Q2 2015 Earnings Call

Company Participants

- Romel Erwin de Souza, Chief Executive Officer and Technology and Quality Vice-President Officer
- Ronald Seckelmann, CFO and IRO - Finance and Investor Relations Vice-President Officer and Subsidiaries Vice-President
- Sergio Leite de Andrade, Commercial Vice-President Officer
- Unidentified Speaker

Other Participants

- Alan Glezer, Analyst
- Carlos de Alba, Analyst
- Ivano Westin, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Rodolfo D'Angele, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Usiminas Conference Call to disuses the Second Quarter of 2015 Results. This is Usiminas conference call. At this time all participants are in a listen-only mode. Later on we will conduct a Q&A session and instructions will be given at that time. (Operator Instructions). As a reminder, this conference is being recorded.

I would like to mention that this conference call is being broadcast live on the Company's Investor Relations website www.usiminas.com/ri. The earnings release and a slide presentation are also available on that site. Participants who are listening to the conference in English may also ask questions directly to the speaker.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments as a result of macroeconomic conditions, market risk and other factors. And these factors depend on the performance of the steel industry and the situation of International markets. Therefore they are subject to changes.

With us today are Usiminas Executive Board, Mr. Romel Erwin CEO and Technology and Quality Vice President Officer; Mr. Ronald Seckelmann, Finance and Investor Relations Vice-President Officer and Subsidiaries Vice President Officer; Mr. Sergio Leite, Commercial Vice-President Officer; Mr. Tulio Chipoletti, Industrial Vice President; Nobuhiko Takamatsu, Corporate Planning Vice President Officer; Mr. Wilfred Bruijn, Managing Director of Mineracao Usiminas; Mr. Heitor Takaki, Managing Director of Usiminas Mecanica; and Mrs. Cristina Morgan, Head of IR.

First, Mr. Romel Erwin will make a brief statement followed by Mr. Ronald Seckelmann that will comment on the second quarter of 2015 results. Concluding with the management who will be available for Q&A session.

It's now my pleasure to turn the floor to Mr. Romel Erwin.

Romel Erwin de Souza {BIO 17406447 <GO>}

Ladies and gentlemen, very good morning. I thank everybody for their participation in this conference call in order to present the Usiminas results of the second quarter of this year. Before, I start my presentation regarding our earnings, I will make a number of observations. The Brazilian market that consumes steel has dropped throughout this year and especially during the second quarter, there has been a significant drop in steel consumption. And this is a reflection of economic retraction in our country.

Now the Brazilian market consumed during the second quarter of 2015, 3.3 million tonne of flat steel. If we compare this to the same period of the first quarter of 2015, this represents a retraction of 16.5%. Nevertheless, if we take into account the volume installed by Brazilian steel industry and the Brazilian industry or in Brazilian market this represent a drop of 21.1% vis-a-vis the first quarter.

So this is due because the imports of steel increased during the second quarter vis-a-vis the first quarter 1.1%. Now in the year of 2015 the imports of steel have grown 5%. The situation is highly critical for the Brazilian industry. For the 16th consecutive time the industrial production has dropped vis-a-vis the same month of last year. Up to June of this year, we accumulate a drop of 6.3%.

Before the end balance of productive capacity and the demand of domestic market, the only alternative is to pursue foreign markets that consume products [ph]. Now Usiminas focus is to service the domestic market, where we are leaders in knowledge with high, we have been recognized for the quality of our product, for the punctuality of our deliveries, for the technical advisory that we give to our customers and for the development capacity of new products.

Nevertheless we have come to the foreign market with the same dedication and the same determination. The economic scenario is highly adverse in the demands and attitude. Usiminas is doing its best in order to adapt itself to these challenges reducing costs, adjusting productive flows, optimizing and prioritizing and being more selective in their investments. We have faced these different challenges with transparency and this is our commitment.

And now we will go to the presentation of our results from (inaudible).

Unidentified Speaker

Romel, thank you very much. Good morning to everyone. I am going to talk about the result of the second quarter of 2015. And I will use the slides that you will be able to follow through the webcast. Well, the first slide show some operational, financial indicators, operational indicators in steel sales that grew 1.5% vis-a-vis the last quarter. As you can see different geographic mix here.

