Q4 2012 Earnings Call

Company Participants

- Julian Eguren, CEO
- Marcelo Rodolfo Chara, Industrial Vice President
- Ronald Seckelmann, Financial and IRO
- Sergio Leite de Andrade, Chief Commercial Officer
- Silvia Pinheiro, Investor Relations

Other Participants

- Carlos de Alba, Analyst
- Ivan Fernandes, Analyst
- Ivano Westin, Analyst
- Marcelo Aguiar, Analyst
- Marcos Assumpcao, Analyst
- Miguel Menezes Falcao, Analyst
- Renato Antunes, Analyst
- Rodolfo D Angele, Analyst
- Rodrigo Barros, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant

Presentation

Operator

Good morning. Thank you for standing by. This is Usiminas Conference Call. At this time, all participants are connected in listen-only mode. Later on, we will conduct a session of questions-and-answers when further instructions for your participation will be given. (Operator Instructions) As a reminder, this conference call is being recorded.

Now, I would like to turn the conference over to Ms. Silvia Pinheiro from FIRB Financing Investor Relations. Please Ms. Pinheiro.

Silvia Pinheiro

Good morning, ladies and gentlemen. You're all welcome to the Usiminas conference call to announce the results of the fourth quarter of 2012 and yearly results. And this presentation along with slides is simultaneously being broadcast on the website www.usiminas.com/ri. There you can also have a copy of the company's release.

Before proceeding, I would like to mention that any forward-looking statements made in this conference call pertaining to business prospects of the company as well as projections, financial and operational targets and goals. They're forward-looking statements based on the assumptions of the company and these forward looking statements are based upon the conditions on the fields, industries, the macro-economic scenario of the country and therefore subject to changes.

Today with us, we have Usiminas executives, Mr. Julian Eguren, CEO; Mr. Ronald Seckelmann, Finance and IRO; Ms. Sergio Leite, Chief Commercial VP; Marcelo Rodolfo Chara, Industrial VP; Mr. Erwin, Technology and Quality VP; Paolo Felice Basseti, Subsidiaries VP; Ms. Nobuhiro Yamamoto, Corporate Planning VP; Vanderlei Schiller, Human Resources and Organizational Development VP, Mr. Wilfred Bruijn, Managing Director of Mining and Cristina Morgan, Head of IR.

First, Mr. Eguren will make a brief statement followed by Mr. Seckelmann who is going to present the results of the fourth quarter of 2012. Then afterwards, all executive officers will be available to answer any questions you may have.

Now, I would like to turn it over to Mr. Eguren.

Julian Eguren {BIO 16005078 <GO>}

Good morning everyone. I would like to thank you all for your participation in this conference call to announce the results of Usiminas. We consider 2012, a year of advancement and relevant progress. With many transformation processes which are still going on and will continue contributing for the improvement of the operation and financial performance of the company. Our objective was to increase competitiveness something that will continue in the next period. Usiminas is strongly focusing, is expanding efficiency of its operations in 2012 where it's just a working capital by more than 2 million real with the highlights to reduction in inventory along the yield. Also, had peaks in productivity in many different lines such as continuous in the ingot molding called (inaudible) galvanization with record numbers in the past 50 years of operations of Usiminas. At the same time, we had the reduction in costs for the production of (inaudible) with smaller transfer oscillate between Usiminas and the retirement of no use equipment.

We are going to try to make Usiminas increasingly more efficient in terms of production showing an absolute focus in increasing industrial excellence in its operation and rigid cost control. In spite of the challenging economic scenario for the increased consumption in flat steel in Brazil or in the world, Usiminas has started 2013 with a product portfolio that is modern and world-class. The consolidation of strategic investment in line of rolling and galvanization positions the company in a technological forefront in terms of flat steel in the country.

We have new tools in IT, supply chain, research and a quality management, they all quantify Usiminas to strengthen the development in the Brazilian and Latin American market. Our efforts for a more integrated relationship with our customers are committed towards and will continue to permit us to develop new products to offer to the entire industry, replacing imports with product that have been developed and manufactured in Brazil. 2012 was a year, when the sales of ore increased especially in the domestic market, where with used as synergy as possible within Usiminas.

