

Y 2021 Earnings Call

Company Participants

- Alberto Akikazu Ono, Chief Financial Officer and Investor Relations Vice President Officer
- Americo Ferreira, Industrial Vice President Officer
- Carlos Rezzonico, Chief Executive Officer of Mineracao Usiminas
- Leonardo Karam Rosa, General Manager - Investor Relations
- Miguel Angel Homes Camejo, Commercial Vice President Officer
- Sergio Leite de Andrade, Chief Executive Officer
- Unidentified Speaker

Presentation

Leonardo Karam Rosa {BIO 20523815 <GO>}

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to the Usiminas Conference Call, where we will discuss the results of the Fourth Quarter of 2021 and Year 2021. I am Leonardo Karam, Usiminas' Investor Relations General Manager.

Unidentified Speaker

(inaudible) We also have an interpreter for simultaneous translation. Please choose this sound channel on the icon at the bottom of your Zoom screen.

Leonardo Karam Rosa {BIO 20523815 <GO>}

All participants are logged on listen-only mode and questions can be asked in writing in the Zoom Q&A session. This is an icon at the bottom of your screen. Participants who are listening in English can also ask questions directly in this section. This conference call is being recorded and simultaneously broadcasted through the Usiminas' YouTube channel.

Please note that this conference call is exclusively for investors and market analysts. Please identify yourselves so that your question can be answered, and for better flow, please limit your questions to two questions per participant. We also request that questions from journalists be directed to Usiminas' Media Relations by the phone (31) 3499-8918 or email imprensa@usiminas.com.

Before proceeding, we would like to clarify that forward looking statements made during this conference call regarding the company's business prospects, as well as projections, operating and financial targets regarding its growth potential are forecasts based on the management's expectations regarding Usiminas' future. These expectations are highly

dependent on the performance of the steel sector, the country's economic situation and the situation of international markets, and therefore, it's subject to change.

With us today, we have Usiminas' Executive Board, our President, Sergio Leite; Vice President of Finance and Investor Relations, Alberto Ono; Industrial Vice President, Americo Ferreira; Vice President of Corporate Planning, Yoshiaki Shimada; Vice President Technology and Quality, Kohei Kimura; Commercial Vice President, Miguel Homes; President, Director of Mineracao Usiminas, Carlos Rezzonico; Executive Director of Solucoes Usiminas, Ascanio Merrighi; (inaudible) Director of Usiminas Mecanica, Fernando Mazzoni; Legal Director, Bruno Paulino; and Controllershship Director, Julio Arroyo.

Initially, Sergio Leite will make initial remarks. Subsequently, Alberto Ono will present the results. At last, the questions in the Q&A session will be answered.

I now turn the floor over to Mr.Sergio. Sergio, you have the floor.

Sergio Leite de Andrade {BIO 6771322 <GO>}

Thank you very much. Good morning to everyone. Thank you very much for participating in our results live session. For us, it is a great satisfaction.

Today, we are presenting the results of 2021. This was an important year for Usiminas and its history, the best year of all of our history where we present a consolidated EBITDA that supersedes BRL12 billion net profit, above BRL10 billion, over BRL7 billion in cash. Negative net debt. 2021 undoubtfully was a very important year for us and Usiminas.

We are embarking in 2021 with important challenges ahead of us and in the upcoming years. We are also working intensively in our (inaudible) annual plan that is our plan for '22 and '23, and our view 2031 that is our long-term planning. We are intensively working.

And within our long-term plans, one of the main objectives would be climate changes and our ESG agenda. Today, we are presenting to the market a new set of targets of our ESG agenda. Here we have 10 targets for 2022. And Usiminas' commitment to reduce greenhouse gas effect emissions, together with the ESG agenda and everything that will affect mankind in the upcoming 30 years is very important for us.

Once again, I would like to thank you for the support that the market has given us, and we will continue firm building the present and the future of Usiminas. Thank you to all of you. Alberto, you have the floor now.

Alberto Akikazu Ono {BIO 20633628 <GO>}

Well, good morning to everyone. I will take my mask off to improve the audio quality.

