

Q3 2013 Earnings Call

Company Participants

- Julian Eguren, CEO
- Nobuhiro Yamamoto, Corporate Planning Vice-President Officer
- Ronald Seckelmann, Finance and Investors Relation Vice-President Officer
- Sergio Leite de Andrade, Commercial Vice-President Officer
- Silvia Pinheiro, Consultora

Other Participants

- Carlos de Alba, Analyst
- Daniel Fensom, Analyst
- Leonardo Correa, Analyst
- Marcelo Aguiar, Analyst
- Marcos Assumpcao, Analyst
- Renato Antunes, Analyst
- Rodolfo R. De Angele, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good morning and thank you for waiting. This is the Usiminas' Conference Call. At this time, all participants are in listen-only mode. And later on, we will have a questions and answers and further instructions will be given. (Operator Instructions) As a reminder, this conference is being recorded.

Now, I would like to turn the conference over to Ms. Silvia Pinheiro from FIRB, Financial Investor Relations Brasil. Please go ahead.

Silvia Pinheiro

Good morning, ladies and gentlemen. And welcome to Usiminas Conference Call to discuss the Third Quarter of 2013 Results. I would like to mention that this conference call is being broadcast live on the company's Investor Relations website www.usiminas.com/ri and the Earning Release and slide presentation are also available there.

Before proceeding, I'd like to mention that forward-looking statements that might be during the call are being made under the Safe Harbor of the Securities Litigation Reform

Act of 1996. Actual performance could differ materially from those anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors as well.

With us today, we have Usiminas Executive Board, Mr. Julian Eguren, CEO; Mr. Ronald Seckelmann, Finance and Investor Relations Vice President; Mr. Sergio Leite, Commercial Vice President; Marcelo Rodolfo Chara, Industrial Vice President; Mr. Romel Erwin, Technology and Quality Vice President; Paolo Bassetti, Subsidiaries Vice President; Mr. Nobuhiro Yamamoto, Corporate Planning Vice-President; Vanderlei Schiller, Human Resources and Organizational Development Vice- President; Wilfred Bruijn, Managing Director of Mineracao Usiminas; and Cristina Morgan, Head of Investor Relations.

First, Mr. Julian Eguren will make a brief statement and he will be followed by Mr. Seckelmann, who will comment on the third quarter of 2013 results. Afterwards, Mr. Nobuhiro Yamamoto, Corporate Planning Vice President will add some remarks. Afterwards, the executives will be available for questions from our listeners. Mr. Julian Eguren, you may proceed.

Julian Eguren {BIO 16005078 <GO>}

Good morning, everyone. I would like to thank you for participating in another conference call for the earnings of Usiminas. We will have the opportunity to analyze the figures of the third quarter within the context of the company's increasing competitiveness. As you have been following, our teams have been working with focus on continuous improvement of operating efficiency and a high integration with our clients. In this third quarter, this management discipline lead us to more excessive results. The company reached a higher sales volume to the domestic market in the last five years. And at the same time, the consistent improvement in productivity and reduction in operating expenses and also lower cost allowed in EBITDA, a consolidated EBITDA go up by 22% quarter-on-quarter. Both the consolidated margin and the specific field margin of core business attain the highest levels in the last three years. All this integrated work by our team led to an increase in the company's operating income which was decisive so that we could close the quarter obtaining net income.

In return, Mineracao Usiminas also sustained consistent results with EBITDA margin at a high-level and the highlight being the volume of sales to the domestic market. The Friables Project of expansion of our production capacity to 12 million tons per year is already in its last final phase opening opportunities for the company.

And we also made progress in strategic investments in a steel area and in the third quarter our new picking line started the test phase in the Cubatao plant and now it's already in operation. We're talking about an investment that integrates it to the new hot strip mill adds to Usiminas location, which is to add value to market nature with an innovative portfolio and national technological content.

This will allow us to advance on the path of an industrial configuration that is more and more efficient. And during this call, our Industrial VP, Marcelo Chara will be able to expand

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on this. Another relevant aspect that we would like to highlight in the third quarter has to do with the financial health of the company, which allowed us to have a cash management with the voluntary prepayment of our debt and a tender offer for our Eurobond that brought, improved our cash abroad.

