Q3 2013 Earnings Call

Company Participants

- Andre Gerdau Johannpeter, President, CEO
- Andre Pires, VP, Director
- Unidentified Speaker, Unknown

Other Participants

- Carlos Alba, Analyst
- Leonardo Correa, Analyst
- Marcelo Aguiar, Analyst
- Marcos Assumpcao, Analyst
- Renato Antunes, Analyst
- Rodolfo De Angele, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good morning. Welcome to Gerdau's Conference Call about the Results Referring to the Third Quarter of 2013. Currently, all participants will be in listen-only mode. And later on, we will initiate our Q&A session.

(Operator Instructions).

We would like to emphasize that forward-looking statement that might be made during this conference call related to Gerdau's business outlook, projections. And financial and operating goals are mere assumptions based on the management's expectations related to the future of the Company. Even though Gerdau believes that its comments are based on reasonable assumptions, there is no guarantee that future events will not affect this evaluation.

Here today are Mr. Andre Gerdau Johannpeter, Director, President and CEO of the Company; and Andre Pires, Vice President and IR Director. Now I would like to give the floor to Mr. Gerdau Johannpeter. You may proceed.

Andre Gerdau Johannpeter

Thank you. Good afternoon, everyone. Welcome to our conference call to talk about the results of the Third Quarter of 2013. We will begin our analysis by looking at the steel market landscape. And later on we will talk about Gerdau's performance during the Third Quarter and the outlook for the regions where the Company operates. Right afterwards, Andre Pires will give you more details on the Company's financial performance. And after that we will be available to take your questions.

It's also important to highlight that in our presentation you will evaluate the performance of the Third Quarter when compared to the same period of the year before. Moreover, we will also comment on Gerdau's year-to-date performance.

So, I would like to start by giving you and overview of the industry. It's on slide two. Now, talking about the world steel production, it reached 396.4 million tons in the Third Quarter, up 4.1% when compared to the same period of 2012. Excluding China, third world production was 198.9 million tons. And this volume is in keeping with the same period of 2012, according to the World Steel Association.

Now, steel production in Brazil was 8.9 million tons, up 2.5% when compared to what was posted in the Third Quarter of 2012, according to Instituto Aco Brasil. Now, the steel production in other countries in Latin America, not including Brazil, was up by 11% when compared to the Third Quarter of 2012, totaling 8.6 million tons, according to Alacero. The steel production in the United States was 22 million tons, up by 1.2% when compared to the Third Quarter of 2012, according to the World Steel Association.

But now, looking at the outlook according to estimates by the International Monetary Fund, we see an increase of 2.9% growth in the global GDP in 2013. For next year, the outlook points out that the world economy should grow by 3.6%. The World Steel Association, which reviewed the projections this past October, points to a growth of 3.1% in the overall steel consumption in 2013 when compared to 2012, reaching 1.48 billion tons. Now, for 2014, it is expected that the world steel consumption increases by 3.3%, reaching 1.52 billion tons.

On slide number three, we will refer to Gerdau's performance, starting with net sales. Net sales increased 6.9%. Consolidated net sales in the Third Quarter of 2013, drawing a comparison to the same period of the year before, reached BRL10.5 billion net sales. Now, year-to-date, the consolidated net sales was up by 1.9% when compared to -- in the first nine months of this year, reaching BRL29.5 billion.

Earnings before interest, taxes and depreciation, known as EBITDA, was BRL1.4 billion, up by 36.8% when compared to the Third Quarter of 2012. Now, in the period from January through September, EBITDA grew 3.9% reaching BRL3.4 billion. Investments CapEx, known as CapEx, in this quarter was BRL614 million. And year-to-date BRL1.9 billion.

To that end, I would like highlight the startup of the new unit for iron ore treatment in Migel Burnier Minas Gerais, which occurred in September, which raised the production capacity from 6.5 million to 11.5 million tons a year.

In the Third Quarter, we also had the startup of the operations of our coiled hot-rolled strip rolling mill with an annual installed capacity of 800,000 tons and the products are already being sold. In the segment of specialty steel, we are still testing the new rolling mill of Pindamonhangaba in Sao Paulo with an annual capacity of 500,000 tons.

Now I would like to refer to the quarterly performance and outlook for the operations, starting with Brazil. And this does not include the plants that produce specialty steels in Brazil. In the Brazilian domestic market, Gerdau showed 1.5 million tons in the Third Quarter, which is up by 15.3% when compared to the same period of the previous year, especially due to higher demand coming from commercial construction and infrastructure sectors and also at a less extent by also capital goods industry. Exports were down by 18.4%, reaching 369,000 tons.

