

Q2 2014 Earnings Call

Company Participants

- Julian Eguren, Chief Executive Officer
- Ronald Seckelmann, Finance and Investor Relations Vice-President Officer
- Sergio Leite de Andradel, Commercial Vice-President Officer
- Unidentified Speaker

Other Participants

- Alan Glezer, Analyst
- Carlos de Alba, Analyst
- Ivano Westin, Analyst
- Leonardo Campos, Analyst
- Marcos Assumpcao, Analyst
- Milton Sullyvan, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, thank you for standing by. Welcome to the Usiminas Conference Call to discuss the Second Quarter of 2014. 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 Investors Relations website www.usiminas.com/ri. The earnings release and slide presentations are also available at that site. Participants who are listening to the conference in English may also ask questions directly to the speakers.

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 to that anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

With us today are Usiminas Executive Board Mr. Julian Eguren; Ronald Seckelmann, Finance and Investor Relations Vice-President Officer; Mr. Sergio Leite, Commercial-Vice President Officer; Marcelo Chara, Industrial Vice-President Officer; Romel Erwin, Technology and Quality Vice-President Officer; Paolo Bassetti, Subsidiary Vice President

Officer; Mr. Vanderlei Schiller, Human Resources and Organizational Development Vice-President Officer; Wilfred Bruijn, Managing Director of Mineracao Usiminas; and Cristina Morgan, Head of IR. First Mr. Julian Eguren will make a brief statement followed by Mr. Seckelmann that will comment on the second quarter of 2014 results concluding with the management, who will be available for questions-and-answer session.

It is now my pleasure to turn the call to Mr. Julian Eguren.

Julian Eguren {BIO 16005078 <GO>}

Good morning to everyone. I would like to thank everybody for the participation in the Usiminas call, where we will analyze together the figures of the second quarter of 2014. By and large, we can say that this was a challenging period. We had signaled in our last talk the -- full of uncertainty in terms of industrial activity.

There has been a start-up demand of steel in Brazil that makes sense in consumer sectors and also because of a competitive scenario in the international trade. While with this adverse situation, we have reached positive results with our -- with the EBITDA that we reached in the second quarter presented a growth of vis-a-vis the same period last year. Although we had sales volume that was lower this means that we are consolidating more and more the culture of efficiency, productivity in our operations due to the vigorous effort of all the key levels in Usiminas focused on the discipline, control of costs to reduce expenses and administrative expense.

The EBITDA and net EBITDA is stable this year a drop. This shows our commitment of maintaining adequate financial profile for the company. At the same, we still have a CapEx at balanced level according to the present contact.

Now Usiminas mining, we can see intense volatility in the market and we are more prepared for the future. We have analyzed our reinvestment and we are concluding the ramp-up of the new production lines and we (inaudible) productive capacity to 12 million tons per year. No doubt that this is a moment of transition for that company in continuous development. Usiminas Mineracao certainly is becoming a world-class asset and our expectation is to capture more export opportunities this year maintaining options in the domestic market and supplying our plant with the quality products.

And we can also reiterate to you, Usiminas growth makes progress in 2014 and we are more strengthened and resilient regarding economic instabilities and market instability. We have realized cost controls. We have built in the relationship with our customers and we have placed a new board program to train our personnel. As a consequence, the company is on another level of efficiency and profitability regarding the level we had two years ago. And (inaudible) to overcome the current challengers of the markets in the future with an agenda of continuous improvement. Thank you very much.

And now, I'd like to give the floor to Mr. Ronald Seckelmann.

Ronald Seckelmann {BIO 3722329 <GO>}

Thank you very much. Good morning to everybody that follow us, I'm going to make a number of comments and you can follow this through our slides that you will see in the internet. The second slide of the presentation here we can see some operational indicators, where you can see a drop of -- an increase -- correction -- an increase of 1% in steel sales. We have a 17% drop in iron ore sales and drop of net profit of 42% everything comparing the second quarter this year and the first quarter of 2014.

Now we go to our next slide here we can see the evolution of the sales volume in steels in the past two months. Here we are comparing quarter-after-quarter a drop of 3% of domestic sales and we compensated by a 30% increase in the international market. So, we can see that we had a better result than in the first quarter.

