

## Q1 2014 Earnings Call

### Company Participants

- Julian Alberto Eguren, Chief Executive Officer
- Marcelo Rodolfo Chara, Industrial Vice-President Officer
- Romel Erwin de Souza, Technology and Quality Vice-President Officer
- Ronald Seckelmann, Finance and Investor Relations Vice-President Officer
- Sergio Leite de Andrade, Commercial Vice-President Officer
- Vanderlei Schiller, Human Resources and Organizational Development Vice-President

### Other Participants

- Andreas Bokkenheuser, Analyst
- Carlos de Alba, Analyst
- Ivano Westin, Analyst
- Marcelo Aguiar, Analyst
- Marcos Assumpcao, Analyst
- Renato Antunes, Analyst
- Thiago Lofiego, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Usiminas conference call to discuss the first quarter 2014. At this time, all participants are in a listen-only mode. Later on we'll conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions) As a reminder, this teleconference is being recorded.

I would like to mention that this conference call is being broadcast live on the company's Investor Relationship website, [www.usiminas.com/ri](http://www.usiminas.com/ri). The earnings release and the slide presentation are also available on that site. Participants who are listening to the conference in English may also ask questions directly to the speakers.

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

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With us today we have the Executive Board, Mr. Julian Eguren, CEO; Mr. Ronald Seckelmann, Finance and Investor Relations Vice-President Officer; Sergio Leite, Commercial-Vice President Officer; Marcelo Chara, Industrial Vice-President; Romel Erwin, Technology and Quality Vice-President Officer; Paolo Bassetti, Vice President of Subsidiaries; Nobuhiro Yamamoto, Corporate Planning Vice-President Officer; Mr. Vanderlei Schiller, Human Resources and Organizational Development Vice-President Officer; Mr. Wilfred Bruijn, Managing Director of Mineracao Usiminas; and Mrs. Cristina Morgan, Head of IR.

Initially, Julian Eguren will make his initial consideration. Following Mr. Ronald Seckelmann will present the results of the first quarter of 2014 and then the executives will be at your disposal to answer questions. Mr. Speakers, you may initiate. I would like to give the floor to Mr. Julian. Julian?

### **Julian Alberto Eguren** {BIO 16005078 <GO>}

Good morning to everyone. I would like to thank everybody for your participation in Usiminas conference call, where we will together analyze the first figures of 2014, we will also have the opportunity to talk about the improvements in the company's competitiveness, a process that have gradually made progress.

While preparing my speech, I remembered our call after being ahead of the company for only three months, the call of the results of the first quarter of 2012 in which our message to you was full of concerns. The situation of the company demanded commitment and talent of all our personnel. More than that the commitment of the shareholders we talked about. We said that we all dedicate 100% to recover the profitability of the company and we are convinced that we have technical and human resources to attain our goals.

Today after two years, we can say that in the beginning of fiscal year 2014, the figures show that we are not only on the right track, but we have also reaped effective results in each period. In this third quarter, we registered the highest EBITDA and highest EBITDA margin since the third quarter 2010. This was in the consolidated result and in the specific result of the steel business that is a core business. In the same direction, we increased 2.5 times our gross profit compared to the same period in 2013, positively impacting the net profit.

Even with an ascertain economic scenario and at the same time full of challenges, our sales volume in the domestic market has remained substantial and our customers Pigozzi, Mangels and John Deere have awarded us for our supplying quality. These are recognitions that encourage our teams to pursue excellence in services, logistics, IT tools, development and research of products. This is the vocation that are strengthening in Usiminas to be -- to have industrial leadership to offer high technological content to the Brazilian productive chain development.

In Usiminas Mineracao, despite market volatility, we improve a mix with better opportunities captured in the foreign market. Greater efficiency and cost control is also firm as good management. Moreover, this is a special moment for the company with the

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initiation of the operation of the plant of Samambaia and flotation fern Friables [ph] project and the reflection of this is the rise of the EBITDA margin of the company reaching 51% in this quarter.

We would like to highlight, moreover, the effort of improving the financial profit of Usiminas group mainly regarding the management of the debt with voluntary and advanced payment. Regarding the past quarter, our gross indebtedness and the net debt ratio continue dropping. With the same commitment and responsibility, we also maintain our CapEx and working capital at balanced levels.

