

Y 2019 Earnings Call

Company Participants

- Alberto Akikazu Ono, Chief Financial Officer, Vice President of Finance & Investor Relations and Member of Executive Board
- Julio Mendez Arroyo, Controller
- Miguel Angel Homes Camejo, Commercial Director, Vice President & Member of Executive Board
- Sergio Leite de Andrade, Chief Executive Officer & Member of Executive Board
- Unidentified Speaker

Other Participants

- Antonio Heluany
- Carlos De Alba
- Daniel Sasson
- Gustavo Allevato
- Leonardo Correa
- Marcio Farid
- Thiago Lofiego
- Thiago Ojea

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Usiminas conference call to discuss the full year and the fourth quarter of 2019. At this time all participants are in listen-only mode and later on we'll have the question and answer sessions when you will receive further instructions. (Operator Instructions) As a reminder, this conference is being recorded. I would like to mention that this conference call is being broadcast live on the company's Investor Relations website at www.usiminas.com/ri. The earnings release and a slide presentation are also available on that site for download. 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 made during the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking statement as a result of macroeconomic conditions, market risks and other factors.

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With us today are Usiminas' Executive Board, Mr.Sergio Leite, CEO; Mr.Alberto Ono, Finance and Investor Relations Vice President Officer; Mr.Túlio Chipoletti, Industrial Vice President Officer; Mr.Takahiro Mori, Corporate Planning Vice President; Mr.Kohei Kimura, Technology and Quality Vice President Officer; Mr.Miguel Homes, Commercial and Vice President Officer; Mr.Carlos Rezzonico Managing Director of Mineracao Usiminas; Mr.Ascanio Merrighi, Managing Director of Solucoes Usiminas; Mr.Heitor Takaki, Managing Director of Usiminas Mecanica; Bruno Paulino, Head of Legal Department; Mr.Julio Arroyo, Controller and Mr.Leonard Karam, head of IR.

First of all, Mr.Sergio Leite will make some initial comments followed by Mr.Alberto Ono, who will comment on the full year and the fourth quarter of 2019 results. After, the entire management will be available for questions and answers.

Mr.Sergio, you have the floor, sir.

Sergio Leite de Andrade {BIO 6771322 <GO>}

Good morning to all of you. Thank you for attending this results conference call for our fourth quarter of '19 at Usiminas. It is a pleasure to have you all here. We are beginning the year 2020 when we are receiving signals from the market which are positive in terms of the GDP, of civil construction, of employment rates.

We are beginning a year in which a scenario that was signaled to the market is positive. In 2019, the steel industry experienced an international scenario that was marked by a lot of protective measure in commercial relations and trade relations, an increase in -- or a decrease in steel where we had a compression of the margins at the international level last year. In Brazil, we experienced a growth scenario of the GDP, with a projection that was inferior to then that was projected in the beginning of last year and much lower than 2017 and 2018 according to what was announced by the Instituto Aco Brasil.

There was a drop in the steel consumption in -- by 3.7% in 2019. And the international factors, obviously, impact the steel business across the world. We at Usiminas have been working very hard, and we obtain Mineracao Usiminas results which was very positive for 2019. We had at Solucoes Usiminas, Usiminas Solutions, very -- record EBITDA for the year ever since we created the company. At Usiminas Mecanica, we had a difficult scenario, and we were impacted by this international scenario which compressed many -- much of our margins. There was an action that we carried out in debt management. We managed to renegotiate and roll the debt for a month. We were able to pay up every debt negotiated in 2016, in September, and to reposition ourselves in the market by launching bonds in July and debentures of BRL2 billion in October.

With this, at the end, we had total gross debt of BRL5.6 billion, a debt which, 6 years ago, was BRL6.9 billion. Our condition today is much more comfortable not only in terms of value, but cost of the debt as well. In terms of the deadline or the payment terms, we have four years to pay up, and we will pay debentures after October. So we have more or less four years, with no commitment of debt payment, which was a reduced scenario and very much improved. And to date, we published a material fact that our net revenue -- the

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expenses of BRL271 million was published. So that was very important for us to carry out our activities with much more focus on the generation of results. Also, in our material fact day, we disclosed our investments guidance for 2020.