Now iron ore sales in this quarter grew 6% with greater participation of the iron sale. Now the adjusted EBITDA dropped 40% R$227 million basically due to low participation of sale of steel in the domestic market and the dropped price in iron ore sales.

And at last the net profit, well we had a loss of 232%. This is a reflection of the assets of the Mineracao business unit. Now the following slide shows us the evolution of sales volume in steel. And here we can pay attention, here we have participation one-third of the total volume of sales in the foreign market.

We can see this is much more expressive and much more relevant than in the past quarters. The upcoming slide shows the evolution of the EBITDA margin of the steel unit. This quarter our level is one digit level and although the sales contribution and when we sell power that will not repeat in the upcoming semesters. This is sale of electric energy surplus that will not repeat itself.

Here we have the evolution of sales volume from the mining unit and here we can realize of the sales in the government and also the increase in sales to Usiminas. Here we have domestic market sales Usiminas, but we have a stable -- we are at a stable level.

The next slide shows us the EBITDA and the EBITDA margin of our mining unit. Here we have a significant drop in the quarter and a negative EBITDA, although the contribution we received from our sale of electric energy surplus.

Now the, come here we have the consolidated EBITDA result. Here we have one digit level with a contribution of R$41 million in the result of electric energy sales that will not repeat itself in the upcoming quarters.

Well the next slide is the consolidation of the EBITDA. According to the CVM and the adjusted EBITDA, here we would like to highlight an effect of the asset impairment that we carried out in the mining business unit R$975 million. Most of them from Mineracao Usiminas and one from Usiminas S.A.

Here we have the working capital evolution that is one of the focus of our manager [ph]. We have stable working capital vis-a-vis last quarter, we compare it to last year, there is a significant drop here. Here we have one of the main components of working capital that would be steel inventories. And then here we have finished goods. We're very stable as well vis-a-vis the past quarter, there was a slight drop of three days in terms of turnover and inventory and stable compared to last year, 61.4 and lower than last year in absolute value.

Now here we have our cash position and indebtedness as we have -- it has grown, but we have a cash level that is highly rather R$2.9 million. And at last here we have our CapEx evolution. CapEx there, we are taking the necessary measures to what we adapted to our reality and probably at the end of the year, we will achieve our total CapEx level of R$750 million.

So these are the main comments that I would like to make. And now we are at your disposal for a Q&A session.

Questions And Answers

Operator

Thank you very much. (Operator Instructions). Our first question comes from Mr. Thiago Lofiego, Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning to everyone, I have two question, one is for Sergio Leite. If you could talk about the price of the domestic market it increased 2%. I would like to better understand if there was a mix impacting products within this variation and in the third quarter we can expect lower average price in the domestic market and what is the exchange rate that Usiminas is using for the export market. And what is your domestic premium with the exchange of 3.15.

Now regarding demands of the domestic market, I would like to understand how you expect to grow in the second semester and specifically in the third quarter. So the demand is still slow in the third quarter, or will we see some stability during the third quarter. What do you expect now?

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

Okay, Thiago, let's start by the price here, okay. During the second quarter, regarding the first quarter, we had an increase of our average price of 3.1%. Now this increase of the average price, the second compared to the first quarter is due to two factors here in the first quarter, one the residual impact of the increase of distribution at the end of the month of January, that still impacted the second quarter.

Now the other aspect is that contributed to this increase of average price was that when we, when our volumes dropped in the domestic market, the greatest drop was in the hot rolled products, for example, in our products it is those the cheapest price, our hierarchy in the domestic market. Here we have (inaudible). And so, we have a mix of greater added value that also contributed for this increase of 3.1 vis-a-vis the average price. Now, in reality the basic scenario was the scenario of price stability as I mentioned in the call of the first quarter in April.

Now regarding what's going to -- well, we have two aspect you talked about, exports and imports. So as well now regarding exports here, most of our customers are export customers and us as exporters as well. We understand that the exchange rate of that adequate to bring competitiveness to the country should be around R$4 this should be the optimal exchange rate.

This mainly because the devaluation of the real vis-a-vis the dollar was followed by the devaluation of the main currencies. All countries that are competitors I am talking about Ukraine and Russia, I am talking about Mexico, Turkey. Therefore the relative devaluation of our currency vis-a-vis these player of the steel international market it mainly did not exist, okay.

