

Y 2018 Earnings Call

Company Participants

- Alberto Akikazu Ono, Chief Financial Officer & Investor Relations Officer
- Carlos Rezzonico, Executive Director, Mineracao Usiminas
- Sergio Leite de Andrade, Chief Executive Officer
- Tulio Chipoletti, Industrial Vice-President Officer

Other Participants

- Antonio Heluany, Analyst
- Caio Ribeiro, Analyst
- Carlos de Alba, Analyst
- Gustavo Allevato, Analyst
- Leonardo Correa, Analyst
- Luiz Otavio, Analyst
- Marcos Assumpcao, Analyst
- Thiago Lofiego, Analyst
- Thiago Ojea, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for holding. Welcome to the Usiminas Conference Call with the results of the year and that of the fourth quarter of 2018. At this moment, participants are connected on listen-only mode and subsequently we will entertain a Q&A session where further instructions for participation will be given. (Operator Instructions) Please remember that this conference call is recorded. This presentation is followed by slide and is being simultaneously transmitted via Internet at www.usiminas.com/ri.

You can also obtain a copy of the Company's release. Participants who are listening in English may also post questions directly to the speakers. Before proceeding, we would like to clarify that forward-looking statements made during the conference call regarding the Company's business prospects as well as projection, operation and financial targets regarding the growth potential are based on the management's future expectation of the Company.

These expectations highly depend 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 Usiminas Executive Board, Mr. Sergio Leite, Chairman;

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Alberto Ono, VP of Finance and Investor Relations; Tulio Chipoletti, Chief Technology, and Takahiro Mori, Corporate Planning, VP; Kohei Kimura, Technology and Quality VP; Miguel Homes, Commercial VP; Carlos Rezzonico, Executive Director of Mineracao Usiminas, Ascanio Merrighi, Executive Director of Solucoes Usiminas; Heitor Takaki, Executive Director of Usiminas Mecanica; Bruno Paulino, General Manager of the Legal Department; Julio Arroyo, General Manager of Comptrollership, and Leonardo Karam, Investor Relations Manager.

Initially, Mr. Sergio Leite will make his initial remarks, then Mr. Alberto Ono will present the results for the year and the fourth quarter of 2018. Then all officers will be available to answer the questions ready. Now, I give the floor to Mr. Sergio Leite.

Sergio Leite de Andrade {BIO 6771322 <GO>}

Good afternoon to each one you. Thank you very much for participating in our conference call for the earnings results of the fourth quarter of 2018 and I address to highlight that 2018 represents for the Company the end of a cycle. A very important cycle in the history of the Company that was to revitalize the Company, we had 2.5 years as of the second semester of 2016 and these were very special periods. In 2016, our focus was to guarantee the survival of the company, we had very bad results during the first semester of 2016 and then we focused to re-assure the survival of the company. In 2017, we concentrated our energy in building our results and in 2018, our focus was the consolidation of our results that were reached in 2017. We ended this cycle presenting ever-growing results and EBITDA throughout 2016, '17, '18.

In 2018, in terms of EBITDA reported by the Company, we are presenting to the market a total that had been the best in the past 10 years of the history of Usiminas since 2009, and our operational EBITDA of 2018 is 16% above the one of 2017. We're also presenting currently the quarterly results, a bit weaker, but we won't mention this throughout our conference call. And we're embarking in 2019, very reassured with our country's prospects, prepared to face the challenges. Our focus currently is for the company to have a long-lasting result through sustainability, in the economic sphere, social sphere, environmental sphere. So, we revitalized our company and we are working strongly; today we're talking about 19 professionals in the five companies, of Usiminas, focusing on the sustainability and pursuing more and more to build the future and the present of Usiminas. We have an encouraged team, a prepared team to take these challenges within a positive scenario for the growth of the Brazilian economy.

Now I will give the floor to Alberto Ono, our VP of Finance that will comment on the results of the 2018 and the fourth quarter.