Our investment in the Friable Projects which will provide imported increase in production of ore from 8 million to 12 million tons is still going on and within schedule and budget. Aware of the complex movement that the steel chain is going through both in the Brazil and the world, Usiminas will keep in 2013 a rigid cash control, indebtedness and CapEx. The reduction of operating cost and administrated expenses are goals to a contributed evolution of the competitiveness of the company.

In closing, I would like to highlight that we are convinced that initiatives of the governments to increase the competitiveness in the industry to reduce taxes on energy, bringing positive reforms and with so-called port war and increase in imports, steel rates will contribute to improve the results in 2013. Today, we continue our refreshing process to recover competitiveness of an increasingly more dynamic Usiminas that adapts to new reality every day of our business. All of that thanks to our effort. Thank you very much.

Ronald Seckelmann {BIO 3722329 <GO>}

Good morning everyone. I would now like to make a few comments using the slides that you can see. The first slide we compare some operating and financial results of the fourth quarter of 2012 as compared to the previous quarter. Then, the steel sales were practically stable and stay in spite of the fourth quarter being weak and the iron ore sales, we had a strong evolution or growth of 63% as compared to the previous quarter, the net revenue went down 5% as compared to the previous quarter and the EBITDA went out 7% between the two quarters, even considering the non-recurring effects of 62 million that took place in the previous quarter. In the following slide, we have the same operating and financial indicators applying to the entire year 2012 as compared to 2011.

Then, we see that the steel sales went up 16% between one year into the other as significantly increase in sales of steel products and the iron ore sales went up 10%. The net revenue went up 7% reaching 12.7 billion real in 2012. However, the operating results measured by EBITDA went down from 1300 million real to less than 800 million real with an EBITDA margin of 6% per year.

In the next slide, the sales volumes of steel products were opened five quarters with the breakdown of what is domestic market and export market and we see that the average level went up 16% as we saw previously. And the participation, the sales export market went from 18% to 7%. In the following slide, we have the same thing for mining, the average level went up 10% with the participation of exports went up from 14% to 22%. The next slide shows the evolution of our consolidated working capital. After successive quarters of decline, again we are entering the fourth quarter of 2012 to generate about 700 million real in cash through the release of funds from our working capital. In the year, the total was 2.2 billion real or $1 billion for the contribution of our operating generation of cash.

In the next slide, we see the details of an important component for reducing the working capital that is our inventories of few products including a product in progress. We went from 1.5 million tons at the end of 2011, at the end of 2012 little slightly more than 1 million tons, reduction of almost 500,000 tons in inventories. In terms of days of production it represents of 90 days at the end of 2011 to 51 days at the end of 2012.

In the next slide, we also see our efforts to rationalize the CapEx. As we have reiterated, the 2012 represented the end of a strong cycle of investments in the steel business and this can be clearly seen in this slide. And also marked the beginning of the new site of expansion of our mining projects and we can see as of 2011 and also in 2012, a more significant participation of mining in our CapEx breakdown.

In the next slide, we can see the cash evolution practically stable. Our cash was close to 4.7, 4.8 billion real alone the year of 2012. In the last quarter, we can see slight reduction of our indebtedness that was reduced by 5% in 2012, reaching a leverage of 4.7 times EBITDA at the end of the year.

So, these were the main points I would like to highlight in our presentation. And then, I would like to open the session of Q&A. Thank you.

Questions And Answers

Operator

Thank you.

(Operator Instructions) Our first question comes from the Mr. Rodrigo Barros from Deutsche Bank.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Good morning, everyone. Firstly, I would like to congratulate you for your strong effort for reduction of working capital, cost reduction. But at the same time, we have not seen a significant improvement in the earnings. I have two questions. First, in the process of Usiminas, can you give us an indication of how the EBITDA is being impacted by restructure [ph] of personnel, sales of these employees, below cost, retroactivity of the '13 salary? Can you explain the impact of that in the fourth quarter and how it would be the clean EBITDA of Usiminas, if we do not have the current non-recurring effect?

