Q1 2013 Earnings Call

Company Participants

- Julian Eguren, CEO
- Paolo Basseti, Subsidiaries VP
- Ronald Seckelmann, Finance and IR Officer
- Sergio Leite, Commercial VP
- Silvia Pinheiro, IR
- Unidentified Speaker, Company Representative
- Wilfred Bruijn, Managing Director Mineracao Usiminas

Other Participants

- Carlos de Alba, Analyst
- Ivano Westin, Analyst
- Leandro Cappa, Analyst
- Marcelo Aguiar, Analyst
- Marcos Assumpcao, Analyst
- Renato Antunes, Analyst
- Rodolfo de Angele, Analyst
- Thiago Lofiego, Merrill Lynch

Presentation

Operator

(interpreted) Good morning. Thank you for waiting. This is Usiminas conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a Q&A session and instructions will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded. Now I would like to turn the floor to Ms. Silvia Pinheiro with FIRB (inaudible) Investor Relations. Please go ahead.

Silvia Pinheiro

(interpreted) Good morning, ladies and gentlemen. and welcome to USIMINAS conference call for the earnings release of the First Quarter of 2013. This presentation and its slide presentation is being broadcast live on the Company's Investor Relations website, www.usiminas.com.ri (sic). There, you can also get a copy of the Company's release.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1995 and actual performance could differ materially from that anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

These (inaudible) are highly dependent on the economic conditions of the country and the national conditions, as well as the steel industry and could change. Today, with us, we have the Executive Board -- Julian Eguren, CEO; Ronald Seckelmann, Finance and Investor Relations Officer; Sergio Leite, Commercial Vice President; Marcelo Chara, Industrial Vice President; Rommel Erwin, Technology and Quality Vice President; Paolo Basseti, Subsidiaries Vice President; Nobuhiro Yamamoto, Corporate Planning Vice President; Vanderlei Schiller, Human Resources and Organizational Development Vice President; Wilfred Bruijn, Managing Director Mineracao Usiminas; and Cristina Morgan, Head of Investor Relations.

First, Mr. Eguren will make a brief statement, followed by Mr. Seckelmann who will comment on the First Quarter's 2013 results. Afterwards, management will be available for any questions you may have. Now it is my pleasure to turn the call over to Mr. Julian Eguren.

Julian Eguren {BIO 16005078 <GO>}

(interpreted) Thank you. Good morning, everyone. I would like to thank you for attending this conference call of Usiminas. This is an opportunity to not only to discuss the main figures of the quarter, but also to analyze the process in which the Company becomes more competitive again, something we have been working on since the beginning of 2012.

Last year, as you may know, we have concentrated our efforts in strengthening the control mechanisms of the Company. We have imposed a more disciplined management of costs and CapEx, adapting them to the context of challenges experienced by the industrial sector. We have also made a strong movement to export products we had in stock, which had a positive effect to reduce our working capital in[ph] more than BRL2 billion.

For this year, these control mechanisms will remain active. However, we will add to them a search even stronger for greater operational efficiencies and greater labor productivity. We consider that there is room to advance in a more optimized production configuration capable of converting into added value and it is for that we'll deepen the industrial engineering studies to identify and realize gains.

From the financial point of view, we will also focus on reducing the leveraging of the Company by generating our own cash and continue to sell or to dispose of non-core and nonoperating assets. Based on these two approaches, control and productivity, we will hope to get Usiminas' growing conditions for it to increase its competitiveness throughout 2013.

And we have started to harvest some of the fruit of this strategy (inaudible) reflects (inaudible) more efficient operations. We highlight in the First Quarter a growth of the EBITDA of almost 65% when compared to the First Quarter of 2012. We have given back to the Company a two-digit consolidated margin. If we consider only the EBITDA and the steel business activities, which was our core business, the growth was 78% when compared to the First Quarter of 2012.

In parallel, we are committed to strengthen the Brazilian market with high-tech products and also to improve the relationship with our customers for the better service level. Despite the stable scenario in steel consumption in domestic -- in Brazil in the domestic market, we have managed to increase our sales by 1.4% and when compared to the previous quarter.