Going to the next slide the EBITDA evolution and here we have to highlight when we compare this period vis-a-vis the last year although we sold 200,000 tons less in the domestic market, we generated a 170 million more.

The next slide show that the evolution of sales volume in mining and here we have a comparison quarter-by-quarter. We can realize the drop that we had in sales volume was totally concentrated in exports, as you can see domestic market and sales to third-party, sales to Usiminas is highly stable. Here we can see the evolution of the EBITDA margins and adjusted EBITDA and margin, there was a strong drop in this quarter. This is a result of the drop of prices and the exchange rate.

Here we can see the evolution of EBITDA margins that are consolidated throughout the past 12 month. Once again although we had a 16% drop in this quarter vis-a-vis the past quarter, the margins are still high and it is one of the best levels that you can see throughout the world, although we had this drop.

So, here our next slide. Here, we can see our G&A evolution consolidated. I would you like to evaluate this result in the past month. The current level compared to last year, we present a real drop of 200% discounting the inflation of 16%. Here we have working capital evolution of working capital. This year, we had a drop of accounts receivable and the steel inventories dropped, raw material inventories increased. The increase of working capital was a result of the drop in accounts payable.

The next slide shows us the steel inventories and steel business unit. There was a drop of finished goods inventories in the last quarter. 66 days in the past quarter, now we have 61 days in inventory.

Our next slide shows us the evolution of our CapEx. We are at the end of an investment cycle that comes from 2012 around 500 million in the first quarter this year and now we're 1.1, 1.2 million this year as a whole.

And the last slide, you have the evolution of cash and indebtedness. We are maintaining our leverage level stable at a very good level. So, these now we will continue with our

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Q&A session. Thank you very much.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) We would like to remind all participants that this conference call is intended as a forum for investors and analysts from the financial community. We kindly request that members of the media direct their questions to Usiminas' Media Relationships Department by the email imprensa@usiminas.com or by phone 55-31-3499-8918. Our first question --

Q - Milton Sullyvan {BIO 19085202 <GO>}

I would like to know your expectation, regarding July, what is your expectation for the second quarter last year. If you have any idea for 2015? My second question, regarding the domestic market if we will see the expectation, if there will be possible discounts in the domestic prices in the third quarter?

A - Sergio Leite de Andradel

Milton, this is Sergio Leite speaking. Your question encompasses a number of themes. Let's start by the first theme regarding the demand this year 2014. We highlighted in the past conference call 2014 is year full of uncertainties and in the situation of uncertainties, a number of factors taking place. Let's see for example the evolution of the expectation of the growth of the GDP for this year in Brazil. We reported on a weekly basis by the Central Bank and we've seen that for several weeks the expectations for this year have dropped. In last -- during last Monday, these expectations are below 1%.

Although number one, we can see effect that is a slowdown in growth. When we analyze steel under sectors that consume steel I would like to highlight the automobile industry recently there we've seen a drop in the first semester of 17% in production. There is a very significant drop in the automobile industry something that we haven't seen for a long time, a drop of 8% in sales, a significant drop in exports, 29%. And our Friables is already expecting for 2014 an adverse scenario much more than what we observed in 2013, where it is a production drop of 10%. Sales drop of 5% and also a drop in export.

Now Friables also brought good news they are anticipating a better second semester than that of the first semester and this is very important in terms of prospective. It is important to register this. Now the -- there's steel sector as well, we have seen most sectors are being impacted by a slowdown -- process and economic slowdown process that we witnessed in the second quarter of this year.

Q - Milton Sullyvan {BIO 19085202 <GO>}

What is happening now in the steel market and the steel chain?

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A - Sergio Leite de Andradel

Most of our customers are returning from a stop -- all the stops that were weeks, days, fortnight many customers that were stopped for over 20 days and we are in the moment of coming back. They are accessing their businesses. They want to see what the markets are like. And this moment, we are waiting for the purchase decision of our customers that will impact -- with the impact the third and fourth quarter. So, right now, we are waiting for the purchase decision of our customers. What we can state here due to the current scenario is that we will have a third quarter with greater [ph] sales volume equivalent to the second quarter. We will increase our exports and in our (inaudible) we will drop our domestic sales. This is something that we can say for the third quarter.