Our net debt EBITDA ratio reached the final of the period at comfortable levels. Our net leverage dropped in the period, and we got that even without the inflow of proceeds from the sale of automotive, Usiminas approved Siderurgicas this month. And at the same time as principles of management for the company, we have cost control and CapEx and working capital, which are fundamental for our competitiveness. In conclusion, Usiminas is consolidating an industrial culture and operational discipline focused on productivity, development of new products and in this process we are investing, developing our internal talents, our in-house talents and we have a very strong trainee and exchange program and we are building a fundamental integration with our clients and our value chain in Brazil.

This set of results in delivery that we had over the year especially during Q3 allow us to create solid basis for the construction of our future, in a sense, Usiminas focuses on 2014 with more balanced trend and agenda of new opportunities in the Brazilian and Latin American markets. We want to position the future of Usiminas in a better and better place. And for that our team, who are the main agents in this transformation process, they remain committed and working hard and we are on the right track changing and going to the next level and looking ahead. Thank you very much.

Ronald Seckelmann {BIO 3722329 <GO>}

Good morning, everyone. I would like to make a few remarks about the highlights of our operating and financial result in Q3, 2013, and I would like to use the slides and you may follow the slides by means of our webcast.

On slide number one, we have a summary of our sales and our results. Sales of steel during the quarter remained stable, slightly lower than 1,600,000 tons. Iron ore sales, on the other hand, reached a historical record of 1,800,000 tons growing by 34% on a quarter-over-quarter basis. Adjusted EBITDA reached R\$538 million in the quarter, a 22% growth quarter-on-quarter and net income as Julian has already said reached R\$115 million with the change of the loss of R\$22 million in the previous quarter changing the trend and now the evolution of the sales volume of steel business, steel products and we can see very clearly the growth of sales in the domestic market, which reached the highest level in the last five years.

Now, going to the next slide, the evolution of the EBITDA in steel business growing for the fourth consecutive quarter reaching 13% margin and R\$376 million in the period.

Next slide, the breakdown of sales for mining business. We can see also a major contribution from sales to the domestic market reaching almost 800,000 tons in the quarter giving a decisive contribution to reach a record of sales during the period. EBITDA margin of the mining business at comfortable level, 49%, during the quarter and a

nominal value of R\$139 million, 20 million higher than the one posted in the previous quarter.

On the next slide, we have the ongoing growth of our EBITDA and Adjusted EBITDA margin and consolidated basis 23% growth is a nominal results, 22%, and 3% point growth in the margin reaching 17% going back to levels reached only in 2010.

The next slide shows that besides the perspective of EBITDA, all the other figures for our operating and financial results show improvement. Be it by means of gross profit that grew by R\$79 million during the period, the operating income before financial expenses is 4 million and the net income a R\$137 million growth reaching a 115. So, it's a very big improvement from all viewpoints.

Now, our working capital, growing on a quarter-on-quarter basis, but I would like to remind you that in the last quarter we talked and we said that the level reached in June was slightly lower than the average. The adequate level for working capital is around R\$2.6 billion, R\$2.7 billion and we were slightly higher than this in this quarter.

On the next slide, we have the breakdown of our CapEx. We will probably get close to R\$1.2 billion by the end of this year and new project which is continuing in the period, older projects and all the investments, mainly regarding maintenance of our capacity and preventive maintenance are being maintained and some small projects are just revamping of the coal plants in Ipatinga are having to get to revised and this is not bringing any negative impact but it might have a slight impact on disbursements. And the last one, as Julian has already talked about, our healthy position, our net debt/EBITDA continues to be very healthy. And now it is 2.3 times, which is at very comfortable level, the one that we've reached this quarter. So, these are the remarks that I wanted to make about the results in the quarter. And before we get to the Q&A session, I would like to give the floor to our Vice President for Corporate Planning, Mr. Yamamoto.

Nobuhiro Yamamoto {BIO 17720797 <GO>}

Good morning, everyone. I would like to add a few points. Looking at the medium and long-term scenarios, the infrastructure, oil and gas, and automotive sectors, for example, are fundamental for the industrial development of Brazil. This represents good growth opportunities for steel consumption in the country. And in order to transform these opportunities into value, Usiminas' planning has an integrated industrial view focusing on quality improvement, access to new markets, customer loyalty, cost and productivity.

The Usiminas team together with the exchange of knowledge among its shareholders is focused on further developing the factors of competitiveness. And we are also overcoming technological challenges with strategic investments such as the new hot-strip mill and the new galvanizing line and the CLC technology for heavy plates.