Our challenge is to increase this level of domestic sales naturally without failing to capture opportunities for the external markets. It is also important to highlight that the project of expansion of the production capacity of Mineracao Usiminas is expected to 12 million tons per year. This is a strategic project for the cost structure of the Company. We have ended this First Quarter and already have 88% of the project schedule completed. We are within schedule and within the proposed budget.

In summary, this set of indications allows us to start 2013 in an optimistic note when compared to the process of continuous improvement of Usiminas. All teams are committed to work on this major challenge to increase competitiveness of the unit. We will continue to advance in the control and productivity in the next period. We are on the right track and ever more confident that the growth of the Brazilian economy will find an Usiminas that is ready to provide the best solutions in steel needed for the development of the country. Thank you very much.

Ronald Seckelmann {BIO 3722329 <GO>}

(interpreted) Good morning, everyone and thank you for participating. I would like to make a few comments based on the slides you see being broadcast and through these slides, we will try to highlight our view of the results of the First Quarter of 2013.

On the first page with the consolidated highlights comparison of this quarter, vis-a-vis the previous quarter, we can see that there was a decrease in steel sales of 8%. However, if compared to the same period of this last year, there was growth of 5% in our sales volume discounting or offsetting seasonality.

Also, in iron ore, there was a drop of 23% in relation to the previous quarter, but this was driven mostly by fewer results. Our sales followed up the production levels and as a result, we had greater availability in port capacity for shipping. In spite of lower volumes in steel and iron sales our net revenue maintained its stability showing the better prices we were able to secure in the market and in the same slide, we have the charge on the adjusted EBITDA.

I would like to make a comment specifically about this. About[ph] this quarter, two important accounting changes were introduced. First of all, as part of the convergence process towards IFRS rules, proportional consolidation of subsidiaries will not be allowed. Therefore, some subsidiaries that were controlled such as Unigal up to last year are now being accounted for through the method of equity accounting.

Another important change was the decision by CDM[ph] of adopting a specific group for EBITDA calculation considering the equity accounting results. And to make your life easier, we will start publishing as of this year adjusted EBITDA, which is nothing but exactly the same way we have published EBITDA up to December last year and including within EBITDA results, 70% of the stake in Unigal.

Going back to EBITDA, there was an increase of 38%, vis-a-vis the second half, reaching two digits. In the next slide, we can see growth, EBITDA growth in the steel business compared to all previous quarters, a curve that we can see has been growing steadily since last year. In the next slide, we can see the breakdown of sales volume divided by domestic market and exports and we can see the better geographical mix we have observed in the First Quarter.

Moving on, our COGS in the steel business, so the effect of the reduction of cost in the First Quarter with 4% less than in the previous period, highlighting constant decline trends in the cost of our products.

In the next slide, we try to be as transparent as possible showing how much in our steel business EBITDA -- how much was the effect of the sale of disposal of assets. Excluding this factor, we can see that EBITDA in the steel operations has reached a margin of 6% showing a substantial increase in relation to previous quarters.

Next, we see the mining operations. EBITDA in mining let's remember that we have lower volume, but that was offset by better market prices and less cost as a result of our efforts of optimization in the mining business. As a consequence, EBITDA margins have remained stable in the same levels of the previous quarter.

Finally, this is a slide I would like to comment on. We summarize here everything we have commented. We are undergoing a continuous process. These are not episodic changes that we are adopting for our business. They are incremental changes along a process that will take some time.

On the right side of the chart, we have listed all areas of attention that are being pursued by the Company at this moment and during the first phase of the process that took place along 2012, we were focusing on control of cost, CapEx and working capital and this was very visible along the period without prejudice to other activities that have been started from day one.

The phase we have now started for 2013 is the second phase and our focus now has shifted to productivity increase through different industrial engineering and benchmarking tools, operational efficiency, increasing domestic sales, reducing our leverage and as a consequence recovering the Company's profitability. However, without ever losing track of the controls that we have established on the first phase -- control of cost, CapEx and working capital. Those were my comments to you and now we will be happy to take any questions you may have.