And it's worth noting that in the very challenging years where we were recovering the company, we had a level of BRL220 million per year for investments, so '16 and '17. And in 2018, we increased investments twofold. We went to BRL460 million. Last year, 2019, we grew by 50% in terms of our investment levels, totaling BRL690 million. And now we have communicated to the market our guidance of BRL1 billion. And now going into 2020 with a more positive outlook, our commitment to the market with investors is to work very hard, the entire Usiminas team, in order to achieve results and, of course, face all the challenges that 2020 will also bring.

I thank you all for being here. I will now give the word to Alberto Ono so he can present results for 2019. Thank you.

Alberto Akikazu Ono {BIO 20633628 <GO>}

Good morning, everyone. I'm going to Slide 2. This is the steel sales in 2019. Our level was very stable compare to 2018, 4,000 -- 4.004 million tons. Domestic market, there was a slight increase, 1%, more or less.

And just as Sergio has said that Brazil faced a challenging scenario last year, the -- our domestic market shrunk. So I think it's very good result. Concerning iron ore sales, to your top right, we have a record volume per thousand tons, over 8.616 million, and also record rates, over 4.631 million in exports, which is also a record. And later on, I'll break this down for you. Concerning EBITDA, adjusted EBITDA, we are slightly below BRL2 million for the year, a 13% margin, and net profit, BRL377 million.

Going on to the next slide, you can see the evolution of the adjusted EBITDA margin since 2015, almost BRL200 million. Today, this year, actually, in 2019, we had a recurrence in the maths. Adding up the positives and the negative factors here in 2017, we had BRL115 million. This is a breakdown. The main non-recurring events are listed here on the slide. And in 2019, especially because of the fourth quarter, there was an acknowledgment of credits from Eletrobras, the BRL117 million. And the financial potential is BRL306 million according to what was shown in -- what are stated in the financial statements.

Concerning steel unit on Slide 4, as Sergio also had said, we had a year that the margins shrunk across the steel industry. We closed the year with a margin 10% lower than the previous year, with an EBITDA rate that was lower as well.

And then the main non-recurring effects are broken down to your right. We had some non-recurring in mining as well, which is what you can -- be seen in the next slide on Slide 5. In the Mining Unit, Mineracao Usiminas, the record volume for sales in the year in which prices international prices of iron ore were favored to the events we already know of. This made us attain an EBITDA of BRL680 million, a better result, the best one in -- of this unit since the unit was created.

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Going on to steel transformation, Solucoes Usiminas, BRL120 million in EBITDA. It's also the best historical result since the company began operating. Going on to our capital goods unit, which is Usiminas Mecanica, we are still suffering because of the lack of a return on investment, especially in terms of infrastructure in Brazil. This is a third year in a row in which we have a negative EBITDA. We were able to diminish the losses, but we are still suffering due to a lack of investments.

Now we have the results for the fourth quarter of '19. In terms of Steel Unit sales, in thousand tons, we are above 1 million tons. And here, with the reduction in the domestic market, which is natural for -- in terms of seasonality. 2019 was a year in which there was a more typical behavior of seasonality factor. It was a fourth quarter, which was lower in figures in -- compared to the previous quarter. As we see iron ore to your top right, this is also a record and also new record in terms of export volume, more than 1.707 million tons here. In terms of the adjusted EBITDA, BRL468 million, a margin of 12%, and we are very close to what we had in the third quarter. Concerning net profit, there was a different scenario from the loss to a positive result of BRL268 million.

Going on to the next slide, the opening of the extraordinary events that happened, they are non-recurring events in the fourth quarter -- are broken down to Eletrobras credits as we have already mentioned. And in terms of the mining, we also -- the main point was renegotiating our lease agreement with a positive impact.

Going on to the next slide, the steel unit, again, you can see the main point here in the -- an EBITDA of the quarter of BRL184 million. As we can notice, we are still suffering -- we have been suffering during the year because of this margin compression Sergio talked about and the acknowledgment of the Eletrobras credits also with the non-recurring events. In our mining unit, for results, Mineracao Usiminas, an EBITDA first of BRL209 million, a margin of 36%, which was favored by the record volume we have attained.

In terms of Solucoes Usiminas, the steel transformation unit, it's the third quarter in a row in which we had a result above BRL37 million -- BRL30 million, and there was an expressive improvement compared to the previous quarter. Now the Capital Goods Unit, Usiminas Mecanica, as you can see, the area has offered because of the lack of investments in infrastructure.