As a result, Usiminas is increasing its domestic sales volume in this third quarter. And contributing to trends in the steel chain with 100% asset content. The company is

gradually more robust, vis-a-vis the market volatility, and now the company starts to shape its future play an increasingly important role grow both in Brazil and in Latin America.

Questions And Answers

Operator

Ladies and gentlemen, now we would like to start the Q&A sessions. (Operator Instructions) I would like to remind you that this call is exclusively for Investors and Market Analysts. Questions from journalists should be forwarded to the Press Department of Usiminas, 31-3499-8918 or to imprensa@usiminas.com. This is the email address.

Our first question from Mr. Rodolfo Angele, JPMorgan.

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

Good morning. Thank you for the question. My first question is about the environment in the domestic market, maybe you could tell us about this last quarter and looking ahead to 2014 what about prices in Brazil regarding, vis-a-vis, import and do you believe you will be able to keep the price increases that you have been mentioning?

And the second question is the following, I would like you to talk about CapEx. Ronald, you said that the guidance would be 7.2 billion, so there should be an increase in the last quarter. So, how do you see a normalized CapEx for the company looking ahead?

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

Rodolfo, good morning. This is Sergio Leite. Regarding the market environment during the end of 2013, what we can say is that in Brazil we see a stable market according to an expectation of 2% and 2.5% of GDP growth expecting the market for flat rolled product for 3.5% to 4% and stable for the fourth quarter. And the only thing is seasonality, which is something that we see every single year at this time. So, we are on our track and with a balanced market regarding the price increase is that we had this year. We believe that the prices that have been implemented are sustainable. They continue to be stable. There are no risk, and the price difference vis-a-vis imported goods remained between 5 and 10 percent which is rather balanced. For 2014, right now, we are working very hard preparing our budget which means that we cannot say anything about 2014 yet. Our expectation is that Brasil should continue to grow more than the 2% to 3% that is mentioned and we have always been saying the expectation of the infrastructure sector in Brazil and it should really take off very strongly.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Rodolfo, good morning. You talked about CapEx. Our sustainable maintenance CapEx over time tends to be close to the annual value of the depreciation. Maybe next year it will be slightly higher than this because of a carryover that we will certainly have of the projects that we are taking ahead this year and most probably something will really slide for Q1, 2014, and we do not have the final figures yet. We are working on our budget for

2014, but in the medium run, you can consider something close to depreciation and in the short run a slight carryover of project from one year to the other.

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

Thank you.

Operator

Mr. Renato Antunes, Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

Good morning, everyone. Thank you for the question. Going back to prices, I would like to hear from you. You have already talked about with the initiatives that you had in terms of price increases there. Is there any carryover effect for the next few quarters and could you please mention the negotiations with the car companies, with a automotive companies.

And the second question has to do with mining, the deleveraging that you carried out was very impressive in the last few quarters at a much more profitable level and I would like to ask you about the extension of the iron ore project, can share with us the expansion potential of the project that you were working on regarding iron ore?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Regarding the current price scenario and for the short one as well, what we can say is the following. In August, and late August, we had an increase for the distribution sector. After this, it was fully implemented by the end of August and after that we started in September our negotiations within Brasil and the impact we will felt in Q4 October, November and December. In August, we also started our negotiations with the automotive companies for our annual contract for 2014. And these negotiations are still underway, and they should come to a close by the end of November. And the new prices for the automotive companies would be enforced as of January 1. So, this is the scenario that we have for prices in the domestic market and I would like to mention that our prices for the domestic market follow international prices. Brazil today is a country in which the market is open and the prices that we have in Brazil are very much impacted by international prices.

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

This is view now about your question about the expansion of the mining project. I would like to take the opportunity to focus on the first stage of this expansion and as our CEO said a while ago, at the beginning of our talk, this was approved in 2010 and it is being concluded now, 2010, 2011 and now it's being concluded. And Mineracao Usiminas is now ready with a Friable Project and can already offer 2 million tons to the market with a broader portfolio products, with good quality.

And the compact project which is a further expansion continues on the final phase of engineering details and studies and we do not have a deadline yet for our decision

making, because, but estimates is that it will be for the first half 2014.

So, the decision should be made by the first half of 2014 whether we should be going ahead with that. Our focus today is the development of all the project and then afterwards we will be making our final decision.