Questions And Answers

Operator

(interpreted) (Operator Instructions) Rodolfo de Angele, JPMorgan.

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

(interpreted) Good morning. My first question is on the commercial operations. I would like to understand, there was stability in the average prices in the last quarter and we were talking about implementation of pricing methods. I would like to confirm whether my perception is correct and I would like also to ask you about the Second Quarter and the strategy for the remainder of the year. And lastly, CapEx levels, there was a significant drop with the end of the investment cycle in steel operations and I would like to know what you expect for CapEx. Thanks.

A - Sergio Leite {BIO 18922519 <GO>}

(interpreted) Hello, this is Sergio Leite speaking. Good morning. First, your perception as to an average -- stability of the average prices on the first half of a First Quarter of 2013 when compared to last quarter of last year is right. In January, we have implemented a price increase for heavy plates and hot-rolled product, 6% and 5% and it was totally implemented in distribution. In the beginning of March, we had a second price movement involving the product of hot-rolled product again and cold-rolled product and also covered product. It was totally implemented for distribution.

In parallel, in February, we've started in the industrial field and that excludes the automakers, which we have -- with whom we have long-term agreements. But there is a negotiation project, which is being implemented right now. We have implemented it for the industrial sector in March. We are continuing to do that and that will also enter into May. So of course, this has had a positive impact because prices -- there was a price increase in distribution prices. But also in the domestic market, there was a change in the profile of products because we now have more product at lower prices.

If you look at the domestic market and external market is priced higher. It starts at lower prices, hot-rolled, cold-rolled, heavy plates and then covered product. Just for you to have an idea in terms of volume, hot-rolled, which is the lowest average price product, we have increased sales by 13%. Cold-rolled, which is the second in the hierarchy of prices, external market and domestic market sales were stable. As for heavy plate, sales were reduced by 6% and the others were stable. So there was a small change in terms of the mix of products sold. And the domestic market ended up giving you this perception, which is correct, a perception of stability of prices of the First Quarter this year when compared to the last quarter of last year.

The second point is the global impact on the increase in prices in distribution that occurred in January until March with a positive impact in the industrial sector.

Rodolfo, as to your question about CapEx, probably you are thinking that, when annualizing the CapEx for the First Quarter, will we keep onto our guidance of BRL1.5 billion for the year. The guidance is capped. We intend to spend BRL1.5 million between mining and steel businesses. The figures in the First Quarter are a bit lower than the average one could expect for the four quarters of the year. This is basically given to some delays in release of equipment and imported goods. There are no major problems or reduction of CapEx investments in the year. We are within schedule and within plan. Eguren will talk about the main CapEx project.

A - Julian Eguren {BIO 16005078 <GO>}

(interpreted) This is very important because we have made a relevant investment in the steel business in the plant of (inaudible) and there has a strong impact on the supply of hot coils and the higher level of demand and we also have concentrated technologies that will allow for a significant improvement in productivity. This investment that was made started its operations in the last quarters of 2012.

Operator

Carlos de Alba, Morgan Stanley.

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

Yes. Thank you very much for taking my question. Sergio, could you help me understand, because I am quite honestly a little bit confused. On your release, you mentioned that imports of the steel came down 37% from the First Quarter of 2012. That should to me suggest that domestic users are gaining marketshare. However, when I looked at the domestic market volumes of Usiminas, they declined from the First Quarter of 2012 to 1226[ph] or BRL1.2 million that you reported in Q1. So what is going on with Usiminas that doesn't allow the Company to take advantage of the decline in imports in the overall market?

And also second question is why the shift in the mix that you just mentioned that does not allow the Company to show higher prices overall when, in fact, you were successful at implementing these price increases that you just described?

Then, finally, I see that if I annualize the crude steel production that you have reported of 1.6 million tons, I am only getting to around 6.6 million for a full year and I understand that you are closer to 8.5 million to 9 million. So can you tell me please what is happening and what is your effective crude steel capacity? Are you by choice not producing at 100%? Is it the (technical difficulty)?