You -- in terms of 2015, you asked a question about 2015, but it's very early to talk about 2015 and it's very early to talk about the fourth quarter of 2014, what we expect is to -- for the economy to react. But during this moment, I would like to tell you that we don't see anything getting -- anything better but we don't see anything getting worse. We're neutral. So, as I alluded that we are going to work and to wait for things to happen.

Another matter that -- another question that you asked is about prices. Here in the former call, we mentioned that in the second quarter, we would have an increase of the average price vis-a-vis the first quarter of 2.5%, we said between 2% and 3% of increase and we materialized what we anticipated well that's 2.3% itself that we are practically stable. The sales in the internal market at the second quarter was the same as the first quarter. And this price is highly -- its being highly debated in the market throughout April, May, June. What I can state here to you is that the scenario now is a scenario of price stability. We are not -- we believe that we will not increase or will drop prices. This will be stable.

Q - Milton Sullyvan {BIO 19085202 <GO>}

Thank you very much for your answers.

Operator

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

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning to everyone. I have two questions, one going back to Sergio. If you could talk about how you see the premium of local steel compared to foreign steel and if you believe that this can sustain itself. And we heard that Usiminas had done the -- and have given discounts to the distributor. So, the distributor ended the discount to final customers, this really true can you say something about this?

And the second quarter, we believe regarding the demand, you talked about the volume of the second quarter will be flat and the domestic -- and the third quarter will drop compared to the second quarter. Could you say something about the domestic market?

A - Sergio Leite de Andradel

Thiago, good morning. It is a sequence of questions regarding something that we call about price differential when we compare imported products to the domestic products may placed in the main market that is in Sao Paulo.

Q - Thiago Lofiego {BIO 16359318 <GO>}

What is our view?

A - Sergio Leite de Andradel

The price differential in our view would be around 5% to 10%, okay. This is the price differential that we generally work with. So, what are we observing today in the domestic market. We are -- we find that the price differential operates between 10% and 15% due to international prices exchange rate, but it's something around this 10% and 15%.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Now, we've been in this range and considering our current scenario, we understand that this is not a risk range regarding imports why because when you have to import and when you have to purchase there are two risks from the imported that is very important one is the exchange rate. Although the real then appreciated throughout the month according to the market expectation are oscillating between 2020 and 2025.

The expectation is based in everything that we see is an expectation or depreciation of real until the end of the year. So today there is an exchange rate risk. How are we facing this exchange range risk, here we are hiring hedges. Many importers are buying exchange rate hedge and this have a cost and this cost is around 7%. So this is a point to consider.

The second, risk in our view would be a more elevated risk that is economic slowdown. It's a risk of being importing product s when the market scenario (inaudible) is not very promising. So these are two points regarding the price differential in imported material when we compare it to the domestic material.

Now you also asked about concessions. Well right now, we are about discounts. We are not working with discounts. We're working with a stable price. So, this is - still the scenario I'd say. You said it's -- we would like to quantify.

We do not want to quantify our sales in the domestic market in the third quarter. We know that there will be a drop and of course this will be compensated by the export. But I believe that we have a stable scenario in the total volume of sales and something that we will see in the third quarter. The drop is sequential the third and - the third compared to the second quarter, yes.

Operator

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

Q - Ivano Westin {BIO 17552393 <GO>}

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Good morning to everyone. Thank you for the question. The first question will be about CapEx you talked about 500 million in the first semester. I would like you to mention what investment this year is missing in the coking lines? And if this CapEx will be normalized in the second semester? And what we can expect in terms of moving forward? Now in terms of mining, you reported lower volume mainly due to a drop of the exported volume. I would like you to tell us, what are your estimates of shipments in the Sudeste port? And what volumes you expect to shift during the first 12 months after the port is put into operation. If you could say something about the Compacto project we would like to know if there is something new.

