

Q2 2021 Earnings Call

Company Participants

- Alberto Akikazu Ono, Vice President of Finance & Investor Relations
- Carlos Hector Rezzonico, Chief Executive Officer, Mineracao
- Leonardo Karam Rosa, Head of Investor Relations
- Miguel Angel Homes Camejo, Vice President Commercial Director
- Sergio Leite de Andrade, Chief Executive Officer

Presentation

Operator

(Calls Starts Abruptly) (Foreign Language). We would like to remind you that this conference call is exclusive only for investors and market analysts and for better dynamics we would ask you to limit two questions per participant. We would also ask you to make any questions at by the journalists at media at 313-498-980 (Operator Instructions).

Before proceeding, we would like to clarify that, any forward-looking statements that may be made during this conference call regarding the prospects of the company's business as well as projections, operational and financial goals, related to its potential growth, constitute forecasts based on management expectations regarding the future of Usiminas. These expectations are highly dependent on the performance of the steel sector, the country's economic situation and the situation on international markets. So they are subject to change.

With us today is the Executive Management of Usiminas, our CEO, Sergio Leite; the Vice President of Finance and Investor Relations, Alberto Ono; Industrial Vice President, Americo Ferreira; Vice President of Corporate Planning, Yoshiaki Shimada; Vice President of Technology and Quality, Kohei Kimura; Commercial Vice President, Miguel Homes; Chief Executive Officer of Mineracao Usiminas, Carlos Rezzonico; Executive Director of Solucoes Usiminas, Ascanio Merrighi; Superintendent Director of Usiminas Mecanica, Fernando Mazzoni; Director of Legal, Bruno Paulino and the Control Ship Director, Julio Arroyo.

At first Mr.Sergio Leite will make some initial considerations then Alberto Ono will present the results. Afterwards the questions in the Q&A session will be answered. I give the floor to Sergio. You may proceed.

Sergio Leite de Andrade {BIO 6771322 <GO>}

Thank you, Leonardo. With your permission, and in order to make the audio better, I'm going to remove my mask. For us at the Usinas, it's a very important moment for us to be

here with you together. We would like to thank you for attending this results, live results call. It's live that's represents a very important moment for us at Usiminas, we are reporting to the market, each of you reporting to the society disclosing robust results, the best of the company in the century.

The results were built by Usiminas team, on an everyday basis in the past five years, exactly five years ago, each of you can remember that, we were in a very delicate situation at the company. But thanks to Usiminas team work, the work of everyone we made headway quarter after quarter, year after year and today, we can present to the market solid results, robust results company, which is prepared for the future.

A company that hasn't worked and faced each of the challenges that were put in front of us. Our quarterly EBITDA, which will be provided the detail by Alberto, is an extremely important result of our cash generation, our net income. And today we can present a cash of over BRL6 billion, that would allow us to settle the debts, and to about BRL200 million would remain in our cash. This is a fruit of a lot of effort, a lot of work, a lot of dedication.

And at this moment, we're working hard in order to build the present of the company and the future of the company. As I said before, in the first to life that we had this year, when we presented the results of 2020. We continue working and we delved into the long term planning of the company.

The 10-year planning that we refer to as vision 2030 and we have been working actively on this project which is a very important project for the future of the company. We have been having lots of discussions. Numberless projects have been studied and analyzed and as a background, we have an essential view of this path in towards 2030, all the issues related to sustainability, climate issues and these are all very important issues to be discussed and each of the discussions that we are going to make it to decision we're going to make.

We founded company that the sustainability area is connected to the Board of the company and this is an area that has been working very hard involving everyone in all of our five companies.

In the beginning of the year, in order to exercise the activities for the year. We defined six goals and we are going to present all of them to you. So we have the ESG commitments with the six goals, and these are all very important to our company. And we are going to discuss the project that we have developed to that has a very important meaning to all of us, because above all, we are talking about people and this is related to inclusion and diversity project.

We have just disclosed to the market, the completion of our inventory of bring house gas inventory that we prepared and disclosed the market just yesterday. And when we compared to the word steel association related to 2019 -- our results is related to 2020.

So our position is in terms of GHG with the -- with companies with the best results and this is very important for all of us because this is a challenge. And an encouragement for us to

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continue working on each of the activities that we have. And we always keep in mind that the concern and the commitment where the climate change, with the greenhouse, greenhouse gas effects and we have been operating different areas.