A - Sergio Leite {BIO 18922519 <GO>}

(interpreted) Okay. Good morning. First let's comment on -- make a comment about the market. In terms of the market, it's worth making two comparisons. First with regards to the First Quarter of 2012, which was mentioned by you and also with regard to the Fourth Quarter of 2012. Today, in Brazil, we don't have data that are 100% tracked. That used to be done in the past by (inaudible). However, we have estimates that are pretty close to market reality. When we look at the apparent consumption of steel in the country when compared to the First Quarter of 2013, with the First Quarter of 2012, we look at that there is a decrease in the apparent consumption of steel in Brazil of 2%.

And in the same period, our sales dropped by 1.6%. Our sales dropped a bit less than the average apparent consumption. However, of course, when imports were reduced by 30%, we could have had in the Third Quarter of 2013, we could have captured a greater marketshare when compared to the First Quarter of 2012. However, I would like to compare the First Quarter of this year with the Fourth Quarter of 2012.

According to our estimates, the apparent consumption, which probably went up by 1% in the period, our sales grew by 1.5% so we are growing more than the apparent consumption levels and as for the Fourth Quarter, imports dropped by 5% only. And our sales increased as much as the apparent consumption.

So what I can say is that, right now, we are capturing more or equally or more the gains we have had in terms of the decrease in imports. Imports in the First Quarter of 2013 had a penetration rate estimated at 9% when compared to the 10% of the Fourth Quarter of last year.

As for prices, prices in Brazil follow the market trend of international prices. Today, Brazil is the country in which prices are more and more pegged to international prices, the basis product, not finished goods, but basic product. So what the movement was made in January and March are according to the trend of market trends international market with a premium between 5% and 10%. So in the First Quarter, we increased our prices within levels that we believe are according to the balanced levels for international market prices in the steel industry.

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

But could you shed any light on the year-on-year situation?

A - Sergio Leite {BIO 18922519 <GO>}

(interpreted) Could you please repeat your question? It was very low. We could not hear.

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

Sorry. Yes. Thank you very much for your explanation on quarter-over-quarter, but can you just help me understand why year-on-year you didn't gain marketshare? And also my question on the capacity, total capacity or effective total capacity of Usiminas, why are you only producing around 6.6 million tons of crude steel annualized? Thank you.

A - Sergio Leite {BIO 18922519 <GO>}

(interpreted) Well as for the year-to-year comparisons, maybe one of the factors that has impacted this non-capturing of a higher marketshare in the domestic market probably has to do with our strategy of price increases. I would like to remind you that, last year in July, we have had, as the market leader, with a movement to change -- to increase prices was not -- we were the market leader to increase prices and competition did not follow us, which cost us to lose some marketshare in the domestic market.

And I would like to remind you that now this year again we were the market leader to introduce these price increases in January and March. Of course, it takes a bit of time during which some customers who don't buy from us regularly, they change their position in the market. So obviously, we have lost some volume in the distribution of the First Quarter because we have increased prices more quickly than our competitors. This is the main reason for that.

A - Unidentified Speaker

(interpreted) Carlos, as for the capacity production that you were mentioning, we are operating at a level of 80%, 85% of our capacity and we are closely looking at the domestic market. If the domestic market showed signs of upward trend or greater demand, we will increase the production level to meet the needs of the domestic market. But today, we are operating at 80%, 85% of our capacity and we are at a stable production level.

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

Thank you very much. And can you confirm, so what is your effective total crude steel capacity? Is it still around 8.5 million, 9 million tons or do you have some lower effective capacity?

A - Sergio Leite {BIO 18922519 <GO>}

(interpreted) Well currently, our capacity is close to that figure you mentioned, 8 million, 8.5 million tons, but again it will depend a bit on market conditions.

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

Right. Thank you very much for all your answers.

Operator

(interpreted) Our next question comes from Merrill Lynch, Thiago Lofiego.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(interpreted) Good morning. I have two questions. First is to Sergio Leite still. Just to confirm a price differentiation into the domestic market and in imported products, the 5% to 10%. I would like to confirm that and having -- bearing that in mind and thinking that probably the next month international prices will drop, do you see a risk in your price implementation strategy? And do you think that with time this scenario for the second half will change? And also in terms of price, are you making any adjustment now or any negotiation with the automaker industry or not?