Going on to other financial indicators, concerning working capital, we had drop by 12%. And the main factor in the third quarter were that we had credits for Eletrobras that were launched as revenue at the end, and we received it in the fourth quarter. This influenced our working capital and now in the fourth quarter of '19 also these credits, BRL306 million of them, were accounted for as receivables in working capital. So taking that out, our working capital was stable in that period, around BRL4.2 billion. In terms of the Steel inventories, there was a drop in terms of volume and working capital. As you can see, our inventories are controlled.

And now our cash position and indebtedness levels, our cash is close to BRL2 billion, and our net debt, as Sergio has already mentioned, BRL3.2 billion in net debt. And during the fourth quarter, as we have paid off the remaining debt that was to be renegotiated in

2016 with the resources received from the Eletrobras credits, our gross debt level is just BRL5.1 billion. And this means that even if we have fourth quarter compared with the previous year year-on-year with a lower EBITDA, our leverage rate is stable.

Lastly, the evolution of CapEx, we had a pickup in the fourth quarter as you have -- already know. In the fourth quarter, we obtained BRL356 million. Totaling for the year, as you can see, BRL690 million. This is slightly lower than what we had expected in our forecast. Some points we still have to consider that our motives -- we had late delays, we had licensing problems, and they effected the development of our investment, especially in mining, and other more connected to delays in projects. But nothing too exceptional if you look at the entire normal operations for regular course of business.

This is the end of the PowerPoint and now we have a question-and-answer session.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Thiago Ojea from Goldman Sachs.

Q - Thiago Ojea {BIO 17363756 <GO>}

Thank you for the presentation. My first question in terms of Eletrobras, which you acknowledge BRL800 million. And now you have a decision which allows you to receive BRL300 million. When do you expect this cash to come in and how about the difference of credits and is there any other amount that you are expecting beside Eletrobras? In terms of the steel industry, we know that it had a more difficult quarter. How do you see this first quarter of 2020 in terms of demand? The recent price increase that you have announce, do you think this will be implemented and you'll be successful? Could you comment especially for the car industry automakers?

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

Thiago, this is Alberto here. Concerning Eletrobras credits, what we have acknowledged, both in 2018 and 2019, was the unquestionable part where we had a court decision which orders Eletrobras to pay us. In 2018, it was a part considering -- concerning the pressing [ph] plant, in 2019, the Cubatao plant.

In both cases, we only have the unquestionable part that was paid that the court ordered Eletrobras to pay us. We also have ongoing lawsuits in which Usiminas believes that the amounts that they own is higher, both Ipatinga and Cubatao. Indeed, we inform in our BS but they are not acknowledge in the final statement. The precise amounts, you can look at our statements and our Investor Relations, is one that is still being discussed, and in terms of this, we believe it's BRL1.1 billion. That is our interpretation. We are arguing for this, and this is not in the statement. In the statement today, we only have BRL306 million, which is

in the short-term working capital, and we expect this to be received during the course of this year.

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

This is Miguel. Concerning what Sergio said, the positive expectations for the Brazilian economy, in addition to other indicators such -- lower employment rates, lower interest rates and improvement in investments led us to believe everything in terms of demand. The growth for the steel in Brazil should be around 1.5% plus positive. In Usiminas, the goal is to carry on and to continue this -- to be able to meet this growth in demand. The increases that you have mentioned, the ones that were informed last year, they were implemented in the distribution sector. From now on, we have to monitor constantly the international indicators. When you look at the international indicators, both here in -- other products, you can see a positive trend for two, three months.

Obviously, with all the coronavirus situation that is a little bit different, but it's a little -- it's at another level -- at a higher level than the international level. Another thing is that the exchange rate has moved, fluctuated in the last two months. We have an exchange rate which is 10% undervalued, and various factors will impact in our pricing. And concerning your last question with agreements with automakers, we sign contracts with American and European automakers, and they were closed with a higher price -- with the price increase.

Q - Thiago Ojea {BIO 17363756 <GO>}

Miguel, could you tell us what was this price hike in this sector? And Miguel, according to your legal department, do you know when these lawsuits will be concluded?