The company is highly evolved, highly engaged in without a doubt we have -- we are prepared to face all face all the challenges, the pandemic represented to all the companies and all society. And in my opinion, it's the biggest challenge the humankind has ever faced.

But us, by means of an efficient quick management, we have been managing to go through it, with the least impact on people's lives. We have been working effectively to preserve lives, to preserve health and safety, and preserving the physical, mental, emotional, integrity of everyone. So we made important decisions in the last eight months. In relation to our administrative expenses, we not only made progress in the operational area, but also in the administrative aspect and we are searching for efficiency at the lowest cost with our ESG commitment.

Notably in the --, where Usinas has been a reference since the company was first constructed back in the 1950 when Usinas was built and the company is 65 years old and will complete 59 years of operation.

At the end of the 50s, we started building a city as well and it's one of the 154 cities with more than 200,000 inhabitants. And we informed that with demobilized, the oldest headquarters, the former headquarters and we brought to the cash BRL130 million.

In July, we demobilized decommissioned, our central office in Ipatinga which was a regional unit, which was not being utilized and we brought into our cash BRL42 million. And what is more important, even these two assets, the one in Belo Horizonte city is becoming a beautiful hospital, which will be one of the largest hospitals in the city and Ipatinga where we had our central office will transform into a college inside a university.

So, it's another step towards the ESG commitment, and from this, we reduce our administrative costs. To put it in perspective, in relation to the headquarters that we need inaugurated officially last week on the 19th. We have all the facility installed completed, we are finishing the renovation of the other floors. And the previous former we had six floors with 3,400 with available room for a floor. Here, we have seven floors and putting together, they add to 3,400 of useful area that the same size that we had for one floor in the former headquarters, and we have to pay rent, but it's was a great move.

So we're making important steps, or the team is motivated engaged to have. And as we do in every call at 8 o'clock we disclosed the information to the market, and then we hold a meeting, when we presented the results. So first, before opening this call, we present all the information to our employees and we have a lot of energy.

We will feel a lot of energy because we have a discussion, a moment of discussion and the feedback has been very positive. So we are very happy to be here with you today, disclosing robust results to the market and assuming commitments, a company which is

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prepared for the future with a commitment to build more and with more dedication the present and the future of Usiminas and allow me in my final remarks. Congratulate, all the Usinas team on the results that we are presenting today to the market and we are presenting all this information to analysts to the society, the result of our team.

I turn the call to Mr. Alberto Ono, for him to present the quarterly results.

Alberto Akikazu Ono {BIO 20633628 <GO>}

Good morning, everyone. I'm going to remove my mask for better audio quality. I'm going to ask you, to go to the presentation. So let's start from the second Slide please. So here, we can see the main figures related to sales and financial results -- topic is those steel units sales unit sales, a global increase of 5% in relation to the previous quarter, reaching 1.3 million and 15,000 tonnes. This is a number, we haven't since 2015. As for domestic market, we reached growth of 7%. It's a number that, we haven't reached since 2014. So we can see this great recovery in this quarter.

In terms of iron ore sales, we can see a slight increase surpassing 2 million tons for this quarter in comparison to the previous quarter. And we like to point out to that as we had published in our guidance, we expect to reach 9 million tons for the year. And that means that for the second half of the year we expect an increase in the production of iron ore.

As to EBITA, there has been an expressive increase of nearly a 110%, reaching BRL5.66 billion. And here I'm going to talk a little bit more during the presentation we have some non-recurring events but, it's the highest quarterly EBITDA in the history of the company.

As from net profit, we have seen a significant growth reaching BRL4.5 million, and again, seven non-recurring effects, the main of which is described here. We have the tax credit Pis/Cofins recovery after the legal decision, and we have the consolidated number of BRL2 billion. In addition to that, we have a positive aspects variation of BRL483 million.

Moving on to the next Slide. This is the consolidated EBITDA results. Out of the BRL5 billion, that we posted for the quarter, we had a non-recurring effect -- EBITDA effect of the credits, tax credits of BRL1.5 billion. As I mentioned, the Pis/Cofins tax as related to recurring EBITDA is BRL3.5 billion. Anyway, it's a quarterly record an increase of 46% in relation to the first quarter this year. So this is a very, very strong result.