The second question, looking at the cost-reduction project in the steel business in the quarter, could you give us some more details about what to expect from now on?

A - Sergio Leite {BIO 18922519 <GO>}

(interpreted) Well in relation about price differences, right now, I can state that most products, and I am talking about blades and heavy plates and cold-rolled, hot-rolled, we are at around 65%. From 5% to 10%, but closer to 5%.

And as for the future and your question about risks we may run into, as I said before, prices in the domestic market follow the international prices and the international market has much higher volatility than the domestic market. So in the last month, we have seen peaks, we have seen drops and very short cycles for price variations. And those short cycles do not impact the domestic markets.

The only risk that might exist of managing our prices differently is if there is a generalized and sharp drop in the international market, something that is not in our radar for the coming months. In our view, the international markets will have some stability with short cycle variations and that will not impact our price management in the domestic market.

And as I said, we have annual contracts with automakers. Those contracts are negotiated in July through October and are valid throughout the following year. And they will keep to their contracts. Even though there is a gap in prices, that indicates that they are trying to obtain better prices from us. In the future, we don't expect to raise our prices in the near future because of the contracts we maintain with them.

A - Julian Eguren {BIO 16005078 <GO>}

(interpreted) This is Julian speaking. I would like just to add to what has been explained. It is a way of mitigating risks in the domestic market, has to do with an improvement of customer service in the first months of the year. We received this tribute from several of our clients, international clients of very high standards because of our customer service levels. So the volatility in the international market is driving force, but prices and quality of our products and quality of our service and we are overcoming all challenges in order to mitigate any effects on our price basis.

And additionally, those awards were from Honda, Toyota, Mangles[ph]. We received a number of prices in the first four months of the year. (inaudible) and also in relation to operating efficiency and cost controls, I would like to clarify that this is indeed a continuous process. We are adopting routines and systemic processes using the best practices used in Brazil and all over the world and for better management of our processes. We also conduct some checkups to see how those improvements are moving along.

In industrial configuration, we have switched off two flat casting machines in order to concentrate operations and increase productivity in other areas. And we have planned another stopover in five machines for the same purpose. We will turn into operations the new three lines in Cubatao and switch off two former equipment in order to enhance productivity.

And with the new strip rolling plant and our state-of-the-art plant, progressively, we will continue to raise its productivity and we will be stopping the hot slabbing machines in line 1 so that we can achieve higher efficiency levels in comparison with the previous configuration with two rolling machines. And also we have a sharp focus on preventive maintenance, the quality of our assistance and we have, for example, developed some instruction plans and 800 employees received training along the year of 2012. And also they have become qualified and we train not only our own employees, but also outsourced contractors that work with us.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(interpreted) Also on the topic of efficiency and cost control measures, when do you expect this peak of benefits to be reached as a result of everything you are doing?

A - Unidentified Speaker

(interpreted) There is no peak; this is a continuous improvement process. It is a quest for efficiency and productivity, a process that will continue. We have started this initiative in the beginning of 2012 and we are not stopping. So it is a permanent improvement process and it will become part of our daily agenda, the daily agenda of our managers and all of their agendas they have this continuous improvement process.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(interpreted) Thank you, Mr. Eguren and Sergio.

Operator

(interpreted) Renato Antunes, Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

(interpreted) Good morning, everyone. Thanks for entertaining my questions. In relation to Usiminas, while we have discussed the project that has been almost completed, 88% and what about your expectations in relation to exports for the next year?

And could you please help us understand the potential for export after the second phase of the Compact Project? And sorry to insist on pricing, but you said that, last year, you were leading the push for prices and this has happened again. Since the domestic market still has some excess capacity in some players, how do you view the internal domestic competition scenario? Do you think that there might be the risk that other competitors will not be as aggressive in pushing prices up like you were?

A - Unidentified Speaker

(interpreted) Renato, I would like Bill to answer the first question about the project and then Paolo will answer the question about our long-term projects.