So now, we can go to our first slide. Here we can see, we will start with our yearly results. Steel unit net sales. Here we have 4.8 million tons. It is the best result in terms of volume

since 2013. Therefore, we have been waiting for this result for a long period of time. We wanted to achieve this figure in terms of sales. The increase was of 30% vis-a-vis 2020.

In terms of iron ore sales, that is the following chart. These are record sales. We exceeded the 9 million tons. This is the best figure from Mineracao Usiminas. And in terms of EBITDA, a new -- we achieved a new record BRL12.8 billion with 38% margin. This basically is twice the figure that we had in the past. This is a significant figure in terms of net profit, a new record, BRL10 billion. With a number of observations, we have a number of extraordinary effects that contributed for this profit. But if you eliminate the extraordinary effects, we have the best figure in our history.

Now, to our next slide. Here, we have broken out our EBITDA. Here you can see the level that was reached in 2021. And here it's broken out and we can see the non-recurring effects throughout the year. I believe that the two main points of the year here results would be tax credit, specially PIS/COFINS, and also a reversal of our health plan liabilities, right? And therefore, we had a significant effect, and this is concentrated on the fourth quarter regarding the extraordinary effect here with BRL2.1 billion but the operating effect of almost BRL11 billion. But anyhow, this is the best historic figures, even when we discount the non-recurring effects now.

The steel unit here, I would say the same. In the case of the steel unit, tax credits were BRL1.7 million. Here we have the reversal of health plan liabilities. This was connected to the steel unit and you can see the effect here. When we exclude the non-recurring effects of BRL6.7 million, this is the best EBITDA number in history.

Now when we go to our next slide, here is Mineracao Usiminas. In Mineracao, this year, practically, we see no recurring effects. BRL3.5 billion is an operational figure, a margin of 60% during the year. It is the best historic EBITDA of our operation.

Now when we go to the next slide, here is Solucoes Usiminas. We also can see a historic record now. We have non-recurring effects. We had tax credits with PIS/COFINS and some adjustments, especially that took place during the fourth quarter. Here, we have provisions for inventory adjustments and provisions for tax credits. And this appeared at the end of the year and you will see the effect on the quarter. Nonetheless, this is an EBITDA of almost BRL1 billion with a margin -- a two-digit margin. And this is something -- this is the first time we see this in Solucoes Usiminas as an annual result.

Now, and we go to the results of the quarter. In the case of steel unit sales, there was a drop. That was -- that is aligned with our guidance. That would be 1.1 million tons in terms of sales. And mainly, we see a significant decrease in the export area. This has already been mentioned in the past. And here we can observe a seasonality during the fourth quarter that was emblematic.

Now in terms of iron ores sales, there was an increase vis-a-vis the last quarter 8%, 2.6 million tons, and this helps us to make up the year's record. We also have the adjusted EBITDA. Practically, BRL2.5 billion, 31% margin in terms of net profit. This was BRL2.5 billion. And positive contributions because of the tax credits that were accounted during this

quarter. And also the reversion of the health plan liabilities, and this also helped us with the quarter figures.

Now on our next slide. Here we have broken out this information and you can see the non-recurring effects on our EBITDA. Here you can see that we're at BRL620 million that are non-recurring effects.

Now on our next slide and the steel unit. Most of these effects were in the steel units. These were BRL666 million of non-recurring effect. For EBITDA, BRL2 billion.

Well, here in the mining unit, Mineracao Usiminas, you can see a drop. Our continues drop since Q2 of last year of 2021 regarding the result. And basically, you can see that this was driven by the price variation in the market. You can see that there was a drop of almost 33%. And in a press release, we've commented on discounts regarding qualities that during this quarter was a bit more expressive. Therefore, the EBITDA of Mineracao during the quarter resulted in a figure lower than in the past quarters.

Now on our next slide. Here in Solucoes Usiminas, the operating EBITDA of BRL46 million, and then is affected by a non-recurring effect. This was a provision for inventory adjustments and provisions for tax credits. So during the quarter, the EBITDA was slightly - - was BRL1 million negative.