A - Julian Eguren {BIO 16005078 <GO>}

I'll answer about CapEx the 500 million that we spend during the first semester of this year. I believe that the second semester will be a bit higher at the end of the year, we will have 1.2, 1.1 billion below the guidance we gave you in the beginning of the year that was 1.3, 1.4 billion. Nothing has been delayed.

Now in the upcoming years, when we think about mining and steel mills, we can consider around R\$1 billion a bit lower, a bit higher, but these are not figures that we have today. But I believe that things are along these lines.

A - Unidentified Speaker

Good morning. Now to your question about the Sudeste port. We have been following very closely the actions of the final stretch of works of the Sudeste port. We have visited constantly this area in order to see this process and see what's happening. And we believe that the prognostic is very good. We believe that it will may hit the operational in 2014 and in the first moment (inaudible) trains and then at the second moment, we will be able to load ships. Of course in the beginning, we will have smaller ships, but subsequently we will be able to deal with bigger ships. So, we have a very optimistic view.

Regarding the operation of the port during this year now -- what about our shipments in the upcoming 12 months. We have a contract and according to -- we see the expectation is to be able to enjoy Sudeste port as well.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you very much. Now, we are within the expectations of shipment volume could you say how much you expect to sell iron ore considering your own consumption in 2014, 2015. And if you have anything about the Compactos project?

A - Unidentified Speaker

Well 2015 was very difficult to talk about 2015 right now. Now regarding 2014 and once again the great variable would be when the port will be into operation as soon as the port is put into operation, we will begin. I will not give you any figures, because the figures that I can give you can be higher or lower according to when the port will be put into operation.

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Now regarding Compactos project, one month and a half ago, we finished the conceptual engineering project. Now we are embarking a critical analysis process. We will see basic engineering; we are not in a hurry. We want to carry-out a deep study so that we are able to have a good CapEx level in the first semester of next year and this way we will be able to make a decision on very solid engineering.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you very much.

Operator

Our next question comes from Mr. Carlos de Alba, Morgan Stanley. Thank you very much.

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

Yeah. Thank you very much. Just following on the (Technical Difficulty) project. I think, the process, the review process has dragged for quite a bit of a plant now. And when I looked at one of your shareholders in returning the place in Mexico they have (Technical Difficulty) talk to them, they said, they do not believe that it makes sense the iron ore production given the outlook for iron ore prices.

So, if you start to assume that when we look at MUSA, you have one of the shareholders of Usiminas saying that maybe this project should not go out -- ahead? And then I would like to see, what is the position of Nippon and also DuPont (Technical Difficulty)?

Hello. Hello.

A - Unidentified Speaker

Mr. Carlos, can you please pose your question once again.

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

Sure. My question is a follow-up on the (inaudible) iron ore project. I understand that Usimac [ph] does not want to go ahead with its own iron ore project in Mexico because their expectations of lower iron ore prices in the future. So, is it fair to say that they also probably are not in favor of the (inaudible) project in Brazil. If management can comment on that it would be great.

But also if they can tell us what is the position of Nippon and their partner in MUSA on this matter it would be very useful given that the decision process for this project has taken so long now that will be my first question?

A - Unidentified Speaker

We can't talk about this project. We don't have any information about this project in Mexico. But when you talk about Nippon's position or what is MUSA's position, they have

said internally speaking the position of Usiminas partner of MUSA is the same nothing has changed. MUSA's management continues with the pipeline.

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

And what -- when a decision can be made. When does Usiminas management expects to make a decision?

A - Unidentified Speaker

The management continues working and they represent to the partners throughout the first quarter of next year.

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

All right. And then my final question is if possible we have seen a reduction in net debt to EBITDA, but the reality that most of that has come from the increase in EBITDA, which given the uncertain outlook on Brazilian steel market there maybe some downside risk to EBITDA in the coming quarters? And on the other hand, net debt has not really come down and these may become a concern if EBITDA indeed declines. So, I would appreciate if Roland can talk about what are the plans, management plans for reducing net debt if he think -- if he believes this is going to happen in the next few quarters?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Good morning Carlos. This is Ronald speaking. Your question regarding the perspective and our levels of leverage due to a reduction -- due to a reduction of EBITDA and increase of leverage levels all our projection show a significant drop of EBITDA in the upcoming quarters. We still have short-term projections for 2014 and we are working with 2015. Our leverage levels are very comfortable, very below the bank levels. So, this is why we have a comfortable situation.