Now, referring to the outlook for the economy in Brazil, Focus Report points out that there should be an increase of 2.5% in the GDP in 2013 and, as a consequence, the steel consumption in the country, according to Instituto Aco Brasil, should reach 26 million tons, which is up 3.2% when compared to the numbers of 2012. Now, looking ahead into the future and next year, the Brazilian economy is expected to grow 2.1%, according to Focus Report. And steel consumption, in turn, should also be reaching 27 million tons, which is up 3.8%.

Now, looking at the main sectors served by Gerdau, the expectations are the following, starting with infrastructure [ph], according to the Central Bank, the outlook indicates a growth of 1.9% in 2013. To that end, we see that the real estate market is still under recovery and we also see that with the expansion and the ceiling [ph] for -- of GTS [ph] used is also interesting and is as positive factor for the acquisition of property.

Infrastructure and civil construction markets will also be tough [ph] and are picking up. And over [ph] the projects for infrastructure are well underway, mainly due to the urban mobility projects for the World Cup in 2014 and the same projects that are linked to the Olympic games in Rio in 2016. In terms of the industry, the industry should increase and grow 1.4% this year, according to estimates by the Central Bank. In this landscape, the segments of power transmission and agricultural machinery are the most important ones that must be highlighted.

Talking about farming and agriculture, the main figures indicate that we will reach a new record, 192 and 195 million tons in our grain production and in the grain crop. In this regard, GDP up in sector, should grow 9.9% in 2013.

Now, I would like to refer to our operation in North America. It does not include Mexico or the producing units of specialty steels. I am on slide five. In the United States and Canada, we sold 1.6 million tons, 9% less when compared to the Third Quarter of 2012. And I would like to say that this was a consequence of the higher level of imports in the period and also the fact that the market was weaker than expected.

However, it's important to highlight that demand coming from the residential construction sector is already growing in the US and that normally is followed by a non-residential construction segment which is a large consumer of Gerdau steel.

According to the ADI, or Architectural Billings Index, the main indicator of investments in non-residential construction had a ramp-up reaching 54.3 points in September. And anything above 50 denotes growth. Now, Purchasing Managers Index reached also another 56.2 points in September.

Now, speaking about the macroeconomics, IMF indicates that the GDP of the US should grow 1.6% in 2013; however, steel consumption should be up by only 0.7%, reaching almost 97 million tons in the year. However, in 2014, the outlook indicates that there should be improvement in the North American economy. And they should post a growth of 2.6% in their GDP. Steel consumption will also be impacted by this growth and it should grow by 3%, mainly influenced by automotive, power and non-residential industries.

Now, I will talk about Latin America. It does not include Brazil. The sales volume in the Third Quarter was up by 2.1%, reaching 720,000 tons. Most countries in Latin America where Gerdau operates should also post growth in the GDP by 2013. And I would like to highlight Peru, up by 5.4%; Chile, with more than 4.4%; and Colombia, more than 3.7%. For 2013, countries in Latin American should reach steel consumption of 42.4 million tons, very much in keeping with the year before.

Now, in terms of our investments in the region, we can highlight the construction of a new plant of structural shapes in Mexico. Up to now, the main equipment for that plant has been already acquired and the civil construction work are in full execution. The new plant will have an installed capacity for a million tons of steel and 700,000 tons of rolled products a year.

Now, I will refer to our specialty steel operations, that includes Brazil, the US, Spain and India. And I'm on slide six. Special steel, the sales performance was up by 14.1%, totaling 713,000 tons. This is due to the ramp-up in the production of vehicles in Brazil, particularly trucks. And in India, due to the beginning of the sale of products which was initiated as of the First Quarter of this year.

Looking at Brazil, the main consumer market of specialty steel for light/heavy vehicles and agricultural machines remain very strong. The production of light and heavy-duty vehicles in the First Quarter was up 6.8% when compared to the same period of 2012, reaching 985,000 units.

The outlook is that the pace of growth in the Fourth Quarter of 2013 should be lower due to the high levels of stocks of vehicles. However, considering our overall view for 2013, the production of light-duty vehicles will be a record one with a projected growth of 12%. For 2014, the forecast for the production of light and heavy-duty vehicles should reach 3.9 million units, approximately 5% more when compared to 2013.

In North America, we see that the growth in the sales and production of light-duty vehicles are reflecting the economic recovery of the US economy. In the Third Quarter, for instance, 3.9 million units of automobiles were produced, automobiles and light commercial vehicles representing a 5.6 growth vis-a-vis the year before.

Now, referring to the Fourth Quarter of the outlook for the segment, the pace for production and sales will be maintained for the year as a whole. Projections indicate an increase of 4.5% in the total production of vehicles, reaching 15.5 million units. However, the production of heavy-duty vehicles that consume more steel should still remain at the same levels of 2012.