Now speaking of working capital. Here you can see a drop of 4% in the quarter vis-a-vis Q3. Here there's greater oscillation when we see taxes recoverable. So taxes recoverable that were already -- this we maintained a regime of BRL100 million in terms of tax offset. And therefore, we could reduce this amount in the working capital. These are non-recurring effects. Here we see a drop of 6.7 to 6.6 in terms of working capital discounting tax credits.

And we will see throughout the next slides a drop. In terms of steel inventories, there's a drop of 8% in volume, but it's stable. We could say that it's stable in 70 days. It's working capital. It is stable. It goes from 69 to 70. We are still at a level slightly above the normal inventory turnover days, but we believe that things will normalize from here on.

Now, our next slide. Here we have our cash position and indebtedness. Our debt increased a little bit, BRL6.3 billion because of the exchange rate variation. We had a devaluation of the real vis-a-vis the last quarter. Nonetheless, our cash flow is BRL7 billion. And therefore, our net cash is positive by BRL700 million. Therefore, our net leverage is negative.

Now regarding our CapEx. We achieved BRL1.5 billion within our guidance for the year. And there was an acceleration in the steel mill projects, but also the dry stacking -- our dry stacking project ended, and this contributed with the quarter CapEx. So this is why we were able to achieve our guidance as well.

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Now our next slide. During the last quarter, we have a CapEx that is twofold, the last quarter's, BRL600 million, there was an acceleration in steel and mining.

This is what Sergio stated regarding our targets for 2021. What was the final agenda here, we have a target. Our first target is being reviewed. And although this is something that we wanted to achieve in 2022 and 2021, we realized that we had to carry out an adjustment. There is one goal that has to be reviewed and we did not meet was, well, zero accident target, lost time accidents. Unfortunately, we did not achieve this target. There was a certain delay regarding the dry stack project, but it was concluded throughout the year. Therefore, we believe that this is mission accomplished but with a certain delay.

Another group of goals for 2022. Some are repeated here, regarding what we did in 2021, like accident frequency rate. And now we have other targets that are associated to concepts that already existed in 2021 like greenhouse gas effect emissions, also regarding the inventories. We continue incorporating this as our goals for 2022. Basically, this is it. And after the presentation, we can entertain the questions.

Questions And Answers

Operator

(Question And Answer)

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

Thank you, Alberto. Ladies and gentlemen, we will go to our Q&A session. Our first question is from Daniel Sasson, Itau and Caio Ribeiro, Bank of America.

Miguel, want to know about our expectation or price negotiation with the car industry in April. What is the gap between the automobile industry, that negotiated in April and January? This summarizes the question of these two participants.

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

Thank you, Leo. Good morning, Daniel and Caio. As a matter of fact, the negotiation with the auto assemblers, well, the contracts are valid as of April. We started negotiations in the past two weeks. Although, Usiminas doesn't announce future events. So, we closed the contracts that are valid as of January, with an increase of 60% and 70%. They represent around 20% of our sales volumes for the auto industry, and these are globalized and internal sales. And you have to remember that one of the industries has operations in Brazil and in Argentina. Therefore, we believe that the April negotiations should follow or should be aligned with the contracts that were signed in January, because the scenario is very similar.

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

Thank you, Miguel. There is an add-on. But I believe that you're already gave the answer (inaudible) said, what percentage of your contracts were renewed in January?

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

It's 20%. This is important for your calculation, and you have to bear in mind that the price impact of this 20%, one part will be on our internal sales and the other part on our globalized sales.

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

Thank you, Miguel. Our next question comes from -- it's about coal by Daniel Sasson and Caio Ribeiro from Bank of America.

What are your expectations on the coal impact in the cash flow during the quarter? How much can this cash cost increase? And how do you believe that margins will evolve? Caio asked about this dynamic of costs during the first quarter of 2022 regarding coal. And what about the impact of the price increase of coal, the coal price increase?

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

Thank you, Daniel and Caio for your questions.

Now, Coal, the price of coal has increased and this is something that we've observed since Q3 and Q4. There has been a sharp increase in terms of prices. This according to our inventories we have an estimate, estimate of four months of inventory. Generally, of coal, right?