The second one is the possibility of Usiminas to cut or in the second half due to the delay in the Southeast port. Could you give the excess capacity of the steel to export ore in the second half of this year?

A - Julian Eguren {BIO 16005078 <GO>}

As regard to the first part of your question, I don't have an accurate number to give you concerning the effects that you mentioned. However, I would like to draw your attention to the fact that we have maintained the total volume of sales of steel products throughout the fourth quarter of 2011.

Also, the quarter was seasonably weaker. If you observe the participation of export in the total sales in the fourth quarter, it was higher than the third quarter. And we know that exports have a very reduced margin. So it contributes to the reduction of fixed cost. And then, I would not be able to quantify that to separate this effect, but undoubtedly, this help to explain why the margin of the fourth quarter did not improve as compared to the third quarter. And to the question as regard to shipping. I am going to pass through Bill. Good morning, Rodrigo. We got your question concerning the poor's in -- is a need of in a line with our volume of reduction anticipate it for the year between 6.5 million of sales its clear in our strategy. The participation in the export market which is very important to us and will give exploring this expense capacity that to -- has been announcing as well. The participation in the actions to -- it's by valley where the first one of -- took place and the second one is due to take place by the end of --. SO we are large and we will be taking advantage such are these opportunities is they arrived. Thank you.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Good morning, Rodrigo. With regard to your question concerning the port in Rio that I made and align with our volume of reduction anticipated for the year between 6 million, 6.5 million of sales, it's clear in our strategy, the participation in the export market, which is very important to us and will give exploring this expense capacity that CSN has been announcing as well. The participation in the auctions promoted by where the first one already took place and the second one is due to take place by the end of this half. So we are alert and we will be taking advantage of these opportunities if they arrive. Thank you.

Operator

Our next question comes from Ivano Westin from Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Good morning, everyone. The first question concerned mining. In the fourth quarter, you mention price adjustment in quality, quantity in terms of filed making. Could you share with us the details and the reasons for this agreement and should we expect some impact in future quarters? And the second question also about mining. Do you already have any novelty about your internal discussion about steel, iron and its development for the second phase and a concrete expansion plans that is part of your process of investment? Thank you.

A - Julian Eguren {BIO 16005078 <GO>}

Good morning. As to the numbers of the fourth quarter compared to the third quarter, well, in practice we have there some events which led to numbers, which are slightly different. If you compare the third -- the fourth quarter, first of all, the international scenario, which reached its lowest point in the third quarter. We had a recovery in the fourth quarter, we're still recovering those prices still going up. And secondly, a slight favorable split from the fourth to the third quarter and the second are the adjustments that we mentioned in our release in terms of quality and quantity that we have been discussing along the third quarter and then weak digits, everything, but the impact was felt in full in the fourth quarter, as to that and continuing in coming quarters that if you take out the adjustments, yes that may go on. And as to the compact project, which is the second phase of our expansion, it's being increasingly more detailed in terms of engineering, strategy, logistics, reduction capacity. We are in the final phase of all of these studies and analysis and then they will be submitted to our shareholders in future months. Thank you very much.

Q - Ivano Westin {BIO 17552393 <GO>}

Just a clarification. Is there any internal discussion about an uptake in mood or what is it that you're going to do.

A - Julian Eguren {BIO 16005078 <GO>}

No, we are not yet discussing the sale of assets of our mining assets and whole mining team is focused as I said shortly ago in a Friable project in finalizing and discussion of Friable project in terms of the schedule and budgets to make sure it meets both. So these are the two key areas where Usiminas working today. We don't have any conversation studies, decisions or anything in terms of selling them a part of it.

Q - Ivano Westin {BIO 17552393 <GO>}

Well, thank you very much.

Operator

Excuse me, our next question comes from Mr. Marcelo Aguiar from Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you very much for the opportunity. Good morning. So, taking advantage of what round of talks about leads which in my opinion was one of the main reasons why you didn't show more improvement in the fourth quarter. You exported a very large number of plates. Ronald, yourself Ronald or someone could you give us an idea of how much you exported in plates and do you expect to export in plates in 2013 because it has a lower margin?