In our last talk, we highlight rigorous cost management, pursuing greater productivity and greater integration with our customer as the main levers of our strategy. As a matter of fact, this disciplined effort of our team was decisive to stabilize the company and above all, to prepare this company for the future. For the rest of the year, we will continue focused and expect seeing the best operational efficiency gains and we will develop our internal talent.

We need to think not only on Usiminas up-to-date, but also Usiminas of the future. This is why we start our first quarter with a program of young professionals that is being materialized. This is a board program. For qualification for our program this year, we will increase at 50% the training hours per employee, strengthening managerial, technical expertise for a management model geared toward productivity.

Instances as we can reiterate, Usiminas starts at the beginning of 2014 more where the potential and prepared for new challenges with an internal agenda focused on productivity that will continue providing results. All of the results that we have reached are a result of a whole work of the entire team of our employees until our shareholders. Together, we will continue making progress in the continuous improvement process of Usiminas becoming a leader in Brazil and in Latin America. Thank you very much.

### **Ronald Seckelmann** {BIO 3722329 <GO>}

Good morning to everyone. Thank you very much for your participation in our first conference call of the first quarter 2014. I would like to show some highlights of this period. I would like to show the slides that you will be able to see through our webcast.

In the first page, page number 2, we have some operational indicators and financial indicators. As you can see, we have steel sales drop 4% vis-a-vis the last quarter last year. Seasonally a weaker quarter, but only 1% if we consider, for example, flat products. The drop was not very relevant. We also have 20% of iron ore sales. This was the drop. Now, regarding the volumes that are a bit lower in iron ore, and in steel sales the results improved significantly. Adjusted EBITDA went to BRL655 million, a growth of 27% vis-a-vis the last quarter of the last year and the net profit increased almost 4 time reaching BRL222 million in this period.

In the next slide, we can see the sales volume quarter by quarter in the domestic and export market. We can realize that when we compare this to the same period of last year,

the growth of -- in turn, domestic market was 3.4%, which shows us that -- and then certain year that begins, we start with a reasonable growth in the domestic market.

The next slide on page 4, this clearly shows us the evolution of our results. Here we can see the results of the steel business unit reaching in the first quarter of 2014 the best result and the best EBITDA margin since the third quarter of 2010 and clearly showing a sequential improvement of results since the end of 2012.

Now, when we go to our next slide, here we can see the sales volume in mining and here we can see, the drop of sales in the domestic market was partially compensated by the increase of exports. Following on page 6, the evolution of the quarterly margins of EBITDA in mining with very robust levels. Here we can see the evolution of the EBITDA margins of the consolidated side of the company and here again reaching 21% and a total of 655 million, 27% above the last quarter, the best results since the third quarter of 2010.

Now, the other points of view, gross profit, the same improvement that we see in the EBITDA, we can see another indicator. An improvement -- a sequential improvement of all these indexes since the end of 2012.

In our next slide, we can see cash and indebtedness. Here I would like to highlight in the past 12 months since the end of the first quarter 2013, the drop of our gross debt was BRL1.200 billion and at the same time, our leverage indicators have improved quarter after quarter. Here we can see the evolution of our working capital. In this quarter, we had a slight growth in our main accounts in reality, there is no special account to highlight here, accounts receivable has grown a bit due to the increase of the average price, accounts to pay dropped due to the drop in accounts payable that was in dollar, mainly due to iron ore and coal.

Our raw material inventories also grew, you can see that our stocks of finished products, well, I believe they were a bit lower than in last quarter, mainly maintaining the same stock days slightly above two months of operation. On 12, we can see our CapEx in steel, mining and other business. And finally on our last slide on page 13, our final message. To pave a continuous path of development, we focused on certain things on 2012 and 2013 and without abandoning this focus, we are focusing in other things throughout 2014 and 2015. And we believe that our results confirm that the path that we're paving have been the right path.

These are my comments, and we are at your disposal to answer questions.

## Questions And Answers

### Operator

Ladies and gentlemen, we will initiate our Q&A session. (Operator Instructions) We would like to remind all participants that this conference call is intended as a forum for investors and analysts from the market. We kindly request the members, the media directed questions to Usiminas' Media Relationship Department by the phone number 55-31-

3499-8919 or imprensa@usiminas.com e-mail. Our first question comes from Mr. Ivano Westin, Credit Suisse.

