Q3 2017 Earnings Call

Company Participants

- Ronald Seckelmann, Chief Financial Officer
- Sergio Leite de Andrade, Chief Executive Officer
- Unidentified Participant

Other Participants

- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Milton Sullyvan, Analyst
- Ranand Christian, Analyst
- Thiago Ojea, Analyst

Presentation

Operator

Good morning ladies and gentlemen Welcome to the conference call of Usiminas to announce the results of the Third Quarter of 2017. All participants will be connected in listen-only mode. We are going to have a Q&A session when further instructions for your participation will be provided. (Operator Instructions). As a reminder this conference call is being recorded.

This presentation along with the slide deck is being simultaneously transmitted on the Internet at the website www.usiminas.com/I wherein you can also have a copy of the Company's press release. Participants listening to English they also ask questions to speakers. Before continue, we would like to clarify that statements made during this conference call relative to the Company's business prospect, operational and financial projections and goals relative to its growth potential are forward-looking statements based on the Company's expectations regarding the future.

Forward-looking statements are highly dependent on the performance of this field industry and economic scenario of the country. And we are on a situation of international markets and therefore, subject to changes. Today with us, we have the Executive Officers of Usiminas, Mr. Sergio Leite, President and Vice President of Technology and Quality and Vice President of Sales; Ronald Seckelmann, CFO and IRO and also Vice President Officer and Subsidiaries; Tulio Chipoletti, Industrial Vice President; Takahiro Mori, Corporate Planning, VP; (inaudible) General Manager of Mining Operations Usimina; Heitor Takaki, Chief Executive Officer Usiminas Mecanica (inaudible) Manger of Investor Relations. To start with (inaudible) going to make up your consideration then Mr. Seckelmann is going to present the results of the third quarter of 2017. Afterwards all Executive Officers will be available to answer any questions you may have. Now I would like to give the floor to Sergio Leite.

Sergio Leite de Andrade {BIO 6771322 <GO>}

Good morning to everyone, on behalf of Usiminas team, I would like to thank you all for your presence to our Companys conference call. The results that we are reporting today represent the consolidation of - that we have been traveling for a few quarters. And most notably after the publication of the second quarter, we started a new phase as Usiminas the fourth phase of a phase of a three year period, as we said before. Also these three years we have gone through three very difficult periods for Usiminas.

The first one and during 2015 as of the fourth quarter of 2014 when we saw a deterioration of our performance, continuous deterioration in the early 2016. We went through a very critical time in our company when we ran the risk of filing for bankruptcy. After in May 2016 we started a very - very focused on generating results and producing good performance, and as you remember back then and year-to-date numbers 12 months, both in the first and the second half of the year, we had negative EBITDA and then thanks to the work of our whole team we gradually improved our results on the second quarter, we showed the good results for the last 12 months and as you are going to see next the results for third quarter consolidated.

And if you look at the results of the third quarter, and youll see the last 12 months our accumulated EBITDA in $1 billion, $980 million. So the result of the last 12 months ending on September 30 its a period to what we had in the years of 2013 and 2014. So Usiminas is going back to the level that we were in terms of generating EBITDA in that period just before the crisis that we went through. On this new phase as we said before, we are working under the leadership of the group of 10 - very important pillars for the company. Number one, people that are the most important asset of our Company; Number 2 customers; and the third is the generation of results. We are working strongly on these three pillars and today for example, we can report a net debt over EBITDA ratio, that is at the level that slightly above two which is at same level that we had in 2013 and 2014.

And when we consider our net debt over EBITDA we worked intensely over the past four, five quarters very much on EBITDA. And now on the fourth quarter, and on the beginning of the first quarter of 2018 we'll be working on amortizing our debt and so between December and January as you all know, we will be amortizing about 900 million BRL of our debt. And we were committed to amortize it after September 2019, so we are advancing it. For more than one year and a half, right now we are working here at the Company and intensely discussing internally our strategic plan as we mentioned in our last conference call that we would discuss it again in our Company. After three years without discussing our strategic plan for the reasons I have already mentioned, we are discussing our plans for 2018, 2022.