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

Marcelo, good morning. This is Sergio Leite. As to the export of plates in 2013, we're expecting to reduce it as compared to 2012. One of the reasons is that we have a new rolling machine and we are going to use more plates in our rolling practices.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

But could you give us volumes 300, 400?

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

Marcelo well, we are going to have a significant reduction, okay. In 2012, we exported a total of 700,000 tons of blades. I think, that there will be a 30%, 40% reduction in 2013. Now, in terms of commercial and say, we announced many increases and reductions and discounts by CSN and Arcelor.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

What about you, so you did get something in the third quarter, should we be expect any price increases in the domestic market in the first or second quarters based on the market scenario?

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

Well, Marcelo, our expectation which is already real in terms of the first quarter is there much base on the behavior of prices in international market. And in the first quarter, it shows the buyers are high of increase, so as far as we usually do, we did something about distribution and the movement of increase that continued to manufacture in the first quarter of 2013. This is already a reality.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. Last question to Julian. As to inventory and stocking process that you have come to an end, it's been following up with the performance of production, costs per ton and product sold per ton. And there's still a very wide gap, could you give us an idea in terms of the first quarter in terms of the end of warehousing or inventory processes and what we should expect especially considering what we saw in the fourth quarter?

A - Julian Eguren {BIO 16005078 <GO>}

Our expectations are precisely bad, it's typical to put it into numbers. And so, we're having about 51 days of inventory, and so on the part of that is finished, but there is another part is intermediary product. So, the production costs and the cost of product sold, it's narrowed very much that gap. It will never close completely, but in fact these few curves are much likely to come closer together already in the first quarter. I wish that the production and manufacturing we want to fasten some operational initiatives that we are doing now, and in the coming months.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you very much.

A - Julian Eguren {BIO 16005078 <GO>}

We are fundamentally focusing on improving operational efficiency, focusing our actions on more efficient use of all of combinations, fuel, natural gas to increase with this type of process our operational efficiency and the cost reduction. Moreover, we are also strongly focused on increasing our production and focusing our production in the line that provides more efficiency and higher costs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you very much.

Operator

Excuse me, our next question comes from Mr. Marcos Assumpcao from Itau Corretora.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Hello, good morning everyone. My first question as regards investment. I would like you to give us perspective concerning the CapEx figures for 2013 and 2014 with the end of the heavy investment. The last one is for Julian. I would likely tell after the price increase for distribution in the first quarter, how is the previous compared to the international market for the others, which means you know the hot and cold, re-rolled coils and galvanize.

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

Good morning. So our estimate for CapEx for 2013 is 1.5 billion real slightly lower than 1.6 billion. That was dispersed in 2012. However, with a higher participation of the mining area as regards the end of the first phase of expansion that we call it friable project that will be completed in 2013 and a slight reduction in the steel making as we closed it having investment in rolling 2012. From now onwards seems 2013 and onwards, we have some expenses concerning major maintenance and remodeling. So 1.5 billion.

A - Julian Eguren {BIO 16005078 <GO>}

Marcos, in relation to your question that you called it premier and we called five different as compared to the imported products placed here in some following in the domestic market. After the increase in the cost of distribution and we depend on foreign exchange rate, but it's between 0% and 3%, closer to 3%. Just to supplement, a question to Ronald as regard to indebtedness. You closed the year with 4.7 times the net debt EBITDA ratio and the net indebtedness is not so high, but the EBIT is only very fair. Looking forward with an improvement in EBITDA, how do you see the situation as far as the end of 2013, a reduction in the indebt is by the improve -- through the improvement of EBITDA or do you expect some liquidities and to bring this figure to a more reasonable level?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Our indebtedness level will be improved and will be the result of two things, an improvement of the EBITDA, undoubtedly, and some reduction in the debt profile. They remind that we are in a process that takes along and where we leave the non-operating assets. We have several non-operating assets such as apartments and urban, landlords. So, we are working towards monetizing that. It takes time, it's not a quick process. It's going to be a combination of those things. Our estimates today is that we are going to be within the original limit of EBITDA contracted with our creditors in the mid of the year and according to our estimates, we'll be very close to three or slightly three by the end of the year.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Thank you, Ronald and thank you, guys.

