

Q2 2013 Earnings Call

Company Participants

- Julian Alberto Eguren, Chief Executive Officer
- Paolo Felice Bassetti, Subsidiaries Vice-President Officer
- Ronald Seckelmann, Chief Finance and Investor Relations Vice-President Officer
- Sergio Leite de Andrade, Commercial Vice-President Officer
- Silvia Pinheiro, Investor Relations Director

Other Participants

- Carlos de Alba, Analyst
- Ivano Westin, Analyst
- Leonardo Correa, Analyst
- Marcelo Aguiar, Analyst
- Marcos Assumpcao, Analyst
- Renato Antunes, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good morning, thank you for standing by. This is the Usiminas' Conference Call. At this time, all participants are in listen-only mode. Later on, we will open up for questions and answers and you will receive further instructions. (Operator Instructions). As a reminder, this conference is being recorded. I would now like to turn the conference over to Ms. Silvia Pinheiro from FIRB Financial Investor Relations Brasil. Please go ahead, Ms. Pinheiro.

Silvia Pinheiro

Welcome to Usiminas teleconference where we will discuss the results for the second quarter of 2013. This presentation and the slides presentation is being broadcast live on the company's Investor Relations' website, www.usiminas.com/ri. The earnings release and the slide presentations are also available on the site.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act. Actual performance could differ materially from that anticipated in any forward-looking statement as a result of macroeconomic conditions, market risks and other factors. These expectations are highly dependent upon the performance of the industry of the Brazilian and international markets and therefore are likely to change.

With us today are Usiminas' Executive Board, Mr. Julian Eguren, CEO; Mr. Ronald Seckelmann, Finance and Investor Relations Vice-President Officer; Mr. Sergio Leite, Commercial Vice-President Officer; Mr. Romel Erwin, Technology and Quality Vice-President Officer; Paolo Bassetti, Subsidiaries Vice President; Mr. Nobuhiro Yamamoto, Corporate Planning Vice-President; Vanderlei Schiller, Human Resources and Organizational Development, and Ms. Cristina Morgan, Head of IR.

Firstly Mr. Eguren will make a brief statement followed by Mr. Seckelmann will comment on the second quarter results using the presentation. Afterwards management will be available for a question-and-answer session. Now I'd like to give the floor over to Mr. Julian Eguren. Please Mr. Julian.

Julian Alberto Eguren {BIO 16005078 <GO>}

Good morning, everyone. I'd like to thank you for participating in this quarter's results. It is always an opportunity not only to discuss about the main figures of the second quarter, but also to review the competitiveness recovery process of the company. In recent conference calls, we have constantly emphasized the Usiminas' key focus in seeking and increasingly more efficient operational performance and a greater integration towards customers.

Throughout each period we have been achieving progress gradually, and in the second quarter this is no different. Even with the stable net revenue when compared to last quarter, we have had a consolidated EBITDA expressively higher than the same comparison and the best margin obtained by the company in the third quarter -- than the third quarter of 2010.

If we consider this results, we see the evolution of EBITDA in the steel industry, our core business, which recorded the largest margin from ever since 2010, going back to the double-digit level. This shows that our actions to improve productivity have begun to provide more consistent results. This is an ongoing process. We still have a long way to go, but we are on the right track.

Another important aspect was that even in a challenging economic scenario for the steel industry, we have managed to increase by more than 16% our sales to the domestic market compared to the first quarter. In this sense, it is worth highlighting a mix of high value-added products such as heavy plates. We also continue to advance in the relationship with our clients. Last month, we received the Volkswagen Supply Awards directly from the hands of the CEO of the entire Volkswagen Group. Usiminas was considered a local champion and was the only steel company acknowledged by this award. And I was there receiving this award in Germany and we are very proud about it and I was there representing all our collaborators and employees that enabled us to achieve this result.

In regard to Usiminas Mineracao, despite the fluctuation of the price of iron ore, we closed the quarter with an EBITDA margin at high levels. The Friables Project, which

includes the expansion of production capacity to 12 million tons per year is already nearing completion and it is on schedule and in line with budget.

Finally, from the financial point of view, we have arrived at the end of the period with a sound cash position. We have recorded a reduction in net debt by 9.2%, despite the 10% devaluation of the Brazilian currency, this does enabled us to even without the inflow of funds from the sale of Automotiva or earn-out not to break the covenants. These are factors that allow us to attain a better financial stability for the company with together with strict cost management policy enables the continuous optimization of CapEx and efficient management of inventories and working capital.