A - Julian Eguren {BIO 16005078 <GO>}

And now, this is Julian. I would like to add something, so you were asking about prices in the domestic market what we can expect is the ongoing integration, our relationship with our client and we have been talking with you about how the market starts to react to the attitude and this interaction we have with different teams, different awards and et cetera, and there is a large automotive company that is establishing its presence in Pernambuco after a very difficult process gave Usiminas the project for the undertaking for the Pernambuco and what we can expect is that we will continue to have this relationship with our clients by means of having a closer and closer tie with our clients and developing specific products for them and having a better delivery of rolled technology and services to our clients in the domestic market.

I think we should also mention that another important automotive company will be starting operation in Brazil in Com Sede in 2015. And Usiminas in Q3 was appointed as the exclusive supplier of -- to these automotive companies.

So, what we again said about strengthening our relationships with clients has been making great strides and for Usiminas and Solucoes Usiminas. Thank you very much.

Operator

Our next question comes from Thiago Lofiego from Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning. I have two questions, first of all, the mining business, could you give us guidance what to expect regarding sales in 2014 and also the logistics that you, what would be your position now, vis-a-vis the Port of Sudeste will you be sending your contracts with them. And also what about the take or pay that's my first question.

Now, going back to (inaudible) and the negotiations with the auto companies just make clear that will be concluded and will the increases come into falls in January. And what is the scale, is it two-digit seizure or not?

A - Julian Eguren {BIO 16005078 <GO>}

Hello, Thiago. Well, regarding the mining, regarding 2014 we are still working hard on the budget on this internal exercise and obviously as I have just said regarding these fabulous project we will have a production capacity of 12,000 tons but when we are on sales, we will have to have a more, a follow-up regarding report availability in the (inaudible) region that's where the Sudeste Port is, so we will be able to evaluate this through more surveys,

we are already working on this, so we will have to see in 2014 what our sales volume will be regarding the Port of Sudeste we have a contract and there is ongoing negotiations and we are negotiating with MMX and we are following closely also the news that comes in of MMX regarding the timing of the entry of this port. So we are expecting, first of all, the conclusions of these negotiations, service, we will be able to talk about this with the new shareholders and the new shareholding structure of the port to know what the next steps will be.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Well, Thiago. Regarding our negotiation with the auto companies, as I have already said, we started these negotiations in August and these conversations are good, they are complex. We have a lot of experience with the auto companies, but it is a long term for Brazil. One-year contract in Brazil are contract of long-term. And second, it is involve volumes and prices besides our products and services and the steel solutions which we offer for the auto companies are forecast to close these negotiations will be November. Now, we are talking to all the auto companies, we have not closed with any yet, because the moment to close is now, in November. And regarding our expectations, we have to control our anxiety regarding expectations because we are in ongoing negotiations. So, no party can make any forecast regarding what is being talked about. And it will come into force from the 1st of January, as I have already said. Thank you.

Operator

Our next question comes from Leonardo Correa from HSBC.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good morning. My first question to Julian, regarding the margin trend. The EBITDA has improved to 13%, which is close, with all the technological changes it's good. So, I'd like to know if whether you, Julian, what you think will be the trend from now on. And will it be possible to come medium, long-term about 17% or 18%. That's my first question.

Second, is to going back to Sergio. Sergio, could you please elaborate and help us regarding demand. Talking to some distributors and looking at the data from in-depth, the data strong, some distributors cannot explain where this demand is coming from perhaps it's restocking the chain. So, perhaps, you know, we're thinking perhaps about slightly inflated demand in the third quarter. So, could you talk about the fourth quarter, obviously, seasonality but what about 2014, will it be sustained at these levels or all do you think that it will be slightly inflated because the building up of new stock. These are my two questions. Thank you.

A - Julian Eguren {BIO 16005078 <GO>}

Well, Leonardo, thank you for your question. Julian here. The truth is that here we have a forecast of what's perhaps might be the future EBITDA, and we don't really like to do that. We will continue conveying the message that this is the message, it started some time ago and it is a process which will be ongoing and we will be harvesting the fruit. We have a great opportunity to continue improving our productivity, technology, IT tools, relationship with our clients, the training of our personnel, in other words, there is much in the

company that we are starting to do. We are deepening our work, and we will harvest the fruit in the future.

So, these are the results that we are beginning to see now. It is all part of a process which we started some time ago and will continue as I have said. And is also a result of our team's hard work. They are very committed to the company and the only thing that we can take is that our work will become even harder. It is long term and we have the necessary teams, we have the necessary talent to take this process deeper and continue what we have started and will bring a good result.