**Q - Ivano Westin {BIO 17552393 <GO>}**

Good morning to everyone. Thank you very much for your conference call. Congratulations for your results. First, I would like to see where you see capillarity in price and after these results, what can we expect for the second quarter? I would also like you to confirm you that maintenance of the exchange rate that there is no possibility of drop in the domestic market. And demand, I would like you to tell us how you see demand for the rest of the year. There is a debate in the market regarding a weaker demand for the automobile industry. Could you tell us something about distribution, automobile industry, what is the guidance here?

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

Well, good morning. This is Sergio Leite. Your two question. This is -- gives margin to a whole presentation. I'm going to be very brief. Starting with your first question regarding prices, yesterday we had a press conference with Carlo Modero [ph] and he said very clear and open price. And he said in this moment, he says that we have no space to practice an increase in price. The scenario today is the scenario of price stability with our exchange rate.

He also talks about exchange parity. He also talked about imports, mainly separating the Northeast and the Southeast and showing us that in the Northeast is where we concentrate a great amount of import. There is a certain level of price differentials there. Now, in the southeastern region, these levels according to what Carlo said suffer the influence of the hedging of the import due to the perception from the beginning of last years of an existence of an exchange rate risk. So our view in a nutshell, well, this is a moment of price stability.

Now, regarding the increase of price, well, we did this in January and distribution as always we do the three following months. We negotiate with the industrial sector, the increases of the industrial sector are being analyzed right now. As you said, there is going to be a carry-over for the second quarter of 2%. So regarding prices, by and large, these would be our comments.

Now, the other thing that you mentioned was regarding demand. Well, you talked about demand for 2014 for the second semester. I will separate our comments in 2014 and second semester. 2014, in our last call in February is so real that is being characterized by uncertainties. Nevertheless, within these uncertainties and a delicate political economic situation, we have forecast that shows until the present that our GDP will grow in Brazil. It will be slight, very little, but there will be growth. Nobody -- there is no prospect of a drop of a GDP. If there is a growth of GDP, the apparent consumption of steel will also increase in the first quarter regarding -- vis-a-vis last year there has been a growth of 3% that we're talking about flat steel or consumption of flat steel in Brazil.

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Now, imports should remain at this level of penetration rate of 1% and if we see growth of apparent growth, our sales will also grow throughout 2014. Now, our main focus today and something that we've realized in the market, it will be the second quarter, the second quarter vis-a-vis the first quarter historically is a stronger quarter than the first quarter because the first quarter presents seasonality that is known by everybody like vacations, like carnival, like a February that is a shorter month and the second quarter does not have these factors.

Now, the second quarter has specific traits or characteristics. We have in the second quarter three long holidays, one that we just had, that was Tiradentes and Easter. In May, we have a Labor Day that will be a holiday where there will be an extended holiday and on -- it's on Thursday. And on June, we also have another long holiday. So part of the World Cup will be carried out in the month of June.

Number three, we are undergoing in the second quarter uncertainties in the market. You wanted me to make some comments regarding the sectors. Now in the automobile sector, what we are realizing based on the results of the first quarter that showed us the drop in production, drop in sale, drop in exports and drop in imports as well and in our daily contact with the assembly lines. We have already seen a drop in the production pace in the first quarter and the second quarter as well.

The assembly lines are already scheduling holidays, many stopping during holidays and many are analyzing collective holidays in the month of June. So everything shows us that there shall be a production drop of cars in the second quarter. Now, the other sectors, what we observe is the following. Most of the sectors due to these factors that we just mentioned are reducing, therefore, oil and gas to a number of reasons that everybody know under -- right now is in a weak moment. Sugarcane, alcohol, the shipbuilding industry also that depends on oil and gas is also -- we have a sector that is strong, that is civil construction.

In some of the segments like -- again we have warehouses, metallic defensive field, also gas tanks is also a great network. Also we see firm demand, much more as a consequence of a drop of direct orders in the plants. And there is a strategy of the industries to buy things at a last moment and to buy through the distribution. So in our view, in a nutshell, will be that our expectation is the second quarter at the same level of the first quarter. Unlike the last years, where it was a stronger quarter, we believe that it will remain at the same level of the first quarter. Ivano, I extended myself in my answer, but I hope I was able to answer your question.

**Q - Ivano Westin** {BIO 17552393 <GO>}

Okay. Thank you very much for your answer, full of detail. I would just like to clarify one point. Now considering this scenario that you just put before us, is it reasonable to still expect in sales -- stable sales year after year in terms of steel?

