

## Q2 2019 Earnings Call Portuguese

### Company Participants

- Alberto Akikazu Ono, Chief Financial Officer, Vice President of Finance
- Sergio Leite de Andrade, Chief Executive Officer and Member of Executive Board

### Other Participants

- Antonio Heluany, Analyst
- Carlos De Alba, Analyst
- Daniel Sasson, Analyst
- Gustavo Allevato, Analyst
- Leonardo Correa
- Rafael Cunha, Analyst
- Thiago Lofiego, Analyst

### Presentation

#### Operator

Greetings, and welcome to Usiminas conference call to discuss the results of the second quarter of 2019. (Operator Instructions) This conference call is being recorded. And the presentation is followed by slide and is be transmitted simultaneously through the Internet at [www.usiminas.com/ri](http://www.usiminas.com/ri), where you can also obtain a copy of the release of the company. Participants who are listening in English can also post questions directly to the speakers.

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, operational and financial targets related to their potential forecast are based on the management's expectations relation to the future of Usiminas. These expectations are highly dependent on the performance of the steel sector, the country's economic situation and the situation of international markets and are therefore subject to changes.

With us today we have the Executive Director of Usiminas, Mr. Sergio Leite, Chairman; Alberto Ono, Vice President of Finance and Investor Relations; Tulio Chipoletti, Industrial Vice President; Takahiro Mori, Vice President for Corporate Planning; Kohei Kimura, VP of Technology and Quality; Miguel Homes, Commercial Vice President; Carlos Rezzonico, Executive Director of Mineracao Usiminas; Zizhangou Barau [ph], Industrial Director of Solucoes Usiminas; Heitor Takaki, Usiminas Mecanica Executive Director; Bruno Paulino, Legal Director; Julio Arroyo, Director of Controllershship; and Leonardo Karam, Investor Relations General Manager.

Initially, Mr. Sergio Leite will make his initial remarks. Then, Mr. Alberto Ono will present the result of the second quarter of 2019. At the end, all the officers will be available to answer the questions.

Now, I will hand it over to Mr. Sergio Leite.

## **Sergio Leite de Andrade** {BIO 6771322 <GO>}

Thank you very much and good morning to everyone. Thank you for participating in our conference of the second quarter of 2019. And we in Brazil are undergoing a very special moment in our story as far as we're concerned, the country is preparing itself for taking up end growth, and we expect this to happen in the upcoming 12 months or the quickest possible. During the first semester of the year, we realized intense activities within the preparation of the country for the growth, the pension fund reform is ongoing, the tax reform is being discussed, a number of actions have been carried out in the industry. We would like to highlight economy infrastructure, mines, energy therefore the country is getting ready to take off towards growth. We had a first semester below our expectations with an economy that was practically stable in comparison to 2018.

Today, we see good news regarding job generation, the growth of formal jobs. We had over 400,000 new jobs during the year. Today as of Brazil Institute in a press conference announced the results of the first semester of 2019 and the prospects for the year of 2019. Now regarding the first semester, we also observed a slight drop in the production of crude steel in Brazil. And according to the consumption in Brazil for the year 2019, they will lower 5% to 2%. This is for the entire year of 2019 and this means that we, from the steel industry expect the second semester, slightly better than the first semester with production with growth of consumption in steel in Brazil at a level of 4.5% vis-a-vis the same period last year.

Usiminas is presenting to the market today the Earnings result of the second quarter in summarized way. What we can highlight is that all our company there were improvements. Regarding the result of the first quarter, within our five company now in the case of the steel mill, the three major levers of our business we presented an improvement in comparison to the first quarter. We increased our production, we also increased the total sale of our product. And we would like to highlight the domestic market we the increased our sales 7%. There was an increase in the average price around 3%. We also had a reduction of the cost of the product sold. Therefore, the main levers of our steel mills presented positive behavior. Now, with the consolidation of our final results, we also evolved our EBITDA of 18% when we compare it to the first quarter of BRL148 million, now we have an EBITDA BRL576 million. And we reiterate our commitment to strongly work with all of the Usiminas company regardless of the market scenario.

Although during the next semester of the year expectation is to have an improvement in the economy and the market, we also had on Monday, we've received good news in changes -- of a change of buyers, there will be a 0.1 improvement in our GDP this year from 0.081 to 0.082 Now what we want to see is a change in buyers, and we believe that in the upcoming weeks in Brazil, we will have prospectus based on facts and true probability.