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

Leonardo, regarding demand and the flat steel market, we are experiencing at the moment a stable market. The industries are stable, some grow more than the other but we have no industry experiencing problems as such. All are well. The distribution sector, as you have mentioned, is feeling the strength of the market, I would say the inventory in distribution, generally, they are at about 2.5.

At the moment, it's 2.7, but at normal levels, for inventory, so our evaluation for the market today is there is no excess inventory. The demand is consistent, economic sectors are growing not as much as we would like for the country because it's a country which needs everything; and our expectations of 2014 is very positive, and the expectations of the country will grow. If the country grows steel consumption will grow. So, this is our outlook.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you, Julian. Just changing the question a little first one regarding margin, I understand that you cannot foresee the margin in steel but perhaps the difference is between Usiminas and Nippon [ph] perhaps though technology in Mexico of direct protection which uses other components. So just to understand you, if you can get might be similar of the two companies medium and long-term is that we could suppose there might be a convergence or will there be a difference perhaps less in for you in Usiminas, because you are having blast furnaces and perhaps more inflated price than the Mexico company.

A - Julian Eguren {BIO 16005078 <GO>}

Well, Leonardo, you have said there are different technologies and different product portfolios as well and components or industrial platforms, which are different as well, and also the market from two countries are different. What the Usiminas top management is working is, is to follow the international benchmarks. We said at the beginning was Usiminas is a national company, but we have to compete as with the international standard. This was the message that we have had right in the start. And we have said this to the managers of the mills, Usiminas is always working towards an international standard, to be best in all areas and here we are developing a work plan competitively. Usiminas today has to be equal to the best of the world. And this is our objective.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you. That's very clear.

Operator

Our next question comes from Marcelo Aguiar, Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Good morning, gentlemen. Thank you for this opportunity and congratulations on the results. One surprise was your cost performance especially in steel mills, many of your cost it's close to the dollar and have those exchange depreciation. We haven't seen that. So, this is a good result. Could you elaborate please on this, has that being any non-recurrent effect on your cost performance and could you give us more ideas, more details, on this better than expected performance and also regarding cost could you discuss the mining cost and could we have a vision regarding the expansion to 12 million tons using more tailing and could you give us an idea of the cost of mining medium-term. That's my first question?

A - Julian Eguren {BIO 16005078 <GO>}

Good morning, Marcelo. Regarding cost, there was nothing exception in this quarter although we had 40% of our cost exposed to exchange variation we managed to show this positive growth. But this was the result of that is which is being run on going for some time and the results are appearing now. And I would like to ask Sergio to take the -- take the floor to talk about the initiatives, which we continued to have in our steel mills.

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

Good morning, Marcelo. The improved efficiency, control and competitiveness is an on-going continuous process as Eguren, was saying were the focus is to improve our systemic routines and process benchmarking of the best practices which allow us to adopt very competitive standards and elaborate ongoing plan to be able achieve this target. We have a strategy focused on maintenance, on conservation of our equipment and a plan of trading in education of our people in critical process. We have more than 10,000 people who have been trained in these wells, in the last year.

This is a central process strategy to guarantee the operating improvement. And regarding the industrial categorization it's important to say that we are focus in our operations on the most efficient line continue discussing and operating, we are improving operating efficiency. We have focused once again on the strip rolling mill and Cubatao and we merging two into one machine. And also the pickling machinery, which we have started recently, we have one configuration, we have considered in more modern lines which is sack of the art in the business.

And this has allowed us for example to reduced by 10% the fixed cost of transforming this unit.

A - Julian Eguren {BIO 16005078 <GO>}

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Well, Marcelo, to compliment what Marcelo just said, we now are inaugurating pickling units free at the Cobbett town, which will be integrated with the new rolling mill. We have a new rolling mill, but we still have two old pickling machines which cut process smaller batches. But they would not allow us to use the maximum capacity of the new rolling mill. Now with the new pickling we have certainly totally sack of the art line. So we have a rolling mill, state of the art, with pickling state-of-the-art and that will allow us to have this greatest possibility. And this will allow us to a new product, and this will allow us for the best configuration possible to meet the needs of our clients. This also is a reflection of what we're doing with our cost control.

Regarding your question about how the cost, the mining costs will be in line with the new project, Friable Project, part of the process will be for export facility, will be a higher cost because we will have a processing which is crushing, which demand higher use of energy, electric power, but we have some gains. As part of the input of the new mill, we'll be using tailing which geographically are close to the new mill, and this will reduce the mining cost.