From the moment where prices started to increase, now we will see the effect gradually coming into effect during Q1. We have to remember that today within our operation, only one part of our production, of our steel production, or rolled steel will use more coal, because the other part has another dynamic. It's difficult to talk about the general composition of what the behavior of the price will be. I can say, that still during Q1, the expectation is that we will not feel a strong effect from this.

Now, as of Q2, we will feel a more intense effect. I would like to remind you that mainly now in January, although the price of coal is increasing, but we also see a valuation of the BRL that will affect this dynamic. So, by and large, I could say that for Q1, we will not feel intense effects, nonetheless the trend from the second quarter and the third quarter, well, yes, I believe that we will feel the effects.

Operator

Okay. Our next question is about the seasonality and volumes from fourth quarter. This comes from Thiago Lofiego, Bradesco and Milton Sullyvan XP. They want to know about the performance of the domestic market during Q4 because Usiminas dropped more than the competition was there -- there was a drop in the shares here. We have data of ABR [ph] that show that competitors dropped 18% and Usiminas dropped 28% quarter-

on-quarter. They want to know about this performance and Usiminas lost share during the quarter. And if there is an expectation of recovering the share -- this market share in the upcoming quarter.

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

Good morning, Thiago and Milton. Well, as a matter of fact, fourth quarter showed a seasonality. That is typical of this period. What happened when you analyze our figures, we had -- we felt the impact of sales drop in distributors -- distribution offset by the industry performance. The auto industry also had a complex quarter, mainly because of the lack of semiconductors that affected the production and the consumption of steel in the auto industry.

When you analyze the market share during a quarter can lead you to wrong results. The fourth quarters sometimes is affected by variations of our customers and the sectors. So, it would be more correct to analyze longer periods. When we talk about market share, we have to analyze 2021. Our performance in terms of performance was higher. Of course, we had a drop in distribution. We always say that it Usiminas sales, we could classify one-third in the distribution sector, one-third in the industry, and one-third in the auto industry.

When we analyze Q4, 39% of our sales were allocated in the industrial sector and 30%, 31% allocated in the distribution and auto industry. In distribution, they were impacted, because there was increase in imports. Well, we have a forecast that there will be a drop going back to historic levels that represent around 10%, 11% of the apparent consumption. We continue working closely with our customers, our partners from the distribution sector in order to go back to our historic representation that is one-third of our sales.

The first quarter of 2022 presents a typical seasonality of the cycle that we see in each one of the years and we will follow the growth of this sector throughout 2022. That is our expectation.

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

Thank you, Miguel. Our next question for Carlos Rezzonico. They want to know the results from MUSA. So, we have questions from Leonardo Correa, BTG. Marcio Farid, Goldman Sachs and (inaudible).

Everybody wants information. Here I'm going to try to summarize regarding the MUSA results. They see a better prospects for the upcoming quarters with the level of iron ore the drop of the freight prices, could you comment on the discounts?

This is higher than what we expected and we want to know what to expect in the upcoming quarters because we will have more rain falls and more difficulties for processing. Now, also the mining prices and the discount expectations for the first quarter? And how -- and what to expect in terms of prices throughout the year and discounts as well?

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Unfortunately, his microphone is off. Carlos. Your microphone is muted. I will pose the next question. Okay? Then we will go back to you. Our next question is for Alberto from Leo Correa from BTG Pactual. Carlos de Alba. Everybody wants to know about the capital allocation.

Due to the excessive cash, why don't you consider these, your cash policy for shareholders? What are you going to do with the surplus of cash? And if there will be a change in your dividend policy. Policy if not where is this cash going to?

And Rafael, wants you to comment on the net and gross debt level that something that you consider ideal for the company. Alberto?

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

Leo, Carlos and Rafael, thank you for your questions. Regarding dividends, we have not changed anything regarding our current policy. So, we will maintain for the time being are 25%, that is by law. And the main reason to maintain a conservative management in terms of the company's cash flow is because we still have a matter regarding CapEx and working capital. The 2022 and 2023 will be years, where we will have significant CapEx.

We already announced our guidance for 2022 that is slightly above BRL2 billion in investments. Therefore, is a significant figure for the company. We haven't invested this much in a long period of time, just in one year. Therefore, this is a challenge, and because this CapEx will be financed by our cash flow generation. We want to finance our CapEx with our own cash. So, this is why we need to have a solid cash position.