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

The pricing, the agreement, because they are a year every -- they are yearly, they reflect what happened in the last 12 years and future expectations. With these variables on the table, we try to keep the level according to competitive prices obviously. But if we look at an exact price increased level -- our compliance norms in Usiminas were review, and I cannot tell you how much exactly we increase. Concerning lawsuits and dispute, it's very difficult to say. It should take a couple of years for us to have a conclusion. And it's very difficult to forecast, but it's what I can tell you. The undisputable amounts that are owed to Usiminas, we can see, is what happened in 2019. We acknowledged them in 2018, and in 2019, we receive the amount -- the payments. So we believe this will happen in the same period of time for the part of amounts that are also in dispute.

Operator

We now have a question from Daniel Sasson from Itau BBA.

Q - Daniel Sasson {BIO 19234542 <GO>}

Good morning, everyone. Thank you very much for the sessions. My first question is for Miguel, concerning pricing. Miguel, could you help us understand what happened in this drop by 5% in price for the domestic market and in the automaker industry, the pricing decrease in general for distributions? How could this -- help us understand how much we

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should be thinking of sequential increase in the first quarter compared to the fourth quarter, specially a improvement in the overall mix. Could you explain us the mix and pricing components? My second question is about mining, about the renegotiation of leasing agreements and third-party areas. Could you explain and shed more light what is recurring? Can we think that your cost will be falling BRL5 per ton, for example, in the future? Or BRL20 per ton in the semester, but you acknowledge this impact for the entire year? Is it reasonable to think of a fall or drop of BRL5 per ton in 2020 or this will not be recurring? Thank you.

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

Good morning. I think your question is very important because should have information to be able to try to analyze what future pricing will be. Of course, the mix impacted the average price. For you to have an idea, a novel product may be 20% to 50% in terms of variation. And this pricing level in a novel product and more commercial goods will impact the average price. So we observed the larger impact of the average price or the fall and the drop of those average pricing, explain by the mix of goods.

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

Good morning, Daniel. As you said, in the last quarter we had a impact because of the renegotiations of the leasing agreement, in which we had a cost reversion for the entire year 2019. For the future, what we can expect is we have to follow the historic cost because we do not have a strategic long-term definition. As our material has shown, it will depend on the use that we may have for the agreements that we are paying.

Q - Daniel Sasson {BIO 19234542 <GO>}

Thank you. Just one follow up, Miguel. 100% of the price drop has been priced by the mix. You did not have a drop in pricing in distribution. Is that it? I just want to try to understand this better.

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

Just to clarify, around 90% can be explain by a worse condition of the mix, yes.

Operator

Our next question comes from Mr.Leonardo Correa from BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Hello, everyone. Thank you, and good morning. My first point, for Eletrobras. Just to see if I understood this, what is -- what remains that will be may -- come a BRL300 million. That is the undisputed amount. You don't have a period for this, but you'll be receiving this in 2020. The BRL1.1 billion which is disputed in court can take a few years, is that it? Because I believe this was not 100% clear so I want to make sure I understand. And my next question is if I look for the next quarter, and I'm focusing on the first when I say this, in the past you help us to understand the evolution of the quarter, talking about an expectation

of price increase and an expectation of cost decrease. Could you help us understand this now? How much can the price or cost change per quarter?

My last question is according to the lines, focusing on galvanize and in the fixed rate, I think -- I know there are very different products, but what is the idleness, what is the idleness rate in electroplating or galvanized steel? I would like to confirm these figures with you.

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

Leonardo, concerning Eletrobras, your understanding is correct. So the undisputable rate - amount to BRL300 million, and it will be received during this year. The disputed amounts are still submitted to the court and depend on the justice system. The last information we had is that that's going to take a couple of years. In terms of cost expectations for the first quarter, the expectation is that we have a reduction.

Again as with a review of compliance norms, we cannot give you the precise number, but the trend is a downward one. Concerning pricing, as Alberto said, there is a trend for pricing and a trend for the level -- local level. And what happened in the last 60 days that will be affected is that we see a increase of between 8% to 12%. If you look at exchange rates, it's also a downward level. And we should look at a positive trend in the local market for the future.