We estimate that there will be a slight recovery of the segment throughout 2014. In addition, the demand for specialty steels in North America was negatively influenced by the destocking of the main service centers throughout the year.

In Europe, automobile registration during the Third Quarter of the year posted growth of 0.5% when compared to the same period of the year before, going to 2.8 million units. Now, the registration of commercial vehicles had 2.8% growth when compared to the Third Quarter of 2012, reaching 398,000 units. However, the production of vehicles in Europe still at lower levels when compared to 2009. However, we already see some recovery and the figures are beginning to be more positive.

Now, in relation to the production of heavy-duty vehicles, which the production throughout the year was down, the outlook is that there will be a slight recovery due to the introduction of Euro 6 Standards. The Euro 6 Standards, in a nutshell, imposes a tougher emissions limit. And therefore, due to that reason, for this new standard for trucks there will be an early purchase of part of these vehicles before the standard comes into force.

In terms of India, the sales of light-duty vehicles and half [ph]-duty vehicles had a slight decline in keeping with the inflation and interest rates in this country. The expectation is for a recovery in the Fourth Quarter, with the end of the monsoon period.

For those that are with me on slide seven, my final remarks, we are still working strongly and to boost our efficiency. And this is reflected in the increase of cash, operating cash generation, EBITDA. And we had improvements in the liquidity of the Company. And we also posted improvements in all of our debt indicators.

With very strong dedication by our teams, we were able to reduce working capital by more than BRL700 million in the last 12 months. Moreover, we are still expanding our activities in the areas of mining. And we are already selling our own production of flat steels, which should also increase our EBITDA throughout the next coming years.

Now, if we take a look at 2014, we anticipate that in the markets where we operate there should be different levels of growth. As I said before, the infrastructure segment in Brazil should be very strong still, mainly due to all of the projects related to the World Cup and the Olympics. Despite all of the uncertainties related to the debt ceiling of the US, the public debt ceiling, we are still very optimistic vis-a-vis the US market that should post some evolution in improvement in the next year.

In addition, we believe that the levels of economic development of China, the largest world production of steel, should still be maintaining 2014 around 7.3%, 7.5% in terms of

GDP growth. At the same time, we see some signs of a recovery in Europe after a period of economic recession stemming from the world crisis.

The challenge of excess installed capacity all over world is still a matter of concern in 2014 in a landscape where companies must continuously seek to improve their competitiveness and levels of efficiency. And this is a job that at Gerdau we've been doing non-stop and are already seeing some good results.

Now, I conclude my part of the presentation. I give the floor now to Andre Pires and I'll be back with our Q&A. Thank you.

Andre Pires {BIO 17698724 <GO>}

Thank you, Andre. Good afternoon. Now, I will talk about the consolidated results of the Third Quarter of 2013 and then give you some details about each business operation. And I will close my presentation talking about capital structure and indebtedness.

So, on slide eight, for those of you who are watching on the internet, in spite of deliveries volumes having been maintained stable, net sales increased 7% in the Third Quarter of 2013 compared to the same quarter in the previous year, for different reasons in the different business operations. Because of volume, the effect of the exchange rate variation. And net sales. We'll talk about that for the next few slides.

Regarding the Second Quarter of 2013, there was an increase of 6.2% in net sales, which is because of the bad sales (inaudible), which was increased in larger volumes. The sales costs or the shipment sales increased 4% because of the greater cost per ton filled. But less than net sales per ton because of an increased gross margin of 12.2% in the Third Quarter of 2012 to 14.6% in the Third Quarter of 2013.

The participation of expenditures, the SG&A regarding net sales remained stable, 6.4% in the Third Quarter of 2013. But year-on-year and also compared to the Second Quarter of 2013, which shows the management efforts of our teams to rationalize these expenditures, particularly during this period of cost pressure and real devaluation, which impacts expenses in international operations when this is converted to reals.

EBITDA totaled BRL1.413 billion in the Third Quarter of 2013, an increase of 36.8% year-on-year. If we look at which point out chart, up on the left-hand side of the slide, we can see that the main contribution to the increased EBITDA was the growth of net sales rather than the increase of the sales costs. So the margin grew from 10.5% in the Third Quarter 2012 to 13.5% in the Third Quarter of 2013.

Now, regarding the Second Quarter of 2013, EBITDA showed a growth of 18.1% with the margin expanding from 12.1% to 13.5%. The margin negative financial result in the Third Quarter of 2013 stems particularly from a negative net exchange rate variation since the variations occurred in financial expenses and revenues which offset each other. Regarding the Second Quarter 2013, the opposite occurred because of a lower negative financial result, particularly because of a less negative net exchange rate variation.