Continuous improvement of our indicators show that the culture of controls and the surge for productivity have contributed materially to make Usiminas an even stronger company given the current volatility of the steel market. All our teams remain committed to the enormous challenge of increasing competitiveness of our units and the significant move to the next level we have attained in the second quarter makes us even more motivated to restate that we are moving forward and we are moving in the right direction. Thank you all.

Ronald Seckelmann {BIO 3722329 <GO>}

Good morning to all. I'm going to make some comments about the results of the second quarter and I'm going to use the slides which are available to you on the webcast. The first slide summarizes our main operating indicators. Sales of steel, sales of iron ore and despite the stable volumes and a slight increase in revenue, adjusted EBITDA grew 41% in the quarter. Moving on to slide three, we see the trend in sales for the steel mills in the domestic market and in exports. I would like to highlight the 16% growth in the domestic market. On slide four, we see the EBITDA evolution in the steel mill, it's back to two digits and the EBITDA margin in the steel business includes iron ore at market prices and we are back to the best level in the last 33-months.

Moving on to slide five, we have the evolution of the mining margins and again despite the average price which was lower than in the previous quarter, we maintained the EBITDA margin of this business above 50%. Slide six shows the consolidated EBITDA for the company and it's the highest EBITDA, and the highest EBITDA margin in the last 30 months with no extraordinary effects of any nature.

On slide seven, we see an 85% increase in our gross income and a change in the operating loss which was turned into operating profit at 142 million in this quarter. Slide eight shows the evolution of our working capital, which remains stable at R\$2.5 billion and our challenge from now on is to maintain the working capital at these levels despite the growth in sales as expected.

On slide nine, we see one of the main components of our working capital, the steel inventories, which have remained stable at a level which is lower than two months of operations. Slide 10 shows our CapEx and the trend is towards growth relative to the

previous quarter and we take into account projection for CapEx close to R\$800 million in the second semester. The total CapEx for the year should be R\$1.2 billion.

On slide 11, we see a decrease in the company's indebtedness and despite the depreciation of the real, which affects part of our debt, which is denominated in dollars. This is one of the focus of the company. We want to reduce indebtedness after the strong cycle of investments in the steel mill is finished. We now are available to take any questions you might have. Thank you very much.

Questions And Answers

Operator

Ladies and gentleman we will now begin the Q&A session. (Operator Instructions). We would like to remind you that this conference is for investors and market analysts only. Any questions from journalists should be forwarded to Usiminas Press Officer 31-3499 1918 or to imprensa@usiminas.com. Our first question comes from Mr. Carlos de Alba from Morgan Stanley.

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

Yeah. Thank you very much everyone for taking the time. The first question is regarding how much of your cash balance is actually uses [ph] cash and what would happen with that amount if the company decides not to pursue the second phase of the iron ore expansion, that will be my first question. And the second is, what has happened to the galvanized steel mills? I see that the -- when you looked at the details of the early shipments, it has been a change with hot-dip galvanized increasing and electrogalvanized decreasing quite significantly year-on-year. Thank you.

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Good morning, Carlos. As regards to question about the cash balance, I couldn't understand really well, but I would imagine that you're asking how much of the cash balance is in the controlling company and how much is in Usiminas mining, it's roughly 50-50, there is a bit more in the steel business, in the steel unit, including the cash available in our foreign subsidiaries and a bit less than 50% in Mineracao Usiminas. We also have smaller subsidiaries which carry some cash position. Since we know that the Friables Project is heading towards completion, 95% of the physical works have been completed. Your question about what happens to the cash at Usiminas mining, if the decision is not to move forward with the compact project.

The decision has not been made yet. We should make a decision by year-end or the beginning of next year and that's when you're going to decide what to do with the cash position, should we decide to stop the compact project. However, there is no indication to date that this project is not attractive, all the indications we have are that this project will add value to Usiminas mining and therefore would add value to the Group as a whole and there is no indication that we are not moving forward with this project.

The second part of your question has to do with the composition of volume of galvanized products a different behavior and your second question about galvanized products, I would like you to repeat the question. I could not understand it properly.