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

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Well, I answered this question, not only if the GDP grows, if the consumption of steel grows into GDP, of course, our sales are going to grow in 2014.

## Operator

Our next question from Mr. Renato Antunes, Brasil Plural.

### Q - Renato Antunes {BIO 17439917 <GO>}

Good morning to everyone. My first question would be regarding power. You showed us a gain of power. I would like to understand and I would like to know what will happen from here on because the spot price is still high. So if this will be something good for our results in the upcoming quarters, I would like to understand if you believe that the final customers in demand. This scenario of the second quarter that Sergio just mentioned, this already reflects some customers suffering with the price of higher electricity.

And my second question would be regarding Mineracao project that you already delivered and it's something excellent regarding (inaudible) project. I would like to know about the due date of Compactos project? How it is today? What is going to happen from here on in terms of the Board approval or the non-approval of the Board? So I would like to know more about Compactos project, if you believe that this is something that will be discussed this year.

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

Regarding the sale of -- power sale, well, we have to show you that in our current situation, we have idleness in our thermoelectric plant. So we are making the best of the market opportunities to increase this and we are buying complementary fuel. So this depends on the availability of power generation.

### A - Julian Alberto Eguren {BIO 16005078 <GO>}

And, Renato, just to complement what Romel said, this is also a matter of opportunity. So we do have. We have a management routine where the committee that every week assesses what are the costs that Romel just mentioned of increasing south generation of power, comparison to the spot market and this is how we make decision. This is a dynamic they have between the people of the plants and people that are specialized in power and we will continue making the best of the opportunities that the market allows us to capitalize.

Now regarding the customer, I would like Sergio.

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

Renato, until the moment that at least nobody has shown any concern regarding prices. Our major clients have power supply contracts that are not based on the spot market, but nobody has talked about spot prices to me.

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Compactos, the Compactos project, well, regarding our panorama and giving you the positive example of the Avis project, we invested a long time in the initial stage that would be design and engineering of these plants. And now we are designing the engineering of the Compactos project.

One of the points that we are tackling is creating process that is -- technology that is very important and we want to have strong certainty to make good decisions regarding the technology that will be used in the project. By and large, engineering continues with the debate, our internal debate continues our expectation of the second quarter will be to make a decision regarding the go ahead of this project.

**Q - Renato Antunes** {BIO 17439917 <GO>}

Thank you very much.

## Operator

Our next question from Mr. Marcelo Aguiar, Goldman Sachs.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Thank you very much for this opportunity. Congratulations for your results. Now regarding cost, if you could talk a bit more about your view for the next quarter regarding the main cost items. Here we see the cost of coal spot price lower and this is a very strong item. If there is a relevant improvement in the upcoming three quarters and power, just to better understand, because when I see the energetic balance of Usiminas when we add the sources of long-term contracts.

They are equal to the total amount that you're consuming and the cost in all scenarios should be lower than when you buy from third parties. I would just like to understand the dynamic because according to what you said, the market understands that, that there is equation, the spot price of BRL800 isn't positive for this quarter. I would like you to give us more details regarding the equation of profitability when you sell power?

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

Part of power generation, the additional power that you generate with complementary fuel is more expensive than the power that we buy through contracts. Nevertheless, a value much lower than commercialized power in the spot market. So in reality, the power that we have hired for external supply, it is not sufficient to cover the needs of Usiminas. Here we have to complement this with internal generation. So we are using our availability and generation capacity to generate a bit more and to take advantage of the market.

Now, regarding costs, Marcelo, regardless of the stability of the main cost indicators, we have also carried out improvements for the future. We have improvement and efficiencies and on our industrial system, and I believe that Mr. Chara could talk about this.

**A - Marcelo Rodolfo Chara** {BIO 17579058 <GO>}



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Marcelo, good morning. Regarding this, fundamentally we continue doing what we're doing. We're concentrating in lines of more productivity efficiency with different technology and product qualities to improve operational costs. Just to mention some examples of this, in Cubatao plant, we have initiated a recent operation of pickling unit and we have three existing, they are state-of-the-art.

Now, we are concentrating the operation that we had with two that were other technology efficiency. Now this has allowed us to improve our productivity of 03 hour men per tonnes to 01, we have had a net gain in productivity. Now this also allowed us to increase the array of product, because we were able this way to improve the logistic cost, we doubled the amount of coils from 16 tonnes to 32 tonnes. And we also increased the array of products and quality because though with -- of the machine allowed us to go to 1,600 millimeters to 1,800 millimeters.