We have started a project, which is the first strategic project of Usiminas in the new phase that we started in July, which is a project focusing on people, it's a partnership with (Inaudible) Foundation and we call it the pillars of leadership and we want to prepare - of

382 leaders of our foreign companies - challenges within Usiminas will be facing in future years.

Yesterday we celebrated and the 55th anniversary of Usiminas and so we celebrated in all websites of the Company, we have our conference call gathering more than 500 people to celebrate - the day when our - went live 55 years ago and symbolically we lift the flame of the phase of Usiminas of building the next 50 or 100 years. So, I would also like to take the opportunity to share with you that last week I participated in Brussels in the World Steel Association meeting, as the World Steel Associations international organization yeah there is - of manufacturers. More than 160 companies representing 85% of the world steel in this event (inaudible) granted, there were 11 Awards granted and more than 160 companies ran for all of them with Usiminas we ceased two awards Excellence in Sustainability with the project caps of the valley which is a project we developed in the metropolitan region (inaudible) and we also received an Excellence award in Occupational Safety. With the Safe Hands project that we conduct in all our company. So we are working very hard the commitment which I take on behalf of Usiminas team before all Usiminas stakeholders and all of you listening to us now that we the Usiminas team will work very hard doing our best joining all the three ports in our company. Brazilians representing most of our workforce the forthcoming from Maples Field the technology, and the force of management. Joining these very forces, we have been able to head towards the future and our commitment is to build our company on the everyday practice and to reposition it as an preference company in steel business both in Brazil and globally and also in the Brazilin society. Above all, we wish with Usiminas -- that Usiminas is referencing quality with a highlight in quality and customer service and we will also want to be a referencing management that we are investing strongly in Usiminas to have - increasingly more robust management.

Now I would like to give the floor to our CFO, Ronald like to present the performance of the quarter. Thank you all very much.

Ronald Seckelmann {BIO 3722329 <GO>}

Thank you, Sergio.

Good afternoon to everyone I am going to make a few comments. And I will be using a slide desk that you can access on the Internet. The first slide, you can see some operational and financial indicators as the highlight steel sales that exceeded the barrier of 1 million ton in the quarter and this is a goal that from now on we wants to keep.

Iron ore sales reached 904 tons in this quarter marked the return of Usiminas mining to the foreign markets. Our Adjusted EBITDA where you can see in the green column to the left, the reported results for each quarter and in the blue column to the right you can see the results that we can see there, the recurring results and this quarter its very close to the level of BRL500 million.

And lastly, our net income -- net profit highlighting and discounting FX variation and other non-recurring events such as the (inaudible) agreement. It's important to highlight that in the first nine months of this year, we have accumulated BRL316 million positive numbers as proposed to more than 300 negative in the same period last year.

On the next slide, you can see the quarter-on-quarter evolution of steel sales a growth of 5% in sales in the domestic market in reduction in exports, but in spite of that our volume is in excess of 1 million ton this quarter.

The next slide shows the evolution of our EBITDA in our EBITDA margin of steel business also according to the concept in which the blue bars to the left show. Excluding extraordinary effect and in green you can see our reported EBITDA. So we are talking about steel here, showing our result this quarter that is close to BRL450 million.

Now moving to mining if we break down the quarterly sales volume with a strong growth in iron ore consumption by our (inaudible) and the first export. This year and ship of 175,000 tons thats shipped in September on marking the return of Usiminas mining to the foreign market.

The next slide shows the evolution of EBITDA in EBITDA margin of our mining businesses and the highlight in the quarter is maintenance of a recurring result of BRL27 million in line with the results reported last quarter taking out the effects of our (inaudible) agreement.

On the next slide, you can see the results of sales volumes of Usiminas field transformation over the past 12 months we accumulated BRL19 million which is the best results for Usiminas solutions everything fits opening about seven years ago.