Now, our customers for them to be more competitive each one of them with their specificity where the exchange rate should be around R$4 a dollar then something close to 3.5, that is today.

Now regarding the import of products, what we are observing right now is a balance position here. Now regarding our levels of price differentiation and precisely in this moment when we consider the price of $308 (inaudible) and an exchange at 3.40 the price differential is around 5%.

Now within this level what we always say, regarding the price of the internal market is the level of price stability. This is a level that we will probably see in the third quarter regarding for domestic prices.

Now, of course if there is greater depreciation, we would have more space for a future increase of prices within the domestic market. Now another thing you mentioned was regarding the demand. Now this matter of the domestic demand that is something that really concerns us. And then Romel made a very important summary of the current situation, what we are observing in the domestic market is a slowed process in the economy, the GDP forecast is a drop of 2%, 3% closer to 3%. Within this context the industry will be strongly affected, mainly the transformation industry, the processing industry would drop about 10% that was -- this is going to be a total level it is. Romel also talked about industrial production with a drop of 6.3%. And when we analyze this drop and we focus in the steel consuming sector, we will see that the situation is much more delicate here in Brazil. And here we have the automobile industry as an example, their drop has been 21% that is one of our main markets.

Another very important market would be (inaudible) the drop of 20%. Another market that is very important to us durable goods drop of 16% and so forth. What we're seeing is in the sectors that consumes steel, what we have seen in the first semester is a drop of 20% totally aligned with the drop in sales.

Romel mentioned the drop in sales in the different flats they produce in Brazil that would be 21%, ours was slightly above 23%. But it's totally aligned with the economic situation of the country.

Now for the third quarter, we do not expect the Brazilian economy to improve regarding the transformation industry. And the, our expectation for the third quarter is a slight drop in the domestic market in terms of commercialization and a slight increase in exports.

Now exports during the second quarter vis-a-vis the first quarter, we practically tripled our export from a level of 150 we went to a level of 420. We practically tripled it, I believe that we will maintain ourselves in this level four hundred and half a million tonne.

So this is our demand scenario consequence of our economic scenario and the steel consumption sectors that represent drops of 20%. And there is no indication of recovery. I would like to highlight the farm, the wind farms that is stable, but it's not significant. Another sector that is increasing is (inaudible). And it's not very significant. What we observed here Usiminas has around 100 customers in the domestic market. We will, you know, nobody is increasing production sales, so the scenario is a delicate scenario. And I would add something to your question. The level of inventories of the industry is very high. When we talk about industry, we have an inventory stock of four months to five month that is high. The balance of our deprivation [ph] in our operation is 2.5%. So there is a great difference from 4.2 first and the economic agents that consume steel also have very high inventories.

And their businesses are dropping in terms of sales. So basically this is the general scenario. And I believe that this answers your three question.

Q - Thiago Lofiego {BIO 16359318 <GO>}

I would just like to add being in this complicated scenario that we're undergoing, what price differential that makes you feel very reassured? Do you believe that you can -- need [ph] to increase prices in this environment is not simple. I would like to be, what your price should be to take this initiative and to feel reassured?

A - Unidentified Speaker

Well Thiago by and large what we have set forth here is a balanced scenario is when the premium is between 5% and 10%. When exceeds 10, last year we operated between 10 and 20. And I generally say, a yellow like turn and above 20% well that lied [ph], okay.

Now, our premium, that would create a condition to increase price in the domestic market would be in zero, close to zero. We're not far from zero. Our differential now is 5% and this differential for (inaudible) this would be for heavy plates.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay, thank you very much.

Operator

Our next question from Mr. Rodolfo D'Angele, JPMorgan.

Q - Rodolfo D'Angele

Good morning. Well, first of all, I would like to view the comment about the cost of the waivers that you will be able to negotiate. How this impacts your debt and to talk how you are regarding the waivers?

Second question, Ronald, you said, that we will not -- you will not sell the energy surplus in the future. How should we see this, here we were surprised. So if you could help us to understand what the figures will be like in the future as you won't sell surplus energy in the future. What's going to happen?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Well, good morning Rodolfo, the cost of the waiver, this is information that we do not announce. This is something that we have with our creditors. But I can say that it is totally within the normal market parameter. We don't disclose this waiver, okay.