For example, in the steel mill, we're concentrating our operation on lower amounts of slab casters. We started this around 2012 measuring with eight machines of continued slab casters. Today, we're working with six and with all the interventions and repairs that we have done, this will allow us to operate with five machines of slab caster in the second semester.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

I would just like to better understand what Romel just mentioned. Could you allow us to talk about energy in terms of dimension, how much demand do you expect this year and what is your generation capacity? This would help us.

**A - Marcelo Rodolfo Chara** {BIO 17579058 <GO>}

Our power demand for our 12 plants is around 400 megawatts month. This is our demand. Now the perspective of selling power will depend on the market. If it's attracted to generate more, of course, we will continue generating more. As of the moment, we realize that this does not compensate, we will drop our power generation in our plants.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Thank you very much.

**Operator**

Our next questions from Mr. Thiago Lofiego, Bank of America.

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

Good morning. I have two question, one would be regarding the steel price in the domestic market. If Sergio Leite could talk about where the premium is regarding the import products and which level will be sustainable for the year. Or maybe what level of exchange rate will prevail and -- or will cause some kind of impact to reduce the price in the domestic market.

Second question in the mining area, if you could talk about the cost evolution for the year and up to when will you use iron ore at a higher cost and when the cost of mining will just normalize?

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

Thiago, now regarding the price differential, according to our calculations we -- contiguous stability rates on 5% to 10%, these are normal calculation. Once again, I'm going to quote Carlo Modero. Carlo Modero calculates in the Northeast a premium of 15% and Carlo calculates for the Southeast and when he calculates for the Southeast, he increased, he induces hedge. He includes hedge and nobody has inserted hedges in this calculation. When you insert hedge, we see a differential of price of 1% when we see the exchange rate at the current level of 20 to 25.

**A - Ronald Seckelmann** {BIO 3722329 <GO>}

Now, regarding your question regarding cost evolutions, we are in a transition stage. When we are able to visualize the new plants, Samambaia plant that was initiated in the fourth quarter of last year, and Samambaia they have been working for some time, we use in Samambaia the higher cost of iron ore. But together with the run-of-mine with the quality and price in order to balance this, trying to always giving good service to our customer regarding a cost stabilization. After this ramp up when we see the second half of the second and third quarter, the expectation is to stabilize the evolution of mining costs. Like we will have a marginal delta in terms of cost is a bit slower, specifically regarding the pile of iron ore at a higher cost.

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

When will you finish using this pile of -- of this amount of iron ore at highest cost?

**A - Ronald Seckelmann** {BIO 3722329 <GO>}

I think that in this semester, we will finish with this.

**Operator**

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

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

Thank you very much. First question is regarding, where do you see the EBITDA going forward? I mean clearly the company has done a remarkable job over the last year-and-a-half, two years in improving the EBITDA [ph] per ton of the steel business. Now we are back to record levels not seen since 2010 right before the price, so it's come down in the domestic market. So where do you see the EBITDA per ton or EBITDA margins for the steel sector in the coming quarters, which I guess another way of asking the question is, how much can you bring down your costs as you continue to focus on higher productivity?

And the second question would be regarding the contracts or the tonnage that you have secured for their exports of iron ore capacity with third-party imports. Could you comment

where are your expectations there? Is that fine, an agreement with Vale or CSN that you can comment upon and also what are you seeing in terms of (inaudible) for this year?  
Thank you.

**A - Ronald Seckelmann** {BIO 3722329 <GO>}

Thank you for your question. Your question was regarding what is our evolution perspective regarding our EBITDA from here on. And as a policy, we do not give any type of guidance regarding future results. Nevertheless, I couldn't -- some of the comments that were made here may help you to carry out your own projections. So as you said that the price prospect of our products is of stability, due to the current exchange conditions.

Likewise, our cost evolution perspective is also the stability. We do not have any indication or nothing shows us that we will have negative surprises regarding our production cost. And we continue working as Marcelo Chara mentioned in the different initiative, trying to increase the efficiency indexed productivity and this is -- and the rates of capacity in our different lines. Now, although this is just a comment, although we have price stability, we will probably still have a slight carry-over in the increases that were implemented throughout the first quarter and the second quarter.