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

Sure. Thank you. Yeah. If I looked at the year-to-date volume change in electrogalvanized, it has declined 20% and hot-dip galvanized has increased 29% year-on-year. So I would like to understand why these very different trends in electrogalvanized declining year-on-year and hot-dip galvanized increasing significantly year-on-year?

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

Good morning Carlos this is Sergio speaking. In the case of the galvanized products, we have two types of behaviors. Using the reference that you commented on, a drop by 20% in the electrogalvanized and I'm comparing the first semester of last year with the first semester of this year, what we see is the following.

Galvanized product are products which have been very strong in the automotive business worldwide and in the last few years with the growth of hot galvanization facilities this share in the automotive sector has been decreasing in time. The main factor that led to this reduction and we are comparing semester-on-semester a 20% reduction 12,000 tons. This has to do with a greater use of hot-galvanized products in the automotive industry. At Usiminas, we are working towards developing new markets for electrogalvanized products. But when we speak about developing new markets this takes time. It is something that we have been working on. As regard to hot-galvanized products semester-over-semester there was a 30% growth, a very expressive growth in hot-galvanized products.

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

Thank you very much, Sergio.

Operator

Our next question comes from Mr. Thiago Lofiego from Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Hello. Thank you very much for the call. I have two questions, the first one goes to Sergio. Can you comment on the outlook for the domestic steel market in the short term? We have seen data recently showing that demand is weak, has been weak in the last two months. So what is the outlook for the short term? Can you give us a guidance for volumes in 2014 and also relative to the domestic market and exports?

And then, as regards to steel markets, Sergio, do you see any room for increasing prices, in view of the weak demand, can you make any comments where the premium is and where the discount is for the domestic steel here versus the imported steel?

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

As regards to the domestic market for flat steel, the expectation of the Aco Brazil Institute is that the market should grow by 3% for the whole year. In the first semester the market behaved according to this forecast, but they act out relative to Q4.

As regards Q3, I can assure you that growth is in line with this type of growth, a 30% -- 6% growth. As regards the market, our strategy for this market is the following. We are developing a strategy based on our product portfolio which is state-of-the-art worldwide in all the lines that we do. We are developing a strategy to add the value to products not only by providing products with high technology content, also by adding services. And here, I mean sales, services, product sales, services, scheduled deliveries, processed products, especially blankets and cut products, and we are integrating them with Usiminas solutions. Our sales strategy is very much focused on building a stronger relationship with clients, and the premiums and the awards that we have received in the last few months, and you've heard that we received an award from Volkswagen. This shows us that we are in the right direction. We had been adding value to our products and services. We want to become more and more, and a company that provide steel solutions and not a company that produces and sells steels.

As we got to the outlook for Q3, I would say that Q3 in the domestic market we've show a similar behavior to Q2. As I said before, there are some doubts relative to Q4, but Q4 itself is marked by seasonality in the Brazilian market, especially because of the holidays at the end of the year. As we go to 2014, it's too early for us to make any forecasts and give you any estimates. Relative to prices, I would like to say that looking at the foreign markets and the domestic markets, the scenario is for price stability.

You also asked about the premium. The premium of course has a small variation throughout the week, but in the products that we sell, the premium goes from 0 to 5%. The positive premium and this premium is driven by different factors, the price in the foreign market, exchange rates and all the conditions. This 5% premium you're considering 25% import duty, right? No. We're considering 14% import duty, average. Okay.

Operator

Our next question comes from Mr. Renato Antunes from Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

Good morning, everyone. Thank you for the opportunity. My first question is about heavy plates. We saw a very good half of our -- on this issue, and I would like you to say a little bit about the main drivers, why the sale is improved so much, I am comparing the first half -- first quarter and the second quarter, this was a very pleasant surprise.

And my next question is about the cost performance, which has been improving at Usiminas. I'd like you to give a little bit more detail about this and to see what we can expect concerning this, what has been better in terms of the price of coal and iron ore compared to manageable costs. These are my two questions, thank you.

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Renato, concerning your first question about the heavy plate market, this is a very significant market for Usiminas. It has always been a market in which we have devoted a lot of work to not only in terms of increasing capacities and producing at around 2 million tons per year. And you may recall that in this last investment cycle, we have made a significant investment in terms of adding value to heavy plates, which was the accelerated cooling and we are now able to meet the needs of several products, especially the ones designated to oil and gas.