Operator

Excuse me, ladies and gentlemen. We would like to ask you to be restricted to two questions at a time. Thank you. The next question Thiago Lofiego from Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning, everyone. I have two questions. First, in relation to Usiminas, we see the result of Usiminas, which are very volatile. What should we expect going forward, 2013 and 2014 concerning the backlog, from Usiminas and how can -- and when can we expect to see some improvement in the results? And the second one, as regards to price increase, as related to -- could you comment?

So, will the price increase continue in the distribution or please tell us about the industrial customers? Are you increasing the price in the automotive sector and also in relation to the second list of (inaudible) are you involved in this discussion? Could you please give us an update as regards this issue?

A - Julian Eguren {BIO 16005078 <GO>}

Good morning. Okay. Answering your question about Usinas, last year similar to what happened to Usinas devoted it's time to consolidate its operation to review the cost of contraction work and to gain the necessary productivity to enter in the new balance sheet in 2013. So we are trying to recover the margin and we were able to maintain Usinas in a balanced position in one of the worst year for capital goods, considering that the market was quite unstable. And the prospects so Usinas is ready to enter 2013 with a higher productivity, new orders entering our portfolio and more balanced position considering the mix of the portfolio.

In relation to prices, we applied it to distribution in January and we are now negotiating with the industry and these negotiations will materialize in February, March and April.

In relation to the automotive sector, we have yearly and sometimes have yearly contracts that were closed last year. So up to now we are fulfilling our contracts entered with automotive. As regards the less of 100 products being analyzed by the government. We through the -- at Brazil we have presented our request to the government. This analysis to justify the government and our expectation is for the second list to be ready in the second quarter of this year.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. Excellent. Thank you.

Operator

Next question from Mr. Renato Antunes from Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

Good morning, everyone. The first question, going back to the use of Usinas mining, could you share more with us about the use of cash and compact? [ph] How does the use of cash -- the used cash in other units too? And the second question concerns working capital and after the excellent work along 2013, did you improve as much as possible working capital or should we think in terms of EBITDA and liquidity to see lower leverage rate? Thank you.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Thank you very much for the questions. This is Ronald. About more MUSA, MUSA is completely controlled by Usiminas. We have partner Sumitomo 30% share and the cash of MUSA must be used to make investment at MUSA or maybe or occasionally to pay dividends to shareholders. So there is one channel of communication between MUSA's cash and the controller -- the controlling company Usiminas. However in terms of contracts, I would just like to say how our decent behavior of prices of iron ore and there is a project, a mining project still present a high level of attractiveness what we are doing is just -- we are just being careful in having a very detailed planning.

And in terms of working capital, we believe that the main challenge from now on will be to keep the working capital at the low levels that we have managed to reach late last year. We are expecting to grow our sales in a domestic market and this expectation comes from a forecast of area, that increase in consumption of flat steel in Brazil should increase 2% in this year in Brazil.

Just to remind you when last year consumptions failed at the equal levels we grew 4%. Therefore, if the market is going to grow free I think that we can grow slightly more than that and also in terms of production and in terms of imports of steel to Brazil and we're also very well positioned in this area to capture most of this replacement of import. So, I believe that from now on we are going to keep our working capital at a level that we have reached in spite of the increase in the volume of sales.

Operator

Excuse me, our next question comes from Mr. Carlos de Alba from Morgan Stanley.

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

Thank you very much. Good morning everyone, my question, the question, so the first one is on the covenants. Could you remind us exactly what are returns as per the negotiation that you had last year? I believe that the next assessment will be in June and I am seeing the threshold is 375 times net debt-to-EBITDA, but I also understand that these are very small part of the total debt that has these covenants. So if you can give us some details, I would appreciate that. And the second question is if you can just mention again the third-party shipments of iron ore that you expect in 2013. Did I assume correctly there is 6 million to 7 million tonnes of third-party sales in iron ore. Thank you.