On next Slide, we're talking about to this deal unit and we can see that the poor delivery result has been record BRL3.4 billion out of which BRL1.4 is related to the non-recovery effects of the tax spread as of Pis/Cofins. So, most of the biggest effect of the credits is related to this steel unit. So in terms of operating results, BRL2 billion. So an increase in relation to the first quarter. So, a very strong and also a record.

Next slide. Slide 5, mining unit Mineracao Usiminas, we reported a quarterly record for this unit. We do not have the tax effects and we reached BRL1.5 billion, an increase of 38% in relation to the previous quarter. This was driven, especially by higher volume. But it was

highly impacted by the prices that we have observed along with the second half of the year, second quarter.

Steel transformations Solucoes Usiminas has also posted a quarterly record. We have a relevant effect of tax credits, but even discounting this effect BRL310 million, is the highest EBITDA ever recorded, in operational terms. It's an expressive increase in relation to the first quarter. If we look at the recurring part of nearly 13%, which is very significant margin for the segment.

Now, related to financial indicators working capital, there has been a very significant growth of BRL2 billion and out of which BRL1.4 billion is related to the effect of the tax effect. So we have tax recoverable, with an increase of nearly BRL1.8 billion. And when we look at Pis/Cofins tax, we can see that the payment this result is BRL468, so this has to be collected.

So what we have in relation to the increase quarter-over-quarter is related to the inventory variation and this is closely related to financial results. And the inventory is related to slabs, iron ore, raw material in general. So this is, this is the cause of this effect in particular.

When we look at the steel volumes, so we can see the inventory steel levels and those steel unit. And we can see the inventory effect shown in the working capital is related to prices, because the volumes are very stable. So, the inventory turnover is 52 days. So, it's below the historical levels that we have observed in terms of 70 days.

Next slide as Sergio has mentioned before, we surpassed BRL6 million of consolidated cash for this quarter. And with effects variation, that we had in relation to the debt, that reduce our gross at BRL5.8 million, and the net cash is BRL220 million, this is a net cash in relation to our debt. So, the leverage index is close to zero.

Next. So talking about investments and CapEx, we increased the pace of the investments for the quarter, reaching BRL335 million, and as we provided in our guidance to maintain BRL1.5 million for 2021. So we expect an acceleration in our CapEx, in our investments for the next quarter.

Moving on to the last slide of the presentation, in relation to our goals, ESG goals. So the point that was pointed out by Sergio is that, most of the goals are in line with what we were expecting, except for the migration to filtering that is related to mining that was planned to start operating during the second quarter of this year. But unfortunately, we had some delays in the works and probably this project, it will be -- will start operating still in 2021, but our initial target was the first the second quarter. It will have no impact on the operation, but unfortunately it was a point which was not -- was missed according to what we expected.

So this is the end of the presentation and we can take your questions now. Thank you.

Questions And Answers

Operator

(Question And Answer)

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Roberto. Let's start the first question is about the capital allocation. We have three questions related to this topic. (inaudible) an individual, they're asking the use of capital. So the company did leverage, so it's a position of net cash. So investors are closely watching the allocation of capital of the company. So, what are the plans for those Usiminas? Are we going to see high dividends or will the CapEx increase in the mining unit?

In the same breath, we have a question related to interim dividend. And can expect anything related to M&A operation? Alberto, please.

A - Alberto Akikazu Ono {BIO 20633628 <GO>}

Thank you for the questions, (inaudible). First of all, our focus remains in the capital discipline, especially in the financing of our CapEx program with cash generation. So this year, we have BRL1.5 billion for CapEx, and something that has been engaged for the years to come. I would like to remind you that we have the furnace, blast furnace number three is going to be remodeled. So we have CapEx already allocated for this and the stoppage is going to occur in 2023. So we have CapEx that has already been engaged, earmarked for the future and it's a lot of CapEx. So, the focus is on generation. So we are going to finance the CapEx which has already been earmarked. We also have investments, considering the more favorable scenario, we are studying other options of investment.

But we haven't defined anything, we haven't approved anything yet. But notably, we will start study again our governization lines. The three governization lines today are operating at full speed. So, it makes sense to consider increasing the capacity in these areas. So, this is something just natural, we are -- that's why we're considering this, we're -- we started studying this again, but we still haven't defined what kind of investment, what will be the schedules and the deadlines and when we are going to implement all this, so we are studying this very deeply now.