A very important variable in our future short-term results would be demand from the domestic market we can see, as Sergio said, regarding the second quarter this year probably will be very similar to the first quarter this year. Well, we will have more difficulties in order to see what will happen throughout the second semester of the year. Therefore, after mentioning this, we have the right of not making EBITDA forecast for the future.

Carlos, you also asked about cost improvement or productivity improvement. As I said in the beginning, this is a continuous process. And now we are in a stage where we believe, where we will have a strong training program to our personnel and third parties and this will strongly contribute for our productivity plan from here on. If Human Resources could say something about that.

**A - Vanderlei Schiller** {BIO 17406537 <GO>}

Carlos, good morning. I'm Vanderlei Schiller from Human Resources. Throughout 2012-2013, there was a strong feat to readapt ourselves and structure and labor force focusing on productivity and we continue doing this in a highly structured fashion, in a highly rational way based on industrial engineer, based in detailed study of investments. So this is a process that is ongoing and is very important in our personnel cost. But more important that this stage that we initiated at the end of 2013 and beginning of 2014 is that we have strongly invested in training our teams, investing in multi-functionality, professional qualification. The number of training hours for 2014 will grow at a 50% rate.

And we will elevate with the labor capacity skills, competencies of our personnel in different operation for a process from the high furnaces to flat production. And we will continue increasing our productivity and improving more and more the operational stability of our plants. So this is the stage that we're embarking right now. We're training our personnel for a management model focused on productivity on a continuous and a

rational fashion with discipline excellency and developing talent that are the foundation of our company in terms of knowledge and generation.

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

Carlos, now about the view -- about the ports of the outflow of iron ore, we have constant negotiations with ports Vale and CSN. And as a result, in the first quarter with CSN, we have had three shipments, we have three additional shipments that have been reassured Vale uses. Auctions to offers space in the port, we will participate in the second semester in our auction that will take place in July for the months between September and December.

And moreover, regarding the Southeast, we have a major expectation because we want the Sudeste port to be implemented or to be in operation soon. Sudeste port has said that the date of gold life will be in August. This support us with the excellent news. We have great expectations because this will improve our cost ratio in our chain of export iron ore. So this is the scenario that we have regarding the ports.

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

Fine, thank you very much.

**Operator**

Our next question from Mr. Andreas Bokkenheuser, UBS.

**Q - Andreas Bokkenheuser** {BIO 7182883 <GO>}

Yes. Thank you very much, and thank you for hosting the call. Just a quick question on your financial expenses, obviously, they came down quite a lot quarter on quarter about 93%. Was that all or primarily all driven by currency depreciation of the real? And my second follow-up question on that is that seeing that, obviously, the real had depreciated a bit in recent months, would you expect that trend to reverse into the second quarter? Thank you.

**A - Ronald Seckelmann** {BIO 3722329 <GO>}

Andreas, good morning. Thank you very much for your question. Regarding the evolution of our expenses and in this quarter, registered a significant drop vis-a-vis the past quarter. The main reason why we had lower financial cost, as you just raised, is really the appreciation -- the depreciation of the real. This led us to a drop of our financial expenses. Now the behavior of this figure from here on will exactly depend on the exchange rate and how it evolves. Nevertheless, I would like to remind you that we are gradually dropping.

Our financial exposure to foreign currencies from the debt point of view, what does this mean? We are dropping our debt in dollar in our -- the total of our indebtedness. In the past, this represented around two-thirds of the total. Two-thirds of our debt were in dollars and one-third in reals, and today is around 70% in reals and 30% in dollars and

gradually this trend should go on. So our exposure in financial cost to exchange risk, I believe that this will drop. This is the trend.

**Q - Andreas Bokkenheuser** {BIO 7182883 <GO>}

Understood. Thank you very much.

## Operator

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

**Q - Marcos Assumpcao** {BIO 7474402 <GO>}

Good morning to everyone. Congratulations for your results. The first question regarding the steel production in the second quarter, do you believe what the level of production will be regarding the level of the first quarter?

**A - Marcelo Rodolfo Chara** {BIO 17579058 <GO>}

Good morning, Marcos. Marcelo Chara. Our forecast is to maintain the production levels of the first quarter, they are totally aligned to our goals.

**Q - Marcos Assumpcao** {BIO 7474402 <GO>}

I'm saying this Marcelo because in the first quarter you produced around 1.650 million tonnes and sales were 1.4 million in sales for the second quarter for 1.4 million, once again, you may have. If you can talk about, your working capital in the first quarter was negative. I would like to see how you see your working capital in the second quarter.