A - Julio Mendez Arroyo

This is Julio. I'm going to talk about our full capacity of our plating units, both ag and HPC coverage. And therefore, in plated, we are occupying 100% of our capacity. In terms of the thicker plates, we have a lot of thick plates. In impaga [ph], for example, we could increase 400,000 tons in terms of capacity. That's what's available there, without mentioning that we have a sixth plate in (inaudible) in Cubatao that is under capacity. Therefore, we our operating 30% of our capacity that is not being used. We have a lot of availability at disposal.

Operator

Our next question comes from Mr.Thiago Lofiego from Bradesco BBI.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you. Miguel, if you could comment, after the price increase, I believe that this was, what, 10%. What is the discount that you have in terms of domestic steel and imported steel? And if you see a discount what -- is there room for an increase in March? And my next question is adding to what Leo said about thick plates. How do you see this new demand or this pickup in demand of thick plates? You have a more clearer outlook for 2020 or should we expect this to take place? And the last thing is my last question is how the issue of expansion and compact being developed. I know it's still far away, but I believe we should understand what is expectation concerning this asset.

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

Good morning, Thiago. Concerning parity, as you have said -- concerning the evolution of pricing and the drop in the exchange rates, we are operating at a negative rate because of this low -- and weakness of a real. And therefore, the 10% is healthy for the local domestic. And we should expect a positive trend in the future. In terms of the thick plates, this is impact by the level of activity of infrastructure and the naval industry. And another thing is that we have a higher level of exchange rate, which will affect the future demand. We do not have full data on this, but we also will depend on the projects of the local market. Yes, we can expect growth, where we can have specific increase in next 12 months.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Miguel, again, can I go back to your discount? According to my discount account here, considering January and midpoint, what I see here is at around 5%. This makes sense?

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

Yes. It does make sense, but it can even be a little bit higher.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay.

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

Thiago, good morning. Concerning the compact project, we are working to be on schedule. And for 2 to 3 months, we will have to analyze the alternatives and scenarios we are assessing. 2020 will be a year for us to design the final project, but we're still trying to close this and this has been asked by the partners or shareholders.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay, thank you very much everyone.

Operator

Our next question in English comes from Carlos De Alba from Morgan Stanley.

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

Yes, thank you very much. Good morning, everyone. Two question. My first one is if you can comment on the trends that you see for the steel cost in the coming quarters. We saw an increase quarter-on-quarter, and I just want to see how is it progressing into the first quarter of 2020 and maybe the second quarter, if you have any visibility.

And the second one, if I may, is related -- the automotive price negotiations. What can you tell us as to how those are progressing? And on a related topic, what is the expectations for the Argentina auto market that may have an influence in your business and clearly, the depress levels are still there. But do you see further declines in the auto sector in

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Argentina or do you see more of a stabilization, maybe perhaps a small increase from, clearly, very low levels?

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

Carlos, about your question, our cost trend for the following quarters, it's difficult to say due to the volatility rates that we are still experiencing. But in theory, for the first quarter, we see a reduction trend. The expectation is that there is a reduction in cost of production compared to the fourth quarter. But for the following quarters, it depends. We have seen volatility, which is very high, both in terms of the exchange rates and raw materials, specially iron ore. Iron ore, we have seen a significant drop in January. It's recovering in February, but this brings this to -- brings it to our attention to see how -- at what level this will stabilize. But the first quarter 2020, our expectation is that there is a drop.

A - Unidentified Speaker

The situation in Argentina is very complex. We had an economic scenario that was very complicated: renegotiating the debt that is happening now. So we could expect a first quarter worse than last year, or even, it could have a negative impact in the first quarter with a more positive trend in the second quarter. Of course, Argentina is important in our sales, but we are able to offset this drop in this sector, in the auto sector. And in general, we will be able to cope with it. In terms of the automakers, we closed agreements, as we said, and we expected to close other agreements with other automakers at the same level that we have used with American and European automakers.

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

Just if I may follow up, how are you offsetting the negative impact of Argentina? It's just because of the Brazilian auto sector is doing better than you expected --

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

In fact, we had a growth last year that was slightly lower than we expected in the first -- in the beginning of the year, and this was impacted by exports. The domestic Brazilian market is doing well. Last year, grew above expectations and this year, we believe that this will offset the drop in exports. So the automakers, in an entire chain, will be looking for other export alternatives to offset a drop in sales to Argentina.

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

Thank you.