Number two as we see in all quarters since 2012, we continue selling non-operational assets creating cash. In addition to our EBITDA, one quarter is greater and other one greater, but throughout the year we observe an interesting cash level when we sell non-operational assets.

Now the working capital that was very important for cash in 2012 and 2013 also present some alternative. There is some possibilities to drop not a lot, but there is still room for improvement like selling powers. Since the end of last year the sale of the surplus of power has provided the company, an interesting cash. This is why the -- are alternatives that company's were recommended to maintain its balance with a very comfortable structure and as a consequence the financial leverage levels below -- below to what generally is contracted with banks.

Operator

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

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Q - Leonardo Campos {BIO 20141308 <GO>}

We saw pressure on cost due to raw material being bought at a higher price and labor as well. If you could help us to understand the evolution of this from here on due to the drop of coal and the appreciation of real. If we can expect a cost drop, if there is any expectation for the cost drop.

Now Usimac is, this is the more strategic question for Julian. This initiative has been contributing, you saw R\$25 million of EBITDA in the second quarter from 9 in the first quarter. We've seen an improvement. At present contribute a lot as a whole. I would like an update on the strategic area, if this could be part of your portfolio or Usimac would be placed at for sale.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Leonardo good morning. Regarding cost, I will talk strategically about the cost of steel represented an increase quarter after quarter of BRL100 million. Let's understand the BRL100 million, 32 million of this 100 million are basically due to the increase of volume of the year. We sold 1% more in the quarter, concentrated on export.

Now the 67, 60 million are an increase of real cost per ton produced steel. The main factor here is that we sold during the second quarter of this year. None of [ph] products that were produced in the first quarter of 2014. Therefore they did not capture the reduction of price of raw material like coal. And they didn't capture the appreciation of real that will allow to drop the prices. I would like to say and an increase of labor in Cubatao. We closed our collective bargaining. We gave an increase of 5.8% and 100% of IBC [ph] that has been accumulated in the 12 past month and we haven't had any other increases. This have also impacted our cost.

And by last, the second quarter of this year some scheduled maintenances were done and they are not recurrent and we will not see this maintenance in the upcoming quarters. They were concentrated in the second quarter. This is why we had an increase on operational costs.

Now from here on now regarding the cost of raw materials, mainly coal, coal acquired in the second quarter at a lower dollar and we were start seeing the effects of this as of the third quarter of this year. So, regarding cost this is what I have to say.

Leonardo, Juliana you were asked the second part of your question, you were asking about Usimec. You said that Usimec has increased its contribution in the EBITDA of the company and we will repeat what we always say regardless of the sales process or non-sales process. So, we are looking for a third-party. We continue having a change with the Usimec. Usimec continues with improvement in efficiency processes, improvement in the productivity margins coming close approximating ourselves to strategic customers increasing service profile that Usimec may provide. Of course we continue, looking for new alternatives, but we also continue with internal improvement process. We also are automating things using IT and this is reflecting itself in a better and higher EBITDA.

Q - Leonardo Campos {BIO 20141308 <GO>}

Thank you very much.

Operator

Our next question is from Mr. Marcos Assumpcao, Itau Corretora.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good morning to everyone. My first question is for Ronald. I would like to know if you've done a liability management exercising Usiminas in order to reduce the cost of the debt here on and also extending the profile of the debt? There are a number of companies that have been doing this, have been doing this taking advantage of better liquidity moment abroad?

A - Unidentified Speaker

Well as a matter of effect the market is not in a good moment following indebtedness there are many people that want to end up and people do not want to ask for loan. So you can see that companies are not investing, yes there are opportunities.