Alberto Akikazu Ono {BIO 20633628 <GO>}

Well, I thank all of you for participating in this conference call, let's go to slide number two. We start with our yearly results and then I'll show the results of the fourth quarter of 2018.

Bloomberg Transcript

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Now when we talk about the figures, and the results of 2018, steel unit sales, they grew 4%, 6% in the domestic market, the total of the year was 4.200 billion tons. Iron ore sales, here we have significant growth, 76%, mainly the increase of over threefold in sales is due to our exports. So as we have already mentioned, -- well, of course, we made the best about the recovery of prices and we have been improved results, we have consolidated adjusted EBITDA increased 23%. Now when we compare 2017 and 2018, there are events that are not recurring events and during the next slide, I will show this in detail. Anyhow, the margin was around 20% between two years and in 2018 with an EBITDA of almost BRL2.7 billion. Net profit had a significant increase, BRL829 million in 2018, a very important growth. This is more than double of what we had in 2017.

On next slide. Here, we're showing the evolution of our consolidated EBITDA of the past three years. As Sergio already mentioned since 2016, we have had significant recovery of our results. And here regarding the year 2018 of BRL2.7 billion, this year, we have BRL401 million in EBITDA. Here, we have to highlight and provided(ph) here, we have tax credits PIS/COFINS, expenses ICMS, something that is happening for some time. So we recognized BRL418 million in credits. Credits receivable from Eletrobras, the effect on the EBITDA is BRL186 million. Now when we see the EBITDAs of 2017 and '18 without these nonrecurring effects that you can see in the chart, therefore, we see that the EBITDA of 2018 is BRL2.3 billion. And what does this mean? This means that there was a growth of 50% against 2017 that was approximately \$2 billion.

Now when we go to our next slide, this is a summarized slide. Here, we have the results of our Steel Unit. We also have a significant growth of 2018 against 2017. Here, nonrecurring effects regarding Steel Unit, I will show you during our quarterly slides because this is where they are concentrated mostly.

Now our next slide. Here, we have the EBITDA of Mineracao Usiminas, BRL203 million, it's lower than 2017. This is due to the nonrecurring effects because of the Sudeste Porto. Here, if we would disregard this, we would have an increase of 41%.

Now when we go to our next slide here, we have Solucoes Usiminas. And we have a record EBITDA, the best EBITDA, BRL118 million. This is the highest EBITDA that we have had on a yearly basis. And at last, we have Usiminas Mecanica, where the EBITDA is still negative of BRL21 million, and this is a result of the situation of capital goods market that is still suffering because there has been a lack of investment. This is something that we had in 2018 and 2017.

Now when we see our quarterly results, the main indicators here, we have Steel Unit sales and volume. We had a drop of 7% vis-a-vis the third quarter. And in the case of the domestic market, there was a 9% drop. Iron ore sales, there was also a drop, especially when we see exports, but also this is a result of what we had in our Steel Unit. But we will talk about this later on.

Regarding the adjusted EBITDA, there was an increase of 18%, strongly driven by the nonrecurring effects that I will describe in the next slide. And our net profit of the quarter that was BRL401 million. In our next slide, we are showing you the nonrecurring effects

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that impacted the fourth quarter. Once again, we have the tax credits PIS/COFINS and amnesty of ICMS. These are the main effects, also credits receivable from Eletrobras.

Now when we go to our next slide, we will talk about our volumes in our Steel Unit. Although we have seen a drop of 9% in the domestic market, when we compare it to the third quarter, we have to remember that the third quarter of 2018 was impacted by the strike of the truck drivers. We received the impact on the second quarter, and there was a strong recovery during the third quarter. When we compare the volume of the fourth quarter of 2017 and 2018, they're equal. Here, we see the variation of the quarter. We have to remember that the past quarter received an accrued impact in volume because of the strike.