In relation to dividends, this is a point for discussion at our board and we have all sorts of considered that the tax -- the taxation of dividends is something which is being discussed by our authority. So, we are doing a closer follow-up on this. At this time, we intend to continue following the current payout of 25%. So of course, we are closely monitoring the tax issues and we have been discussing with our board in relation to whether or not we are going to be -- to make any action in which is different from what we have been doing. So we have -- we plan to maintain the payout of 25% as we have done so far.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Alberto. Our next question. I'm going to breakdown our questions, because we had many of those. People are interested in the prices. This is to Miguel: Rodolfo De Angele with JPMorgan; Daniel Sasson with Itau; Rafael Barcellos with Santander; Thiago with Bradesco; and Carlos.

The first part is related to the business environment in the domestic market. What's this environment like? Are we likely to expect some increases? And what's the expectation of carryover of previous increases affecting the future? So people are -- there more questions related to the carryover and they're asking us to make comparisons with the last month to understand this carryover. This would be the first question.

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

Rafael, Daniel, Thiago, good morning. Answering the first question in relation to the price environment in the domestic market, today, we could define the environment as a stable, considering that international market has presented some availability with some variables that affect the local prices. When we analyze what happened in the second quarter and what's the current situation, in the beginning of the second quarter, we observed an increase in the international price, which was driven by the strong high costs and the freight costs. And likewise, there was an important increase in the fact variation.

And then in the second part of the quarter, there was a drop in international prices in China and Russia, that was driven from expectations of action to be implemented by the Chinese and Russian government. And we heard this week in relation to those two expectations of measures, that will be defined by the Chinese and the Russian government in relation to elimination of the tax debate of the China products, especially cold coil and rebate for hot coil had been eliminated in May. And when the Russian government announced this over tax of import of all steel products as of August at about 15% with the high volatility that we have been observing along the second quarter of the variables at the international market. We can see that we have reached the stability in this market.

With this news, we would expect an increase in the international prices, driven by the offer of the exports. But imports in Brazil about -- 38% of the imports in Brazil are related to China and Russia. So, these are the offers will be impacted by all this. Of course, we are going to keep this evolution in control, we are ready to monitor them and we are going to have as an objective, the priority of 50%. Because this is what we observed in market in relation to the carryover. We cannot inform you what would be the actual fact, June prices, the average price was 4.4% variation -- had this variation in relation to the average cost and this will impact the carryover.

And as you know that the distribution part has adjustments in shorter periods and we have also monthly contracts, bimonthly contract and quarterly contracts, and they will follow the evolution of the distribution prices. All the adjustments that were happened along the second quarter and also in the third quarter will impact the average prices. And in relation to the premium, which was the last question, it's 5 to 10, 10 to 15. I would say that the premium of balance is at about 15, but considering all the variables that play an important part on the parity.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Miguel. And with this, we close the question. I think we covered all the questions that were asked that. And Carlos ask that, if we were suffering some pressure on the market -- that we have -- we are having some stability at the prices. And Tiago asked about the balanced price in 5 to 10 or 10 to 15, what would be 15? You said that 10 to 15 would be sustainable. Would you like to add anything Miguel?

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

Only to add something in relations to the pressure in the domestic market. Today we have a scenario of stability. Of course, we have been observed some higher imports, but of course, we have to expect this movement, but today with the recent news that we've heard last week, we could expect the strong production in imports from now on because of the restriction of the offers and the actions that were announced by the Chinese and Russian government. As I said, they were -- they account for 88% of the total exports, and with the cold coil and other types of projects.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Miguel. Now, we have two questions related to costs that were directed to Alberto. Daniel Sasson with Itau, is asking about the cost pressure that we can expect in terms of cost high of raw materials. And Bruno Toledo, as an individual asking, what are the expectations of cost evolution for the fourth quarter, in other words up to the end of the year. Yes, Alberto, you have the floor.

