold product. Nevertheless, we are still operating at a low capacity level.

We are working, let's say, it varies from line to line, we have full lines, HDG, we have a line, (inaudible), that is also of heavy plate. So what we need is volume. And well our capacity level is low, our debt is full. So, what is missing is volume here. If we are able to maintain it or improve our margins through the increase of prices or through cost reductions and simultaneously, we have more volume. This situation will radically change.

Q - Rodolfo D'Angele

Thank you very much.

Operator

Our next question from Marcos Assumpcao from Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good afternoon to everyone. Ronald, if you could say something about the non-recurring events of the quarter. You talked about the provision for doubtful accounts and about the reversion of the mining impairment. It is based on what? What are the metrics that you are using in order to reverse this impairment?

And also the extraordinary expenses of the contracts that were canceled in advance. What contract is this. Is there another contract in similar situation that you will have to cancel.

And another question for Bill would be what about the cash cost of the iron ore business if we were to deliver in China and what would have to happen for Usiminas to go back to increase the mining capacity because the prices are very high and obviously today it seems that Usiminas will make more money if they would sell more. Thank you very much.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Okay. Let's see if I was able to take a note of all your questions. Now mining impairment, our assessment of asset realization capacity depends on the low price of iron ore between 2015 when we carried out an impairment of over BRL2 million and 2016. When we reassessed the realization of capacity of our assets, the price curve improved. And this reverted the impairment up to 100 of over 300 we took it the accumulated impairment in 1,700 something.

Now, regarding the other extraordinary event, because regarding the contract termination, this is the contract of GAAP accounting Cubatao and then you can see this in our explanation notes.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

And I was there another question regarding extraordinary event. So this gas contract could it be a take or pay?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Exactly, yeah.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

And for Cubatao, where you closed deals, is there something similar or you will have to cancel another contract or this was the last contract to cancel?

A - Ronald Seckelmann {BIO 3722329 <GO>}

No, there is something regarding power, but this is the only thing, yeah. Bill?

A - Wilfred Bruijn-Bill

This is Bill speaking. Now when you talk about market iron ore and our competitiveness, as I always say we analyze a number of components for cost, freight, exchange rate and this is a good moment right now. So we are seeing a market more optimistic than three months ago. The price that was increasing reached a level of $90. We still don't know if this is a sustainable level, but anyhow the situation is much better than what it was last year in average.

We haven't taken -- made any decision to go back to operate, but I believe that the prospects to make the decision are very good. There are just a number of agreements and negotiations in the logistic chain that is very important, but there are cost components that are very important that we have to take into account. And when we take into account the mine, we have our plants. One of them is operating and what we will have to do is to connect a new plant and then see if we could go to the market and offer and make the best of the combination of positive variable.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Bill, just one last question. Are there any relevant investments to make these decisions and how much would it take to reconnect this plant?

A - Wilfred Bruijn-Bill

In terms of relevant CapEx, no. The CapEx, the capacity has been installed, perhaps there is something here and there to do, nothing very significant and once we decide to do this, we can operate in five months.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Perfect.

A - Wilfred Bruijn-Bill

And you could become more operational with a variable cost structure because you had fixed costs last year when you made a decision and when you have fixed cost, well this becomes a much more riskier operation, to operate a plant, you'll incur in two things. You have to hire people, you have to renew contracts, you have to increase the volume of the contracts, but the trend here will be with this new activity we would lower our fixed cost, but it wouldn't be anything very substantial because one facility is distant from the other. We're talking about two different industrial areas. They complement themselves, but they are not close to each other.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay, thank you very much, Ronald. Thank you very much, Bill.

Operator

Mr. Rodolfo De Angele. You are line is open again.

Q - Rodolfo D'Angele

I asked about also the provision of doubtful accounts and what the customer situation is regarding the financial situation.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Hi, Rodolfo. The customer situation from a financial point of view, well, what we see is a more difficult scenario for liquidity while interest rates are still high, credit demand dropped for customer. There was a third factor that was the increase of the prices of steel. And of course, this impacts the working capital and resource demand from our customers, so the scenario of 2016 and the beginning of 2017 in terms of liquidity is more difficulty. In 2017, we see more legal recoveries.