Now from here on, well, it is the leverage index as other covenants are indicators that we follow very closely, the next observation period is at the end of the year. And here we will follow this regularly. And if it is necessary, we will take the necessary actions as we've done in the past. Now regarding the sales of electric energy surplus, I will give the floor to Romel, he will tell you what's happening in the market.

A - Romel Erwin de Souza {BIO 17406447 <GO>}

Okay. The sales of energy surplus from Usiminas, part of this energy is what we generate internally in our plants. And depending on the price of the stock market where we buy complementary fuel, natural gas, specifically speaking in order to upgrade the generation of electric energy. Now with the drop of the electric energy price in the spot market and at the price that it is today, it is not worthwhile to buy fuel to generate electric energy. Therefore, Usiminas will no longer purchase gas, natural gas to generate this electric energy surplus. Therefore we will reduce our sales volume of electric energy in the market.

Q - Rodolfo D'Angele

Just a follow-up here. I have a follow-up for each question as a matter of fact. Now regarding energy generation, at what prices that worthwhile to buy natural gas in the spot market? And how much surplus do you have with your (inaudible) contract? And regarding the waiver, your waiver was the matter of 3.5 or is there any other rate in terms of the your indebtedness?

A - Unidentified Speaker

I am sorry, could you please pose your question again to me, because I really didn't understand.

Q - Rodolfo D'Angele

I would like to know what test are you going to do with 3.5 times, what limit will you test in your covenant. Now regarding energy sales or sales of energy, I would like to know what -- as of what spot level is a worthwhile to buy natural gas, how much surplus you have to sell without this purchase, you already have a contract, isn't this right?

A - Unidentified Speaker

Okay, let's start with your second question, the test. So okay at the end of the year the next observation period will be net debt, over debt over EBITDA 3.5. There are other test, (inaudible) over interest rate expenses. Normal thing, there's nothing different here, okay.

Now regarding the price or the energy costs and when it's worthwhile, we are not going to talk about this. We're not even going to mention this. And regarding what we have available in terms of surplus to sell, well, this amount changes month by month according to the production volume and what product we're producing. So for example we have lines that consume, a lot of energy is going to (inaudible). And it depends on what product. So this will vary month by month. It will depend on our production volume.

Operator

Our next question from Mr. Marcos Assumpcao, Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good morning to everyone. My first question for Sergio Leite perhaps, within this demand scenario that you say that is very weak in the domestic market. If you could briefly tell us, how sales performed in July, and how you compare it to June. And your forecast in terms of sales for August and September. And if Usiminas wants to make new production adjustments because the demand is there, we get at least in the short-term.

Now, another question that I would like to make would be about the increase of expenses of take or pay of domestic freight. I would like to know if this is a non-recurring expense, Sergio, what about the anti-dumping investigation that US is doing in terms of Cold Coils in Brazil. Do you have any information regarding this anti-dumping investigation?

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

No, Marcos, regarding our demand piggybacking on what I mentioned to Thiago, number one comment regarding July, August, September we're going to have to wait till October. We cannot give you any type of information. Although, we already ended July, what I said to Thiago was, during the third quarter, we will have lower sales in the domestic market and higher sales in the export market, slightly higher.

So this slightly drop in the domestic market is a consequence of the steel consumption market isn't buying. And they have dropped their economic activity and we also have a bad economic scenario go with this. I answered your second question, we are not planning any production adjustment, we already carried out our production adjustment. We parallelized the furnaces, the high furnaces in the plant. This is what we're going to do in the third quarter. The drop that we had will be slight in the domestic market and we will export a little bit more to offset. Before we -- before we answer your third question of take or pay, regarding the anti-dumping investigation of the United States on July, 28th,

we had an inspection of five American companies. Five companies Steel, Arcelormittal, (inaudible), Steel Dynamics and United States Steel, this petition was requested on July 28. This affects 18 countries, China, India, South Korea, Japan, Holland, England, Brazil and Russia.

In this petition, and this request was accepted this week on Monday. It was accepted by the American government. There are two impact here, the first impact will be regarding -- of closing our market for these eight countries that are within this petition.