And our commitment is to continue working to build the results on a daily basis, we want to have innovation in all our areas, trying to improve all our processes and to show results and first and foremost to reassure the long lasting performance of our company. When I say long-lasting is built every day, every hour and this is a very interactive job. So, thank you very much for your attention.

Now, I will give the floor to Alberto Ono, our Finance VP.

### **Alberto Akikazu Ono** {BIO 20633628 <GO>}

Good morning to everyone. Let's go to Slide #2 to present our results, as Sergio already highlighted. We had an increase of 5% in our Steel Units exceeding 1 million tons in the quarter 7% growth. In the domestic market also we've reach almost 950,000 tons in term of iron ore by and large, there was a drop of 7% that was significant because our problems in the foreign market, the sales to the foreign market had a significant drop and impact from sales because of logistic difficulties and this is reflected on our figures. But afterwards, all these problems were resolved.

Now, when we talk about the consolidated EBITDA, the growth of 18%, we had a significant growth and improvement in margin in comparison -- 10.6% when compared to the first quarter and in terms of net income, 121% or BRL171 million as a result.

Now let's go to the next results, here we're breaking up before past quarters here we have -- regarding our operating result there was the recovery as of the fourth quarter. When we see the same non-recurrent effects and now we have BRL576 million that is very similar to what we observed for the second quarter of last year.

Our next slide, we would like to show you the full year sales and also showing that the second quarter 2018 to the and here we had sales above 1 million tons per quarter.

Our next slide, we will talk about the EBITDA in our Steel Unit. In case of our Steel Unit we're comparing the first quarter of 2019. There is an improvement of 34% in our EBITDA and totaling BRL404 million vis-a-vis BRL301 million, an improvement in margin here 12% of margin vis-a-vis almost 10% slightly below 10% in the past two quarters.

And now, when we go to the upcoming slide we will talk about Iron Ore sales. This quarter presented a level, very similar to the third quarter of 2018 with a different mix actually here we can see that there was a drop in sales. The steel mill units a drop on foreign sales 21% and third-parties increased 30%.

Now when we go to our next slide. Now, talking about figures of Usiminas here we have the results. Despite the drop in volume the significant growth in the EBITDA of Usiminas this is 24% when we compare it to the first quarter. So we have a significant increase in margin representing -- this was because of the increase of prices, and they are -- and that started in the first quarter and continued during the third quarter.

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Now, on the next slide, here, we have the results of Usiminas. There was a significant increase in our EBITDA and this unit 118% vis-a-vis the first quarter totaling \$37 million, it's a margin of 4%. And here we're totaling levels very similar to what we observed during the first and during the second and third quarter of last year.

And at last, here we have the evolution of the results of Usiminas Mecanica. Here, we can also observe that within this quarter, Usiminas Mecanica, despite unfavorable conditions of the market in terms of demand, in terms of infrastructure project, we were still were able to balance our company. The last quarter, we were slightly negative in terms of EBITDA and now we're slightly positive in terms of EBITDA. So we have improved even when we compare it to the second quarter of last year.

Now we will talk about other financial indicators, we will see Slide 11. Here, we can see our evolution in our working capital, consolidated working capital. Therefore, there had been a significant improvement. This is BRL500 million, and we are above BRL4.2 billion rise. And this is a result greater volumes in the quarter at higher prices and it also increased our accounts receivable. But the pressure of the cost of raw material notably, iron ore and also the cost of slabs. And this is why there was a reasonable increase in our working capital. When we observe on the upcoming slide, the steel inventories, we can see that there was a slight drop here. Therefore, we can also see that that is not the stock volume, but yes, the financial impact of the cost.

Now, when we go to the next slide, here, we can see our cash position and indebtedness. We continue BRL5.5 billion at the end of the second quarter but with the drop in cash position around BRL500 million that is the result of the pressure of our working capital. So this is practically what happened, there was a greater investment in terms of working capital during this quarter.

Now the next slide. Here we have the evolution of our Capex. Now, during this quarter, we exceeded the BRL100 million. But as we announced during the morning, we are reviewing the guidance of the year in for investments because of delays in the environmental licensing of dry piling project as well. There was the slower -- a lower rhythm regarding the evolution of the upcoming projects, mainly in the Steel Unit. Therefore, we are reviewing our guidance from BRL1 billion to BRL800 million.