The next slide shows Usiminas Mecanica -- Mecanica of Usiminas. There was a non-recurring event of (inaudible) which is the result on Usiminas and joining a program for tax exemption or tax waiver product in (inaudible) program when we joined this program Usiminas Mecanica was our arm or branch that have the most benefit from us joining this program. If we take out the effects of this program Usiminas Mecanica and follows on its path of having a stable zero or close to zero in terms of EBITDA, in spite it's operating. It is very low capacity use.

The next chart shows our EBITDA and EBITDA margin consolidated numbers. Once again in green you can see the reported EBITDA to the right and on the blue column to the left you can see our EBITDA excluding extraordinary effect and in the quarter we are close to BRL500 million.

Then the next slide shows the evolution of G&A expenses which remains at a level that's slightly below 4% of our net income or net revenue rather.

On the next slide, we have working capital, it's stable as compared to the previous quarter. And the new normal level considering the current production volume in (inaudible) and as a consequence the inventory of the steel plates that we have bought. The other chart shows the steel inventory despite of the working capital, as an evidence that this volume is very stable.

The next slide shows our debt cash position and net debt with a slight reduction in the growth debt especially because of a value FX evaluation that BRL are pretty compared to the dollar. An increase in cash, which obviously reduces our net debt by more than BRL200 million.

The next slide is CapEx, it remains low. Actually different from what we reported last quarter. We expect it to reach before the end of the year CapEx of BRL250 million (inaudible) BRL200 million before the end of the year. Meaning that there will be a relatively significant turnover of CapEx next year.

Last year, that highlights that Joe has already mentioned. So we will received two awards from the World Steel Association, one in sustainability the other one in Occupational Safety and new quality certifications that Usiminas has won, and the performance of our share that you monitor closely. We are one of the company -- the one that increased the most its value in the stalk exchange definitely one of the -- one that increased the most. And our ratings upgrade with risk classification agencies. This is all I had to say and now we are here available to answer any questions you may have.

Thank you all very much.

Questions And Answers

Operator

Ladies and gentlemen we are now going to start our Q&A session. (Operator Instructions). Our first question comes from Thiago Ojea from Citibank.

Q - Thiago Ojea {BIO 17363756 <GO>}

Good morning, everyone. Thank you for the question. My two questions are, the first one about steel prices. We have seen a quarter-on-quarter increase of 1% in spite of the improvement in the mix, both in the domestic and exports market. And also we expected a carryover of the latest price increases that you implemented. Could you comment why it did not go up as much we expected in -- expectations for the fourth quarter? And my second question regarding cash generation. So there was a significant cash generation this quarter, but in the line of others in operational activities. The BRL191 million and I think this is due to the agreement with (inaudible) with additional cash coming in, is this right? And what, do you think would be the cash flow in the next quarter, next year, bearing in mind or considering that you have a unstable level of operations.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Good afternoon Thiago. First, I'm going to answer your second question, which is easier and then I'll turn it over to Sergio. In fact you are right, the frequent cash flow this quarter had a positive impact because we received the funds from the agreement (inaudible) and this agreement and its effects were booked last quarter, but we only received it this quarter and the expectation for the next quarter, in Generation of a positive cash flow. Now I'll turn it over to Sergio, for him to talk about price.

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

Good afternoon, Sergio. First of all, I would like to see. We didn't expect any carry over from the second to the third quarter. As you remember when we had our conference call for the first quarter, we had a price difference that was an excess of 20%. So during the second quarter, we did not have an increase, the result of the second quarter. And when we published it there was any increase of 4.1% which is a carryover from Q1.

So the impact that you mentioned of 1% is more or less in line with what we expected because the increases that we had in distribution in the third quarter we started with an increasing late July with hot and cold sheets. So what we expect that is an increase in the fourth quarter. So our expectation for Q4 comparing with the third one, the price increase of 2%. Consider that 2% is already accounted for in the quarter.

So in a nutshell, this is what we have to say about pricing. As to Q4 we even reported to our customers that we were going to have an increase in early October, within early September and then when international prices were $595, $597 per ton. We did not implement this increase. In September and October it went back to the level of $565 per ton.

Q - Thiago Ojea {BIO 17363756 <GO>}

Could you mentioned something about the mix -- what do you expect for Q4?