As we have said, besides the exchange variation on the investment hedge, which neutralizes the income tax, social contribution tax, the Company also has liabilities taken at different currencies of the different countries where we've gotten, which also results in an exchange variation in financial result. And so the effect of the exchange rate variation on the net investment hedge is registered directly on the stockholders' equity.

With net sales increase of 57% in the net income vis-a-vis the former year and totaling BRL642 million. Regarding the Second Quarter 2013, net sales showed -- or net profit showed a growth of 60%. Dividends, based on the profit of the Company regarding the performance of the Third Quarter 2013, dividends of BRL65 million will be paid to Metalurgica Gerdau shareholders, BRL0.16 per share. And BRL204 million for the Gerdau S.A. shareholders, BRL0.12 per share. These dividends will be paid on the 22nd of November based on status of November position.

Now, on slide nine, I would like to talk about the performance of each business operation, starting with Brazil. Since stocking improving sales increase of 11.7% on net sales was the result of the increase of 6.8% in the volume of sales and the growth of 4.6% in the net sales per ton.

The domestic markets showed an increase of 15.3% of shipments and 2.2% in net sales per ton, whilst exports sales have dropped 18.4% and the volume of shipments with an increase of 2.7% in the net sales per ton. And we must remember that the exports revenues includes annual installed.

The business operations Brazil, which contributes 64.8% to the EBITDA, showed a growth of 42.1% of this item vis-a-vis larger shipments and a greater dilution of fixed costs and also, with a greater net sales per ton. The EBITDA margin grew from 19.4% in the Third Quarter 2012 to 24.6% in the Third Quarter 2013.

Regarding the Second Quarter 2013, the increased shipments was 8.2% and lower costs, greater dilution of fixed costs, contributed for a growth of 31.3% in the EBITDA, which is 4.3percentage points on the margin of the Third Quarter of 2013 compared -- or of Third Quarter 2013.

And now, on slide 10, we have the North American operations. In North America, we had a drop of 9% in the sales volume in the Third Quarter 2013 when compared to the same period in 2012 because the market was weaker than we had initially expected and because of the growing participation of imported products to cover the appreciation of the North American dollar. Imports then accounted for 20% of consumption at some point during the last few months.

And a we have already said, there was also an impact, an implementation of a new management software throughout the last 12 months. The reduction on shipment volumes and lowered prices and dollar were offset by an exchange rate, bringing about instability of the net revenue on shipments when compared to the Third Quarter of 2012. Regarding the Second Quarter of 2013, net sales showed a growth of 11.4%, leading to a greater net sales income, over 7%, impacted by the exchange rate variation of the period and the greater volumes sold.

The lower prices in dollar and dilution of fixed costs reduced the EBITDA from BRL205 million in the Third Quarter of the previous year to EUR129 million in the Third Quarter of 2013. So EBITDA margin dropped from 6% to 3.7% in this period. Regarding the Second Quarter of 2013, the reduction of EBITDA and the margin was a consequence of the lower prices in dollar in the period.

We must remember that besides what has been mentioned, the EBITDA in the Third Quarter of 2013 was affected by the temporary shutdown of a melt shop in Canada, which had an impact of approximately BRL17 million. This amount represented 0.5% in EBITDA margin.

And now, screen 11. And we have the Latin American operation, excluding Brazil. The shipment volume showed a growth of 2.1% in the Third Quarter of 2013 year-on-year, particularly because the good demand in some countries of this region. Net sales grew 7.9%, particularly because of greater net sales, greater than 5.6%.

EBITDA in the Third Quarter 2013 totaled BRL131 million, showing a significant improvement, which is because of the better net sales per ton together with stable costs and a better equity income in the period. With this, EBITDA margin totaled 9.2% in this quarter, versus minus 0.2% in the same period the previous year. Vis-a-vis the Second Quarter of 2013, EBITDA grew 20.2% and the margin went from 8.2% to 9.2% due to greater net sales per ton, greater than 7.9% in the period.

Now, on our specialty steels operation, on slide 12, where there was an increase of 14.1% in the shipments in Third Quarter 2013 year-on-year, stemming from the growth of sales and shipments in Brazil, where we had a recovery of the total production of vehicles. As (inaudible) has mentioned, plus 6.8%, particularly trucks, another 50%. And also, comparing quarter-to-quarter, we must mention the beginning of the sale of products in India as from the First Quarter of 2013, greater net sales, 16.9%, was the result of greater amount sold.

EBITDA grew 17.2% in the Third Quarter of 2013, totaling BRL273 million. But the maintenance of the EBITDA margin at 13.3% because of the learning curve in our Indian operation because the operation started in January and also because of the greater cost per ton in Spain. Regarding the Second Quarter of 2013, because of the reduction of 6% in the volume of sales of the operating unit, there was a stability of the EBITDA and the margin because of the relative participation in Brazil, which has a higher operating margin.