Now our next slide. Here we have the adjusted EBITDA and margin. And we can see the nonrecurring effects and here, we see the operational effects and results. Here, in addition to volume variation, there is an increase in the variable costs, especially in iron ore and coal that were very important during the fourth quarter. But also there was a drop of fixed costs because of a scheduled shutdown, especially in the Furnace 3 in Ipatinga. What we can see here is a normal seasonal effect of the market. The fourth quarter generally is weaker. And this was also part of our scheduled shutdown, fixed costs also of iron ore sales. Here, we have the drop from the third quarter to the fourth quarter of 2018 in steel sales. In iron ore sales, well, this is why we stopped the high furnace. This is why the domestic market -- the sales were also affected by MUSA. And also in exports, we also had a drop during the last quarter.

Now going to our next slide, the adjusted EBITDA in Mineracao Usiminas. Here, there is a nonrecurring effect during the fourth quarter of around BRL38 million that is a provision for non-recovery of ICMS. This is a nonrecurring effect, and we believe that this will not happen from hereon.

Our next slide, here, we have Solucoes Usiminas. And during the fourth quarter, it was impacted by low volume that is something seasonal. And there was increase of variable cost, the cost I believe that the average price increased a bit.

And Usiminas Mecanica. Here, you can see a negative EBITDA of around BRL22 million. Here, we also have the nonrecurring effects of tax credits PIS/COFINS that we also observed in Usiminas Mecanica. Now other financial indicators. Working capital, we believe that we had an almost 15% increase of working capital of BRL0.4 billion. This is BRL4 billion. This is due to the tax credit PIS/COFINS and IRPJ/CSLL, but we also had FX(ph) in our stocks, the financial cost prices, raw material and intermediary stocks and finished products. And as we can see on the next slide, by and large, the financial cost was offset by a reduction of 15% (inaudible), this is for finished products, products in progress and slab. And at the end of the year, we had an inventory that was very similar to that of the fourth quarter of 2017.

Here, thinking about our cash position and indebtedness. So our debt is stable, around BRL5.9 billion of gross debt. And our cash position also is around BRL5.7 billion. We would like to remind you, in our press release, that we expect to have an advanced amortization

during the first quarter of '20, BRL340 million of our debt, regarding our cash position. So we will have an advanced amortization. CapEx: during the last quarter, we had strong CapEx due to the scheduled shutdown, BRL240 million and BRL178 million in steel. And we ended the year with a CapEx very close to the guidance that we had given, that was around BRL460 million.

And here we bring our presentation to an end, and we are at your disposal to answer questions.

Questions And Answers

Operator

Ladies and gentlemen, we will initiate our Q&A session now. (Operator Instructions) Our first question from Thiago Ojea, Goldman Sachs.

Q - Thiago Ojea {BIO 17363756 <GO>}

Good afternoon to everyone. Thank you for answering my question. My first question is regarding volume. We saw that in 2018, the total volume of Usiminas grew 6%, and that of the market increased 11%, according to the IABr data. I believe there was a loss of market share here. Why did this happen? Any line of specific products could you elaborate on this? And what about prices? I imagine that now you have ended all the negotiations with the automobile industry, excluding the Japanese that will increase this. Afterwards, you know what the average number of negotiation is. If you believe that there is space to reassure or to increase the price in the short term.

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

Good afternoon. Regarding volume, there was an increase in sales. We're talking about 6%, and the market increased around 10%. And there's the part where we don't participate. In 2018, we imported some products for oil and gas projects, and Usiminas did not have capacity of production. So these products impacted the consumption but not in terms of sales volume. We received recovered products, and we have a long-term relationship with sectors, especially industrial and the automobile industry. We want to continue growing in the market and maintain our share in the Brazilian market, but perhaps there are things that we will prioritize.