A - Julian Eguren {BIO 16005078 <GO>}

Good morning, Carlos. Well, the first part of your question in regards the negotiation that we described related to the covenants of our contract. Is that right? Well, in fact, and already in the middle of last year, we've renegotiated those clauses both for the period of measurement of June 2012, as well as for the measurement period of December 2012. Now in the next measurement period in June 2013, the levels will be again, the levels that were originally contracted with each creditor. So on the whole, the main rate is the leverage rate, net debt over EBITDA and in most contracts it is 3.5 times.

A - Ronald Seckelmann {BIO 3722329 <GO>}

The other question is about sales volume of mining. Hi, Carlos. Good morning. As to your question in terms of which are the sales to third parties, well, we can explain this in the following. Essentially in the group of sales to third parties we have exports. So sales meant for the international markets. We also have sales to mining -- to domestic mining companies and steel companies and also to the pig iron markets in the local market close to our operations in Minas Gerais. Therefore, our sales to third parties includes the which categories of buyers.

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

Can you give us the expectations of shipments to those buyers in 2013?

A - Julian Eguren {BIO 16005078 <GO>}

Yes. For 2013, our sales expectations subjects to availability, of course, obviously as we have said before, lies between 6 million to 6.5 million funds.

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

All right. Thank you very much.

Operator

Our next question comes from Mr. Ivan Fernandes from Barclays.

Q - Ivan Fernandes {BIO 22125325 <GO>}

Good morning, everyone. Thank you for the call. This question, just a follow-up on the covenants and so you had June and December last year, so what is EBITDA that you're using for this calculation? When you say that it should be well below those numbers considering the now net level is at 4.7? And what is your EBITDA expectations for the first six months of this year to make you so confident that it will be able to okay until June? Could you share that with us please?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Well, our expectation is based on the preliminary numbers in our budget for 2013 that will be presented to the Board of Directors in the March. So this budget has not yet been formally approved by the Board. And for these reason, I cannot disclose these numbers.

But according to our projections and also based on the expectation of some operational or not so operational numbers, we are confident that we will meet the covenants that we have.

A - Julian Eguren {BIO 16005078 <GO>}

Now, Julian speaking. Also as Ronald was saying and the whole Board of Directors and the executive officers, we wanted to -- let's say that we may have non-operational factors, but there are some operational factors, certain shares in the automotives that's we -- there is a process going on. And the whole last year, even though the year was very complicated in terms of sales of trucks, the company was restructured and there was a process of transformation improvement and we have a process going on that we also hope we'll be able to be realized during the first half of this year.

Q - Ivan Fernandes {BIO 22125325 <GO>}

Could you share any guidance with us in terms of ballpark levels for this number?

A - Julian Eguren {BIO 16005078 <GO>}

Well, no. Unfortunately, we cannot disclose the guidance. We already have some conversations going on. So it wouldn't be recommendable for us to mention amounts right now.

Just to add the one piece of comments, in fact, last year the impact of restructuring and the work to gain productivity -- productiveness and -- in the automotive area, the EBITDA margin was 13% to 14%, and with our respect to industry where automotive is operating, enhanced a overestimated performance. Also, I think that automotive, which is a client of Usiminas is ready and positioned to cover, to get to another level and to do this as a company that once to help, to develop and that we consider that automotive is like a coal business.

Q - Ivan Fernandes {BIO 22125325 <GO>}

Okay. Just one other question about the pension plan of mining activities, you mentioned that you've been growing from 8 million to 12 million, the end of this first expansion phase, when you do expect that?

A - Julian Eguren {BIO 16005078 <GO>}

Now, I am going -- so at the end of the Friable Project, it should be end by the third quarter of this year. That's right, we're really excited the project is in its final phase of implementation. We have had a rainy season that was not too raining, which helped to and now we're going to start capacity starting in August this year.