In addition to this, as the main project that is the Blast Furnace 3 retrofit, so in less than one year, we will start the retrofit. We expect to started during the second semester of 2023 in less than one-year. We will be in our countdown and to prepare this retrofit, we will have to stock slabs in order to feed.

Our rolling mills during a shutdown, a shutdown that will be above 100 days. Therefore, we have to stock a certain amount of slabs. Therefore, all of this, our objective is to finance all of this with our cash. With these two components, we still have to be conservative regarding our management, at least until we and the Blast Furnace 3 retrofit. This is the main matter. And this is why we haven't changed our dividend policy, because we need to finance these projects using our cash. And this is something that will take place in the upcoming two years, I mean, 2022 and 2023.

Now, regarding our indebtedness, well we still -- we have been discussing together with our Board regarding what would be ideal. We still haven't reached a conclusion. But by and large, what we have to understand is what would -- which would be the level of generation, the level of EBITDA that should be used for this.

Because mainly when we talk about leverage, there are number of aspects in terms how you will select the nominator, the denominator here. It would be the debt, but the denominator. Well, you have to be careful to do this. We just cannot extend for a long

period of time a low figure neither a high figure and this is something that we have to consider. Therefore, this is a matter that still hasn't been concluded and we're still discussing these matters together with our Board.

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

Thank you, Alberto. Carlos?

Okay, we already resolved your technical problem. So, the question Leo Correa, Gabriela Cortez from Inter, Marcio Farid from Goldman and O'Keefe Porgy. [ph] They want to know about your prospects in prices and discounts in Mineracao.

Leo says, if you see better perspectives in the upcoming quarter with the level of spot iron ore and the drop of rate. Could you talk about discounts of products during the quarter? It was higher than I expected. I would like to better understand what to expect during the next quarter, because there will be more difficulties of processing and more rain falls. What are your prospects regarding prices and discounts for Q1 and the same thing for the year?

A - Carlos Rezzonico {BIO 20703029 <GO>}

Okay. Now, can you hear me?

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

Yes. Carlos, we can hear you.

A - Carlos Rezzonico {BIO 20703029 <GO>}

All right. As you know, mining area after an extraordinary period throughout the last years, at the end of last year faced perfect storm and why? Why do I say almost perfect storm? Because prices dropped, discounts increases, transportation increased by historic levels, at historic levels.

We went above \$40 for freight. So, the situation during the beginning of last quarter was negative. The prices of other commodities like coal, also had important record discounts. There was a drop in our margin during the last quarter, which was significant. Some of these factors have already been corrected because the discounts today are much lower than the historic value that I mentioned. Shipping also dropped, freight dropped and this also improves MUSA situation.

And the prices. The mining industry expected to see an improvement and that this would take place after the Olympic Games after winter. And after the market adopted measures, well the market of the China would improve -- the market we are expecting and economic improvement in China today, the situation is the following. We have prices that anticipate this improvement that was expected after the Olympic Games. Especially, because of lower environmental pressure in a number of regions in China, outside of the areas where the Olympic Games are taking place. There is a greater demand and there's a greater occupation of the blaster furnaces.

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And this in a market, where the suppliers still cannot quickly respond to a number of circumstances. They cannot meet this demand, sudden demand that comes from China. Therefore, now the prices are at a level of 150 and this also created a strong drop in discounts, and this was driven by the drop of prices of other commodities like coal.

We still have uncertainties ahead of us. The shipping prices, we also see the increase in oil prices sometimes generated by the European expectations. We still have an expectation regarding what is going to happen in China. In regard to the real estate sector, there are uncertainties regarding the stimulus plan from China, something that the China will deploy after winter. But there is no doubt that our expectation is more optimistic because the market variables have accommodated price, shipping discounts.

Perhaps in the case of MUSA, during the first quarter, we will feel a negative impact because of the rain falls. We've lost around 200,000 tons in January, because of the rainfalls. But regarding the market, our market is helping us. And if things continue, as we expect the results will improve.

I don't know. Leo, if you have another question regarding the market situation for me.