A - Alberto Akikazu Ono {BIO 20633628 <GO>}

Daniel and Bruno, right. In relation to costs, what we can say about it as a following, we have an expressive increase cost pressure along the second quarter, okay. So this pressure, especially from coal and also slabs and iron ore, they -- this increase occurred in the first month of the second quarter, but we have seen some stabilization at the end of the period. So what we can say, I cannot talk so much about the third or the fourth quarter. But in relation to the first quarter and the second quarter, we can say that we have reached this stability level. And as Miguel mentioned, the international prices are reaching a level of stability as well. So we suppose that we are already in a situation of somewhat balanced both for feel and also purchased slabs. So this is the scenario, okay.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Alberto. Our next question comes from Daniel Sasson with Itau. He wants to know about the working capital, Alberto.

A - Alberto Akikazu Ono {BIO 20633628 <GO>}

The working capital, its moving up specially inventories even not considering the recognition of those tax credits. What is -- well, the perspectives in this line up to the end of the year. Why this here is the following. Considering the operational level as we have shown to you, when we talk about the inventories of steel, I would say that the physical aspect will be in line with the guidance that we provided you, the sales for the third quarter 1.2 million, 1.3 million tons. We are likely to believe that we are going to keep this

levels in physical terms at this stable levels as we have shown from the first to the second quarter. As to the financial aspect, I would say that it will depend on how the price will evolve. As I said, at the end of the second quarter, we had observed some level of stability in the cost components, especially raw material. So we might observe this stability related aspect, whether it would depend a lot on how the quarter will play out.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Alberto. Now, we have a question or in fact three questions, but since it's about the same topic, it's going to be for rezoning from the mining, Carlos. They would like to talk about the plans of the mining unit and what would the CapEx? When can we expect announcements of CapEx in the mining unit?

A - Carlos Hector Rezzonico {BIO 20703029 <GO>}

Thank you for the questions. In fact, industry is strongly working two fronts, compact and industrial product, we continue with a lot of energy. So, we are considering all the mix all the changes, so it's going to take some time. But on the other hand, we can say because of the all the innovation that we have by acquiring new areas that we didn't use today, we can think about scenarios. Considering the scenario that we are expecting for the next quarters, all those plans makes us very peaceful and very confident for those compact and an opportunity for us to continue favorable materials. So we continue making progress in our study of CapEx, but I believe that the final results will not be seen up to 2023. When we expect the approval to be to happen, this is just a summary of what to expect.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Carlos. We have a question to Miguel, asked by Thiago relation to steal inventories.

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

We believe clients and their intent to operate with lower inventories and we are not likely to see major variations in the future. Thank you, Leo. Good morning, Thiago. Of course, we have observed the re-composition of the steel inventories along all the change along the second quarter core to in the report, the stock levels from 2.2 months, 2.3 months, 2.6 months at the end of June.

So certainly with the impact of lower production of vehicles that automotive sector recomposes inventories. We cannot say today that most chains have a level which are very regulated, very balanced. I think what clients are doing is the need for working capital, and also because of the increase of steel. This would -- the increase would generate some financial stress in the production chain, especially in the companies which are medium-sized or smaller-sized. And we see that the chains are operating at a lower level of inventories, that means -- that doesn't mean that it's not positive to the sectors. Obviously, when the inventory levels are a bit lower, there is a deep balance because of the market volatility. And we as the steel companies, we have to provide support to this chain. So that they can work with an optimized working capital and then we are going to remove the inefficiencies, the financial inefficiencies of the sector.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Miguel. Our next question is also to Miguel, asked by Thiago. And he asks you to make some comments on the automotive area. What is your expectation for the normalization of the vehicle production in Brazil?

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

Thiago, the ultimate automotive sector is -- has lots of challenges, because semiconductors are missing in the market and this is something affecting not only the Brazilian market, but the global market. According to a five-year report, there has been a small reduction of automotive production expectations from 25% and increase of 22%. And the level of uncertainty is very high according to some reports, according to Intel CEO. And they are saying that the normalization of semiconductor supply will happen along next year. Of course, we are prepared to keep pace with the recovery of the automotive sector and we do this monitoring on a weekly basis and we are prepared to this recovery in the automotive sector and as well as any other sector in Brazil. (Foreign Language)

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Miguel. Our next question is directed to Sergio. (inaudible) individually is asking about the sustainability chain of ESG. What are the weaknesses of the Usiminas and what are the goals for us to mitigate such points?

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

Thank you. As I commented in the beginning of our call. Sustainability is a priority to our company, and our weekly board meetings, we start the meetings always discussing sustainability. Sustainability in a broad sense, we have just made inventory of greenhouse gases inventory and we disclosed this information to the market. And in this inventory and the number that we reached is -- gas per ton of the grow carbon.