Our main priority instead of changing more expensive debt for a cheaper dept. Well this -- we have a secondary priority more important here is to reduce the total level of indebtedness. Number one, we have to reduce our debt. Obviously we want this debt to be a cheaper and more expanded debt. I can't just exchange our debt for the sake of changing that like other companies. We want to drop the value of our net debt.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Another question about following power in the second quarter, use of more power -- electrical power than the first quarter, what are your expectations in the second semester in terms of sales volumes. Of course, I know you can't talk about price?

A - Unidentified Speaker

Okay. The sales volumes of power all this level will depend of the price of the power that is illustrated in the market because due to the volume, the price of power, we will increase or not our internal generation obviously the expenses of complementary fuel. Now if the current prices are maintained at around R\$750 per megawatt hour, we will generate more power precisely in order to be able to sell this power.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Thank you very much.

Operator

And now I have our last question.

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A - Unidentified Speaker

I would just like to add something you saw that throughout the second quarter the price of power had a very important variation. It was important for the company to be flexible in order to capitalize market opportunity if there -- when there was a drop we dropped the generation and sell and the price -- when it went to R\$700, we increased capacity of generation and we increased the level of sale of power to the market. So, we constantly monitor week by week the price evolution and our need of consumption and our need for production and see what we can offer to the market.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Thank you very much, Julian. Another question regarding mining if you could help us to talk about profitability perspectives of news in this scenario of iron ore prices that are a bit tighter if you could give us the price view that you have for the second semester?

A - Unidentified Speaker

Well prices number one, when I was seeing the future curves of the future markets like Singapore today we see that the curves are stable so flat is 94%, 95%. So, I believe that the perspective is to maintain these prices until the end of the quarter or semester or the end of the year.

Now regarding MUSA's profitability, as Julian mentioned in the beginning of this call, we are preparing ourselves in order to use our productive capacity as soon as the Sudeste port is put into operation. And here, we will improve our profitability of MUSA because we'll control our fixed costs.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Thank you very much.

Operator

The next question is from Mr. Ivano Westin, Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you very for the opportunity to the follow-up. I would like to ask about two things. A lot has been said about a weaker demand from the automobile industry, but the second quarter, you had a volume that was very interesting of heavy plates an 18% it includes quarter-after-quarter. If you could talk about the specific perspective for heavy plate for the second semester of this year?

And as a last question, every time we have a weaker demand some (inaudible) and go to the government. Is there any movement from the steel mill sector in order to demand an increase of export rates?

A - Unidentified Speaker

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Regarding the demand of heavy plates and there was an increase of sales of the second quarter compared to the first quarter of 41 million tons. This would concentrated in the windmill sector. This is for the generation of -- this is of windmills. If we talk from here on, the scenario that is a most probable scenario would be according to the sales level.

The navy sector also reactive. This would be an impact in the third quarter. The grade expectation here is that, we still cannot say that the investments of Brazil are taking us. The windmill industry is facing a very repressed and restricted in that. Our expectation is to maintain this level in the third quarter, will be affected more than the navy sector than by the windmill sector.

And I also talk about the automobile sector, you said foundry [ph] is reducing. It's projection for all year, there is an optimism regarding the second semester, some things may take place during the second semester. The protocol with Argentina was signed throughout the second quarter from seeing that was frozen and this Friables is also taking this into account and they believe that in the second semester, there will be positive points that we did not see throughout the first semester this year.

We are working with scenarios of stability, but some class; groups are considering positive facts that may reflect and an improvement in the second semester.

When you talked about actions together with the government. What I can tell you is that to Brazil steel, we have a strong relationship of the government especially with the industry, the trade ministry, the economic ministry. What we can see basically is that there is no scenario for tax exemptions. We were working with Integra. This has been first start for 2015, the government change the tax program industrialized products, they did not reduce the discount, but we do not anticipate any government action that will impact our businesses.

We continue working strongly with the government, but the expectation is are concentrated on 2050.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you very much.

Operator

The next question from Mr. Alan Glezer, Bradesco BBl.

Q - Alan Glezer {BIO 17508681 <GO>}

I have two questions. One would be regarding iron ore. We saw that the exports drop 66% quarter-after-quarter, I would like to understand the company's expectation to the recovery of exports in the third quarter. I know you have some plans to access the port and I would like to see your expectations regarding improvement?