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

Carlos, perhaps the quality discount expectation.

A - Carlos Rezzonico {BIO 20703029 <GO>}

The discounts have dropped a lot. The levels of \$20 in discount in the beginning of the last quarter of 2021. Today this discount has significantly dropped and it's below \$10. Therefore, yes, the improvement of price is followed by a drop in discounts. And I'm talking about the quality that we delivered to the market. This is why it is a very important factor regarding our future prospects.

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

Thank you, Carlos. Well, our next question is for Alberto. This is from Carlos de Alba regarding working capital. What are your expectations in the upcoming quarters regarding your working capital?

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

Carlos, in terms of financial figures, it's difficult to say, because it will depend on the price dynamic. What I can say in volumes is connected to the shutdown of the Blast Furnace 3 for its retrofit. In the upcoming quarters well progressively there will be an increase of slab inventory to prepare ourselves for this shutdown.

Well, this inventory is carried out 6 months and 12 months before the shutdown. So, 12 months is as of April. So, historically as of Q2, we can start observe an increase of inventories of slabs. Now, the peak will take place during the shutdown, and day before the shutdown, this is where we will have the highest inventory slab level, because afterwards, we start consumption.

In terms of volume, the trend from here on will be progression, an upward progression. Well, financial terms, this will depend on the evolution of price and cost, from the market prices and costs. Okay? Beyond that I can't say much.

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

Thank you, Alberto. Another question from Carlos De Alba, for tax credits. When will they stop affecting the Usiminas results? He's talking about PIS/COFINS.

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

Well, Carlos, regarding tax credits, two things are important. Currently regarding PIS/COFINS, we do not have any further expectations for the time being of new tax credits. What will happen from here on is that we will use these tax credits now.

Now here we have the non-recurring assets, we ended with BRL1.1 billion. Well, we want to offset this in the upcoming 12 months. There are other tax credits or credits that have already been recognized. But they are in our long-term assets. This will take a little bit longer. Because there are as specificities regarding what kind of taxes and then what kind of payments you will use this for the government. Therefore, this has different characteristic, what is in our balance sheet of the short-term non-recurrent asset is to offset this in 12 months.

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

Thank you, Alberto. Carlos de Alba and Rafael Barcellos, they want to know about CapEx. What is your CapEx expectation beyond 2022, I mean 2023? And Rafael asks, if there is an update, could you have a new galvanizing line?

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

Carlos and Rafael, now regarding CapEx. In addition to 2022, we cannot give you a formal guidance. Now, in terms of concepts, I would say the trend is to have something very similar at least in 2023. Similar to 2022, because this is where we will carry out that this major project that is Blast Furnace 3, so this is where we will use a lot of CapEx. Here we should see a figure similar to 2022. At least this is our feeling, okay.

Now regarding the new galvanizing line, we're studying this. Nothing has been approved by the Board yet. But we are analyzing an opportunity, because this is a product that is high intense in terms of import. So, we believe that this is a market opportunity. Nonetheless, we still have not decided anything. What we can say is that we are analyzing possibilities.

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

Thank you, Alberto. Carlos, we have a question from Carlos de Alba. About Mineracao, he asks about, if there is a -- if you see seasonality in the shipments of 2022? And what is the expected make between CFR and FOB?

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A - Carlos Rezzonico {BIO 20703029 <GO>}

We do not expect any type of seasonality. Perhaps as I mentioned, the rainfall impacts during the first quarter will result in a slight drop in the production and we will try to recover this, especially in the East mine. So, perhaps this could cause a difference between rainfall period and drought period. But, this effect doesn't happen by and large. This was on a normal year. These were rainfalls that were above rainfalls.

In the past, we've haven't seen this in the past. There were moments of rainfalls that are characterized as millenary rainfalls. And therefore, this can be considered a seasonal impact, but this doesn't take place by and large every year. Now after the special period that we're undergoing, I see no problems in the future.

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

The other question was, it's you have a mixed projection between CFO, and NFO will be.