Q - Rodolfo D'Angele

Now when we see to the future because there have been more increase in price and then there is something that concerns you is the company taking any action?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Concern -- it doesn't concern us really even because liquidity is at acceptable level. So we're not talking about concerning levels. This year with the drop of the Selic we hope that the interest rates will drop and there would be more availability of credit towards our customer. So, the prospect from here on is quite positive.

Operator

Our next question from Leonardo Correa, BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon to everyone. I would like to talk about iron ore, Bill. I would like to insist on these figures. The economic part seems very relevant at the current level. I don't know if you mentioned the delivery cost in China, but it's between $55 and $60 to deliver to China. Considering 30 that is the scenario based on the volume of 5 million to 6 million tons we would be talking about $180 million of EBITDA that is a highly relevant level regarding a company and could deleverage the company at a new level. I would just like to understand, once again, what kind -- to what kind of level of export can we go back to? And to better understand the economic side, I believe that this would help me a lot because this is something very important in your overall operation.

Now my second and third questions -- these are questions regarding Cubatao. Usiminas has changed their industrial configuration in the past month, shutting down the upstream of Cubatao. So, the question that everybody had is, well how to normalize and what to take as a normal result because it's not an integrated operation, Cubatao Usiminas, and the margins from hereon will not be the same margins that you presented in the past. So, I would just like to know from you, up to what extent can we assume that this level of industrial configuration is sustainable or if Brazil recovers its growth in the future if you could go back to what you were in the past? I would like your opinion on your industrial configuration. And Cubatao margin, this is a re-rolling plant. How much can you make buying slab, you re-roll them? So, we're talking about something that significantly contributes with the company.

A - Wilfred Bruijn-Bill

Leonardo, this is Bill. Okay, it's not simple to give you figures because there are lot of variables at play and also the quality of the iron ore that is delivered. So, we're talking about iron ore of 62 percentage. Today MUSA doesn't have inventories because throughout the year of 2016, we lost in inventory to contribute to our EBITDA. So we have a standard product. What we produce we sell. When we reconnect a new plant, we can have a standard product perhaps with a premium of iron content.

The figures that you mentioned are out of real is $50, $55, $60. It's all going to depend on maritime freight. Everything is very reasonable. We're seeing maritime freight at $10. The port cost will increase. The operators -- the port operators also increased a little bit. But I do agree that this is a very good moment, the different variables are positive. But I would say that we will perhaps resume this operation, although we are a bit cautious because of the price. Perhaps we will be in conditions to become operational again in four or five months.

You asked a question and you practically answered the question. Well, you projected the figures from here on was a bit more difficult, because we changed the industrial configuration of Cubatao plant. Today, we're talking about Usiminas that in the past operated with two integrated plants and today has one integrated plant and one plant that produces roll products based on slabs that are bought in the market. So, the past isn't a reference for our projection.

Now, the Cubatao margins, they basically depend on the customers of the markets that we service in, the cash volume that Cubatao is generating and can generate in the future will depend on the volume that is processed in Cubatao. Today, we want to stabilize Cubatao level around 100,000 tons a month. We are still servicing markets that are marginally profitable even with 100,000 tons a month.

There is room for improvement, because gradually we will be able to go to more profitable market obviously depending on the growth of the market. So, throughout the first semester of last year, we had the following challenge that was to transform Cubatao in a positive cash generator, and this was strongly consolidated throughout the second semester of last year, when I said that we have 100,000 tons a month in Cubatao and saying that we can double this, our capacity would be to double this or even more. There is room for improvement in volume in Cubatao. As I already mentioned, in the past question, this is applicable to Ipatinga and to Cubatao.

We do not have a bad unitary margin when we consider the new level of capital employed in each one of the plant. We have reasonable decent margins in units. But there is a lack, there is a lack of volume in Cubatao, easily we could double the volume of Cubatao. We just need a market for this.

Q - Leonardo Correa {BIO 16441222 <GO>}

Another thing just for you to have an idea, how long will we have to wait for an adjustment of this new industrial configuration?

