Y 2017 Earnings Call

Company Participants

- Ronald Seckelmann, CFO and IRO - Finance and Investor Relations Vice-President Officer and Subsidiaries Vice-President
- Sergio Leite de Andrade, CEO and Director Vice-President of Technology and Quality and VP Director Commercial

Other Participants

- Arthur Suelotto, Analyst
- Caio Ribeiro, Analyst
- Carlos de Alba, Analyst
- Gabriela Cortez, Analyst
- Jon Brandt, Analyst
- Karel Luketic, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Renan Criscio, Analyst
- Thiago Ojea, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting to the Usiminas Conference Call with the results of the Fourth Quarter of the year 2017. All participants are connected on listen-only mode and subsequently, we will have a Q&A session with further instructions for participation will be given. (Operator Instructions) Please remember that this conference call is being recorded.

This presentation is accompanied by slides and is being simultaneously transmitted via Internet at www.usiminas.com/ri. You can also obtain a copy of the company's release. Participants who are listening in English also may ask the questions directly to the speakers. Before proceeding, I would like to clarify that forward-looking statements made during this conference call regarding the company's business prospects as well as projections, operational and financial targets related to the potential forecasts are based on the management's expectations regarding to the future of Usiminas.

These expectations are highly dependent on the performance of the steel sector, the country's economic situation and the situation of International markets, and therefore, are subject to change.

With us today are Usiminas' Executive Board, Mr. Sergio Leite, CEO and Technology and Quality Vice President Officer and Commercial Vice President Officer; Mr. Ronald Seckelmann, Finance and Investors Relations and Vice President Officer and Subsidiaries Vice President Officer; Mr. Tulio Chipoletti, Industrial Vice President Officer; Mr. Takahiro Mori, Corporate Planning Vice President Officer; Mr. Wilfred Bill, Managing Director of Mineracao Usiminas; Mr. Heitor Takaki, Managing Director of Usiminas Mecanica; Mr. Ascanio Merrighi, Managing Director of Solucoes Usiminas; Mr. Bruno Paulino, Head of Legal Department; Mr. Julio Rojo, [ph] Controller; and Mr. Leonardo Karam, Head of IR.

First, Mr. Sergio Leite will make some initial comments followed by Mr. Ronald Seckelmann that will comment on the fourth quarter 2017 results. After, the management will be at your disposal to answer your questions. I would like to give the floor to Mr. Sergio Leite.

Sergio Leite de Andrade {BIO 6771322 <GO>}

Good afternoon to all of you. Thank you very much for participating in the Usiminas conference call. This is Friday and it's a carnival period, a very important period for the Brazilian's celebration. And we thank you on behalf of the team of Usiminas for participating in this conference call.

First and foremost, we would like to share with you the joy that we are having today in Usiminas. For us in Usiminas, today, this is a very special moment, we are presenting the results of 2017 that was a year, where due to the Usiminas teamwork, we made great progress. In 2017, we had an EBITDA of BRL2.2 billion and if we exclude the 200 million of the Sudeste report, now this EBITDA level represents the second best EBITDA results in the past nine years as of 2009, we had a value that was 2,186 million in 2010. So this is a very important point for us because all the effort that was made by the entire Usiminas team. We -- as of December, started amortizing our debt that was expected for the renegotiation agreement signed in September 2017 and we expected it for September 2019, we have anticipated it, though we amortized $90 million on December 15th of 2017 another $180 million in January 18 of 2018. And we will on March 15 this year amortize around $100 million. So this an extremely important fact for us in Usiminas. We are -- the entire company is normalized, undergoing a very good climate especially today. Today for us in the Usiminas, this is a day where we will stay in history. This is the day of celebration because of the results that we are presenting to you.

And also because of yesterday celebration in London, an agreement between Nippon Steel and Ternium, where there -- this was a conflict of three years, that has come to an end. Now we are working together, focused on the constructions of Usiminas' results. The three driving forces Italo-Argentine, Japanese and Brazilian are working in Usinas [ph]. And yesterday this was celebrated in London, we announced simultaneously -- by the agreement of Ternium in New York. And there are three very important points here. The first point is the CEO and Chairman, alternation of between the three companies.