In the second, as you have -- as you said yourself, there was a significant sale increase by 37% and this growth was mainly due to two factors. The first one was the wind generation industry. And in this sector there was a very strong concern concerning the energy generation in Brazil and this made the wind sector receive a lot of investments and therefore we had an expressive sale made to the sector in the second quarter.

Another one which drove the sales in the second quarter was the shipping industry, and this was driven by oil and gas to the shipyards and this involves equipment, conversion of platforms and shipment to platforms, barges to support operations offshore. And we at Usiminas in this heavy plate market, we are very devoted to it and it's significant growth.

However, in our view, we are still not at the point Brazil needs because Brazil is a country that needs infrastructure. We have many bottlenecks in logistics and infrastructure, shipyards, ports, airports, speedways, in every aspect in infrastructure in Brazil needs investments and we have not attained this wholeness because when you compare the sales in the first half of last year in heavy plates with the first half of this year, despite the strong growth in the third quarter. They were 5% lower than the last year, therefore the significant lead is still to come, and we are confident that it will be here and we don't need it.

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

Renato, good morning. I would like to add something to it, concerning the cost of coal and iron ore. Coal, the cost was basically stable, there is a stability trend, there is a downward trend in this stock price for coal and in the contract growth. The result of this is a stable price for coal. Concerning iron ore, despite a fall in the price, our iron ore price improved because of the mix, because we have used more pallets. And I believe that your question makes it possible for us to give some more comments in terms of cost, and Julian would like to talk about this as well.

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Renato, good morning. Just as you said, there was an improvement in the cost, it was small but consistent improvement. This improvement is a result as we've had in initial consideration is the result of our operational discipline, the maintenance and the training and all the industrial configuration, the changes in processes. Therefore the improvement is a result of a series of actions, as you said, there is one single result for one single cause, but it's because of this mind set to improve to work on the training of our personal,

improving processes, productivity and taking up competitiveness again, and this we will definitely be experiencing this in the second half.

Operator

Our next question comes from Ivano Westin from Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Good morning to all. Thank you very much for the call. Congratulations for the excellent results for Q2. I have two questions, the first one has to do with CapEx, it was a significant reduction in the first semester. And what is the outlook for the second semester and especially for 2014 including the steel business and the mining business.

And secondly as regards to the steel business, Sergio said that you expect a stable third quarter. Can we expect a maintenance of EBITDA margin in the steel business of two digits?

A - Julian Alberto Eguren {BIO 16005078 <GO>}

As regards to first question relative to CapEx, our budget forecast a lower CapEx for the first semester and an acceleration of CapEx throughout the second semester. This is still the case. It is still so in our plan and as I said in the beginning, CapEx for the second semester should reach R\$800 million and our total for the year will be R\$1.2 billion, slightly lower than the 1.5 billion that we had announced in the beginning of the year in the conference call for the first quarter.

But this doesn't mean that we are postponing important investment, not at all. We are focusing on the Friables Project in mining. In the steel business, we are revamping a coking plant. Also we have a plant in Cubatao which is nearing completion and there is no rescheduling in our investments. The investment is in line with our budget, slightly lower in terms of disbursement. For 2014 it's too early. We are beginning to work in the plant for next year. And I therefore have no information to convey at this point.

Q - Ivano Westin {BIO 17552393 <GO>}

And what about the second question on the EBITDA margin for the steel business, can we expect two digits margin for the second semester?

A - Julian Alberto Eguren {BIO 16005078 <GO>}

There is no reason why this shouldn't continue to be so. We are working on a continuous improvement program and you can see that our improvements was in leaps and bounds, but we have been improving steadily. This is the third consecutive quarter of improvement and we expect this to continue. There is no indication that we should be unable to maintain the two digits growth in the steel business in the next semester.

Operator

Our next question comes from Mr. Leonardo Correa from HSBC.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good morning, everyone. Thank you for this conference call. My first question concerns the tariffs Sergio. Could you help us understand the Federal government's statement and I'd want to see what is your opinion on the lobbying on internal discussions are about. How are you discussing the tariffs with the government, which in November may be maintained and taking what Carlos said about the Phase II of the iron ore project this could go ahead. How about the Southeast port. We are seeing that EBX is selling the port, so are you interested maybe with other companies to buy it, these are my questions.