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My second question would be regarding the sale of assets that impacted 20 million this quarter. I would like to understand better these assets that were sold. This would be a first question?

A - Julian Eguren {BIO 16005078 <GO>}

Good morning. Regarding the export expectations in the third quarter, this is directly related to the Sudeste port capacity. We are waiting for it to go into operation. We have other port in the (inaudible) region, but the level of process of iron ore, we do not see any competitiveness in these ports. So, we will prepare ourselves in a order and we will wait for the -- we will wait for the Sudeste port to be put in to operation.

Now regarding -- the question regarding asset sales. The consolidate of our asset sales this quarter represented R\$34million to R\$21 million in this P&L due to a construction and plot of lands that had been leased to -- for a hotel. There was a hotel that we closed and this plot of land and this building was sold for R\$21 million. We -- Usiminas Mecanica also sold R\$13 million. This was a warehouse that we use to manufacture coal. So, we had R\$34 million in the sales of assets this quarter.

Q - Alan Glezer {BIO 17508681 <GO>}

Thank you very much for answering my question.

Operator

The next question is from Mr. Milton Sullyvan, Brasil Plural.

Q - Milton Sullyvan {BIO 19085202 <GO>}

Thank you very much for the follow-up. I have two questions. The first question would be following of Alan's question regarding the asset sale. You said you have more to sell. I would like to understand how much we have in terms of asset sales and if there will be a relevant sale in the third quarter? And then I would like to know about the domestic side of iron ore and if this were in -- if this were -- when the port is put into operation that this will impact the price of iron ore?

A - Unidentified Speaker

I would like to answer this question. Now, regarding non-operational asset sales there is still a potential, a real potential of realization. Our business realization as we're talking about real estate like plots of lands, apartments or buildings, we still have a lot of plots of land to sell. We have plots of land that were given to us to pay debt. But these are things that will take some time and it's very difficult to anticipate when these assets will be sold if you see what happened in the past 18 months.

This value varies on quarter-after-quarter. It's very difficult to anticipate how much we would be able to realize.

This is the -- regarding about the sales price in the domestic market. What is happening right now is the drop in the number of transactions in the domestic market, lower liquidity due to the drop of the price in the international market and the certain maintenance in the cost -- current costs. So, this is why the domestic market isn't as attractive. The sensation is that this will last a short period of time because the Sudeste port will be put into operation and this will give us a positive scenario.

Q - Milton Sullyvan {BIO 19085202 <GO>}

Thank you very much.

Operator

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

Q - Marcos Assumpcao {BIO 7474402 <GO>}

If you could talk about your order backlog of Usiminas Mecanica seeing the investment of capital growth and so we can see the demand for steel for these types of investments in 2015?

A - Unidentified Speaker

As we observe every day the capital market, the steel market in Brazil is suffering day-by-day a drop of demand of the industrial sector. The mining sector has also slowed down a bit and another scene that we'll see is a lack of liquidity, very big and medium customers have difficulties to pay.

With Usiminas Mecanica, within this complex context, is leveraging one of its great qualities of this ability to deal with complex situation. The complex companies are allowing us to have a constant portfolio and helping us to assume a greater portfolio. It is important to remind you that in the past six months, we have cleaned the portfolio, the all of their portfolio with Usimac of lower margins.

So, within this context, I would like to say that Usimac demand aligned with a revenues and I see Usimac maintaining and gaining an interesting positioning -- position in terms of the products, that it's producing and the margin of these products.

Q - Milton Sullyvan {BIO 19085202 <GO>}

Thank you very much.

Operator

As we have no further questions, I would like to give the floor to Mr. Ronald Seckelmann for his final consideration.

A - Ronald Seckelmann {BIO 3722329 <GO>}

I would once again like to thank everybody for your participation and your interest for this conference call. And we would like to reiterate that Investor Relations team is at your disposal to clarify any questions or matters that we weren't able to totally clarify throughout this conference call. Thank you very much.

Operator

And until our next conference call, Usiminas conference call comes to an end, we would like to thank everybody for your participation and have a very good afternoon. Thank you very much.

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