A - Carlos Rezzonico {BIO 20703029 <GO>}

Well, we define operation per operation. This is why many times the results are different, and many times you asked us, why because the price drops so much. Why did the income drop? This is the result of our sales. And as I said, we do not have a target. I cannot say. We will try to have a 50% of CFR, FOB. The results in terms of operations and we look for the best alternatives for each one of these operations.

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

Thank you, Carlos. Our next question to Miguel. Miguel, regarding price Rafael Barcellos, Santander and Jose Guerra. [ph] They ask about the price dynamic, the steel price dynamic in the beginning of the year and Jose Guerra wants to know about the absorption of steel prices. And this is something that is being implemented in February. Miguel?

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

Leo, was a matter of after the adjustment throughout the fourth quarter of 2021. Following the prices of raw material exchange, freight and the international prices and the situation of market demand, we informed and we increase prices as of February in the distribution sector.

As I said, the other sectors, especially industrial contracts will receive adjustments, when we update each one of the contract. When we renew the contracts, there was an increase in February with the situation of the market regarding the increase of prices of the raw material and we believe that the international situation -- with the international situation, we believe that we will see an increase in prices in February.

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

Thank you, Miguel. We have a question, Carlos de Alba, Rafael Barcellos from Santander and Gustavo Lima from Navi Capital. They want to know about the sales mix for the first

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quarter, domestic and export market.

Gustavo says, the proportion of market was 25% above historic levels. If we will see this to 2022, we will go back to normal levels. This is a quarter about your mix and what will happen.

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

It is important. We have high priority and responsibility to meet all the needs of our domestic customers. In periods and cycles that have a typical seasonality, where we see in Q1 and Q4 it's logic to think that Q1 will present a similar mix to what we saw in Q4 of 2021. We've already announced, our sales guidance between 1.1 million and 1.2 million of tons for Q1 of 2022. And we can expect a similar mix of internal and foreign sales for quarter four. Thank you.

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

Miguel another point. Thiago Lofiego from Bradesco wants to know the growth expectation in terms of volumes for 2022.

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

Well, 2022 according to the last focus report, and say that the GDP in Brazil will go 0.3%. There are areas that expect higher performance, like Confab expects a production increase of 9% in cars. Now the associations of highway producers expect a higher growth. There are segments with positive performance. We also have agro business, machinery projects of renewable energy, wind energy, solar energy. The prices of oils could provide new opportunities and projects that could be executed during the second semester.

So, the prospects are positive. The last figures that were published by Azos brazil talk about a growth of 0.5 and 2.5 in sales, 0.5 in consumption. And as I said, we expect a reduction of import share, when it comes to steel in Brazil.

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

Our next question is to Alberto. Carlos de Alba from Morgan Stanley. He wants to know about SG&A. What is the new level of SG&A for the company?

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

Carlos, we have to -- the reason of your question is what happened during Q4 regarding our SG&A. You have to remember that in terms of SG&A, S that is sales is affected by higher export levels during Q4. So, part of the expenses of sales abroad are included in this slide. As there was a significant increase in our exports during Q4, it is the SG&A because of the commercial sites are a bit different during this quarter.

Now in terms of SG&A, while our expectation is that there will be a correction in the turn of the first quarter, because of collective bargaining to remunerate our employees. We

have to remember that the accumulated inflation between 2020 and 2021 was a significant figure. It depends on the index it goes between 8% and 10% depending on what period you analyze. And this is going to impact our payroll SG&A. So, good part of these expenses come from our payroll.

Now, as of Q1 of 2022, we will feel the impact of this readjustment in our payroll, because of the inflation. This is the G&A, so we have to separate these things. S is because of the sales volume mainly towards the foreign market that during Q1, as Miguel already mentioned, well our expectation is to have a higher volume, when you compare it to the average of the year of 2021, perhaps similar to what we saw during the fourth quarter.

So, this is a matter of seasonality and the domestic market. Nonetheless, the G&A will be corrected because of the inflation adjustment specially because of our payroll. So, this is what we can say about at this point.

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

Thank You, Alberto. Well, our next question is for Americo about rainfalls. Victor Junior. [ph] He wants to know the impact that we should expect during Q1 because of the paralyzation caused by rainfalls.