And here at last, I would like to highlight a number of things and number one, we have been upgraded from our credit rating agencies, global and national. This is a result, of course, of our bond issuance operation as you already know our debenture we issued \$750 million that were used for payment to Development Bank and Brazilian debenture holders and creditors. With this, we were able to attain more Capex flexibility and see the exclusion of cash sweep and release of real mortgage guarantees. I believe that it is obvious regarding our debt, this happened during the third quarter but now there is a new level in terms of the liquidity and expectation of amortization of the company for the future.

With this I end my presentation and we are at your disposal to answer questions.

## Questions And Answers

### Operator

(Operator Instructions) Our first question's from Thiago Lofiego from Bradesco BBl.

#### Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning and thank you for taking my questions. Could you talk about the price and premium prospect in the Mexican market in the short-term? When we see the second semester, you will have another blast furnace, so that means that you will produce more core oils. So, I believe that your production of products has increased, so what do you expect for the premium dynamic initially? Do you believe that it is reasonable to wait for a negative scenario due to demand that is high? And the second question would be the new galvanized slide, when will this project be approved and what will be the size of this business?

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

Thiago, when we talk about price prospects or perspectives, in terms of price for the third quarter for us, according to our sales, we still expect within the total mix to we had an average price of 2% to 3% increase. Now, regarding the premium, this very -- this oscillated throughout the quarter. Nevertheless, today, what we can already observe is the premium regarding imported material and it is around 4% - 5%. Okay?

#### Q - Thiago Lofiego {BIO 16359318 <GO>}

Now, this is due to the variation of the price of the coil abroad and also depends on the exchange, the variation and the exchange rate and during the past weeks, there was an appreciation of real and it also affects the calculation in terms of premium. We still have a positive result. This would be around 4% - 5% and we don't see perspective of negative premiums for the time being, but everything will depend on the market situation. Could you also -- what about these 4% or 5% of premiums that you just mentioned? Do you consider this drop of price that was observed recently and it was 5% more or less.

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

Yes. Now, this is regarding this week. Okay? I'm going to complement today the level parity is around 5% and 6% but all the world steel industry is receiving pressure to increase price. We here in Brazil, are not in good situation. What we want to do is too is to look for an improvement in price regardless of the international situation. We have had very strong movements in local currency, in the past 60 days. We're going to -- what we're going to monitor is the situation of our foreign currency and the international prices and we can expect the hike in prices, because of the logo margins of the worldwide steel industry and Iron Ore is low and we can expect a new wave of increases during the third quarter.

Now regarding parity. We have always inform that our strategy is to be in a level between 7% and 10%. And we believe that this is very reasonable. For the Brazilian market outside of this level, we will do what is necessary to maintain ourselves within this level of parity.

## Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay, thank you very much.

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

Now, regarding the new galvanization line where we continue carrying out our studies and within our product growth. The projects were following the market and we're working to -- and we want the Board to analyze this project in the upcoming 12 months. This is our focus today.

## Operator

Our next question from Leonardo Correa, BTG Pactual.

## Q - Leonardo Correa {BIO 16441222 <GO>}

Good morning to everyone and thank you for taking my question. Well, my first question regarding market share, in our analysis here we basically concluded that Usiminas gained and recovered a bit of market share in the domestic market during the third quarter, and please correct me if I am wrong, but the volume of Usiminas grew 7% in the domestic market and when we see the ABR data, the figures were slightly below the -- I imagine that Usiminas made a great effort on the commercial side in order to recover their market throughout this quarter. And now, my question is, if you are more aggressive in terms of prices than the past. So this is my first question. Another point just something that I would like to confirm regarding your last answer, are you expecting a price carryover for the third quarter that would be around 2% and 3%, therefore, you're expecting an increase in price? Average price per ton in the domestic market between 2% and 3% and what happens, regarding costs? What is your expectation of cost increase per ton during this quarter? Because we would like to understand the cost pressure. That all the steel industry is suffering well during this quarter, there was a relevant increase and the flat.

I would just like to equate this mathematics of this increase and I would like to better understand the cost trends and my last point regarding working capital, Alberto, you mentioned in a number of moments during your presentation on working capital, and as a matter of fact, it was what absorbed more cash. How does it sustain itself because we're seeing a weaker market and this is clear? And there have been some changes regarding the price of raw material, so before the situation what will be the trend during the second semester regarding working capital? Will you recover? Is your -- I would like to confirm this with you.