Slide 13, I will be talking about indebtedness and liquidity and working capital. So, the gross debt on 30th of September was BRL15.5 billion. The weighted average cost of the debt was 6.4% a year and amortization period, five-and-a-half years. The gross debt exposure in foreign currency reduced from 85% in June to 81% in September, reflecting financial management initiatives of the Company to reduce the exchange rate risk in a period of real volatility.

Increased cash from June to September 2013 happened basically because of increased cash in the period and the reduction of working capital. A reduction of 3.3% of net debt on the 30th of September, 2013, when compared to the 30th of June, 2013, is a consequence of the increased cash of the Company. Reducing the net debt combined with the greater generation of cash in the Third Quarter 2013 led to a reduction of the net debt/EBITDA ratio from 3.1% to 2.8%.

And working capital showed a slight drop regarding June 2013, equaled the growth of 6.2% in the net revenue of third -- or net sales of Third Quarter 2013, compared to the Second Quarter of 2013, because of a cash back to the (inaudible) for the BRL800 million, which shows management's efforts to optimize working capital and adjust the capital used in the business. Consequently, financial cycle showed a reduction of five days vis-a-vis June 2013, going from 85 to 80 days.

And just to highlight, since September of 2012 the financial cycle has reduced 12 days and working capital has been reduced more than BRL700 million, which, if we ignore the exchange rate variation in the period, this means more than BRL1.1 billion reduction. So, Gerdau will have a significant free cash flow for the Company.

So, now Andre and I are at your disposal for questions.

Questions And Answers

Operator

Ladies and gentlemen, we will now start our Q&A session. (Operator Instructions). The first question comes from Mr. Rodolfo De Angele from JPMorgan. You may proceed.

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

Good afternoon. I have two questions. The first, regarding the Brazil operations. This was a positive surprise. Growth has been robust. I'd like to know a little bit more what you expect short-term, particularly taking into account the imports. We know that we have new competitors coming in. And in the last call, last quarter, you talked about potential measures and the upside potential. So, short-term and medium-term, how do you see Brazil?

And also, I'd like to have an explanation for the United States, which seem to be in an opposite situation. What can we expect in margins? And in the States, there seems to be an anti-dumping against (inaudible) coming from the United States and for Mexico. So, could you elaborate on this, please?

A - Andre Pires {BIO 17698724 <GO>}

Good afternoon, Rodolfo. This is Andre Pires. And thank you for your question. Let's start with Brazil. In fact, we have had a good quarter for several reasons. The market continues to present relatively stable and sound demand in real estate and infrastructure, as demand has grown a bit.

And also, the opportunities of exports that present [ph] because of the currency devaluation, which gave us the opportunity to export (inaudible) in this quarter. And also, part of this improvement comes from internal initiatives, efficiency gains, cost reductions, which have helped us to improve our growth margins. So, I would say a combination of a good business environment and internal initiatives which are leading to good results.

And now I'll ask Andre to talk about North America.

A - Andre Gerdau Johannpeter

Thank you, Rodolfo. North America, well, it's been a difficult year. This quarter has been difficult, too. And the steel market has been steady and GDP lower than what we expected. And this has been reflected particularly in construction, in the construction industry, which is our main market. And non-residential construction. And also, an increase of imports above the average, which pressured the long steel market. And spreads were pressured, which were reflected on the margin.

But for 2014 and '15, the prospects are better since the GDP indicates a growth of 2.7%; steel consumption, 3.7%. And there are people who believe that there will be a rebound of the non-residential construction market because the residential market is recovering and we think that the non-residential will recover, too. And also infrastructure improving something -- in some states. And the balance sheets of some states, there seem to be more money for infrastructure in some states.

So, the outlook, this is still going to be a difficult year, the last quarter. But next year, during the year, we expect a recovery and for 2015. So, for the next two years the market should improve in the United States. It's very difficult to say how much and what the margins will be. But it will be better than this year certainly.

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

Thank you.

Operator

Our next question comes from Leonardo Correa from HSBC. You may proceed.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon. Congratulations. My first question has to do of domestic market prices. Perhaps you could give us some greater detail. What can we expect in carryover of (inaudible) from already implemented prices now in the third -- to the Fourth Quarter? My first question.

And the second, Aco Minas. You still have not received the contribution of Aco Minas or margin of EBITDA 25% in Brazil. So I'd like to know your scenario for Aco Minas next year. How much will you be able to -- how much will it contribute? What is the sales contribution also in the domestic market? I think that will help us. And do you think it's reasonable to assume that this shipment would have an EBITDA per ton of about \$100.00? So, these are my two questions. Aco Minas, the question of this new market that you are entering. And the pricing of the domestic market, if there's any carryover to the Fourth Quarter.