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Concerning the rate, the import duty, which is being commented on in the last few weeks, what happens is, first of all we are open to dialog with the federal government on the topic of the situation of the entire steel industry, not only in Brazil, but worldwide. Therefore the federal government today is aware of the situation we face. The list that was issued, in fact, in the past, why was it made, it was because there are asymmetries in the international market, so it was a decision of the federal government to restore balance in the international steel trade and based on that they have three points, which is number one, which is the exceeding capacity of the world steel production and the surplus is 0.5 billion tons a year which is in China.

The second aspect is the strong presence of government in the steel industry, more than 60% of the steel industry today is controlled by the government, it's government owned, and therefore the private sectors do not apply with the same emphasis.

The third point is the lack of alignment in terms of exchange rate and here we have currencies that are artificially weak and here we can highlight the yuan, the Chinese currency. And based on these three aspects, we have been talking to the government and the government is pretty well balanced concerning these issues and our expectation is that we are looking towards the positive outlook in the sense that the government will play its role, will look for the balance in terms of international trade.

Q - Leonardo Correa {BIO 16441222 <GO>}

So Sergio, you are looking to keep 25% of the duties for hot coils and heavy plates.

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

Yes this rate expires in September, so it will be renewed I believe.

And so now concerning your second question. As you mentioned, we continued to work a lot in terms of detailing the planning of contracted project. So as to take a decision by the end of the year or by the beginning of next year, so concerning the MMX ports which is an important subject to us, we have a long-term agreement that enabled us to set our production and due to the announcements of a possible sale on the part of MMX, we

have been following this closely, however there is no concrete initiative from Usiminas or from other players concerning this possible acquisition.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Leonardo, just to add to this, if the ports is sold, our agreements say that any new owner will take on all the obligations of the existing agreement. So this agreement will not be with no effect, you will have the same effect, so we'll continue.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you so much.

Operator

Our next question comes from Marcos Assumpcao from Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good morning to all. Congratulations on the result. My first question goes to Sergio Leite, on how to do the volume of sales in the domestic market. Can you comment on the mix of approximately 90% of the domestic market? Do you think this is sustainable? And also, can you comment on the changes in the market for the second quarter, has it gained market share and is this a trend going forward. And specifically, can you make any comments on the punctuality rate in Usiminas delivery; I think this is very important for the improvement of your market share.

My second question goes to Julian. Can you make comments about the indirect import market? We have seen direct import in the first semester, how do you see these trends relative to indirect in force. It is high, but do you think that with these exchange rates we would see indirect imports drop in time?

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

Hi, Marcos, as regards to two points that you raised, as regard to volumes, we have been working this year in 2013 with the outlook of having a total mix in the internal market above 85%. I think this is sustainable. As regards market share, as I said, in other conference calls, in Brazil we no longer have that determination of market share which was done by the Aco Brazil Institute.

Aco Brazil Institute does not bring together 100% of steel producers. What we have been seeing is a drop in imports. We are moving ahead in the imports markets and in the heavy plates markets as well. We see the results of the second quarter. It has remained so in view of the big investments expected by all in the infrastructure of Brazil. I would say that the outlook is for a market share increase.

As regards the punctuality of our deliveries, we haven't achieved the desired levels, but we have been working very hard to ensure that we deliver on time to all of our clients. We

have a way to go, but we have been working very hard to improve our punctuality. As you rightly said, as we improve our punctuality, we will also gain more market share.

A - Julian Alberto Eguren {BIO 16005078 <GO>}

This is Julian speaking, Marcos, good morning. Just to reply to your question about indirect imports, we believe that the imports because of the new exchange rate, imports and indirect imports will experience a downward trend. But we have to work hard. We are working not only for our clients, but we are working throughout the chain.

We have to interact with our clients as a chain, as a steel chain, and we have to defend ourselves against imports. Also against those assets was good that have a high content of steel. We have to work closely with our clients and have a relationship which is stronger than a merely transactional relationship. We have to work on R&D, we have to work on designing trends for the industry, products and so on. We have to deepen our relationship with clients, our way to defend ourselves against foreign competition is to operate as an integrated value chain.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

It is very clear, Julian.

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Thank you very much.