This year, Ternium will appoint that CEO and Nippon will appoint the Chairman. In four years, we'll change the appointment, Nippon appoints that CEO and Ternium will appoint the Chairman. The second important point here in the signed agreement was to establish an exit clause that is valid as the -- as of the election of the new Board in May. And then we have 4.5 years later. And the third point that is very relevant is the commitment of everybody regarding to close all the legal lawsuits that are pending, bringing definite peace to the Usiminas universe, for us, employees of Usiminas, for our stakeholders for all the communities where we operate, all the cities and the six cities where we are present. For Minas Gerais, this is an extremely important movement. I countered with the leadership of Minas Gerais. The joy is general and I would like to share this movement of joy that we are undergoing right now in Usiminas.

Once again, I thank you all and I would give the floor to Ronald Seckelmann to present the results of the fourth quarter of 2017. Thank you very much.

Ronald Seckelmann {BIO 3722329 <GO>}

Thank you very much, Sergio. My comments are based on the presentation where you will be able to follow through our RI site. I will talk about the fourth quarter of 2017 compared to the past quarter and then, the yearly figures compared to the figures of 2016. The first quarter, you can see the evolution in the operational and financial indicators, 7% growth in the sales of steel, iron ore sale growth, growing 66% vis-a-vis the past quarter.

We will talk about these two growth. Steel and iron ore, an EBIDTA of 450 million aligned with the past quarter and the net profit that we should comment on, we have a column and additional comment to the breaking out the 76 million and 45 million negative. And why did we have these rates? It is interesting to note it, that the exchange rate variation was the same nevertheless, with the contrary signal.

During the third quarter, the exchange rate variation drove the results positively in BRL56 million. During this first quarter, this was negative in the same value, 56 million in addition. We had some impairments typically from the end of the year of BRL75 million. When we compare the net results of the last line without the extraordinary effect, we should have registered during the last quarter an BRL86 million positive.

Now, we have a quarterly evolution of the sales volume are still growing 7%, a very important contribution from the export and also growth, modest, a slight growth of 1% on steel sales but the fourth quarter seasonally is the weakest quarter of the year. And unlike what we generally registered in the past years, we were able to increase upper sales in the domestic market and also in export, and we had a growth of over 1 million tons during this quarter.

Now, the next slide, you can see the quarterly evolution of steel EBITDA margin. Here we can see the right-hand columns are the announced results. To the left, we have the recurring results. And we would like to highlight the non-recurring events of each quarter. Here you can see that during the last quarter, we had very clean result without no non-recurring EBITDA could destroy the results.

Now our next slide. The sales volume of iron ore totaling 1.5 million tons, a contribution that was very important from exports. Over 700 million tons of exported iron ore, and this 1.5 million on a year represents 6 million tons which is approximately what we expect throughout next year. The next quarter -- the next slide the EBITDA margin evolution from the -- from mining BRL41 million, aligned with the former results and EBITDA margin of 20% and we will be able to comment this when we see the yearly results of mining.

Next slide, we have the quarterly evolution of the Usiminas Solution aligned with the past quarter, an EBITDA margin of 3% that highlight that in this business any contribution that is positive as the results to the steel result, we buy steel from the steel mill at a market price and we want to add value to steel sold by the steel mill.

Our next slide, you can see the results of Usiminas Mecanica. This is the most affected business by the -- by a stock of investments of Oil & Gas. Usiminas Mecanica have adjusted to work in a scenario of new business and it is being able to sustain itself without burning cash they don't generate, but they don't burn during a stagnation period, prepared to rapidly grow as business recovers.

And our consolidated result of the quarter, BRL450 million, aligned with the result of the past quarter, and with very little extraordinary FX.

Going now to the yearly figures. In the year 2017 compared to 2016. Steel sales grew 10%, iron ore sales grew 14% and the EBITDA three-fold, and less -- slightly below 7 million to 2.2 billion. The EBITDA margin of 20%. Now, the net profit went from 577 in loss to 315 in profit with very few non-recurring effects this year. If we see 2016, there was a non-recurring effect that was very important during the year.