**A - Marcelo Rodolfo Chara** {BIO 17579058 <GO>}

I would just like to clarify something. When I talked about our working capital, I said -- I showed you a situation where the evolution of finished goods stocks and elaboration stock had dropped throughout the quarter and maintained themselves in terms of production date. Now the production of crude steel that we announced in our release cannot be directly related to our production and sales of finished goods. So here between crude steel and finished goods, there is a natural loss on the process. And as a matter of fact, there was a slight drop in the total volume of the stocks of finished goods or groups where there was an increase in accounts receivable and there was a drop in accounts payable.

**Q - Marcos Assumpcao** {BIO 7474402 <GO>}

Okay. This is clear. My second question for Julian. In your release, you talked about dynamism in the Brazilian economic activity. Sergio said that some sectors of the economy don't demand that much. We have a low visibility for the second semester and perhaps we have a risk of energy savings in Brazil. How reassured are you to announce that relevant innovation in Usiminas above your maintenance CapEx? How do you see this strong investment, be it in mining or be it in any other business due to this uncertain scenario in Brazil?

**A - Julian Alberto Eguren {BIO 16005078 <GO>}**

Marcos, in reality we are studying Compactos project and it continues within its analysis, timeline choosing technologies. We continue with our internal debate and we want to present it to the Board to make the final decision. Nevertheless, we are not assessing any heavy investment or any strong investment for the second semester. Today what we have in our portfolio is Compactos and normal CapEx, projects that we have. We have maintenance CapEx and operational CapEx that are normal in our plants and we will continue with our normal CapEx. But we have nothing in sight regarding strong investments.

**Q - Marcos Assumpcao {BIO 7474402 <GO>}**

Okay. Julian, just one last question, now regarding the sale of power, you said that this depends on opportunities. Wouldn't it make sense to drop the sales on the foreign market where you have a lower margin and perhaps so more power in Brazil?

**A - Julian Alberto Eguren {BIO 16005078 <GO>}**

You know how this works, this is an integrated plant. We have a long-term relationship with customer in the domestic market and the foreign market. We have to take care of our foreign customers, we have to encourage this. As you just said, yes, the sale of power is a matter of opportunity, something that we will try to make -- or to take advantage of all the opportunities that the market offers us, so we can never abandon our core business or to abandon the vocation of Usiminas that is to serve the Brazilian industry and to find niches and markets that will give us a greater value in the medium and long term.

**Q - Marcos Assumpcao {BIO 7474402 <GO>}**

Last question, I don't know if you mentioned it, for the number of iron ore for 2014, I believe you must have a guidance to last volume because you still can't export iron ore of 6.5 million, 7 million tonnes. But let's say that you increase your sales in the domestic market perhaps for CS [ph] and depending on a short-term contract. Perhaps this figure can be higher, I don't know what the situation is right now. Could you talk about the volume of iron ore in 2014? What are your prospects?

**A - Marcelo Rodolfo Chara {BIO 17579058 <GO>}**

Today, we have output of sales volume of iron ore. What affects us here is the availability of ports and these negotiations are ongoing while we are talking here. Our sales volume may be higher than last year or equal to the last year or much higher. Everything is related to the opening of the Sudeste port, our success or non-success or participating and winning in auctions and the availability and the appetite of the domestic market. So I would say that any panorama that I would give you right now would not be very accurate because we still are analyzing all the existing scenarios regarding a possibility of sale. So I would say that the prognostic is like last year or slightly above perhaps.

**Q - Marcos Assumpcao {BIO 7474402 <GO>}**

Thank you very much, Marcelo. Ronald everybody, thank you very much.

## Operator

Our next question from Mr. Alex Hacking, Citibank. Alex? Mr. Alex Hacking, your channel is open. Mr. Alex Hacking, you have the floor. With no further questions, I would like to give the floor to Mr. Ronald Seckelmann for his final considerations.

## A - Ronald Seckelmann {BIO 3722329 <GO>}

I would like to thank everybody for their participation and the questions that allowed us to clarify specific matters about our operations regarding the first quarter and prospects for the upcoming months. Thank you very much until our next conference call for Usiminas.

## Operator

Usiminas conference call has come to an end. We would like to thank everybody for your participation, and have a very good afternoon.

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