A - Andre Gerdau Johannpeter

Hello, Leonardo. This is Andre. Thank you for your question. Regarding the domestic market environment to the prices, you know we don't like to talk too much about that. But what we could say is that we expect a relatively similar Fourth Quarter in terms of price with what we have had in the Third Quarter, nothing too different.

Obviously, you know that there is seasonality in the Fourth Quarter every year, like in the First Quarter. That has to be taken into account. But we don't see anything significant event for the third to the Fourth Quarter which has to do with -- which might lead to profitability.

Regarding the old Aco Minas, it's now tied to Ouro Branco, the Ouro Branco mill, which we will have hot -- coiled hot rolled strip rolling mill. But from now on, we will not be giving specific numbers about production and shipment. But we expect it to yield. Production started now in August-September. And we already selling in October.

Next year will be a year of -- well. And until the end of this year. But next year, we will have a good level of operations, bringing in contributions in a good result for Brazil with the start-up of that mill. I don't have any specific numbers to give you. But certainly it will contribute next year.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you. Just to confirm, is the tonnage still 800,000 full capacity? And most of that will be for the domestic market, right?

A - Andre Gerdau Johannpeter

Yes, 800,000 capacity. And both external and domestic, depending on the demand. We don't have this yet to give, for both markets, in fact.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you.

Operator

Our next question comes from Renato Antunes from Brasil Plural. You may proceed.

Q - Renato Antunes {BIO 17439917 <GO>}

Good afternoon. Thank you for this opportunity. First of all, the question of license in Brazil [ph], I know you don't like to talk about numbers. But qualitatively, what about your strategy when you think about price, vis-a-vis import strategies, imports from Turkey to Brazil? You don't think that's [ph] volatile. So how are you seeing that? Can you work with a higher premium than we've had in the last few years? Or are we still going to see that number, 15%, which is unsustainable premium?

And second question goes back to the United States. I'm not sure that you can share with us. But regarding the potential anti-dumping study. Is there any timing expectation? Anything that you can help on that subject would be welcome.

A - Andre Gerdau Johannpeter

Good afternoon, Renato. This is Andre. I will speak about premiums or prices because, as always, things vary a lot. These exports peaks also. We have months that go from imports in Brazil, there are peaks. Some month we have zero and sometimes we have a high peak. So you have to take the average. And price, any forecast would depend on domestic demand, world supply, exchange rates. So it's very difficult to make any forecasts.

A - Andre Pires {BIO 17698724 <GO>}

Regarding anti-dumping, it's very difficult to have a forecast. And with the shakedown of the government, all the (inaudible) that have been taken up into the federals there have obviously been delayed. So, we think that by the end of the year we should have some indication from the government. But it's difficult to say what the timing might be.

Q - Renato Antunes {BIO 17439917 <GO>}

Thank you.

Operator

Our next question comes from Mr. Carlos Alba from Morgan Stanley. Mr. Carlos, you may proceed.

Q - Carlos Alba {BIO 15072819 <GO>}

Thank you, very much. Congratulations on the good results. I have a couple of questions. The first one is it seems that there were a couple of non-recurring events during the quarter -- one, the cost associated with the closure of the melt shop in Canada; and second, the learning curve of the Indian operation. Is it possible, Andre, to quantify how much these two events cost the Company? You would have had an even higher EBITDA if they weren't there?

And my second question is on North America. When I looked at the results of Nucor and Steel Dynamics. And I looked at the breakdown of the product shipments, the structural business of these two companies grew volume by 18% year-on-year. So, clearly there's something that may be affecting more Gerdau than these two competitors? And if you can give us some more color, that will be very, very useful, because you're holding some being seen a negative unit growth in shipments in North America for almost a year now. Thank you.

A - Andre Pires {BIO 17698724 <GO>}

This is Andre Pires. I will just translate what you said. The first thing relates to non-recurring effects. I think you talked about the temporary shutdown of the melt shop in Canada at our mill in Cambridge. And you also talked about a non-recurring item in India. I will try to start by answering these questions first.

Now, in terms of that non-recurring event in Canada, the cost was BRL17 million, about $8 million. And with -- that was a non-recurring posting of a temporary shutdown of the melt shop in Cambridge. And that will serve the needs for billets with the melt shop that is nearby in Whitby and also very close to Toronto. We are just trying to rationalize that operation.

In terms of India, there is no non-recurring effect in our operations in India. We are just looking at the figures. But maybe we should clarify that better, that we do not have any non-recurring effect. Maybe we can -- what we can say about India is that in that same quarter of last year we didn't have any sales volumes because we were not operating yet. But we are now.