And on the next slide, we see the yearly evolution of steel sales since 2012. We can see that 2012 to 2016 a drop until we reached 3,652 tons and we started recovering as of 2017, exceeding the level of 4 million tons and growing 8% in the domestic sales.

Now, we see the evolution of the steel EBITDA result. The result, 1.8 -- very close to 1,827 and 18% margin in the steel results. And we have the yearly results of the sales of iron ore dropped since 2013 and now we see a recovery driven by exports during the last quarter of last year and growing 15% throughout the year, the results.

The EBITDA margin and EBITDA results in mining, you can see in the next slide, 345 million in EBITDA published in 2017, strong contribution due to the Porto Sudeste agreement, and this was totaled BRL200 million. Anyhow the recurring results -- the operational result of Usiminas Mineracao was very significant with a recovery since 2016, totaling a BRL180 million throughout the year.

Now, we have Usiminas Solutions registering the best result in history, exceeding BRL100 million of EBITDA throughout the year. Now here we have Usiminas Mecanica. There's a negative result, nevertheless this negative result has an important contribution from the tax regularization program in Minas Gerais. So the recurring result was BRL11 million negative, that is very close to the operational breakeven point.

Now we see the consolidated result. The consolidated results of almost BRL2.2 billion, and if we exclude the effect of the agreement of Porto Sudeste 200 million, we would still register a result above BRL2 billion throughout the year. Now we have the G&A evolution. The first would be G&A evolution is controlled, we have lower figures here. Now here we have the working capital throughout this quarter, and working capital totaled BRL2.8 billion at the end of last year, and this is one of our management indicators. What explains the drop in the working capital from one quarter to the other is in the next slide that shows the evolution of steel inventories that dropped 48 days of inventory in the average throughout the quarter -- in average throughout the quarter.

Cash position and indebtedness. Sergio mentioned that in December we amortized $90 million, that was expected in our program. We totally -- we used the Eurobonds at $400 million, from the $400 million, $200 million had been repurchased by Usiminas and went back to the cash to the company, and that company at the end of a quarter had a surplus of cash. And according to the rule that we establish with creditors will be used to amortize the debt at $100 million and this will be carried out on March 15 of the present year.

The next slide is our CapEx. We said that this would be below what we expected to spend. We would like to have a carryover of BRL150 million that will be spent throughout the year of 2018. And at last, the performance of our share is that you are aware and the evolution of ratings and the ratings upgrades that we attained from the three International rating agencies. And the expectation is that we will continue upgrading our ratings throughout this year. So these are my comments. Thank you very much for your attention.

And now, we are at your disposal to answer questions or to clarify any doubts that you may have.

Questions And Answers

Operator

Ladies and gentlemen, we will initiate our Q&A session. (Operator Instructions) The first question from Renan Criscio from Credit Suisse. Or Thiago Ojea, Citibank.

Q - Thiago Ojea {BIO 17363756 <GO>}

Good morning. Number one, I would like to ask Sergio, what he sees regarding parity and the recent price increase that were announced, if they are being implemented, if you're discussing this with customers. And I would like to know about volume prospects. What kind of volume increase do you see of 2018 versus [ph] 6% or 7% a year. Do you believe that Usiminas can outperform this volume? And if, how could this impact the fixed cost if it weren't to increase that much?

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

Thiago, regarding the first part of your question, prices. We concluded -- we ended the -- the end of -- the end of December with an agreement of the assembly lines regarding prices for 2018. The increase of prices were around 20%. Currently, we are negotiating together with the industries, and the inquiries that we announced during the distribution, at the end of January are being implemented. So I believe that the price scenario during the first quarter is positive and consolidated.

Now regarding volumes, the expectation that the Institute of Aco Brasil expects would be around -- a flat steel around 6%, 7% like you mentioned. With this consumption, we will follow and we will try to increase our sales at the same level of the consumption of flat steel.

Operator

Bradesco BBI, Thiago Lofiego . Thiago, you may pose your question.