And we have businesses that we want a long-term relationship that will give us more sustainability. Regarding the price, we have a new contract with the automobile industry, and there was a price increase of 75%. And we will have a negotiation with other companies, will take place next week. Now the parity. Today, we are observing a strong increase in iron ore, and this will impact the international prices, will result in the increase of local prices. And our parity target is in a range between 7% and 10% against the international price. So, yes, we do have wiggle space to increase, and this may take place next week.

Q - Thiago Ojea {BIO 17363756 <GO>}

Could I follow up? So you believe that the loss of volume was due to specific imports. Could you elaborate specifically in the fourth quarter, there was a drop of EG, electrogalvanized?

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

Yes. This was driven by exports and something very specific, and we are giving more attention to special industrial products.

Q - Thiago Ojea {BIO 17363756 <GO>}

Thank you.

Operator

Next question from Leonardo Correa of BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon to everyone. Thanks to everyone. Now my question regarding costs, perhaps this has been one of the variables of the quarter. We see copper increased over 7% per ton. Do you know why copper increased? And of the COGS. No, that your COGS, I'm sorry, now will be catching up, we have coal prices that are still high, and another slab of that now is around \$30. I would like to know about this balance and your prediction of COGS from here on. How will this take place during the first quarter and during 2019? What is your expectation regarding cost? And this would help us to understand the pressure that are antagonist pressures.

Now along these lines, I would like to understand if you could break out the economic situation of Cubatao now with hot coils and slabs and your strategy to improve the results of Cubatao. And two, generally, throughout the quarters, you help us to understand the prospects for the future in terms of results. So what do you think about the evolution in terms of volume, price and cost? How much carryover would we have for the first quarter vis-a-vis what type of costs do you expect for this first quarter? And just to verify what Thiago just mentioned, if I understood correctly, you're talking about an inflation in steel in the global market, and you would consider an increase in the domestic market. Or no? Or for the time, there is no space to increase the prices in the domestic market?

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

Leonardo, when we talk about costs, regarding our expectations for the first quarter, they are a reduction. This will depend on the evolution of iron ore during the first quarter. So within what we can see or in terms of inventory, we imagine something around 4% drop in our costs. As I already explained, we have the reduction of fixed costs. That was something important in the fourth quarter and, now during the first quarter, will no longer be significant. Now regarding Cubatao, it is a unit where we will always assess and we will match the cost of buying slabs vis-a-vis the price of the sale of the products.

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We have been able to do this in a normal and favorable way. And we believe that we will have a pace of 100,000, 120,000 tons and with a positive result for the Company. Now regarding our slabs, what I can tell you in advance is that with the purchase of slabs for this quarter already been made, we have already hired these volumes. So any variation in terms of slab prices will affect more the second quarter and even the third quarter than the volumes that we have scheduled for the first quarter. And this is why we are thinking about 4% of cost reduction vis-a-vis the fourth quarter.

Now prices, well, volume, we see a stable market. And the last forecast was a growth of approximately 6% in the total consumption of steel for 2019. Now regarding the price for the first quarter, after celebrating the contracts with the auto industry and other industries, the price that we see is 4%, 5% for the first quarter, and in the future, well, there is still space in the domestic market to readjust prices. This is because of what we're observing right now.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay. I would just like to confirm something. Today, you said that you see a premium between 7% and 10%. Today with the hot coils that is \$510 per ton at the exchange rate, what is the premium level that you see?

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

Last quarter, in the beginning, we were in the range that was established by us. With the new adjustment, now we can increase 5% or 10%. This is for new negotiations that will affect the second semester of 2019.

Operator

The next question, Thiago Lofiego, Bradesco BBI.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good afternoon. First question, regarding your CapEx, how many CapEx will you have in 2019? And if you can talk about if you're considering the decommissioning of one of your areas and how much this will cost. And what about the tax credits of -- the credits of Eletrobras and also the tax credits from PIS/COFINS?