A - Wilfred Bruijn-Bill

Well let's see the size of the Brazilian market, of roll products in Brazil, 9.9 million tons, was the capacity of producing roll product, over 9 million tons. So, here you can have an idea how much the Brazilian market will have to grow in order to readjust our investor configuration.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay. This is clear. Thank you very much.

Operator

The next question Renan Criscio, Credit Suisse Bank.

Q - Renan Criscio {BIO 18747357 <GO>}

Good afternoon to everyone. Thank you for the questions. Imported steel within the growth of apparent steel consumption in the domestic market for 2017, do you believe that imported steel will have more share or what kind of risk do you see? And the second question here would be the price increases that were announced during the fourth quarter. We observed the average price that was realized 11% above the third quarter, is there something regarding a sales mix or your realization wasn't 100%, could you clarify this point, this will be very good for us?

A - Romel Erwin {BIO 17406447 <GO>}

Renan, regarding the import of steel that we constantly monitor and the two sectors that impact steel imports are the international price and the exchange rate. And as a consequence, the price that is practiced in the domestic market we had during the fourth quarter, an increase in imports vis-a-vis the third quarter. So, we are following and we believe that this level will not increase in terms of imports. We are following, we are paying attention. And, well, we monitor imports because we want to balance domestic and external prices. Of course the domestic price follows the international market pegged by the exchange rate.

Of course, our prices were all deployed. And you also mentioned something regarding the sales mix and in our release we also observed that this mix strongly impacted as we have a variation of the prices of the first quarter, vis a vis the third quarter 1% and these are national and international prices. Today, here we have the cheapest heavy plates then hot rolled and cold rolled and how was our sales volume for each one of these programs complaining for.

Well, heavy plates we grew 12%, but this is the cheapest average product in the market. The second product was hot rolled and we grew 11% in hot rolled products. The third product, in terms of average price would be cold rolled products 8% and galvanized the best average price that was stable we grew 1%, so the variation that was there, strong variation and the mix impacted. So, we would have been better if fourth quarter would have been like the third quarter, but this didn't happen.

Operator

Our next question from Bruno Giardino, Santander.

Q - Bruno Giardano

Good afternoon to everyone. Two brief questions, one an update of your stockholder CapEx. I believe that it's low compared to the past of the company and many projects were abandoned, but we would like to know what the recurring CapEx will leave from here on and because the company is restructuring the number of their operations.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Bruno, in our bond we're in the final process to draft the documentation. You know that this documentation represents a great volume of documents and we have to approve our financial statement. So we're still preparing these documents. Perhaps during the first fortnight of March, we will go to the market and we will talk about these bonds where we have defined a number of parameters. This is an ongoing process and there are no problems whatsoever in this process.

Now, regarding our CapEx, as I mentioned our guidance for 2017 is BRL300 million. You highlighted that as a matter of fact, it is difficult to compare this figure with figures from past years, because we're talking about a company that has a new industrial configuration in one of its plants and this is what we have to say right now. We still can't give you anything regarding 2018.

Operator

Our next question from Milton Sullyvan from XP Gestao.

Q - Milton Sullyvan {BIO 19085202 <GO>}

Good morning. Thank you very much for answering questions. The first question will be regarding the cost breakdown. I would like to understand when we see the cost breakdown and we see variation in inventory, it's very well advanced. I would like to better understand what this line represents.

Now, moreover regarding cost, I'm taking a look at the slide of the steel EBITDA, and I am a bit confused. I would like to know if you can explain what this means? I would like to compare this EBITDA with the EBITDA of 224 with the EBITDA of the second quarter of 2016, because when I see the difference between the volumes and when I see the difference between revenues per ton, the difference is around BRL220. When I multiply the percentage that you announced by the total cost only in other materials that you say I have BRL250 in difference without considering losses in the other lines with exception to labor there is an improvement. The EBITDA per ton of the second quarter 2015, the only discrepant line is the stock variations line. I extended myself on this question, I'm sorry.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Milton, thank you very much for your question but you are being too specific and detailed in your questions. I am sorry that right now I will not be able to address all of your questions. The stock variation is highly connected to what Sergio mentioned that is the different product mix between one quarter and the other. There is a significant difference between what we produce in a quarter, what we sell in this quarter. This stock variation account is totally connected.