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

Leonardo, regarding your first question, I would like to clarify the following point. The target of the Usiminas is to follow the evolution of the market when assess longer period of six months, one year we can observe our success regarding our target. Now, it is clear that Usiminas will continue being the market leader of flat steel in Brazil. Now, on the other side, I wouldn't talk about aggressiveness, I would say that we are committed with our customers and the partners sectors over long-term. We're not only talking about prices

service development, product connectivity with customers a number of strategies to maintain the leadership that we have had throughout the years in Brazil.

Now, regarding the average price for the third quarter, you are correct when you talk about 2% and 3% of the average price. This forecast would be maintaining the current situation of the price. If we maintain the current price during the third quarter, the average price will be between 2% to 3% above the average price. On the second quarter, as I mentioned, beforehand in our view of the worldwide steel industry is being pressured to increase the prices at the national and at the international level.

Leonardo, now let's talk about costs now. What we can see here, as you already observed in our release, there was an increase of production cost of the first quarter to the second quarter. And this increase our production cost, of course, will affect the cost of the sold product at the third quarter. Now, if we calculate that it will be 3% and 4%. This will be the increase. So it's 3% and 4% cost of sold product. And this is one of the drivers. As Miguel already mentioned, this doesn't normally happen to us. This is happening throughout the world, and what we have is a greater market recovery because of the increase of prices because of pressure on cost, although within our current prices we see that there is increase in revenue and there is increase in price of 2% and 3%, well, what we are observing here is a possibility of a greater high gain prices within the market. Not only now because domestic reason, but because the price of raw material is increasing for everyone.

Now, regarding working capital, we know that there was great pressure during this quarter. So from here on or at least during the third quarter, will continue at the level that we have already observed. Well, unfortunately, we will have a long cash position, because of the raw material, until the moment there are no trend to drop the prices regarding Iron Ore.

Now, when this happens, the effect will be contrary. But we're not observing this for the time being. So at least if the price of iron ore does increased so much, because the cost around that are good in \$120, our working capital will continue at the same level that we observed during the second quarter of 2019.

## Operator

Our next question comes from Daniel Sasson, Itau Corretora.

### Q - Daniel Sasson {BIO 19234542 <GO>}

Okay. Good morning to everyone. Thank you for taking our questions. My first question would be regarding demand. We saw an increase of 7% in the domestic market. Could you -- what is the actual improvement is demand, a sector that is showing that they are recovering more strongly and what is the restocking effect? During the first quarter, you talked about the strong restocking, especially in the distribution. This was during the first quarter. If you could elaborate on what is been recovery of demand, what is restocking and how was this restocking in the strong performance within the domestic market?

And now, I mean (inaudible) we saw the recovery of Samambaia plant during the semester, could you elaborate also on this ramp-up is the production volume is aligned with your expectation for the ramp-up, can we work with that guidance of around 800 million tons of iron ore this year? These are my questions.

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

Now, regarding demand and stocks, what we can say that the division stocks, according to the EMEA [ph] report shows us that for the fifth consecutive month, the expectation of the Institute is a drop of 2.5% of June, a downturn which is an actual stock level between 3 and 3.5 months. Therefore, regarding these results during the second quarter, we don't see an increase in stock. What we did observe is that in some sectors in addition to the distribution, there was -- it was strong adjustment during -- and then it was down during the second quarter. And yes, the first quarter, therefore, the results show a demand and non-recovery of stock, now, there is still a downturn of our stock in the first semester, so the expectation of 3% - 3.5% I believe that is a reasonable levels of stock for the market expectation. Now, on the other side, what is positive here is that there will be a change in the growth expectations as Sergio mentioned at the beginning of the call, for the first time during the six months of there is a recovery of the GDP and also the industrial sector and consumption are also recovering because of the Brazilian economic situation and political situation. Thank you, Miguel.

After the margin event, all the licenses are taking longer than what it would take in the past and it's longer than what we expected. So there are delays because of this. Now, regarding the Samambaia plant that was impacted by the situation, Samambaia will be totally operational by August 15. And this will allow us to increase the production more or less 3.5 million tons between the increase pellet feed and concentrate. Now, regarding our sales for 2019, today, we have a plan a calculation of 9 million tons in sale with the production of approximately BRL8 million. It will depend on the licenses that have to be approved for a number of plants that are paralyzed, but this is our projection for the year 2019. Thank you very much.