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

Thiago, I'm going to try to answer your first and third question. Then our Director, Carlos Rezzonico, will talk about dams. Regarding CapEx, we do not have a figure because we're still analyzing this internally. So unfortunately, we don't have this figure. Of course, it will be higher than that of 2018, but we still don't have an accurate figure, but there is an expectation of growth.

Now regarding the credits from Eletrobras, the expectation is to be able to monetize this during 2019. What the date is, well, this will depend on the legal agreements, but our expectation is to resolve this during 2019. Regarding the tax credit of PIS/COFINS fiscal

credits, we are using already these credits. And we started doing this during the fourth quarter 2018, and we continue using this -- we will use this throughout 2019. The expectation here is to use these credits in 2.5 years. The normal pace, the monthly pace is BRL30 million on a monthly basis.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Regarding Eletrobras, is there any risk of maintaining this in your cash position? Will you have a discount in energy as far as we're concerned?

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

The collection system exists, so the execution is in cash. Now about our dam.

A - Carlos Rezzonico {BIO 20703029 <GO>}

Regarding our dams, we have two dams that are in conditions to be decommissioned. One of them is being analyzed. We've already done 20%. But we can say that is under the decommissioning process. Now the other dam or reservoir, we have a plan to decommission it, but we have to discuss this together with the agency based on the new resolutions that are expected for next month. So we have 180 days to define this new decommissioning plan. And we see no problems with the two reservoirs, and we will do whatever the authorities are requiring.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you very much.

Operator

Next question, Caio Ribeiro, Credit Suisse.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Good afternoon and thank you for taking my question. The first question is regarding MUSA. Could you tell us what are the agreements of the sale of this asset or if something has changed due to the tragedy in Brumadinho and will you have an expansion in galvanized products? Is this still something that you are considering? And when will you make a decision regarding this investment?

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

Now, the MUSA analysis is underway. Although the impact that the mining industry had from Brumadinho, we believe that this is an asset and this is a long-term perspective. So everything has already been considered, and the process continues as usual. Now regarding the new line of galvanized products, we have made progress in the study. The expectation, I don't know if during the first semester, but up to the third quarter of this year, I believe that we will have a clear decision. This will happen throughout the year, and during this year, we will make a final decision regarding this project that is already in the advanced stage of analysis.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Thank you very much.

Operator

Next question, Marcos Assumpcao, Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good morning. First question, regarding the mining business, is there a space of increasing the price of iron ore in the short term because this is at a high level right now? If this is possible, and when will you have an increase in capacity? Another question, if the investment of dry stacking, BRL140 million, is for what type of capacity. And after this investment, will you stop using reservoirs? When you were talking about cost reduction during the first quarter of 2019, if this is CPP per ton or it's COGS per ton now?

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

We will increase our production in 2019. It's in our plan. The budget has been presented to be approved during the month of February. Nevertheless, we were expecting a significant increase in our production. This increase of price will -- we cannot reduce time here, but we believe that we will have a good return from this increase of production. Now regarding the dry stacking, the investment is for a plant of dry residue deposits so we don't need to use reservoirs. Today, we have one active reservoir, that is the reservoir Samambaia that was built by Usiminas, it's a reservoir with high safety. And we will use it until the Compact Project. That is more or less in five years. Therefore, you asked about volumes. And as I was mentioning, they are being presented in our budget, and as of the month of March, we will be able to tell you what these volumes are. Now regarding the impact of the cost reductions of the first quarter, this is for COGS and CPP.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Now just to follow up in mining, how long would it take you to increase this capacity? Would it be quick? Or the increase of your capacity, just to verify and to see how this can affect the supply of iron ore in Brazil, the increase of capacity evolves throughout the year.

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

Yes. Samambaia plant is commissioned. We need a license for Leste Mine that we are not using because we don't have a license. Therefore, I would say that as of April, we would see an increase in volume.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Thank you very much. Just one last question. Alberto, if you could help me out, when you see the retrofit of the High Furnace 3 in Ipatinga, this will create a working capital to buy slabs or production of slabs. When can this impact Usiminas working capital?