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

What we will expect for 4Q for in terms of volume. The volume is similar in as to the third quarter. Thinking that there is seasonality for the fourth quarter after December 15th. There is a marathon for collective vacation in our customers. But in spite of that scenario, we are expecting our volume in domestic market that will be equivalent to the third quarter with the price variation as I was expecting with an impact of the price increases up the third quarter.

As Ronald mentioned, we are going to have a volume in the fourth quarter. Our volume will be greater than 1 million ton, greater than the third quarter, but would grow in exports. Thank you very much for your question.

Operator

Our next question comes from (inaudible) from the Bank of America Merrill Lynch.

A - Unidentified Participant

Good afternoon to everyone. Thank you for the question. The first one is related to price increases, just to mention there is an increase expected of 4% in the third quarter just to confirm this number. Additionally, what about the automotive negotiation what do you expect for the first quarter, the other question regarding cost. So its better than expected in terms of production cost, what do you expect in terms of evolution from the fourth to the first quarter considering that there might be variations in raw materials, considering Today scenario?

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

While regards to prices, the 4% that said, was a variation from the second to the first. Our expectations from the fourth to the third is 2% as that result of carry over half of the increases that we implemented in distribution in the third quarter. As to the automobile industry, we have contracts that are good for one year and they are usually negotiated between the third and fourth quarter. We have already initiated negotiations in the third quarter, our expectation based on our history of 10,15, 20 years negotiations that take more time two or three months, they are going on (inaudible). And what I can tell you that the number is 25% as compared to the price in December 31 was to same price as December 20 17. Now, we needed to wait until the negotiations are finished, but the number is 25%.

About cost, In fact, the cost increase comes from COGF as we have said in the second quarter, we expected a 4%, 5% increase and it's about 2%, so it's slightly better really. Our expectations for Q4 is stability on one hand the coal prices are likely to drop as well as the cost of iron ore. But the cost of plates is likely to be turn slightly higher because in the third quarter there will be plates or slabs that will be more expensive. So more likely in the fourth quarter, we are going to have a stability of cost. Thank you very much.

Operator

Our next question comes from Leonardo Correa from BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon to everyone. Thank you for taking my question. My first question regarding CapEx, these are very low level. One fraction of the level of depreciation of the company, there is a major discussion on what is the level of occurrence and when we will be able to see an analyzation of this CapEx level, which is at the adjusted level - the level is adjusted for the crises and now we are coming out from challenging times and things are improving more. In terms of CapEx for future years, I would like to hear from Sergio regarding (inaudible) time and that we have seen the major change in the industrial configuration of using unit over the past 12 months (inaudible) everything being turned off and its changing its nature.

So when you see more intense activity and that is becoming more and more informal. So when Usiminas come back in terms of its mill and processing of similar to repacking. The other question and we put everything in the equation price, cost they are non-information in the company, on the industrial side. How can we think about sustainability of margins of 17%, Usiminas have been delivering a high EBITDA margin in fact with more recently. If you look in terms of global benchmark of 17%, 20% is one not the most profitable levels, in the world, and I would like to hear from you. In terms of sustainability looking into the future, how do you see the profitability of the company over the next few quarters, do you think you can keep this level which is at peak globally speaking?

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

Leonardo with regards to our business model in (inaudible) we think it is following in January of 2016 we temporarily discontinued our operations in primary area of Cubatao. No, when we made this decision this was temporary for five year more or less. So we have also always that a possible going back for one of the premises of Cubatao its highly dependent on the performance of the Brazilian economy. So what I can tell you is that if (inaudible) blast furnace will operate again as of January the first. So it represents a generation of more than 20% in terms of slab, in terms of availability of slab for rolling both in (inaudible) would be another 15% growth. So right now, there is no I mean, focusing on the recovery on the primary as of Cubatao going back into operation. But - the Brazilin economy is recovering now, in Cubatao we have our hot rolling mill - and so we have Mitsubishi, Hitachi. So this hot roll has a capacity of 200,000 tons. We operated in the half quarter 100,000 tons in the third quarter, we operated as a higher level over 122,000 tons a month and in the fourth quarter, we are going to operate at the level of 140,000 a month. So our point of equilibrium is 100 tons a month. So the work will depend on the price of slab international prices. And our goal is to make full use of this mill. Now this will depend on price conditions international market and both will regards two plats and the hot rolls. So we are going to operate at a level close to 240,000 tons a month. Now I'll turn you over to Ronald.