This is the impact and then I will talk about the impact of closing the market. The second impact is that the volume that the American market closes, they are going to exert pressure over --they're going to exert pressure over other countries and here in Brazil and through ASO [ph] Brazil and through the Brazilian government we are also seeing anti-dumping measure for Hot Coils, Cold Coils anti-dumping measures to maintain the healthiness of our business against unloyal trade practices. So we're also protecting ourself.

Romel, mentioned here the flat steel imports very different than what happens in the Brazilian -- it's growing and the industry it's grown 5% leaded by China. So within these import of flat rolled they come from China [ph] with low price differences. So, we will participate in the process, we will defend ourselves against these process. In the case of (inaudible) we have during the first semester our exports, monthly were of 7,000 tonnes, not very big.

The business of the American business were totally stopped with cold coil or cold rolled. When I talk about markets I am talking about Europe, the main market in Europe is Germany. So our volume is not really concerning, what is concerning is the pressure that we will, that this will exert on Brazilian import.

Now what is unloyal trade? In this petition they're talking about dumping allocated [ph] margins of these eight countries that were on that, had the lowest allocated dumping margin was India with 42%, then comes Brazil that is the second-lowest with average allocated margin of 55%.

Then the other ones were much higher, I'm going to give you an example, something that we mentioned a lot not only Usiminas, but also ASO Brazil regarding unloyal trade measures in China. You know what China's allocated margin is 266% that's for China. Now this is five times greater what we have in Brazil, what is allocated for Brazil. This shows unloyal trade practices from China to the international market. And then Brazil, we're doing everything to find measures following the US example.

And we want to follow these examples for anti-dumping measures. Well, here we have flat rolled then we have cold rolled and we have hot rolled then about the take or pay.

A - Unidentified Speaker

Good morning. Now regarding our take or pay, this is an exercise that we do on a monthly basis taking into account the entire year and seeing if there is a need or not to calibrate the volume of take or pay that we have basically. This value is related to our contract with MRS. Now during the first semester and in reality up to the date directly related to the lack of ports. We are frustrated the non-entry of the port means that, the port always [ph] take or pay that is the other (inaudible)that is the counterpart of our take or pay that we have in our contract with the MRS. So this amount increased during the second quarter because we are more -- when we're more certain regarding the rest of the year. Now, probably we will continue provisioning within the third quarter and possibly during the fourth quarter when I believe this will be -- we will finish end the year the, this is take or pay. Okay.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Thank you very much, well a follow-up, you also said that you terminated your contract with Southeast Port. Now regarding the sign, the fact that they will have to pay because they didn't perform and what are the next steps that you will take with the termination of the contract?

A - Unidentified Speaker

Well, we decided to terminate this contract, there was a major frustration with this delay. So now we are terminating the contract. And throughout the entire period we did not received any amount regarding the fines that are established in the contract. Well, the value, the amounts are public, and I can share them with you. But they're within an open process of arbitrage.

Amongst other things R$624 million, that will be paid in penalties that are in our contract. And we are also adding other amounts we can't mention this because the arbitrage is undergoing and we're in a preliminary moment. But I believe we're on the right path and we will monitor step-by-step the outcome of this entire arbitrage of the Southeast Port.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Thank you very much Bill. Thank you very much Sergio.

Operator

Our next question from Mr. Ivano Westin from Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Good morning to everyone, thank you very much for answering our questions. First point, you reported expenses of 31 million of (inaudible) machines. If this recurrent or we will have a reduction. This will be the first point machine stop [ph]. I would like Bill to talk about your mining area in terms of exchange rate, what all can we expect in terms of exports and what would be the break-even point of the move in China and how could we increase the export?

A - Unidentified Speaker

Ivano, good morning. Your question regarding the expenses with shutdown equipment, with shutdown. These are expenses regarding the depreciation and maintenance of lines that are not operating. As the market moves down and if the volumes continue low, I believe that these expenses will repeat themselves as they will only stop existing when we start operating the lines that will only happen when we recover and when we increase our demand.

Good morning. Now regarding the cash cost break-even, cash cost of the MUSA. Once second we are the first [ph] scenario with a number of variables, one of them is the exchange rate before the call, 153 that helps us. Now on the other hand, the maritime freight, the last figure that I thought was around $17, I list the official figures that I already learned of vessels that were charging $19. This is bad for us. Now we're talking about $57 and a fourth component that is very important for us is the cost of the port services.