A - Wilfred Bruijn {BIO 16707173 <GO>}

(interpreted) Renato, this is Bill speaking. As we said in the introduction, the (inaudible) project is now at around 90% of physical completion. We are very satisfied with the construction works underway and we feel very confident that we will be able to deliver the new capacity for our mining operations.

On the second half of the year, we will have the startup phase adding 12 million tons in capacity and probably in 2013. As for exports, we have port availability that is still very limited. We can only operate the Itaguai region port. We have participated in several auctions and negotiations with the owners of the concessions for those ports and we will continue to pursue more export opportunities. We have a certain volume that we sell to our own plants. Sometimes we ship domestically and internationally. We can sense that there is also an increase in demand for the domestic markets.

And finally, going back to the question about the future project, Compact, as I said in the previous webcast, we are now concluding engineering studies and product studies within the framework of Project Compact. Our goal is to really find the foundations that will help us make a more balanced decision. So for guidance purposes, we will be able to take a decision in relation to the Compact Project, especially in relation to its ultimate scope.

A - Paolo Basseti

(interpreted) Renato, I believe that Bill made a very precise description of the event and has also answered the future of Project Compact and our intention to reduce the cost of private projects.

A - Unidentified Speaker

(interpreted) Renato, in terms of prices, in our analysis for the next month and the second half of this year, we don't envisage major risks for market prices in Brazil. What we see actually for the second half of this year is even a bias towards increasing prices, a trend towards price increase depending on the behavior of the Brazilian market and the Brazilian industry, which is hard to predict. But this growth cycle we are ending now and Marcelo made a comment about debt, Usiminas is state-of-the-art in terms of products in its four production lines and we are working strongly to add more value to our product.

But of course, when we think about that, it is important that the investments Brazil needs so much will actually happen. We have been waiting for such investments for some years now, but -- so the (inaudible) are positive.

Q - Renato Antunes {BIO 17439917 <GO>}

(interpreted) Okay. Thank you.

Operator

(interpreted) Leandro Cappa, Deutsche Bank.

Q - Leandro Cappa {BIO 17871464 <GO>}

(interpreted) Good morning, ladies and gentlemen. Thank you for taking my question. I have two questions actually. First, you have received a prepayment from exports in this quarter. Is this related to any covenant that maybe was not fulfilled? I would like to understand why this decision was made. And now going back to the mining project, I know that relating to MMX, the port is late and that will delay your projects even more. How do you plan to minimize the effects of port availability? Thank you.

A - Unidentified Speaker

(interpreted) Good morning. To talk about this prepayment of exports agreement, actually, this is something that has started last quarter. We are expediting a bit our export performance. Bear in mind two main reasons. First, we have the vision that, throughout the next two or three years, the export volume available for export tends to decrease because we expect to have a growth in the domestic market demand.

On the other hand, this prepayment was also made within the context of that debenture transaction we had in the beginning of the year, BRL1 billion and also changing -- within the context of our changes in our debt profiles, differently from what we had some years ago. Two-thirds of our growth that is denominated in reais and the other one-third is in US dollars, which is more in line with our revenue profile.

And also based on the operations we have performed during the beginning of the year, we have increased the debt profile, the maturity of our debt and now we have 90% maturing after 12 months. So this has nothing to do with any covenant.

A - Paolo Basseti

(interpreted) Good morning. Paolo speaking. As for the port of MMX, actually it is a bit late, but we have been talking and we are very close to MMX keeping track of a physical advancement of the construction site, which is key to the mining project. We have the agreement with MMX regarding the port. We understand and we are aware about the difficulties that are being -- they are facing and we are talking to MMX in several opportunities and with several votes to the Company, as well as to mineral reserves that are closely located in the same logistic corridor to try to see jointly what can be done to mitigate the impact that the delay in the port construction has been causing to our export capacity. As soon as we have something more concrete, we are going to release it to the market.

A - Julian Eguren {BIO 16005078 <GO>}

(interpreted) Just to make an additional comment, this also has a penalty, this prepayment and we are discussing it, as Bill mentioned it, in an amicable way, but undoubtedly there is a penalty we have to deal with. Thank you.