So when you draw a comparison and also when you measure the EBITDA margin, there is also a negative effect because we did not have any sales then. And as a consequence, we still had a negative EBITDA. And this had an effect in the overall EBITDA margin in what concerns the specialty steel. So I think that's what you're referring to.

And the second question that you asked was about the sales of the structural shapes and vis-a-vis the competition. In fact, if we look to our very specific case year-on-year, there was a certain instability in the sales of structural shapes. And then also, if you look at quarter-on-quarter, it is very much in line with what happened the year before. So, these are just market momentum. But if you look at month-after-month sales are recovering, they've been recovering lately.

Q - Carlos Alba {BIO 15072819 <GO>}

Okay, thank you. And could you comment a little bit, I'll ask you what measures is the Company taking to alleviate the impact of installation of a new management software that you have? I assume that this obviously had an impact on volumes and the relationship with some customers. What are the measures that the management team is taking to alleviate this situation and make sure that you regain these volumes in the coming quarters?

A - Andre Pires {BIO 17698724 <GO>}

This is again Andre Pires. I think your question is about the new management software they're pouring in and what was the impact of that new software and what are the initiatives that we are adopting? Basically, we are gradually resuming the volumes.

Throughout the 12-month deployment period, the volume was locked; now the volume is being resumed by improving our service platform and now we are also going back to our production levels.

This was already forecasted. And so the management is working very, very hard to be able to resume the volumes that during the deployment of the software was affected.

Q - Carlos Alba {BIO 15072819 <GO>}

Thank you, Andre.

Operator

Our next question comes from Thiago Lofiego from Merrill Lynch. You may proceed.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you. I have two questions. And the first one has to do with your cost estimate for the Brazilian unit. I would just like to exploit that a little bit. Item-per-item, where were you able to notice a significant margin reduction now and vis-a-vis before. And whether you've seen room for more gains in that unit. And also, I would like you to talk a little bit about the scrap market in Brazil and what is your pricing structure from now on?

A - Andre Pires {BIO 17698724 <GO>}

Here is Andre Pires. In terms of costs in Brazil and the reduction that we see, maybe slower growth in sales costs, we had already mentioned that some time ago. And Andre also talked about it last year. We are in the final processes to conclude the merger of the old Aco Minas, the former Aco Minas, with the longs [ph] operation in Brazil.

This merger brought about many benefits in terms of daily activities that were in both companies, like procurement, support in general. And because of that, once we merged the areas we had many gains -- purchase of materials, experts, commercial areas -- and all of these gains were very important because they helped us to reduce costs and also to improve efficiencies. It's just a combination between cost reduction and efficiency gains. And we are working diligently to improve the situation further. So I believe that this is one of the main reasons why the sales growth was lower than the net sales revenue.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Andre, I would just like to interrupt you a little bit. What about costs per ton? It was better, right, if you look at the previous quarter? So, I think we can say that this is sustainable and I think you can say that you have room for more gains in this cost per ton from now on.

A - Andre Pires {BIO 17698724 <GO>}

Thiago, in a way, this is also working capital. You try to make adjustments as much as possible to gain more efficiencies in your operation. So, in terms of gains -- or many of the gains that we were able to have, they were captured because of all of the opportunities that we had. But the main opportunities were already harvested; we already used them.

Now, about scrap, you asked about the general market or you just wanted to learn about something specific?

Q - Thiago Lofiego {BIO 16359318 <GO>}

No, just about the general market and what is the position in terms of the use of scrap at the moment?

A - Andre Pires {BIO 17698724 <GO>}

It's very difficult to make predictions because the market finds itself in a quite stable position with a more depressed global demand, the appetite for scrap in the world also decreases. And one way or the other, the US also (inaudible) here. There's also demand for pig iron in Brazil. And that impacts our business because we can use 20%, up to 30% of pig iron. And this has an impact in the final price of scrap. So, I do not have any prediction that I could probably tell you. But there are many things that end up impacting the scrap market.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you.

Operator

Our next question is from Marcos Assumpcao from Itau. You may proceed.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good afternoon. And congratulations for your results. My question is about the Brazilian business unit. Could you please make a distinction between revenue per ton in a domestic market, which was up 4%? How much of that was the effect of products and how much of that was the effect of actual price increases?

And also, having that outlook in mind and looking ahead into the future, maybe there is still the possibility of recent increases and discount reductions, whether you see that this should have an impact for the future? In terms of heavy plate, if you look at the anti-dumping outlook in Brazil and whether that also has an impact in your rolling mill?

A - Andre Pires {BIO 17698724 <GO>}

We are -- this is Andre Pires. Thank you for your question. I would say that there is a combination of things. There's a combination between mix and positive market conditions. It's very difficult to say how much each of these items -- how much they weigh in the improvement of sales per ton. We increased exports when compared to the Second Quarter of 2013 due to some specific opportunities that we saw in international markets that we had put on the side for a while because of not very favorable prices in the international market and also because our currency, the real, was too appreciate.