And today it is between minimum that I seen is, would be $10, $10.5 and $13. So the combination of all these factors is very bleak when we think about export, even if the exchange rate is 3.50, I can't give you a figure.

What I can say is regarding our cash cost, we have taken measures perhaps won't totally reflect in the second quarter, but I believe that they will reflect themselves on the third quarter. We also carried, we reduced the size of the Company adapting ourselves to the market price reality. And there has been no reduction in turn in the Company in terms of personnel, resources measures that we've taken have already been made public. In July, in the mining department we suspended some working contracts for 200 employees. With this we also reduced our payroll. So a number of measures are being taken, even new measures are -- we're starting to implement them now with the combination of variables that I just mentioned. Export is still not something that is within our short-term planning.

Q - Ivano Westin {BIO 17552393 <GO>}

Okay. It's clear. Thank you very much, Bill.

Operator

Our next question from Mr. Leonardo Correa, BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good morning to everyone. My first question is regarding your product mix. We saw here that the Company continue making an effort to increase export, export have offset great part of the drop in the domestic market. Here seeing, for example flat, here you had an export of 170,000 tonnes in flat export. I would like to understand the conditions of the sale of flat, the 170,000 tonne. If you could tell us if the sales are coming with a positive margin, with the exchange rate, what is the income in export. And if we can expect this maintenance -- if we will continue exporting flats, like we've seen in the second quarter.

(inaudible) the media has talked about the sales of assets. And during the quarter we saw the leverage going to four times, Romel talked about the re-negotiation to attain a waiver due to the covenants that you delivered during the semester. Just to know what we can do when it comes to selling asset. People talk about lots of land property perhaps in the operational side, perhaps you have a line where you can invest.

A - Unidentified Speaker

Leonardo now regarding export where we have good news to you --for you for the third quarter that the export mix during the third quarter will have greater added value this volume of 175,000 tonnes of flat export will reduce significantly. And as I mentioned in total we will increase a bit our export. We will sell more rolled products. And all of them have positive margins, all those, we have positive margin.

Good morning. Now regarding the sales of asset. This is a effort that doesn't come from today. This is an effort from the past to sell asset, non-operational and operational asset. Nevertheless, in the case of non-operational asset that are like real estate, everybody knows that the real estate market is not in a good situation. So they're working with low business, they all show suffering, you know, they're being pressured to lower their prices as well.

And the operational, operational that are not part of core business. The conditions are not favorable as well, therefore we continue monitoring this market very closely looking for alternatives, looking for opportunity. But it's not something that we can forecast and tell you when and what volumes we will work with, the index of leverage of the Company is something that concerns our management, we're strongly -- we're trying to control CapEx, working capital. Here we have our new guidance of CapEx of this year is much inferior to what we have mentioned. And we are following this very closely.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay, thank you very much, Ronald and Sergio. Thank you very much for your explanation. If you allow me, just a specific question for Bill. Bill, we've seen (inaudible) a relevant impairment in the mining business that we don't want to overestimate, it was R$1 billion, almost 25% of impairment.

If you could share with us the parameters that you're using, what scenarios do you expect to measure likely for the new drops like this, new reductions like what we've seen here.

A - Unidentified Speaker

Okay, Leonardo, in reality you're talking about a cash flow with many details. Within our explanation here, within the explanation of the results of the second quarter, we detail some of the main premises like for example the discount rate used. So one I can reassure you is the price between 57, 64 the exchange rate use that in reality is an average of a number of sources recognized by our auditors, the volumes for the upcoming years are highly conservative. So if there -- we are being very careful here, when we're being very conservative. Now, when we talk about between 57 and 64, well this is a result of a group of 20 different national and international sources where we saw media eliminating the two most pessimistic and optimistic curves. And now we have a curve that portrays the market from here on. So this is what I -- this is what I have to say regarding your question.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you very much, Bill. Okay, it's clear to me.

Operator

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

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

Good morning, everyone. Thank you very much. The question I have is, if you could sort of comment on what would be the plan and the main initiatives and with order of priority of what the Company would do to improve the balance sheet? And clearly the situation in Brazil is not looking favorably. We don't know when the domestic market is going to improve, and the export market prices have stabilized or may not increase. You're not going to be selling energy any longer (inaudible) are lower and you are not considering next 14 [ph].