A - Ronald Seckelmann {BIO 3722329 <GO>}

So, I would like to add that this year, we did something very interesting, not only are we going to have a new installation at the end of the third quarter, but clearly, more that is entering the second quarter of this year with a projected flexibility, which is very interesting and will allow us to reduce the number of plants having the equivalent volume. And also, we are going to be able to consume part of the inventory of the company that we could not use it.

So I think that moves is a company as of the second half is going to have an operational flexibility and operational rigor, which is quite differentiated as compared to last year.

Q - Ivan Fernandes {BIO 22125325 <GO>}

Okay. Thank you. The price increasing still that you had in the January, could you give us an average increase, I would like to have an average figure, I know it's different for each one?

A - Ronald Seckelmann {BIO 3722329 <GO>}

The average figure is about 5%.

Q - Ivan Fernandes {BIO 22125325 <GO>}

Thank you very much.

Operator

Next question comes from Mr. Miguel from HSBC.

Q - Miguel Menezes Falcao {BIO 17481409 <GO>}

Hello. Good morning. I would like to ask a question about the negative concerning cost reduction for the future. What we still have to do, if you look, these are some example, in terms of initiatives, of impact, I would -- thank you. And also the second question is about guidance as regards to margins and also for volumes and prices. Thank you.

A - Julian Eguren {BIO 16005078 <GO>}

Miguel, now talking about the improvements, cost reduction and activities that we are implementing, I'm going to give the floor to Marcelo Rodolfo. We have several activity that will be developed along the year to improve the cost status of the company. For example, the (inaudible) is also analyzing the possibility of retirement line of continuous ingot molding. We have two machines and then we are going to have the same level, and the industrial engineering analyzed the possibility of using our new machine for continuous casting and similar to this we have several initiatives. Marcelo?

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

It's very important in the processing industrial process, their maintenance. And we now adopt a strategic position. We have done the recovery where we do the repairs and maintenance and energy and trying to improve the maintenance. Everything now is centralized in the mills. This has generated a synergy in labor with a trough to celebration concentrated in the presentation and the development of exports based on a very important component. And you can notice that all of these impacts rationalizing the repairs, the intervention in the equipment.

And this has a high impact in the steel industry and this will be a benefit. And we are going through this process right now, Miguel. As regards to the guidance, we are projecting to see a total sales for 6 million, 6.5 million tons in the domestic and export market. Our fixation is still have an interest in the domestic market between 80% to 85%. As Ronald mentioned, previously the sectation (inaudible) is 12th of the market, we have about 3%. So we want to grow our sales beyond 5%. As regards as guidance for margin and pricing, we cannot keep this side and hear. I would like to mention that, we are going to reach the end of March with the price level better than at the end of December in the domestic market. So what's going to happen after April, it's hard to guess.

Q - Miguel Menezes Falcao {BIO 17481409 <GO>}

Thank you.

Operator

Next question comes from (inaudible).

Q - Unidentified Participant

Good morning. I would like to ask a question substantially, I have a market information that the price increase that would remain as would be (inaudible) of January, would only be for the clients who have not had any price increase in the third quarter?

A - Julian Eguren {BIO 16005078 <GO>}

I would like to add few and confirm or is it the positive, those who had an increase in the third quarter will also have an increase. So the answer is the second part of your question, the price increase that we're starting to apply in confidence of all customers, even those who had price increase in July and August. There is going to be a new price increase.

Operator

Our next question comes from Marcelo Aguiar from Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Hello. Thank you for allowing me to ask another question. Just to clarify a few members that didn't get the real -- the guidance for total volume for the year in few -- our guidance is the total sales of 6 to 6.5 tonnes of products with a market share in a domestic market between 80% and 85%? And in the case in terms of mining you said between 6 and 6.5, this is for third-parties, as it was very clear. How much is for internal transferred to your own plant? How much of that would go?

A - Julian Eguren {BIO 16005078 <GO>}

As my fellow, as we've said before our guidance of sales ranges between 6 and 6.5 when sales to third-parties ranging around 1.5 to 2.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay, because it wasn't clear, because I think that you had said 6 and 6.5 was just for third parties. You said that you're going to start a new operation of Friables in the second half of this financial and you're sending both for internal, the same numbers as 2012. Is that right?