Q - Arthur Suelotto {BIO 20443361 <GO>}

This is Arthur Suelotto. Congratulations for your results, and for the announcement yesterday. When we see a specific sector, that would be galvanized steel, we have seen -- we saw 25% last year, perhaps it can increase a bit more this year, there is a great demand for galvanized products from the automobile industry and Usiminas has capacity of 1.2 billion tons. Let's say that the domestic market recovers, although the automobile industries will be in low historic levels. Do you believe that we do have difficulties in attending this increase of demand in the line of galvanized products?

And my second question would be when we see also plates, heavy plates, what market possibilities do you see in the market? And do you believe that we would have an additional demand from heavy plates? According to what we are seeing in the market right now, would you be able to meet this demand regarding the first point of galvanized steel?

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

Number one, we have installed production capacity of HDG that were of 900,000 tons a year and we have two lines. We have a capacity of 360,000 tons of Electrogalvanized. And operated in 2017 with the two HDG lines at a level to full load. The EG, the Electrogalvanized has high idle time. Regarding the growth of the market throughout 2017, there was significant growth of the automobile industry around 5%. Usiminas is prepared to meet the automobile industry that is our priority. You know even if they grow over 50%, we can meet their demand. In order to do this, we would reduce our exports.

Number two, we would reduce the services to the non-automobile industry. We would increase the installed capacity of the EG and we can increase the productivity of HDG line and we have started preliminary study. So that in the future, if we confirm the growth of the Brazilian economy, we will discuss the investment in the new line of galvanized. Now regarding the heavy plate market, this is a market that was most affected and it is a market that is strongly factoring to investment in infrastructure, civil construction, and oil and gas. These are sectors that are highly depressed. Our expectation regarding the consuming markets of heavy plates is to have a growth in 2018 vis-a-vis 2017. But civil construction will probably grow slightly below 5%.

Oil and gas growing a little slightly and the expectation is big for infrastructure and products that maybe launched within this year. Nevertheless, the consumption level regarding the production potential is -- we already have an installed capacity above 3 million tons of heavy plates. This is a market that is of 600,000 tons or 0.5 million ton, but we see growth in 2018 when we compare it to 2017.

Q - Arthur Suelotto {BIO 20443361 <GO>}

Thank you very much.

Operator

Next question from Marcos Assumpcao, Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good morning to everyone. Sergio, if you could comment on your revenue growth expectations per ton this quarter and the next quarter? As you have done throughout the past quarters, it could help us to project future figures. As you have a concentration of price increase in the short-term, I believe that the price of the ton can vary. If Ronald could give us guidance regarding the total CapEx, in addition to the carryover of 2017 to 2018, what do you expect in terms of financial expenses because the level is low right now and your indebtedness is dropping? And how much do you expect to pay in taxes in 2018?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Marcos, regarding the growth of our revenue, I will comment about the growth of the average price. We expect that the average price in 2018 will grow between 7% and 10% vis-a-vis the fourth quarter of 2017, this is the first quarter compared to the fourth quarter. Now, regarding CapEx, this year we had a budget of 350. We spent slightly about 200. The carryover is almost 150 million for this year. In addition to the new project, the expectation is a CapEx of '18 of around -- in 2018 of 500 million, net financial expenses would be around BRL500 million as well. And regarding taxes, I don't have these figures. We have a lot of tax credits that we can use. Therefore taxes aren't very relevant. I hope I'm (inaudible) I hope that we have better results, so that we can pay more taxes. But for the time being it's not a relevant figure. And Sergio talked about prices. Now, mainly because of the increase of the slab that we bought, I believe that the cost will increase 5%, because we're buying slabs. Yeah, this is the average cost per ton. Here you can see the increase of average price per ton.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Just a last question for Sergio. When we see the global steel price, what is your expectation for 2018? Last year we were positively surprised by the drop of exports in China. So how do you see the price of steel in the international markets in 2018?

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

Now this question is -- you are provoking, because in current times, you know any forecast have been non-proven afterwards. For example, we had an event in New York in June last year. They said that the prospect was the drop of price. So -- and then there was an increase of prices. So, we are working with the expectation of price stability 570, 580, 590. We don't expect major increases, neither major drop. We are working with this perspective, okay?.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

So, thank you very much.