A - Ronald Seckelmann {BIO 3722329 <GO>}

I'm going to say a few things about sustainability of our margin. The last three quarters and its very easy to see this in initial presentation. Sometimes we wants to see clearly, the sustainable results taking out non-recurring event of our scale of business every quarter and then you can see that we have been reducing or generating margin between BRL450 and BRL500 per ton of steel sold. So this taking out any non-recurring event in our division in keeping the current condition is our sustainable margins and margins that may grow as the volume with positively. What is the risk in the sustainability of these margins, China. China today determines the steel prices in the global market. In China also determined the prices on the main raw materials, iron ore and coal. So in answering your question about sustainability, it's much more. So, the answer to this is much more with China that with us. With regards to what we can do, we believe that the current margin level is stable with a high buyers considering volume increase.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay. This is clear. Thank you.

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

So now you also asked about CapEx and you mentioned about the lines we have in Cubatao - and in Cubatao there is a slab line that is ideal we have a hot rolling that is ideal to our primary yields. Black furnace is steel and cock. So this is all explained by our CapEx. So in 2017, we will be investing below what we expected because going back to the CapEx level, when we adjusted for their intents and crisis, it takes longer than we expected. So part of what we expect is to spend in 2017. We will spend in 2018. So the CapEx level for 2018 is its bound to grow considerably. But 2017 is really an outlier; it's slightly below than what we originally expected.

Q - Leonardo Correa {BIO 16441222 <GO>}

This is clear if you could answer, what is the level for 2018 in terms of CapEx that you expect? And when - if you look in the outlook in the future, that you will need to invest slightly more CapEx to recover your assets being. This one question in another point, just to clarify what you said before. I am not sure you understand correctly, I apologize.

Just in terms of price cost for the Q4, you mentioned a price increase on the average of 2% or 4%. I wasn't very clear whether it's 2% or 4% for the fourth quarter. And the 500 standard cost will be stable quarter-on-quarter.

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

Just reinforcing. Number four, if you're in the call, when I talk about the second quarter compared to the first quarter. And the fourth quarter compared to the third quarter, our expectation is an increasing average prices of 2%. As to costs that said before the cost is stable. Comparing the fourth quarter to the third quarter. Thank you very much. (Inaudible) we still working in our budget the carryover from 2017, will be 150 or something like that. This is the carryover, that we are not going to spend this year that we will spend next year.

Q - Leonardo Correa {BIO 16441222 <GO>}

When will the company spend more to replace equipment, when it is in at full production capacity. Now you are talking about the last (inaudible) between 2021 and 20 22 with our large furnace (inaudible) with two years in between our renovating of our glass furnaces one and two.

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

So only after 2021, 2022 will, we will have a substantial increase in CapEx considering the need of recovering our glass furnaces in terms of full operation, until then we are going to have maintenance CapEx is rolling in our rolling lines. I cannot give you any numbers because we are adapting to this new modes apparently. But the difference in CapEx and then you are only going to see a sharp increase after 2021, 2022 and from there on.

Operator

Thank you very much. Our next question comes from (inaudible).

A - Unidentified Participant

Thank you. I have two questions. Do you think it sounds reasonable that your volume increased by 10%. Next year in this scenario of stronger demand, (inaudible) premium next year, if we think of 2018? And also its part of my question, your EBITDA goal was BRL400 million and you may have said that more than a year ago. I think you have reached it, right? So looking into this future, is it seasonable recurring EBITDA close to 600 million per quarter or do you think it's too early to say that? And my last question to Ronald when you mentioned production cost, and when you said, its stable because of the third quarter is it high or is it stable.

A - Ronald Seckelmann {BIO 3722329 <GO>}

I think its a potential for it to drop, I would like just you to clarify that. Thank you.