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

Well, it will impact, but I believe it will be close to the year of the shutdown. That will be 2020. We're not going to accumulate a lot of slabs for a long period of time. It doesn't make sense. So the impact on working capital will be important during the year of the shutdown that we believe will be around 2021.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Thank you very much.

Operator

Next question, Gustavo Allevato, Santander Bank.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Good afternoon. I have three questions. The first one, we see a drop of production of cars this year, 10%. And if you see some sector in the short term that can demand from another sector that can offset the drop in the automobile industry. Now what about COGS? Is it concentrated in a customer? And what about the production of iron ore of 2019? What kind of range do you expect this year?

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

The auto industry had better production mainly in January and December due to exports to Argentina, and we have had the highest sales in January. And we calculate that the auto industry will grow better than the first quarter. But I believe that from here on, it will start growing until the end of the year. Now regarding PDD, it was a specific customer that went through legal, financial reorganization. So it was one customer of doubtful liquidation or provisions for doubtful account. Regarding volume, as I mentioned, the budget hasn't been approved yet, but we're presenting a plan to overtake the 8 million tons.

Operator

Next question Antonio Heluany, Bank of America.

Q - Antonio Heluany {BIO 20614129 <GO>}

Good afternoon. My first question is to Sergio regarding the export tariffs. I saw news talking about the meeting of Alberghi with Paulo Guedes and team. Could you give us an update of what this debate was like and what can we expect? And Alberto, the follow-up regarding cost, especially when we talk about slabs. The price of slabs has dropped since the third quarter in average. So according to the size of your inventory and the final price, will we have a drop when we consider \$430?

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

Antonio, regarding our meeting with Minister Paulo Guedes, our Board met with the Minister in the end of January in Brasilia. And here we discussed a number of points, and we set forth our view regarding the economy, the international business, Brazilian business. And we also spoke about better liberal positioning in terms of international

trade. We told him that we were in favor of liberalism in international trade relation, provided there's a balance in trade relationships. This balance does not exist in Brazil in its trade relationships with the main partners. And I would like to highlight China, that would be the main partner. Our conclusion here in this meeting was going toward more liberalism in international trade will be done gradually with the transformation industry and after the government corrects the asymmetries in terms of taxes and other asymmetries. The meeting was very positive.

Q - Antonio Heluany {BIO 20614129 <GO>}

Now regarding the cost of the slabs, you're right regarding the first quarter. The cost of the slabs were dropping, and this is included within our expectation of production cost and products sold. Now the second quarter, what can I say? It is difficult to state this because we are still going to contract, and then we can see that for example, the hot coil price is reacting and there is a difference in iron ore prices. This will also affect the steel. So right now, we cannot say that what we saw during the first quarter will happen during the second quarter.

Okay. Thank you very much.

Operator

Next question. Carlos de Alba, Morgan Stanley.

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

I'm going to speak for Tonio(ph) here. I have a question about iron ore production. You believe there is a problem in the drop of volume in the short term because of the tragedy in Brumadinho. Do you believe that MUSA will continue operating with no problems in the short term? Now in terms of mining, you have spoken to the government. Do you know if they will ask for a shutdown or they will, for example, assess a reservoir? So I would like to understand if you have spoken to the agencies and the government to know if you will have to shut down one of your reservoirs. And in terms of steel, I would like to know if you have a bottleneck. And where do you have this problem? If you could elaborate on this. And how can you increase your capacity to produce more volumes and to need high-quality galvanized products for the auto industry and for other products that are not of great added value but will give you a positive EBITDA. Now Sergio, could you mention specifically, how do you believe the government is going to deal with imports? Do you believe that this is a decision that will happen in the short term? Or do you believe that this will be analyzed in a longer period of time? Because I'm receiving these type of questions from the investors.