Operator

Next question from Caio Ribeiro, JPMorgan.

Q - Caio Ribeiro {BIO 18420483 <GO>}

My first question would be the high furnace of Cubatao. You said, it is too early to talk about reconnecting this furnace with a market with slabs at higher prices, could we anticipate the re-connection of those high furnace. So you expect to re-connect it after 2020? Now regarding mining, do you -- you have told us that there will be an increase around 3 million to 3.5 million increase this year. But has this figure changed, because these top prices are currently at high levels. And if you could also talk about breakeven costs in the mining sector, if this could give us, you know your views.

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

Now, regarding the primary area of Cubatao, the high furnace, in January 2016, we temporarily interrupted the activities in the primary areas of Cubatao. The decision was made with medium and long-term view regarding a probable resumption or recovery of the primary area. And what we have seen is that the re-connection would have to go through the recovery of the Brazilian economy in 2017 and 2018.

In 2017, we have -- the GDP haven't been announced. We believe that it has grown by 1%. 2018 focus report talks about 12.7 growth in GDP in Brazil. To re-connect the primary units of Cubatao, Brazilian economy has to grow at higher levels, we need robust growth.

And now in April, we are reconnecting the high furnace at the Ipatinga. We will be able to produce 600,000 tons of our own slabs. So, right now we have no forecast of reconnecting the primary areas of Cubatao. We are paying attention. We are studying and analyzing this matter, but for this, the Brazilian economy should present robust growth.

Now, your question regarding the sales of iron ore for 2018, we are working with volume between 3 million and 3.5 million. The market is firm, steady. Although when we see 2017, there was a lot of volatility in 2017, we heard from 95 to 50. So, we are always analyzing the market, see when we can make a decision to increase volume. But when you decide that this volume goes into the market six months afterwards, because you have to reconnect the plant, you have to hire new people.

So, we continue our analyzing this moment and reminding you that we need to pay attention to maritime freight and also to the exchange rate. We have been working with a breakeven of $55 and we are above of breakeven, because it's $75. But two weeks ago, maritime freight was $21. Now, it's around $15-$16. So, this breakeven fluctuates, it's dynamic. Therefore, we have to pay attention to it, so that we can make better decisions. But for the time being, the volume is 3, 3.5. So, if we have a greater level of stability, we can do something else here.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Okay. It is very clear. Thank you very much.

Operator

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

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

Yes, good morning everyone, and afternoon for you. Thank you for the time. I just wanted to understand, what the expectations are in terms of working capital for 2018 given the recovery that is forecasted by everyone?

And second, maybe Ronald, if you could once again just go through the debt repayments, bond repayments that are expected in the coming months? I understand, 180 million were paid in January and then I heard 100 million more will be paid in March. Could you just collaborate those figures and if there is any more that are expected to come later in the year? Thank you.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Carlos, you post two question. The one would be working capital and what would be the level of working capital that would be normalized and something that we could expect throughout the year of 2018. I would tell you that it would be around the level that we reached at the end of last year, BRL2.8 billion, up to BRL3.3 billion -- BRL3.1 billion. This varies because of the slab inventories that we don't have in Cubatao, these are slabs that we have to buy, okay, 2.8, 3.1 without major variation. Now, it all depends on the seasonality of the quarters throughout the year.

Now, regarding the repayment of our debt. The regular repayments or amortization of our debt within what was agreed with our creditors in 2016, starts in 2019 during the second semester of 2019. This was the agreement, okay. Nevertheless, within the agreements together with our creditors as we did not realize an exchange offer of our bonds that was expected last year. We said that, we would amortize a certain amount in December and it is reflected in the figures of the end of the year. Now, regarding the two other events. You're totally, right. We paid $180 million from our bonds, we redeemed 400 million as the company had 220 that were repurchased. The net amortization in January was $190 million, and this still doesn't appear in the figures at the end of the year. And there is an anticipated payment of debts mechanism based on cash surplus.