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

With regards to the market, what we saw in 2017, its just the end of 2016. The most marking impacting terms of the market was interruption of a drop in the complexion of last year in Brazil, which has been going on since 2014. Now what we are seeing now in the market and when we compare the third and to the second quarter, we can see several - first there was some stability. So first we hit the bottom and now we see some stability. With regards to 2018 our expectation and we are working on this number. And but if we expect GDP to grow up, 2.4 according to (inaudible) we are expecting the market of steel to grow, which might get to 10%. And what I can say to you Usiminas will monitor the growth of the Brazilian markets of flat steel, if it grows 10%, and Usiminas will grow 10% too. As to price differences as you must have observed, in terms of our equilibrium price - right now to be the price difference is about 10%. So thats why we do not apply what we had mentioned, and as you can see our pricing managing for distribution and hence monitored (inaudible). So next year we are going to keep the same pricing policy, so the difference is - is 5% to 10% and obviously once it gets to 5%, there is room for movement. But the policy remains the same, with regards to our managements goals, EBITDA management goals, last year in May, 2016 when I joined - when I took office. So we had an internal management model our EBITDA was negative for the last 12 months, so our goals was R$ 100 million EBITDA a month. And we have achieved this goal, in the third quarter last year (inaudible) BRL400 million per quarter which would be an excess of 130 per month. For next year we are - right now working on the budget, so right now we dont have any goals with regards to EBITDA, we are working on our budget. But considering Ronalss comments, and considering sustainability this levels of BRL400 million to BRL 500 million per month is a sustainable level that we will permanently seek. So Tiago, just talking about cost, our expectation of cost for Q4 is stability as compared to Q3. In fact the production cost in Q3, was smaller which should leads to a reduction of cost of the fourth quarter. However I talked about the cost of slats that we bought, so the difference between (Inaudible) we buy and received it along the third quarter which will be in a cost of the Q4, its higher. So on the whole, I think there will be a stability the cost - will drop and the cost in Cubatao will go up slightly.

Operator

Our next question comes from Ranand Christian from Credit Suisse.

Q - Ranand Christian

Hello, good afternoon. Thank you for taking my question. Just one follow-up and with that you have said in terms of quality, can you break this down per product, you said 10% what is this level for your product? And my second question is regarding mining, though we see exports volume going up. What are the margin that in terms of mining currently? So what kind of margin are you generating? And looking into 2018, how much can we expect in terms of exports? And is this depend on price, so its - is already? When (inaudible) but as to price differences and as you call premium, so the equity 5% to 10%, that both in hot rolled or chain rolled for all products?

A - Ronald Seckelmann {BIO 3722329 <GO>}

So this is Ronald from mining I will talk a little bit about the margin, of mining, its increasingly more difficult to ensure this considering the market dynamics today. There is all be price and percentages, with big differences, and what we are seeing in terms of strategies for mining for exports would be to take a product that is coming out from export concentrated or with 64.5 or content. Today the market is low, we can still have a premium. So this is the first thing in this equation that is increasingly more complex and dynamic. The other variable is maritime freight, today is $18 to $19 freight Brazil, China. But looking into the first quarter next year, it's likely to drop to $13. So monitoring the foreign market, on an everyday basis, so we take the decision between selling or not selling but everyday - so when you ask about volumes next year, our expectation (Inaudible) we are right - now just under time of budgeting, but our expectation is to have about 3 million, 3.5 million tons of exports of the concentrated or with that content of iron that I mentioned. With the maritime freight around $15 as we are expecting next year, the margin may range between 10% to 15%, 20% next year. and if the effects remains at the same levels as we obtain today.

Q - Ranand Christian

Thank you very much.

Operator

Our next question comes from Marcos Assumpcao from Itau Corerctora.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good afternoon to everyone. First question to Sergio if you could say - is there any possibility of (inaudible) investigation also for the industry, apart from the automotive market? How does it compare to distribution prices and what do you think is the long-term dynamics in terms of industry prices in distribution prices? One last question, just a follow-up, what the silicon level that we should expect from Usiminas or from now on considering that that is an increasingly more important parameter?