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

Carlos, now regarding your first question, MUSA hasn't been impacted by the events in Vale. So simply, what we see here, the issuance of licenses is slower not only for reservoirs but all types of licenses. So MUSA has not been impacted by these events. We have spoken with the community. We have reassured them. We have showed that our reservoirs are safe. And for the time being, they are feeling reassured. Now regarding the future of the reservoirs, I would like to remind you that we only have one reservoir that is

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a downstream reservoir, and we don't know what the new resolutions are going to be. We know that at the end of the month, the commission that was appointed to study the new foundation hasn't(ph) formed the new requirements and the new conditions for the issuance of licenses. For the time being, we are waiting for these new recommendations. Neither the Secretary of the Environment or any other agency from the state knows what the new requirements are going to be, but we believe that this will not impact our operation.

A - Tulio Chipoletti {BIO 1653607 <GO>}

This is Tulio speaking. If I understood correctly, you asked about our production capacity in finished goods and if we have a bottleneck in our production. When we talk about cold rolled steel and hot rolled steel, we have a high prediction. This is cold and hot rolled steel. So finished goods of cold rolled and hot rolled steels, we have available products. The HDG ADE works full capacity, about 1 million tons a year. And this is why we are under a study to install a third line for galvanized products. So we are not talking about increase of capacity that will substitute a new line. But we are working to increase, too, with the drop of bottlenecks from the galvanized line to increase production. But this does not resolve the problem of a new line for the future.

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

Carlos, now regarding the PEC reduction, that was one of the points that we spoke about to with our Minister. Here, we had a number of advisers from the ministry, and I would like to highlight two secretaries, Carlos Costa and Marcos Trojico (ph). And in this meeting through Aco Brasil, we initiated conversation with the structure of the Ministry of Economics, especially about this point. Now PEC, this includes MERCOSUR, it's a common external tariff. These negotiations of future values have to be conducted together with the government of Argentina mainly. Our expectation that is in the short term, there will be no drop in the PEC. That may take place in the middle long term. And the Minister's view is that this will be gradual, negotiable and after correcting asymmetries in international trade.

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

Thank you. I would like to clarify the production capacity. Why not sell more hot rolled steel or cold rolled steel? Why? Because your product isn't what the market is demanding or because you have fiercer competition in these two products? That would be cold rolled, hot rolled steel.

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

In 2018, there was a growth in the market. What we mentioned at the beginning of the call was that last year, we had imports of heavy plates that no Brazilian industry had the ability to deliver, and what we already mentioned before. But for our market, for this market, we see that there is capacity and we have competitiveness. And although the competition is strong, we have all the conditions to deal with the market.

Operator

Next question, Luiz Otavio, Meta Asset.

Q - Luiz Otavio {BIO 4885480 <GO>}

Good afternoon. Could you talk about the cost during the first quarter? I would like to understand in terms of sale, what are the volume sales? I would like to understand, the adjusted EBITDA, it includes the nonrecurring effects. Don't you believe that you should show this adjusted EBITDA without these recurring effects because this would be more in line with what other companies are doing.

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

Regarding sales, it's important to understand that 2018 started with a strong demand, and then this growth forecast started slowing down. The forecast for this year is a bit different. We will have a semester a bit slower in terms of growth and a more accelerated growth during the second semester of the year. And we still have a forecast of a 6% growth of the year. The first semester, we have a stable market vis-a-vis the first semester of last year. Now regarding your question, the adjusted EBITDA, we analyzed a number of situation. We tried to be -- we were close to our SEC requirements. The EBITDA, there are a number of concepts. So we chose one concept that is part of our earnings results announcement, and we followed the CVM criteria here.

Operator

Ladies and gentlemen, as we have no further questions, we bring our conference call to an end. Should you have any questions, the Investor Relations team is at your disposal. Thank you very much, and have a very good afternoon.

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