Operator

Our next question comes from Mr. Marcelo Aguiar from Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you for this opportunity. And congratulations on your results. My first question is concerning your maintenance CapEx. I believe you disclosed and it was -- you talked to that to have a maintenance of CapEx much lower than the suggestion of one for Usiminas on the previous management. I'd like to see how do you see the stability of the maintenance CapEx for sale and for mining, for the long term and mid-term. This will be my first question.

My second question would be concerning the sales of assets. How does Usiminas management see, and how about Usiminas mechanics, as I believe this is not the best moment for us because of the results that are still not very good. What is the scenario like, the land you have around the Southeast Ford. How do these two assets go into the non-core assets of the company?

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Marcelo, its Julian. I believe that we will give you more information on the CapEx. So concerning the maintenance CapEx, the work that is being done is to prioritize the investments in maintenance in the sense of enabling the operational continuity of the

plan. So we're not speaking or reducing this amount, but maintaining and controlling this investment.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

But would you have an amount to disclose, to say what is the year maintenance CapEx per year in mining and sales?

A - Julian Alberto Eguren {BIO 16005078 <GO>}

It's around R\$400 million.

A - Paolo Felice Bassetti {BIO 17276670 <GO>}

Marcelo, this is Paolo. What is happening in mining with the new plant, we'll be able to reorganize this production structure, and in fact reduce the plant that we'll be operating in the future. So from our point of view, the maintenance CapEx will be close to the current CapEx with a slight downwards trend.

Marcelo, going back to your second question about the sales of assets, this is Julian, you were speaking of Mecanica, so the sales of assets of the company follows the traditional company strategy selling non-operational assets. I am certain that are not part of the core business. And in this sense you have seen that we have sold Automotiva, that was an operational asset but we considered it non-core, and when you mentioned Usiminas Mecanica with sales close -- are looking to several alternatives to give value to Usiminas Mecanica and recently we are looking what would be the best way to give value to this for series of reasons, for investment reasons, for investment of other companies, this is currently a little bit more difficult.

And we're looking at the bad situation and at the same time to continue with the sale of non-operational assets, which we still have, for instance, land, shop, farms, apartment. So we're selling them and this is continuous kind of work, the company continues to work in line with this. Concerning the land in Inga, the environmental analysis and study is being carried out and it's closing and the remediation work is nearly completed and other works done there and the document in our view are in line with what we expect.

So if I could just add something to the questions I made, concerning the price, it was not very clear what Sergio said. He said 025 in terms of premium and at a rate of 14%, so we see that the steel price in the international market is going up. So there have been several announcements that are expected in August and these premium will be below, if we do this calculation again in August without taking into account any change in the exchange rates, so the increase in price in the beginning of the year was a result of the increase in international price.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

I want to understand that this stability you're mentioning, if it is also true for the short-term as well.

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FINAL

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Marcelo this question in terms of the international price, of course, has an impact in Brazil. But it is a very dynamic process. This year we have had moments where the prices went up in certain markets and they were followed by a drop in prices as well. So what is happening at this moment, we are seeing that the US is experiencing a rise in prices. Europe, the prices are stable, maybe even with a downward trend. China is presenting a slight upward trend, but we have a lot of question concerning the sustainability of these movements. But obviously we follow up on this price dynamic of the international market combined with the exchange rate dynamics in Brazil; and when there are opportunities, Usiminas will take advantage of them. According to our assessment, I reinstate what I have said before. We are maintaining the prices in the domestic market.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you.

Operator

(Operator Instructions) Our next question comes from Mr. Marcos Assumpcao from Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Hi. I have a question relative to prices, just to make things more clear. The price has been rising throughout the first quarter, maybe you have implemented some increases or reduction of discounts in the second quarter. At the end of the quarter, the price would be a little bit higher than in the beginning. Can we expect for Q3 a slight increase in the average size?

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Yes, Marcos. You're right, we can expect for the average price a slight increase relative to Q2, and I would say between 1% and 1.5%, and this has to do with what happened in the second quarter. And as we got Solucoes Usiminas, strong volume for Usiminas that's what we saw in the second quarter, but the inventories at the distributor is rising and demand is slowing down.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

For Solucoes, is this volume sustainable or should they weaken a little bit in Q3?

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

Looking at Q3, I would say that the volumes of Solucoes are sustainable. In the second quarter, Solucoes had a behavior that showed a growth by 15.7%. In Q3, for Solucoes we expect the same behavior as Usiminas.