At the end of the last year, we registered a cash surplus of around $100 million, and as a consequence, will be used to anticipatedly repay $100 million that will be paid on March 15.

Now throughout the rest of the year, we do not expect any other type of debt repayment. Nevertheless, depending on the results evolution, perhaps there we will anticipate a payment of lower value throughout the quarters. But this is pure speculation, there is nothing scheduled regarding this.

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

Okay. And if I may ask on cost, I heard that there is a potential cost increase of around 5% because of higher slab cost and I saw that was on a per ton basis. Could you correlate that figure ? And also expand on what other cost pressures the company may be facing?

A - Ronald Seckelmann {BIO 3722329 <GO>}

No. The increase of prices, your observation is correct. We did mentioned an expectation of an increase of cost per ton of 5%, especially because of the increase of the price of the slabs that we buy in the market. So, you are right in your comment. Currently in addition to the purchased slab, we do not have any other relevant factors that would present an increase in prices. We have seen an increase on coal, iron ore, this of course impacts and increase of cost in the plant of Ipatinga, but mainly the cost come from the slabs that we have to buy in the market, this increase.

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

Perfect. Thank you.

Operator

Leonardo Correa , BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon to everyone. There are number of points that I would like to clarify. One regarding profitability, we saw sudden deterioration of the EBITDA margin in this quarter, it's a strong figure. But Sergio, Ronald, you talked about the first quarter, what will be the balance between price and cost, price increasing more than cost, if you could tell us what the scenario will be for 2018, if we can go back to the EBITDA margin of 20?

Another point and a question for Sergio. Sergio, we have certain difficulties in trying to map a transfer to the industry. You said that the conversations are starting and the readjustment is 20%. What about the expectation of transferring? Do you believe that we have the right conditions to implement this adjustment? Will this depend case by case? Could you please give me your prospect regarding this implementation, especially for the industry that is so important for Usiminas?

Question for Ronald now. Now, we have seen a certain pollution of other expenses and I believe it's difficult -- sometimes it makes our life for forecasting a bit difficult. Do you believe that this figure will drop here, you have provisions for doubtful accounts, you have equipment shutdown. Can you -- do you think you could do something regarding these expenses in the future that would clean, I don't know, this result because it's a little bit difficult to map what's going on there?

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

Leonardo, now regarding prices and you specifically focused on the industry. As you are all aware, the automobile industry and our negotiations with them are yearly -- are done through yearly contracts. Now in the distribution center, these are actions that can be monthly, it depends on the International market. Regarding distribution, due to the increase that we implemented at the end of January, today our level regarding price reference is between 5% and 10% closer to 10%. So the distribution price is balanced with the international market.

And your question regarding the industry. So, in the industry, we hold negotiations together with our customers, and in many cases, these are quarterly negotiations and another, they are done every six months. We already -- we have been negotiating together with the industry since the fourth quarter of last year. And the results of the fourth quarter of 2017 when we compare to the third quarter, you can see an increase of the average price at 3.7% impacted by the distribution carryover of the third quarter and the increase in the industry. We are negotiating together with the industry and the level is the same from the automobile industry 20%.

Now, some industries have already included this in the first quarter, and our expectation is that until the end of the first, second quarter, we will fully implement this at a level of 20%. And now to Ronald.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Now, when you talk about the deterioration of the margin per ton, the main factor that explains this quarter-on-quarter is a growth of 46% of the exports volume. During the third quarter last year, we went to 130,000, and in the fourth quarter, there were 240,000 tons. And as you know, exports has a great contribution margin. The lower prices, while they contributes to dilute our costs. During your second question regarding other items. As a matter of fact, as other companies, we carryout our adjustments at the end of the year. We will carryout many impairment adjustments, inventory adjustments, and all of them portrayed at the end of the year.

But if you see a chart that I demonstrated in the beginning of my presentation, the EBITDA that shows the most relevant operational result. As you can see, we practically had no non-recurring effects. This is on page 9 of our webcast. Practically, we talked about BRL443 million on recurring results and the published result was 450 million. All others practically did not affect the EBITDA that I believe that is the most relevant indicator here.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay. It's clear. Thank you very much.