We are at the half of this steel market in terms of positive results. So at the international level, we are within the scenario, within the half of the companies whose position is more positive. Obviously, comparing the results of Usiminas of 2020 to the steel industries of 2019. We wait for the 2020 results to be published to make the comparison. We are working in the environmental aspect in relation to sedimentable particles in the Ipatinga unit.

We have an extremely important project and we have made progress in this unit. And last year, we sold the Environmental Monitoring Center that allows us to monitor all the company in and all different neighborhoods of Ipatinga, because the only unit that is positioned in the center of the city. And so, we have been working hard in order to control this at sedimentable particle emissions and the results have been very positive with the significant reduction of this emissions, and we implemented a mist to spray devices using polymers. So, we are performing a number of actions, and this is the area when we talk about production. When I'm talk about, this is how blast utilization and others.

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The company is engaged, totally engaged in the -- according to the vision 2023. And this is a part present in our discussions and we always ask ourselves, how can we possibly reduce the GHG and we consider this isn't all the investment and we are looking for operational improvements in the existing equipment, this is the permanent question, the permanent that issue that is occupying our minds. So when we consider the ESG -- U.S. ESG agenda, we know that we are reference, both related to the people at Usiminas and all also the people in the communities where we operate.

Our relationship is very strong. We are very close to the communities where we operate. We have two foundations which are very relevant. One is the foundation focus on health which is San Francisco Xavier Foundation. We have a foundation in the area of education also San Francisco Xavier. And we have Usiminas Institute that there's a very important job in relation to the performance of the company in health, education and cultural and community support segments. At this time, we are building a hospital in (inaudible) which going to -- is going to open in March next year. And as far as in the ESG, we are placed at the top in terms of social responsibility and this is perineal concern for all of us at Usiminas.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Sergio. Our next question comes -- is to Miguel is related to volume. Caio Ribeiro with Credit Suisse and Aristotle [ph] with XP, are asking about the mix of sales in the domestic market versus the foreign market in the months to come. Are we going to share -- increase their share in each of the areas? And what about the lock book for this order, the inventory level, and also the inventory levels in the chain during the quarters? And is there an alternative Aristotle is asking, is there any alternative if the domestic activities slow down?

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

Thank you, Caio and Aristotle. In relation to the most domestic market and in and exports, with the strong recovery in the past nine months in Brazil, we gave to the priority to the domestic market in Brazil, especially our industrial by into Brazil. And the value chain, especially those in the Marcio region. So this priority will continue in the next month, this will be our priority and provide support to the growth and the evolution of our main clients in the domestic market. Obviously, we're going to be on the watch all opportunities and external market considering the availability of the product that can -- that we can have every month.

Today, our order book is very strong at levels which is similar that we had observed served in the past months, both for the domestic and the mix exports and domestic market. In relation to export for stability opportunities, we can see something positive in terms of attractive margins to the steel sector. Obviously, with the recent news of elimination of tax rebate in China and also the implementation of an import tax in Russia, this could have a positive evolution in our margins, in the international market. As I said before, our priority is to provide support to the domestic markets, but we are going to be on the watch out on the opportunity in the external market. We are going to continue analyzing each business opportunity both internally and abroad.

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A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Miguel. Our next question comes from Caio Ribeiro with Credit Suisse. Directed to Alberto, how you would evaluate an upstream part of Cubatao now, do you believe you have sustainable data to make this decision, Alberto?

A - Alberto Akikazu Ono {BIO 20633628 <GO>}

Caio, thank you very much for your question. The point here in -- is that for us to be more conviction in terms of the sustainability of the demand, we have to consider whether it is demand is going to remain high. So I believe that we have to keep an eye on this domestic market and observe whether or not that this is going to continue this will remain high. Clearly, in the recovery months, as of the third quarter of last year, we have seen a clear movement of replenishing the inventories. But when I would say that the second quarter of this year was an answer to this movement. And from now on, we are going to see what's the actual demand. So we have to understand what's the level of actual demand, so that we can have expectations for the future.