A - Julian Alberto Eguren {BIO 16005078 <GO>}

Bloomberg Transcript

And Marcos, just to add to what Sergio was saying, Solucoes for us is key in the chain that we established with our clients. The integration of Solucoes and Usiminas allows us to maximize our portfolio of products and services to an industry that is more demanding and more sophisticated. We believe that this is a very important competitive edge.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Thank you very much Julian and last question to Ronald, if you could explain the reduction in working capital in the quarter?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Hi, Marcos. The reduction is one-off thing and we highlighted in the presentation the average of the last three quarters which was R\$2.5 billion and this is a level we are going to price to sustain. It's not the 2.2 billion that we have reached this year. We believe that 2.5 which was the average in the last two quarters is more realistic. There was an one-off reduction, which is welcome of course. It helped us generate more cash and improve our net debt for example.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Thank you very much Ronald, thank you Sergio, thank you Julian.

Operator

Our next question comes from Leonardo Correa, HSBC.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good morning. Thank you for having me again. Just final thing, I'm sorry to insist on this prices to Sergio. But we are trying to check with our clients in industrial sector the prices to and some of them have been saying the prices you are trying to practice are new price increase in the industrial sector. Do you confirm this, or as you said, you are looking for stable trend?

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

Leonardo, the price issue is definitely a hot topic. It involves the entire market in all our clients. What I'd say to you is, there is no plan on our part to raise prices in the next quarter. What you may have heard from our clients is that there are clients that we have had a certain commitment to keep the prices in the first half and as a result of these commitments and Usiminas as a company that of course follows through with all its commitments. We apply to these clients an increase in July. But this is a result because we did not renegotiate prices with them before in the second quarter. These are isolated cases. They have already -- we have concluded these procedures actually even conclude prices with them. And in terms of distribution, we have for such cases, some isolated cases in July that is the reality. There is no plan to increase prices in the next period.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you.

Operator

Our next question comes from Mr. Marcelo Aguiar from Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you very much again. Julian, I would like to hear from you. There is a discussion in the markets relative to the effective capacity of production of Usiminas for final product. You, some say you were at 7, 7.5 or they say 8, so what about now? What is the effective production capacity in booming domestic market. Is it 7.5 million or 8 million?

A - Julian Alberto Eguren {BIO 16005078 <GO>}

This is Julian speaking. I'm going to turn the floor to Ronald.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Usiminas capacity for rolled products which supply the market is close to 9.2 million, 9.4 million tons, this is our rolling capacity at Usiminas. We also have a capacity for steel which can follow this growth, but has a different cost structure. As you increase it, of course, the cost are different, but Usiminas has a huge capacity to supply the market, even if the market continues to grow. With the investment plans for infrastructure which are announced and which we believe will come true, Usiminas has rolling capacity to support this market growth.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. And what about the automotive industry. Sergio, I think there was no increase in this year. Now as the impact of inflation, now the exchange rate, what is the dynamics of negotiation with the automobile industry for readjusting prices?

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

This industry benefited a lot from the steel prices this year. Marcelo, the dynamics of the automotive industry is like this. We negotiate for the following year and this negotiation will start in Q3 and finish in Q4. We are beginning to negotiate with car maker, the prices -- the 2014 prices and volumes. We are beginning the process now.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. And my last point is the shipping of ore in the second semester for the foreign market, what is your forecast?

A - Paolo Felice Bassetti {BIO 17276670 <GO>}

This is Paulo speaking. As you know Vale and CSN has said that there is no room in the ports related to shipments in the first semester. We have no expectations relative to the second semester. But the domestic market is booming and we are taking advantage of

that. And from the point of view of the total volume for the year, I think we are going to be between 6, 6.5 million.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you very much Sergio.

Operator

If there are no further questions I would like to turn the floor over to Mr. Ronald Seckelmann for his final remarks. You may proceed, sir.

A - Ronald Seckelmann {BIO 3722329 <GO>}

I would like to thank you all very much for participating in this conference call to announce the results of the second quarter and I would like to remind you that our IR staff remains available to clarify any doubts or to provide any further information you might need. Thank you very much.

Operator

Usiminas conference call is now ended. Thank you very much for participating and have a nice day.

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