Operator

Next question, Karel Luketic, Bank of America Merrill Lynch.

Q - Karel Luketic {BIO 16467278 <GO>}

Thank you very much for questions. I would like to congratulate all the teams of Usiminas for the negotiation of the new governance of Usiminas. I believe that all of you are very happy. And Sergio also for being CEO again. We now talked about the increase of prices, how much carryover will we have from in our price considering that most of the contracts are signed during the second semester, and what will be the change between the first and the second semester? And what do you expect due to the increase of price per ton during the second semester? And what about actuarial expenses? Are you renegotiating these expenses? These are my questions. Thank you very much.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Thank you very much for your comments. All the team of Usiminas are very happy not only because of the results of 2017, but the agreement signed with our main shareholders yesterday. Now regarding prices for the second semester, it's too early to calculate. What we can say is that there will be an increase of the average price during the second semester vis-a-vis the first semester, but it's too early to calculate this amount. We hope that is the best possible of course. Now regarding actuarial debt, we constantly follow up with Usimina's pension funds, the actuarial assessments of the different pension funds that are managed by Usiminas Pension Funds. We have two actuarial debts. We follow this up very closely, and there is no doubt that they are on going conversations to reassess these debts. But nothing that I can anticipate right now in terms of solid results, that will reflect on the short-term.

Q - Karel Luketic {BIO 16467278 <GO>}

Thank you very much.

Operator

Next question from Renan Criscio, Credit Suisse.

Q - Renan Criscio {BIO 18747357 <GO>}

Good afternoon, and thank you very much for this opportunity. My questions would be follow-up of past years, one would be the debt. You have this instruments, so you pay one part to the creditors of the cash surplus when you reach this level. So this limit will continue the same in 2018 or will they change. What is this limit? To understand, if you reach this level, will you pay the debt to your creditors? You mentioned a possibility of a steady -- of a CapEx of galvanized line. Is there a covenant in the renegotiation of debt that limits the CapEx? Now what about others in terms of cost? You have taxes that represents 5 -- 50 million [ph] per quarter and PIS/COFINS and you said that this amount would be negotiated during the first quarter. Do you continue with this guidance or has it changed?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Renan, this is Ronald speaking. Now, regarding cash flow mechanism as we minimum cash, where the mechanism is activated, this varies throughout the years. It is -- as we're going throughout this year, we will have no changes. It will be the same amount as last year. We have not announced this limit. It is a limit that allows us to operate comfortably. So we do not expect any difficulties. Our interest is to amortize this debt in the consolidated results. We have a leverage level of two times, in the controlling company, the leverage is three time. We want to reduce the leverage in the controlling company, that's where we have most of our debts focused.

Now, CapEx. When we said that we are studying, perhaps broadening the ADE, this wouldn't be considered an expansion of volume in Usiminas, because we would consume greater volume of coal load. So we will enrich the mix, and when we talk about mix enrichment, there is no restriction in our debt renegotiation agreement. And our credits -- tax credits of PIS and COFINS throughout 2017, we used it more, we believe it will be a drop in 2018. I believe that we will have something during the first semester of 2018 much lower than last year. By and enlarge, we can calculate a difference from what was used in 2017 and what will actually happen in 2018 of BRL200 million.

Q - Renan Criscio {BIO 18747357 <GO>}

Okay. Less than '18 than what was used in '17. Thank you very much.

Operator

Our next question in English from Jon Brandt from HSBC.

Q - Jon Brandt {BIO 5506998 <GO>}

Hi, good afternoon. I wanted to first return back to the debt. Is it fair to say that your debt repayments will only be dictated by the cash used. In other words, you won't pay more than you are mandatorily have to. And if you could comment a little bit about your average cost of debt, and if there's any room for refinancing or liability management to improve debt? And then secondly, I'm hoping to understand a little bit more about the restart of the blast furnace in a couple months. Particularly, what the impact will be maybe in the short term, what the impact is on profitability as you restart that blast furnace? And what sort of cost savings we can expect vis-a-vis buying slabs in the market once its fold, backup? Thank you.