A - Americo Ferreira {BIO 21780394 <GO>}

Victor, thank you for your question. Well, we did not have to stop the steel production because of rainfalls. The rainfall periods are known. The plants are totally prepared in order to deal with these type of effects. In January, we had intense rainfalls, what obviously with this, we had to create logistic alternatives, not only to receive raw material, but to ship our products and we are also have stocks for the blast furnace. The Rainfall Committee was created during the rain period. And we were able to absorb with a number of alternatives. And therefore, our plans were not impacted by the rainfalls, and therefore, were not shutdown.

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

Thank you, Americo. Our next question is for Miguel for Bruno de Toledo an individual. He wants to know about the contracts. And perhaps it's for the industry, what will be your strategy? Your contract strategy would be yearly, semester, quarterly contracts?

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

Bruno well, Usiminas has a long-term relationship with each one with our partners. We have not changed our contract negotiation strategy because of the market situation and the year. This being said, we can confirm the automobile contracts are renewed every year. The contract with the other industry, well most of them, these are quarterly contracts and distribution contracts. Our contracts that are carried out every month.

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

Thank you, Miguel. Then next question is for Alberto, that is about the liability management. Leonardo, wants to know if it makes sense to have a liability management

operation extending terms?

And Jim (inaudible), he wants to know what about the conversations with the rating agencies, because of a strong credit structure, and if you expect to do something regarding the bond market? And how do you see the bond market during an election year? Alberto, you can answer.

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

Leonardo. Jim, thank you very much for your question.

So, let's go straight to the point. Now, regarding our new access or a possible operation in order to refinance our debt, we are always assessing the market conditions, then analyzing different opportunities. So, I cannot say anything in advance, but we're paying attention to a number of options. And the decision is taken according to the options that we have ahead of us and if it is appropriate or not. So, we're always monitoring the situation, and for the time being, I cannot say anything about this because we have no news.

Now regarding the rating agencies, we are constantly in contact with the three main rating agencies we have. Every time we announce our results and even the follow-up between -- before announcing results we have contact with them. So, the rating improvement that we've seen in the past two years are result of this contact. So, last week for instance, there was an upgrade in our rating in the local market. All of this is done constantly. We have closed contact with these agencies. Well, the three main rating agencies, I mean.

Now regarding in access to market before or after elections, well, this depends on the market situation. We're monitoring the situation. We believe that there are always windows of opportunities, not only because of the domestic market, but also because of the foreign market. A typical example would be a major discussion regarding the possible increase of the U.S. interest rate and this also influences the access to market or not and so forth.

Therefore, what I can answer is that, we're paying attention. We are continuously monitoring the situation. And we will make a decision at a given moment, when we find it more appropriate. So, this is what we can state, but we are constantly observing the market. Thank you very much.

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

Thank you, Alberto. Our next question is for Miguel. Miguel, question would be parity, from Bank of America. He wants to -- where do you see a parity premium for import and what freight do you use?

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

Let me, the variables that are part of our parity have suffered volatility. When we implemented our increase in February, parity would be around 50%, nonetheless in the

international market, there was a significant increase in prices and with the price of the international market, the parity would be close to zero.

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

Thank you, Miguel. Our next question and the last question due to our time. And there are questions that we will answer afterwards. Guillaume Josito [ph] from Bank of America. He wants to know what about the steel inventories in your chain?

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

Well, in our chain, in the chase of the different industrial sectors, the steel inventories were normalized at the end of Q3. What happened during Q3 was a distortion of inventories and the distribution because high imports at the end of the year. But our expectation is that imports will drop in the upcoming months and will go back to normal levels. And this is the same thing with the steel inventory in the distribution sector. So, we expect our normalization in all the chains that consume steel.

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

Thank you, Miguel. Well, we have brought -- well, our Q&A session has come to an end. I would like to give the floor back to Sergio for his final remarks.

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

Thank you, Leo. First and foremost, I would like to thank all of you for participating in our live results call, and wish all of you of excellent 2022 with excellent businesses, and we will meet you again in April to present the results of Q1. Thank you very much and a big hug to everybody.

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

So, we thank all of you for your participation, and should you have any doubts, the Investor Relations teams is at your disposal. Good afternoon to everyone.

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