The people from IR, they will be able to explain this effect in detail as well as the other questions regarding the details of the evolution from one quarter to the other.

Regarding the cost components, unfortunately I can't be specific in my answers. But to the nitty-gritty --

Q - Milton Sullyvan {BIO 19085202 <GO>}

Okay, let me be -- let me simplify my question. Perhaps my question wasn't made properly. Does it have a cash effect -- the stock variation, does it have a cash effect?

A - Ronald Seckelmann {BIO 3722329 <GO>}

No it's more an accounting effect -- it has more an accounting effect.

Q - Milton Sullyvan {BIO 19085202 <GO>}

That's more an accounting effect, Okay. And my second question here would be, now in the financial expenses, what about the variation of the interest rates, for example? What were in your mind, the financial expenses do you have in mind for your cash?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Now for interest rates, for each 100 basis points we have a reduction of 45 million in our gross financial expenses, for every 100 basis points in gross. And regarding our financial expenses with the interest rates, our gross expense and interest rates will be 850 million and in the consolidated financial revenues of about 150 million, net would be BRL700 million.

Q - Milton Sullyvan {BIO 19085202 <GO>}

Thank you very much.

Operator

Our next question is in English from Carlos de Alba, Morgan Stanley.

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

Yeah. Good morning. Thank you very much. Good afternoon. The first question has to do with how soon and what will be the cost or how long will it take and how much will be the cost to restart the Cubatao off stream production facilities?

And the second question has to do with the explanation provided in the press release on the higher cash cost per ton of steel unit. It says that it there was a review to the higher utilization of the slabs in the Cubatao plant. So my question is if Cubatao increases production by buying more slabs and rolling them into hot rolled coil or cold rolled coil, would the cost per ton of the entire steel business go up? Thank you.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Carlos, you posed two questions. The first one was when and how much -- when will it be necessary, how much would it cost to reconnect Cubatao. When, one it's very uncertain today but I can tell you in advance that our forecast is that it will take some time.

The Brazilian market has to improve a lot regarding its current situation in order to have conditions that substantiate the increase of production of steel by and large, okay. So we still do not have this prospect today. But it will not be in the short and medium term.

How much this will cost, we really don't have this calculation. We have two furnaces in Cubatao. If the market recovers, that has to recover a lot, maybe we will start -- certainly we will start with one then we will connect the other one. We also have the coke machines, but we don't have this calculation. But this is not a short and medium-term concern that we have right now.

And you also said what happens if we increase the production volume of, for example, laminate or rolled products in Cubatao that works with purchased slabs. If you see cost as a whole the unitary cost increases because you are adding -- considering that Ipatinga plant that works in an integrated fashion, they continue operating at a stable volume and then you increase Cubatao that operates with purchased slab, then you mix both things, of course the unitary cost is going to increase. But as I mentioned beforehand, the commissions of Usiminas are a bit more complex now because of the fact two plants operating with different industrial configurations, one integrated and the other one rolling based on slabs that have been purchased, outsourced slabs.

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

Thank you.

Operator

Our next question from Gabriela Cortez from Banco do Brasil.

Q - Gabriela Cortez {BIO 18801371 <GO>}

Good afternoon. Thank you for answering my question now. What I would like to know is there is a discussion about a relevant asset, if you could give us details you attempt to buy, to sell any relevant asset.

A - Ronald Seckelmann {BIO 3722329 <GO>}

We have sold assets, non-operating and non-strategic assets. I would say that we have been more successful in the sale of non-operating assets than in non-strategic assets. This is something that we have discussed for some time. You can realize that throughout the past years, every now and then in our results emerge values regarding non-operating assets. But we haven't been very successful in the sale of strategic assets that represent a higher value and this is connected to what happened in the past years in the industry.

We are exposed to the Brazilian industry, the Brazilian infrastructure, oil and gas sector in Brazil and when I talk about infrastructure of oil and gas everybody knows what have happened and how the interest for assets that work in the segment has dropped a lot. We still want to sell strategic assets -- non-strategic assets. But we don't believe that this will materialize in the short term. Thank you very much.

Operator

With no further questions, we bring our conference call to an end. If you should have any questions the IR team is at your disposal. We thank everybody for your participation and have a very good afternoon.