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

Jon, well, you posed a number of questions. Payment of our debt is the amortization in December and the amortizations for January, and scheduled for March. If they are exclusively, because of the cash sweep, now the amortization during the month of December and the beginning of January. On January '18, $90 million in December, and $180 million January. They are not connected with cash sweeps. These two amortizations are basically, directly and indirectly connected with the repayment of the bonds that were issued in 2018. The bonds issued in 2018 were fully paid, when they mature, and the amortization of 90 million is indirectly related to this event, and the amortization of $180 million in January is directly related to this event. So non of these two are connected with the cash sweep, okay?

Now the amortization scheduled for the month of March, March 15th of approximately $100. Yes, this repayment is due to the cash sweep mechanism. As I mentioned to one of your colleagues during this call, we do not expect any other anticipated payment throughout 2018. Now nevertheless, if the business conditions evolve in a more positive fashion than we expect, well, yes, perhaps during the next measurement of cash sweep that is on June 30th, perhaps we will anticipate payment. But for the time being, we do not have the schedule, it's not scheduled.

Now regarding the average cost of the debt. After the payment of the bonds, most of our debt over 80% of our debt is paid in the Reals. The average cost of the debt in Reals is CDI plus 3%, there is a 3% spread here. Now the liability management is something that we are assessing right now. It is still too early to make -- to take any measures. The objective here is not only to reduce the cost of the debt, but also to expand the term of the debt. We must wait an additional improvement in our ratings. But we believe that, at the end of the year, and the beginning of next year, this will be a very important moment to carry out some liability management with two targets, to reduce the cost of the debt and to increase the -- or to extend the payment terms.

So, and then you asked about the recovery of steel production and the re-connection of the furnace, right? The furnace number one of Ipatinga will start its activities in two months in April with a production capacity of over 600,000 tons of steel a year. In 2018, it will produce 350,000, 400,000. And the cost of this restart is around BRL80 million to restart this furnace.

Q - Jon Brandt {BIO 5506998 <GO>}

Thank you.

Operator

Next question from Gabriela Cortez, Banco do Brasil.

Q - Gabriela Cortez {BIO 18801371 <GO>}

Good afternoon. Thank you very much. You reduced 25% the cost of your cash flow in mining. What do you expect at the end of the year? Can you still drop these expenses? Now what about slabs? How much do you expect to reduce the cost of the slabs now that Ipatinga will be back into production?

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

Gabriela, regarding your question, the cost of mining, this is a reoccurring subject everyday, and we are trying to being competitive in terms of production, logistics, that are very important regarding our cost metrics. For the year 2018, and we started this in 2017, we put into operation our plant of (inaudible) especially the East Mine has -- represents a lower cost which helps us in our average cost and review the main input in flotation lava that comes from the dam. So we're talking about -- this is the dam that comes from our plant and this helps us to dilute our cost. As this started -- as this process started in August, we will -- we see the impact in 2017 throughout five months, but we will see the impact throughout the entire year of 2018. And this mean that we will be able to improve our cost this year that just started. Gabriela, your question regarding the expected effect from the high -- from the restart of the high furnace of Ipatinga 1. You know after the restart of high furnace 1 in Ipatinga, in June we have our scheduled maintenance shutdown of furnace number 3, that is the biggest furnace. So the furnace number 1 will help us to produce what is not produced during 15 days through furnace 3. So throughout 2018, we will have moments of slab that come from Ipatinga, that will be around 300,000 tons a year, especially during the second semester. And for this, we will -- this will not replace Ipatinga release or produce slabs and Cubatao purchased.

We have a mixed, that with 70% on slabs, and 30% of purchased slabs. So it is very difficult to tell you how much furnace 1 will contribute to reduce our average cost. But anyhow, there is a very significant difference between our slabs and the purchased slabs. But it's difficult to give you this figure right now.

Operator

As we have no further questions, we bring our conference call to the end. If should you have any questions, our Investor Relations team is at your disposal to answer any questions. We thank you very much and have a good afternoon.