So could you collaborate on what is the plan that the management is doing together to address the balance sheet issue? And did you consider proposing to the Board of Directors a issuance of equity? Thank you.

A - Unidentified Speaker

Carlos, good morning. Now, regarding your questions of what measures the management will take in order to strengthen the balance sheet of the Company. I would like to, number one say, that we are making all the efforts possible in order to maintain a high liquidity level. As I mentioned in the beginning, we ended our quarter with R$2.9 billion in cash. Most of this in Brazil. We have repatriated throughout the end second quarter, beginning of the third quarter, most of the funds that we had abroad taking advantage of the exchange rate. We're also making operational improvements controlling working capital and reducing our CapEx. And we are pursuing sales opportunities of non-operation and operational assets continues as I mentioned in my former answer.

And at the moment, we have no other alternative or no hypothesis to look for liquidity in addition to the normal ones. We currently, we are not taking any proposal of issuance of equity, as you mentioned to the Board. At the moment, this is not being considered by the Board. What we are considering are all the alternatives that are at the reach of the Company's management.

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

Well, could you give us an updated view on 2016 CapEx? How low can the Company bring the CapEx number next year?

A - Unidentified Speaker

Carlos, up to what extent we can reduce our CapEx in the beginning of the year, we announced that our CapEx throughout 2015 will be slightly above R$1 billion. The guidance that we gave at the end of the first quarter was something close to 1 billion perhaps a bit below 1 billion.

Now we are announcing R$750 million. CapEx is something that developed throughout the number of years. Therefore there are many things, many things for next year are already compromised. By and large a steel company of the size of Usiminas can maintain its CapEx at the level of the depreciation or slightly below the level of depreciation for a long period of time.

So if you analyze our depreciation in the steel business, it is like R$600 million, R$700 million. Perhaps it could maintain itself at this level perhaps slightly below. But we still do not have an indication of what the CapEx will be for 2016. We still don't know what our CapEx will be during that year. We're working on it right now.

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

All right. Thank you very much.

Operator

Our next question from Mr. Alan Glezer, Bradesco BBI.

Q - Alan Glezer {BIO 17508681 <GO>}

Good morning to everyone, thank you for the opportunity. I have two questions. One is regarding the export of steel. We saw a significant increase, it was almost three times greater than the first quarter export. Now from my attention was the participation of Turkey and the mix of import, what was this export of steel in Turkey and if this will be related to the replacement of the import, the scrap import.

Second quarter with the cost, I would like to see what is the impact of the exchange rate on coal, have you seen any impact in the exchange devaluation or depreciation on coal? This would be my two main questions here.

A - Unidentified Speaker

Well, now regarding export, this is a relevant fact that we mentioned that before is regarding, if the export of slabs with 169,000 tonnes, yeah, well a great part went to Turkey. That's why Turkey appeared at number one in our mix of export destination. Now regarding the use of the slabs in Turkey, well obviously it's not a scrap. Okay.

A - Romel Erwin de Souza {BIO 17406447 <GO>}

Good morning. This is Romel, regarding cost, this is specifically when it comes to coal, we consider that is between the second quarter of last year and the second quarter of this year, there was a depreciation of 40%. If we see this 40% is already representing (inaudible). The drop of the coal price was totally (inaudible) by the depreciation of the real. In such a way the end of second quarter, the cost of coal in reals was higher than the cost of coal in reis during the same period -- in the same period last year.

Q - Alan Glezer {BIO 17508681 <GO>}

Thank you very much for your answers.

Operator

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

Q - Thiago Lofiego {BIO 16359318 <GO>}

Just a follow-up, Romel, regarding the waiver, I would like to better understand, you will verify once again the leverage at the end of the year and the limit is still 3.5 times.

A - Romel Erwin de Souza {BIO 17406447 <GO>}

Yeah, this is right, you're right, our covenants have not been changed. And they are exactly as they have always been. So if the leverage remains at 3.5 times, the basic scenario to renegotiate your waiver once again preciously, yes.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay, perfect.

Operator

We have no further questions. We bring this conference call to an end. If you have further questions the IR team is at your disposal. We thank you for your participation and have a very good day.