### **Operator**

Our next question from Rafael Cunha of Credit Suisse.

### **Q - Rafael Cunha {BIO 20229675 <GO>}**

Good morning to everyone and thank you for taking questions. My question is about our CapEx, I would like to better understand the CapEx review for BRL800 million. And you talked about the delay in the steel project, I would like to know from you, if you could tell us how this impacts the revamp of the blast furnace and how is this connected to steel and to the blast furnace? And if you could clarify what the CapEx plan will be for the upcoming years. This will be point number one. And number two, a follow-up regarding Iron Ore, is there still an update regarding the sale of a stake of (inaudible) and if it's not so, what is going to happen to the mine? Could you update us regarding the break-even here?

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



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When we talk about CapEx, this drop of significant part is due to the delay of the July project. This is a project that was calculated at BRL140 million and it would become operational during the first semester of 2020. Great part of the CapEx would be realized this year. As it has been explained, we are -- it's taking a long time to receive environmental license, so the expectation of the project is that it will become operational at the end of 2020. So this will basically delays this project, minimum one semester or two quarters, but the trend is -- could be higher. This is why the disbursement of 140 million that was going to take place of 2019 was transferred to 2020. This is really the number one.

Now, the second question that you answered, we're talking and in the case of the steel -- there was a delay in other projects, it's not the blast furnace project. The blast furnace project this year was a bit -- had a very small volume because we just started. Therefore, the expectation of the blast furnace wasn't to have great disbursement and things are according to expectations. I'm actually talking about other projects that are underway in the steel units.

Now Iron Ore, before giving the floor to Carlos, we can talk about the divestment of Mineracao Usiminas. This is an ongoing process, but still slow. After everything that happened after (inaudible), we have no news for the time being unfortunately for you now. Now, speaking about Mineracao Usiminas we're talking about the first 10 years, with iron ore and then we would have another stage. And I believe we will not have any problems until 2050. Now, MUSA, now regarding MUSA stake and the prices that we imagine here, we could talk about the \$55 level, because of the drop of premiums of high quality product that fundamentally are what we are exporting today.

## Operator

Our next question comes from Antonio Heluany, Bank of America.

### Q - Antonio Heluany {BIO 20614129 <GO>}

Good morning to everyone and thank you for taking my questions. And Sergio, could you give us an update regarding the discussions that you have with the new government? It would be import tariffs were discussed and then they said that this was going to award, IABR is negotiating with the government and what things are discussing that can result in improvement next year?

And Alberto two follow-ups. One regarding the slab, although we see the price of iron ore at a high level, the slab price, is at a level, is \$420, this is the export price. When can this benefit your margin? And another question regarding liability management after the bond issuance, when you pay the more expensive debts the ones that were renegotiated in 2015, how much improvement can we expect in terms of your debt after you amortize (inaudible)?

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

Now, regarding the interaction of IABR with the Brazilian government, we have interacted through a coalition and also Brazil needs it. And last year, we named it industrial

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correlation and this correlation gathers a number of very important sectors in the Brazilian transformation industry and currently it represents 50% of the GDP of the transformation industry. We're talking about a number of sectors that we have talked with the Brazilian government. Since the period of the government transition so we already started talking with the transition team with President Jair Bolsonaro with Minister (inaudible) and we started negotiating with them during the last quarter, last year in the first semester. We had more intense conversation. Since the beginning our position before the Federal government and all their team was highly respected, what we talk about is the recovery of the Brazilian economic situation. And there are a number of levers here. We believe that we have to reactivate the industry of civil construction. This lever is very important because it generates job in large scale.

Now, also actions with an infrastructure and also export is an important lever because the transformation industry in Brazil in most of the segment has installed capacity use between 60% and 70%. This provides the transformation industry in Brazil a perspective of increasing its production in almost 50% without the need of investments of the transformation. The industry is prepared to recover the growth in Brazil and the Brazil and the government is working along these lines in infrastructure, a number of projects are being implemented, the new gas market is very important in the middle term for our growth.