This will balance out the trend that we have. Because of these two factors, greater stability of cost of mining. What we have to do, a focus on cost reduction in general and productivity gains especially in mining with the optimization of the use of special track and also regarding the cost, these Friable Project will bring us as I have said before a product mix with a chemical with some percentage of iron, which will be better. We will 3.5 million tons of concentrate, and a good chemistry. So all of will act on the margins, which we will have from our product portfolio to be offered as from the beginning of 2014.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

My next question has to do, well, it's the detail of the result, just to better understand the question of working capital and your receivables almost went up R\$450 billion. Is this an adjustment, because it was a low, so what has happened here?

A - Julian Eguren {BIO 16005078 <GO>}

No. We have not discounted any duplicators or receivable and in fact this accounts receivable has gone out because of the, it reflects the sale of mining products and steel products in the domestic market.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you.

Operator

Our next question comes from Marcos Assumpcao from Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good morning, congratulations on the results. The first question regarding the heavy plates is that relate you could tell us about the impact expected and regarding volumes,

especially from these sets of anti-dumping recently implemented in Brazil. And second if Ronald could say little bit about the liability management, which you are doing we have seen here -- securities and also what we expecting in financial results a little bit turnaround?

A - Julian Eguren {BIO 16005078 <GO>}

Well, Marcos. Regarding the heavy plates markets and this important facts that we have at beginning of October which was the approval of the anti-dumping process, result, they're important because we for many years have been fighting against rules and unfair trades practicals in Brazil.

And for the last five years we have been working together with the government, I'm not sure if you remember but the first request to open anti dumping heavy plates since it was in August 99. So now we finally have a victory, which shows a quick technical base, it is a victory keeping with the laws and the trade rules, accordingly international organization and it singles to the world that we are very aware of unfair trade practices.

Brazil is being very firm here. And the values or what was implemented was \$35 to \$165 per ton. These are expresses amount significant amount and certainly this will have an impact on the Brazilian markets ordinary plates. Because, we will only be able now to have import that on equal footing with the production here in Brazil.

So to have any expectations regarding the quantity well, we prefer not to do that and one of the things, which I have learned in the years which I were, I was during planning is that to plan, the future by studying apart will lead you to incur many risk. We have to plan the future looking into the future. There will be an impact certainly and this will occur when there an expectation all significant investments in the logistics financial structure and those industries which consume heavy plate. So, it was great for this industry and for Usiminas. That was great victory. Certainly tactical in the anti-dumping process for the heavy plate industry.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Sergio, a follow up regarding the increase price in the domestic market, we have seen two price hikes this year for distribution and which have already been transferred to the industrial sector and the discussion with the automotive sector, we should, should we expect these increases which were transferred during 2013 will they be implemented also, is there equality in the different sectors in distribution on the automotive sector.

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

Well, Marcelo, I do regret there is no equality between the two segments, the distribution and industry segment as they follow market rules influenced by the so called spot market and the car companies, we've been following with them long-term agreement of volume and price. So one sector is not necessarily tied together. They are two different practices that we act in, in view of what the clients want.

The Automotive industries brought to preserve this practice of long-term contracts, which is the international practice, but we are negotiating with them. Our new price from 1st January, our expectation is positive. Now, we have to carry out evaluation, quantitative evaluations as I have said in the middle of a negotiation it is not right for one of the parties. So I would like to ask you to control your anxiety to know the results of this and let us wait until the beginning of next year.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you very much.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Marcelo, this is Ronald. You talked about liability management and I would like to talk about this. We are taking two steps, we mentioned that already. First of all, the pre payment, voluntary prepayment of debt, we are make the best of this moment to settle early some of the debts which would come due in 2014, and which have a higher cost. So we are paying this earlier. And another thing that we are doing is purchasing our Eurobonds through our European subsidiaries so as to improve the yield of this financial investments abroad. We are not canceling abroad, we are not writing them off. They will be kept in portfolio improving the investment abroad basically that's what it is.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Could you give me an idea of how much it is been dropped and leverage of the Company. Perhaps, taking cheaper debt further on. Will you give me an idea of which, how much left your financial debt would be and are you seeing this clearly for the next few years or how does it work?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Yeah, certainly our objective now is to work strongly, to reduce our financial expenses. We have two work fronts, which are very important throughout the next quarters. You will see that our operating results are improving from any point of view. Our debt, net income, operating income and we have two sources thus to improve the bottom line of our result.