In terms of upstream of Cubatao, this is something that has been talked a lot about, but as I -- as we talked before, even -- we are going to make a decision, the decision is not going to be so quick and it's not going to be so cheap, because of the situation and also the time, the unit had stopped, so we do not have the crew, we do not have the personnel to work there. So because it has stopped for five years, all the labor, all the workers that use the work there are no longer at the company and this started five years ago. So we have to have the workers, operators working with equipment and we have to evaluate which is the piece of equipment that would need more maintenance and which equipment we will need less maintenance and it takes a time. After we make a decision, resumption of the activities not going to be very quick. So this has to be very clear.

So in terms of demand, which is the main point of the question, I could say that we have to wait a little bit more, so we have -- can have some clarity of what is the actual demand now that the replenishing of the inventories has come to an end.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Alberto. Now we have another question to Alberto. And the question is related to the EBITDA expectations for the third quarter. We likely to expend the EBITDA above the records we presented in the second quarter.

A - Alberto Akikazu Ono {BIO 20633628 <GO>}

And so thank you very much for the question. But as always, we do not provide guidance in relation to the EBITDA. Our guidances are limited to what we discuss in terms of volumes and sales and financial expenses. So I'm not be able to make any comments on this. But in terms of sales both for steel and iron ore, as first steel, we are expecting in a stability in relation to the second quarter, and as for mining, the expectation is that the volume will increase for the -- in relation to the second quarter. So that we can reach it at 9 million tons this is what I can say.

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A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Alberto. Our next question is to Miguel. It comes with Carlos de Alba again. Miguel, he wants to know whether we are changing the contract without a motive in industrial sectors, migrating to quarterly contracts or spot contracts in comparison to annual contract?

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

Good morning, Carlos. Usiminas establishes long-term partnerships with its clients. The automotive sector has been a strategic and a very relevant sector to Usiminas and this will continue in the future. Usiminas has a history of complying with all the agreements, all the contracts that were signed with our clients. So all the valid contracts will continue as they are. Each contract will be updated and renewed according to the moment, and will -- future and past the variables will be considered considering the stability of the business for both parties. So, the answer would be no. No, we are not canceling any agreement that has already been signed. All the renewals of contracts will reflect at the moment.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Miguel. Another question to you Miguel. Caio with BTG Pactual, asks about price. What's the price gap today between the industry client ex-automotive and distribution? What do you consider to be the ideal level and when do you expect this to be reached, this level to be reached? Miguel, please?

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

The price gap, of course, the distribution is different from -- in different industries, we have agreements with different industries monthly or bimonthly or semester agreement. When we observe the distribution of the first half of the year, there was a gap that evolved along this period, and those gaps that happened in the first quarter and in the second quarter. So we have gaps that we always try to make it zero. This gap could not be so large, otherwise we wouldn't be committing our objective. Otherwise we would not considered the general conditions of the market and this is valid to all sectors of the Brazilian economy.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Miguel. The last question comes from Tharwa -- professional from Tharwa Capital. So he congratulates on your results and he wants more details about the governized products, what would be the CapEx for the project? And the question is directed to Alberto.

A - Alberto Akikazu Ono {BIO 20633628 <GO>}

This time, we can't talk so much about this topic, because this is something that we are re-evaluating. We're resuming the studies of the CapEx and how long we would take to implement the lines. So these are the questions that are being analyzed at the moment by us, so that we can have an idea and take this as an investment proposal for our board to approve. So these are the points that we are currently evaluating. So, we are not able to provide any details of those and any of those points you ask right now. Thank you.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Alberto. So we complete our Q&A session. And now I turn the floor to Sergio for his final remarks. Sergio, you have the floor.

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

Thank you, Leonardo. Thank you each and every one of you who were here with us, for this one hour, exactly one hour, discussing the results of Usiminas. It was a great pleasure for us of Usiminas team to present solid results and positive prospect for the future with our commitment to work with the same dedication, looking for the best competitiveness reaffirming our commitment with the sustainability with a ESG agenda, diversity and inclusion. Today, we had a total of 24 questions, all very important questions to each of you. So that all of you can understand the moment we are going through, this moment, this positive moment where we were able to share the best results of the century.

Thank you for attending this call. And in October, we are going to see another, again, where we going to present the results of the third quarter 2021. It has been a great honor for the Executive Management of Usiminas and all the team as a whole. I congratulate our Usiminas team on the results.

Thank you. And have a nice weekend. I would like to remind you that if you have any questions, the IR our team is at your disposal to provide you with the services.

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