So, it was just a combination of factors. There was an opportunity and we see that it's in the future. We see other opportunities that we'll try to take advantage of them. But it will depend on market conditions. It's just a combination of things we see that things are improving.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

And now, you still have to tell me a little bit about heavy plate.

A - Andre Pires {BIO 17698724 <GO>}

Nothing changes in terms of our investments. It's still according to plan. Now the next step is the assembly. And it's part of the pipeline. So nothing changes in terms of the heavy plate investment.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay, thank you.

Operator

Our next question comes from Jilgo Muda [ph] from Goldman Sachs. Jilgo, you may proceed.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Good afternoon. Marcelo Aguiar. Congratulations for your results. I would like to learn more about iron ore and how are you operating for next year and whether you are about to make an agreement for medium, long-term with the other players. And what is the volume expectation for next year?

And the second question refers to CapEx. Your average CapEx, I know that you have a four to five-year plan. But maybe you can tell me for next year, what do you expect to invest?

A - Andre Pires {BIO 17698724 <GO>}

Good afternoon, Marcelo. This is Andre Pires. Thank you for your question. In terms of mining and starting with the port solutions, I think I already said that before. But, in fact, we have already contracted some space in the port. So, in the short run our situation is very comfortable. We have -- there is available capacity in the market. But in the mid and long range, we will still wait a little. We will wait to see what are the alternatives in the mid and long range. And in our view, there will be capacity in the ports available in the next coming years.

In terms of volume, we are now reaching the end of 2013 with a production pace of 11.5 million tons. Just when we had a start-up of Migel Burnier, which is our processing unit. And then we were able to expedite the production of ore. And the forecast for 2014 is sales to third parties, if we do 4,000 tons and we will maintain our original plan to reach 8 million tons by 2016. Now I'll give the floor to Andre, who will talk about CapEx.

A - Andre Gerdau Johannpeter

In terms of CapEx, we will just update the figures in February. We are just concluding the projections for the next five years. So then we will then extract the numbers for 2013 out of that announced total amount and then we will just post the numbers for the following year.

There's still some investments. In a way, they are large investments. And there are always new ones on the way, too. But the trend is that we will keep that same level of CapEx for the near future. So, this is the trend and probably we will announce the package for CapEx for the next five years, which is very similar to what we have gained so far.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Just some clarification. In terms of your two-year ore contract, is that a simple tariff, or it's a variable tariff?

A - Andre Gerdau Johannpeter

There are several agreements. And each one involves a different situation. As these are commercial contracts, it's difficult for me now to get into details. But in what concerns our production cost and international prices, we believe that this agreement makes sense to us.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you.

Operator

Our next question is from Renato Antunes from Brasil Plural. You may proceed.

Q - Renato Antunes {BIO 17439917 <GO>}

Thank you for the follow-up. I have a very quick question. Could you please talk a little bit about the plate or the slabs market and whether you -- what you see ahead? And the second question refers to the specialty steel, especially in Brazil. And I would just like to hear from you, how do you see the demand for this segment in 2014, whether there are some different ideas? Some people have more negative, as said, for 2014. So what's your view of this market next year?

A - Andre Gerdau Johannpeter

This is Andre. About slabs, in the domestic market, we see that as an opportunity that comes in and comes out. Its' very difficult to say that next year we'll be able to say something. There will be less slabs available with a lack of exports. And if there is something in the domestic market, we will certainly do that because it's always better to operate in a domestic market than to export. But this is not structural and it's not constant for every quarter.

Well, regarding specialty steel, that's interesting, because heavy-duty vehicles this year experienced good growth, especially in the First Quarter. In the Second Quarter it was not so significant. But there is also a big question whether BNDES will still maintain financing of trucks. They are boosting these sales. And so if that contract is renewed so the situation will remain as is. Otherwise, we will experience some decrease, especially in that segment of heavier-duty trucks and other instances where BNDES financing is not so important.

Q - Renato Antunes {BIO 17439917 <GO>}

Thank you.

Operator

With that, we conclude the Q&A session. Now I would like to give the floor to Mr. Andre Gerdau Johannpeter and Mr. Andre Pires for their final remarks.

A - Unidentified Speaker

Thank you, all very much. Thank you for expressing interest in our conference call. If you still have any questions, our IR team will be available to clarify your doubts. So now I would like to invite you all for our next call, which will be in February, probably in the third week of February. Have a good day.

Operator

Gerdau's conference call is now concluded. I would like to thank you all for participating and I wish you a good afternoon.