Financial expenses and taxes, income tax and social contribution tax, we have to optimize our financial liability and we also have to improve the improvement of our capital structure and consequently our tax burden.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Well Ronald, since you touched on free cash flow, just to give you an idea, I know that the budget's not yet closed. But speaking, CapEx 2014 an order of magnitude will it'll be more or less in 2013?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Well, I think much the same. There will be carryover from '13 to '14. There should not be any great important or new project in steel. I am not talking about compact, but compact

next year will not cause much expenditure or outlays[ph], but that will only in 2015. So, as of the end of 2014, the number would be very similar to 2013. Thank you very much.

Operator

Our next question comes from Mr. Carlos de Alba, Morgan Stanley.

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

Yeah, good morning. Thank you very much. The first question is regarding, what are your intentions to turn around that has been implemented in the company. Specifically, do you think that we have seen most of the benefit of the cost reduction initiatives that you have implemented? And are we now in the third quarter, I had a clear picture of what the cost per tonne or cash costs per tonne in the steel sector would be for in the steel business will be for the company or is there still any high cost associated with reduction of or optimization of your labor, labor force that as we move into 2014. We will no longer see and therefore there is further off side to see costs are coming down or perhaps we are done with improvements in cost the big improvements in cost and what we're going to see is just an enhancing of your product mix as you finished some of the incur that you have been working on in this steel division?

Operator

We had a technical problems, I'll ask you Carlos to repeat your questions because we only got part of it, so please repeat your question, sir.

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

Yes. So the question is where are you in terms of the turnaround that have been implemented in the company. Have we seen most of the big improvement in cost that you plan on doing already in the third quarter or is there any further big changes in cost per tonne or just overall cost reductions in the coming quarters.

Perhaps, because you are occurring including in some cost, have you implement your labor optimization, particularly that as we're going to 2014, you will no longer have this special cost in there and therefore we can see a further cost reduction or if you're down with cost should we now expect just pure enhancement of your product mix as you get into more high value added products.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Carlos, I would try to answer your question and in fact when we implemented some changes and to our industrial configuration and work organization we do incur in non-recurring cost and in 2013. That had a greater impact than they will have in 2014. During 2014 we see much more clearly the benefits of some steps which were implemented during 2013 and whose implementation cost also occurred in 2013, but will not be repeated. However, everything in life, like sports for example, you manage to have more significant gains at the beginning of your training than at the end.

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And, you know, it gets more and more difficult to manage to improve with the same intensity as you have been able to do as we have been able to do for the last 12 to 18 month. But this does not mean that we are not working to seek these improvements. There are many things that we are doing which will still improve our results at the end but perhaps not as strongly. And there are also some other initiatives and impact to improve our products mix Sergio Leite has mentioned the outlook for heavy plates reminding you that we are the only producers of heavy plates in Latin America.

We had some steps taken against commercial projection which might benefit this market, and we think that sooner or later Brazil, in fact, will enter an investment cycle based on infrastructure and oil and gas exploration. So improving product mix, improving the domestic markets and continuing our efforts to control costs, reduce cost and CapEx will lead to continuous improvement and improved result.

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

All right. Thank you. And then if we can go back to the prices in the domestic market, can you again remind us exactly what the price increase has been? There has been two this year, but can you tell us again the details, what was a price increase for the distribution sector and how much was the price increase for the industrial sector and those goes to have been fully implemented and if you foresee the possibility of any further price increases at least to those two sectors which obviously are different than the overall producer?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Well, Carlos, as far as the price scenario goes in the second half of the year, August we had an implementation, the cost went up. And this increase in August, we started in September negotiations with all the industrial, non-automotive industrial sector and the reflection of these negotiations which will occur in October, November and December. In the case of the auto companies, we have annual contract and we started in August the negotiation of prices and volumes for 2014 with the auto companies. We should conclude these negotiations in November and the new prices will come into force on the January 1.

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

All right. Thank you, Sergio. And then just finally on the iron ore, we had seen a continued delay of the decision making process for the (inaudible) process in the compact project. And so I would like to understand why driving these, is it should because you want to get more information about the project because you're finding it difficult to justify the investment or is it because you don't have any rush given that there is no clarity as to what for would you be using or when the port over MMX would be or selected port, would be ready for you to start using the contract that you have with that port.