Operator

(interpreted) Ivano Westin, Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

(interpreted) Good morning, ladies and gentlemen. Thank you for answering my questions. I would like you to tell me a bit about the expect to reduction last year in SG&A in 2013 and if you give me any guidance for EBITDA this year even despite the not so strong results in the First Quarter, if you expect to reach the target. Also any comments about the automotive sector would be very welcome.

A - Unidentified Speaker

(interpreted) Good morning. (technical difficulty) about EBITDA. We are not going to give you any guidance on that. We prefer that the market to make its own projections based on the information we tried to convey and be as much objective as possible. I will not give you an EBITDA guidance for the year. Just a reminder that the EBITDA in the First Quarter is substantially higher than the average we have had throughout the four quarters last year.

As for SG&A, especially general and administrative expenses, because they are variable by nature, we continue to work to rationalize, optimize, integrate (technical difficulty) and obviously, as you advance in this process, it becomes harder and more challenging and therefore, gains take longer to appear. But 80% of expenses refer to direct labor costs and unfortunately, Brazil is still a highly indexed economy. Very few of the market economies in which salaries or wages are automatically increased according to past inflation rates. So we have to offset this with the productivity and efficiency gains and because this comes directly to our cost, labor cost increases. But there has been a gradual improvement in SG&A expenses. There will also be a gradual improvement in EBITDA. Basically this is it.

Q - Ivano Westin {BIO 17552393 <GO>}

(interpreted) Thank you very much. Could you comment about investments? I would appreciate that.

A - Unidentified Speaker

(interpreted) Sorry, sorry. We are trying to not participate anymore in nonstrategic activities and that are in our business portfolio however do not meet our core purpose and that is all I can say for now. We are trying to move this forward very actively.

(interpreted) Just a comment about this investment. We have commented about the automotive area and while this has become consolidated last year and now it is a company with an EBITDA between BRL40 million and BRL45 million.

Q - Ivano Westin {BIO 17552393 <GO>}

(interpreted) Thank you very much.

Operator

(interpreted) Marcelo Aguiar, Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(interpreted) Thanks for this opportunity here. It is Marcelo Aguiar from Goldman Sachs. Two questions. Let's go back to G&A. If we look at the growth of G&A in 2012 First Quarter, I think we were at BRL111 million, now BRL140 million. So you are growing faster than inflation and since you have optimized your staff, is there something that is nonrecurring on the G&A growth? Could you give us some more information?

Another question please. What about coal? What is your strategy for the purchase of coal? How much do you export? Do you use three-month, six-month contracts because coal has been suffering some price drops and how will we see this represented in your financial results?

A - Unidentified Speaker

(interpreted) In relation to SG&A, the only thing I can say -- the only nonrecurring item of sorts, in order to improve our controls, we are reclassifying some of our expenses that had been dropping in the plant and for example -- an example is IT expenses in the plant. We are reclassifying SG&A and moving this to COGS and no -- and this is the only effect I can mention. There is no nonrecurring effects to highlight in this semester.

In relation to coal prices, our costs are around 20% to 25% between the benchmark prices. This is because we use a mix that is cheaper. Since 2011, and this is the process that has intensified since then, we use our sourcing and cut off our dependency on Australia, started to work with North America and started using lower quality but cheaper types of coal with a higher content of green pet coke. So the idea is to bring the average cost of our coal below the world market benchmark.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(interpreted) Just to make sure I understood, so on the First Quarter 2013, the Company did not suffer any nonrecurring effects due to the optimization of staff and no nonrecurring on cost. It is clean cost then.

A - Unidentified Speaker

(interpreted) Yes. There were effects, because of the streamlining of our own employees, but there are always some inventory adjustments or other things that affect the cost of goods sold in a way that is different than production costs for the period. But there is nothing of great impact. If you would like further detail, our investor relations team will be happy to help.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(interpreted) Just one last point, sorry it's very important to understand, what about the impact of lowering inventories? This was something that applied to more expensive products and as a result of this process, we would see stronger impacts on COGS. So what happened in the First Quarter that this more significant impact was not noticed because I remember it was a huge difference?