A - Julian Eguren {BIO 16005078 <GO>}

Yes, that's right. With the advantage that having force availability and competitive prices in the fourth quarter, we might increase it slightly but this will depend on the evolution of force availability along the year.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Do you think you would already be capable in terms of operations to produce 100% of capacity on January 1, 2014 or is there any problem?

A - Julian Eguren {BIO 16005078 <GO>}

Yes, we won't have capacity.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

One last question, I apologize. As to the use of people, your own staff and then outsourced. Could you share a number with us in terms of your own labor and third-party labor for 2013 and the same number in 2011 and whether there is still room for continuing optimization along here.

A - Julian Eguren {BIO 16005078 <GO>}

Marcelo, good morning. Now, and this is (inaudible) answer. In fact, there was a reorganization of our labor force with many different movements. At the same time, some people retire, voluntary retirement positions which cannot replace and we reconsidered some activities such as maintenance as Marcelo has just mentioned in any few improved efficiency quality and operational efficiency. Also, we have annual functional centralization thinking enhanced inefficiency, which made it possible for us not to replay people who have left the company.

At the same time, some projects did not come through along the last month, with the reduction of the head count. We have also in source some activities and all of that translated into a different composition of our labor force in terms of third party, as many contracts have been revised, others were cancelled and this will provide a good impact in the cost of services for 2013. We are to continue in this movement, industrial engineering is still working that in our manufacturing, and so as to optimize the head count and increase productivity which might be due to some lay off or some dismissals but it will be gradual obviously. We're also revising the used efficiency of cost reduction of each contract. And new administrative activities, we're advancing with IT which provide us for the continuing productivity chains that are sustainable in time. In parallel, we are also working intensely to meet the new challenges with strong investment in professional qualification program. In addition to a very ambitious program of education for talent.

We are also preparing a training program that will become operational -- will be implemented in the second half of the year. So, as the structure and organize flow for the preparation of people to work in this new scenario. As with our many different movements that are changing the layout of our labor force significantly already in 2012 and we are going to continue this in this year that has just started.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you very much for the detailed explanation. Just for me to calculating newer models. What was the total number of old and outsourced head count?

A - Julian Eguren {BIO 16005078 <GO>}

Much although, I don't have that number right now and maybe you should call then afterwards, Investor Relations, then we can give you these numbers.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay, thank you.

Operator

The next question comes from Rodolfo D Angele from JP Morgan.

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

I would like to confirm an information that Julian gave in his reply to one of the question concerning their new continuous (inaudible). Could you explain it a little better, I do not fight and exchange revenge.

A - Julian Eguren {BIO 16005078 <GO>}

We are talking about the destination. Today, there is (inaudible) four continued cash in lines. We have disconnected one and now we are operating with three continuous caching, but continuing the fastest concerning efficiency and productivity and use of our teams, we are considering the possibility being the future to close another line of the (inaudible) the operation. Our team is working on that and see how they can close another line of molding. Our in line with that, we have been (inaudible) and to concentrate the operation. So, we increased the production in 7% in 2012, the same industrial production was done with 6 machines. And as a result of that in the case of (inaudible) will be the first. We had a historical record in the production. Maximize the production and reducing the sick coils and the line three of you (inaudible) is very important in terms of quality of production equipment, so we'll also had record production along these lines. We're concentrating production in the machines that have the highest productivity. Thank you. It really makes sense. Thank you.

Operator

Thank you, sir. So, now we are closing the Q&A session. I would like to pass the floor to Mr. Ronald Seckelmann for his final or closing statements.

A - Ronald Seckelmann {BIO 3722329 <GO>}

I would like to thank the participation of everyone and the questions that gave us the opportunity of talking about what we are doing at Usiminas to improve our earnings and meet the expectations of our investors and shareholders. Thank you.

Operator

Thank you. So, this conclude the Usiminas' conference today. Thank you for your participation and have a nice afternoon. Thank you.