The second point that we set forth that is important for us is the support from the industrial coalition because we need a labor and the pension fund reform. The pension fund reform was approved by Congress at least at the first level. So the pension fund reform is gaining momentum in terms of discussion. Another point that we set forth to the government is the economic liberalization in the international trade -- in favorable liberalization in the case of Brazil, we have to do it after we collect all the asymmetry. We have a number of asymmetry as tax level, financial cost level, and in the infrastructure of Brazil that take away all our international competitiveness. We do not have in the case of the industry and I'm going to talk specifically about the steel industry, the steel industry, does not have any type of government subsidies.

And we work with international prices. And when we talk about asymmetries, we're talking about trade with China. China today is a very strong player in the international trade scenario. China is not a market economy. They don't remunerate like the major worldwide economies, they provide a great number of subsidies. The economy and the Chinese industry, the owner is the state, not only the central power but the provinces.

In terms of international trade and balance is now the United States is facing unbalance in trade matters. And the government was very sensitive in all of these points and we believe that the government wants to recover the growth of the economy, but they want to eliminate some -- many asymmetries in the Brazil industry. We export taxes, for example, in the case of the steel industry when we analyze (inaudible) would be a cumulative taxes not recovered. Our industry is at a 7% level, we believe that it should be 5% below the non-recoverable tax. It was 3% it was 2% in the past.

So we have had frequent meetings with all the agents of the federal government and I highlight Minister (inaudible) that was in the Institute. Also Brazil the Brazilian coalition last

week and met with Minister Paulo Guedes, where interacting and this interaction has been very positive in order to build the Brazil that according to the industry, the Brazil there has to growth, a Brazil that generates job and that will resolve the problems. We have to drop the unemployment level that now is about 12%.

Antonio, regarding your question in terms of slab, during the second quarter, there was a trend to price drop and in our case this will impact is the production cost of the third quarter. So the expectation is to drop around the costs of acquired slabs. Well, for the third quarter would be around 10%, therefore, there is a drop in the cost of slabs and now the production cost during the third quarter will be more reflected in our COGS on the fourth quarter. Now, our debt, we have released new guidance that already reflects the new view of the company in terms of what we will have in financial expenses from here on. And it is available for you to see.

## Operator

Our next question from Gustavo Allevato from Santander Bank.

### Q - Gustavo Allevato {BIO 18933135 <GO>}

Good morning. I have two questions regarding your Steel Units. I would like to better understand the evolution of the production costs, current net to raw material in addition to slabs for the third quarter because there is a high price of Iron Ore and there is high -- of the consolidated production when you compare second and third quarter, or do you believe that the drop of the price of slabs will offset the increase of other costs. What do you expect for the second semester in the third quarter and after a high of 7% if you could elaborate on this?

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

Gustavo, regarding the production costs for the third quarter, well, we expect a production cost that is stable. There will be a drop in the price of the slab, but on the other side, this there will be an increase of the price of the Iron Ore that happened during the second quarter and part of the third quarter. In July there was some increase in prices, and this will be reflected -- the general production costs. And this is balanced and the expectation is that we will have a stable cost when we comparing to the second quarter. Regarding the volume of the second semester, now based on the report issued by also Brazil, our expectation is that it will be slightly superior to the first semester, but the third quarter will be very similar to what we saw during this quarter.

### Q - Gustavo Allevato {BIO 18933135 <GO>}

Just a follow-up, you said CP's stable quarter-on-quarter, and while COGS, when will you have the high or high level in comparison to the second quarter?

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

I think I already answered this question, this would be around 3% and 4%. Thank you very much.

## Operator

Our next question from Carlos De Alba, Morgan Stanley.

### Q - Carlos De Alba {BIO 15072819 <GO>}

Good morning to everyone. Thank you for taking our questions. I would just like to follow-up on (inaudible). I would like to better understand what are the necessary license to reinstate Usiminas operation? And for Samambaia, do you still need a license -- operational license? And my second question would be regarding the volume, this would be 9 million tons of iron ore sales, I would like to know that in your assumption to restart this operation is 9 million, is this right?

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

To start a plan that yield, we really need the license of the plan, but if you do not have the license to operate a dam, the plant cannot start working. We have no problems regarding the licensing of the plant. We need other licenses in the mining industry that impacts the Samambaia plant. Now, your second question about the 9 million tons, they are -- and also (inaudible) that is three, four years. And we're trying to attain this license for the month of August. And we have mine and plant in the inaugurated [ph].

## Operator

As we have no further questions, we bring this conference to an end. Should you have questions, the IR team is at your disposal. We would like to thank all of you for your participation and have a good afternoon.

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