A - Unidentified Speaker

(interpreted) First of all, in the First Quarter, there was an increase in the average raw materials costs. Both coal and iron ore had higher prices and this masked some of the reduction of the other price drivers. In relation to reduction of inventory, well, most of the process took place in 2012. There is always some products that are sold along the quarter; I am not saying nothing was sold. Yes. We did sell, although less than in 2012. Now the costs dropped in spite of the increase of most of our raw material prices.

Operator

(interpreted) Marcos Assumpcao, (inaudible).

Q - Marcos Assumpcao {BIO 7474402 <GO>}

(interpreted) Good morning, to everyone. First question, I would like to talk about mining with you. What synergies do you observe between MUSA and MMX in (inaudible)? And also in the fourth and conceptually, what could be the benefit of a merger between the two companies? And Julian, could you please say something about the profitability of the Company in March and the first day of April in comparison with the quarter? We can see an improvement on month-on-month and possibly also the cost reduction and the better prices of steel in country.

A - Julian Eguren {BIO 16005078 <GO>}

(interpreted) Marcos. Good morning. You could say about the operating synergies that we have with MMX, the operating synergies in the merger study. No. We have nothing like this in perspective, no studies right now, but we have some operating synergies and we are trying to capitalize on those.

A - Unidentified Speaker

(interpreted) Good morning, Marcos. In relation to synergy between us and MMX, they hold true for other companies as well in the Serra Azul region where we have our reserves. And we have exploited some of them with MDL and with other companies. We have some agreements with them and the higher share of plans sometimes. And in relation to (inaudible) two years ago at the time of the contracts we established with the port.

So from the operational point of view, there are synergies that go from the sharing of dams, which is a very limited resource in Serra Azul and we have an area very close to the southeast port of Itaguai that we recently completed within time and -- but we did all the remediation of the environmental liabilities, which were large in the state of Rio de Janeiro and this is an area that is very valuable and that can be explored for future synergies. So there are many opportunities. Yes, for example, sharing of cargo terminals and loading of freight trains and other synergies that are of lesser importance, but that are being looked at such as the sale and purchase of iron ore. So there are many opportunities not only in relation to MMX, but also in relation to other companies.

(interpreted) Marcos, you have asked about the EBITDA. I would like to simply say that higher volume in the domestic market in the quarter was reached in March. March was a month which had a good domestic market volume and we think that April keeps the good trend in terms of sales volume in the domestic market. This shows a good relationship between the domestic sales and EBITDA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

(interpreted) As for price and cost, is there also any additional information other than volume?

A - Unidentified Speaker

(interpreted) Sergio has spoken a bit about the prospect for volume, volume and price for the Second Quarter. And as we have mentioned before, as Marcelo and Ronald talked, we have continued with our continuous improvement processes to improve efficiency and therefore the cost situation will improve constantly.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

(interpreted) Okay. Thank you very much for your answers.

Operator

(interpreted) Thiago Lofiego, Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(interpreted) Thank you. Just a follow-up question. To confirm some information, could you give us the expected growth of steel, sales in the domestic market, as well as exports for this year?

A - Unidentified Speaker

(interpreted) Our expected growth for the apparent consumption in Brazil of steel is about 3% for this year and we are working focusing on increasing our sales based on this -- making our sales grow more than the apparent consumption in the Brazilian market. So the prospect is of growth both in the apparent conceptual levels, as well as in our sales.

(interpreted) Just to add on that, I said that the apparent consumption throughout Brazil is a growth of approximately 3%. We are working so that our sales would exceed 5% growth.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(interpreted) Okay, perfect. Thank you.

Operator

(interpreted) Since there are no further questions, I would now like to turn the floor to Ronald Seckelmann for his final remarks.

A - Ronald Seckelmann {BIO 3722329 <GO>}

(interpreted) I would just like to thank you all again for attending this call and say that our investor relations team is available should you have any more -- should you wish any more details or information. Thank you very much.

Operator

The conference call of Usiminas has now ended. Thank you very much for attending and have a good afternoon. Thank you.