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

We are now conducting preliminary 30 systems of cold-rolled sheets, so far we don't have any positioning as we are going to move forward going on. With regards to the industry, in terms of price dynamic. In the industry in the automotive, we have a yearly agreements for the industry - our main is we have a quarterly agreement its not so formal as for the automotive industry, and for smaller volume customers. So depending on distribution it follows the quarterly dynamics. So these increases, that we distributed in the end of the third quarter, its less than 36 months to have an impact on the industry. So we are going to have an impact on the industry, more for the beginning of next year.

Marcos, with regards to your question about Silicon or silicon rather. So, our main product, its more near towards the domestic market, with the 62 of Iron and to two and six silicon and one for export. We had 64.5 or 3.5% to 4% silicon, so lower than the (inaudible).

Q - Marcos Assumpcao {BIO 7474402 <GO>}

So just complimenting after six months, we are going to see industry pricing is very similar to distribution pricing. That's right?

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

Yes, correct. And considering that with negotiation process. And I would tell you, three to six months not exactly six months but between three to six months -- we - the industry prices, will be more aligned with distribution prices, because what happens today is that the basis prices for distribution is higher than the basis prices in the automobile industry as a whole. In the automobile industry 8%, but these prices needs to converge towards the same basis price in all segment.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Sergio if you could just comment or how do you - utilization of the capacity for flat-steel in Brazil? So, investments might be slightly lower than the normal for the past few years, how do you see the effective strategies?

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

So on Brazil, right also - Brazil is still Brazil we are working on that and we are going to comment this in our conference call with press in November. In terms of utilization of installed capacity there are two branches for the steel industry as you see. One is a full capacity in terms of steel, and the other one for Rolled Products. Now with this (inaudible) I can't give to you now, only November as far as of the analysis that we are conducting at Brazil.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Thank you. Sergio. Thank you Bill.

Operator

Our next question Milton Sullyvan from XP Management.

Q - Milton Sullyvan {BIO 19085202 <GO>}

I have two quick questions. What do you think about exports, and on the quarter, we have slightly higher steel prices which generated an expectation that we would see higher exports volumes and then the expectations were corrected, one was far the trade balance. Now that site is (inaudible) we heard you talking about you expecting export volumes to increase in the future. So which cycles should we look at, which range in how do we think -- what does the Company think about that? The second question regards sustainable margin that you are talking about and we can see here. So, could you please update us in terms of what you expect in terms amortization of (inaudible) credit. What will happen going into the future and what will be the impact of this and when will that be seen? Thank you.

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

As to exports, so exports have a lead time that is different from the domestic markets. So what we send about exports -- was referring to the fourth quarter compared to the third. So we are going to have a higher volume of exports in the fourth quarter as compared to the third quarter, where the prices that had been negotiated one, two, three months ago. They are not today's prices. They are prices that have come to the level in China today at a level of 565. So in China is the reference for international prices. Though this increase is related to these prices and these are deals already. Now we are analyzing the opportunities for exports of the first quarter 2018. Because we have closed all sales for the fourth quarter. We are working on the first quarter of 2018, right now, we cannot say anything about the first quarter. What exports be like obviously exports, undoubtedly expanding on international dynamics of prices both of slabs and steel. In the second quarter, we have -- there was a time when the price difference between slabs and hot-rolled coil or more that a level that was impossible to export through Cubatao. So when you see the differences between hot-rolled coil and slab (inaudible) is important for us to be define whether we are going to export or not. So in terms of the credit and our expectation is that these credits they are fully used, they will be offset by an increase in volumes. So considering the current condition our steel prices in international market -- international prices over the main raw materials that we think the levels are sustainable and effective will be one component that will drop slightly. But which is not so significant in terms of our bottom line as a whole. But in other words, this will be offset by volumes.

(Technical Difficulty). If there are no further questions, we have now ended conference call. Should you have any questions, Investor Relations team is available to answer your question. We thank you all for your participation and wish you a good afternoon.