And also if you can comment about the area that you have in the Itaguaí bay, what are the plans with that I understand that it's fully cleaned up and if you can confirm if you had received the contingent payment that was pending, the cleaning of that area, but also again what is your strategy regarding that investment in that area that you have in Itaguaí. Thank you.

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A - Julian Eguren {BIO 16005078 <GO>}

Good morning. This is Julian speaking. I think it's very important to understand the context in which MUSA is operating. MUSA's project was implemented, but around us the situation of the logistics, came up across many problems that you are familiar with. So inevitably, MUSA is looking at the logistics context and will not make a decision about the compact project without being very careful about what's going to happen in the next few months or years in the logistics, which is essential in the compact to project. Regarding the report, I think this has been clearly booked there has been a change of ownership and we are expecting a definition of the new owners.

Our contract to of course continues to be valid and over commitments that we have reported to fail of the port continue to be valid. And we are satisfied this, but we are expecting their decision regarding our area behind the port then we have received the payment. As has been informed and we will continue with the process of the environmental cleanup. This is a strategic area for MUSA for the future of MUSA and for policy but we also think that this is area is strategic for the port, our ports that operates in the area and in the past or when the logistics problem is solved the question of the Itaguaí area will also be solved. And we'll now move to export more efficiently.

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

Thank you very much.

Operator

(Operator Instructions) Our next question comes from Daniel Fensom, JP Morgan.

Q - Daniel Fensom

Very important, the one which we want to reveal the close of that. On back to data, that question. Can you basically -- are you planning control market again with the dollar deals maybe you now could get a lower cost of debt. I know the coupon, sorry, up then can you tell us what is the net leverage target of the company. Thank you.

A - Julian Eguren {BIO 16005078 <GO>}

Good morning, Daniel. Thank you for your question. At the moment, we don't have any plans for new funding, relevant funding quite the opposite. We are working very hard to reduce our gross debt. In spite of having a leverage ratio which is comfortable for net debt, we have to work to reduce our gross debt which still continues at high levels and consequently leading to financial expenses, which are still very high, obviously is also trying to exchange costly debt, cheaper debt, priority is to reduce debt, to bringing the gross debt and financial expenses to more adequate levels and improve the cash of our operations. So summarizing, we will not be accessing the international debt market in the next 12 to 18 months.

Q - Daniel Fensom

Thanks.

Operator

Our next question from Renato Antunes, Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

Thank you for this. Quick question, could you just talk a little bit about the price of the ore prices MUSA, in the domestic market it has dropped. So I'd like to know what's behind this drop, could you help us understand perhaps, this is not what was expected by seeing international product, so.

And the second question is strategically how are you seeing the Cubatao hot strip mill and what is the idea there, what are you going to do with the old hot strip mill, are you are going to use it still? Is there a greater demand or what is the plan?

A - Julian Eguren {BIO 16005078 <GO>}

Good Afternoon. Regarding the iron ore in the third quarter, our methodology for pricing follows, the average price of the former months. So, the third quarter has approximately the average of prices of August, July and June and which with these three months compared to the former three, it's natural that you would have a slight adjustment downwards because when we look forward September and October, this is going to improve. The price levels, September, October, are \$6 to \$7 above this moving quarter that I've mentioned. Well, talking about the hot strip mill in Cubatao, the old one, the Cubatao will be standby with minimum maintenance that we can give it to be very in case of any increased demand. As Sergio has said, we believe in many plans and growth plans and so we are managing going and when these become reality steel demand will increase and we have to be ready with a ready hot strip mill and to face up to this demand. So, the machine will be standing by for future demands. Thank you.

Q - Renato Antunes {BIO 17439917 <GO>}

Just to clarify, this methodology that you mentioned which is clear regarding the former quarters is also for sales to third parties, right, not only for MUSA and Usiminas?

A - Julian Eguren {BIO 16005078 <GO>}

No. It's valid for everyone, also for sale. Thank you.

Operator

As there are no more questions, I would like to give the floor back to Mr. Ronald Seckelmann for his closing remark.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Thank you all very much for participating in our call. We thank you very much for all the questions that you asked and that allowed us to make more incomplex remarks about the results of Q3. And our Investor Relation friends here are available to you to answer any further questions that you might have. Thank you very much.

Operator

Usiminas Conference Call is closed. We thank you for your participation and wish you all a very good afternoon. Thank you.

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