Operator

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

Q - Antonio Heluany {BIO 20614129 <GO>}

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Good morning. And my first question, for Sergio. Sergio, could you comment that discussion on the import fee -- tariffs? And how do you understand the increase in galvanized steel? And how do you plan in terms of approval and also, if you have an idea on CapEx? For Alberto, I would like to know, in terms of other expenses, you have idleness, that this was close to BRL80 million per year. And now you will need a renegotiation in terms of mining, and this is related to Cubatao, so how much of this is recurring? What are figures we should expect for following quarter?

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

Antonio, concerning the import tariffs, this is a topic which is on our agenda as in the steel industry. We have been working and talking about this with the federal government through Aco Brasil. And this topic, there is a federal government commitment with us that as we go, if we have a more -- a higher liberalization of the economy than -- should be a solution of what exists in Brazil because of the, what we call cost of Brazil, costs.

This is a topic that has been being developed well, and we believe there will be a reduction in fees. This will come together with the fiscal reform, with the improvement of infrastructure, a reduction of cost. And it's an action that the government is working with in order to give the Brazilian industry more competitiveness, not only the steel industry, but all Brazilian industry, and to cancel distortions when you analyze trades relations across companies and countries. Concerning galvanized steel, we are still studying this. This is also on our agenda. We do not know yet when the decision making will take place. We are following the domestic market, what has taken place in the domestic market. We are looking into it, but we do not have a decision-making pipeline yet.

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

Concerning other expenses, there are 2 points I have to make. One is that, yes, you are right, a great deal of the issue here is related to the weakening of the assets that are stopped at Cubatao or are not been used, and some other assets are reduced. And this depreciation has been reduced because some of them had been depreciated. Another point you mentioned this a bit is connected to Musa because today, reminding what I have said -- is that you're retaking up activities in Musa, which is the Samambaia unit and this happen in the third quarter, and it operated in the fourth quarter at full capacity. It has prior assets which were inactive.

So we see that there are entries. There is a reduction in depreciation. There are some adjustments that have been made and you would be able to look at this better after the next quarter, which is the first quarter of 2020, to see the level of this line. There have been these movements, therefore, in the last quarter, and that is why these variations occur.

Q - Antonio Heluany {BIO 20614129 <GO>}

Okay. Thank you. Thank you very much, Sergio. Thanks, Alberto.

Operator

Our next question comes from Marcio Farid from JPMorgan.

Q - Marcio Farid {BIO 21017394 <GO>}

Good morning, everyone. Thank you for having me. I have two questions. The first one is for mining. You sold more than production in the last two quarters. How is your inventory rate? What can we expect in terms of production and sales? And another thing, for Sergio or Miguel, is you comment during the call that we have good conditions in place to improve demand, such as low interest rates and other more optimistic figures. So what do we need to have a better -- an outlook of demand higher than the 5% that was mentioned or is it more of the same or are we waiting for a pickup in the economic activities.

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

Good morning. Our inventories -- Musa had taken advantage of market actions that enabled us to sell inventory that we had for a number of years. Therefore, taking advantage of favorable market conditions, we try to sell the materials and therefore reducing our inventory significantly. To date, we are now trying to recover just a bit of this inventory because of operation conditions, but not significantly. Another thing, it was an opportunity, and this can be seen in the figures, where you can see the difference between sales and production. Concerning demand, there are factors that may have a higher impact than what we are forecasting today for Aco Brasil. There was a drop in 2019. This could present a better behavior for 2020.

The improvement in the sector generating more employment makes consumption pick up, and this could positively influence in the purchase of new cars of white lines products, which influenced in that consumption of steel. The agro industry is also important, together with the civil construction industry, because of capital goods. They were below the rates that were expected for last year. Therefore, both in this industry, agriculture could impact in the 2020 demand as Aco Brasil has forecast.

Operator

Our next question comes from Mr.Gustavo Allevato, Itau Asset.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Good morning, Alberto. I have a follow up on Electrobas. Just to clarify, the part that was not disputed that -- the undisputed part, may take a couple of years. I'd like to understand if you think that this amount can be anticipated with a discount for this year still.

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

Gustavo, well, these disputed amount that may take a few years to be solve in court. Of course, we will analyze every opportunity that takes place. If we need to monetize this or give a discount to receive, we may do it, but this is a issue that depends on the discount rates and the expectation of the assessment. Because even if we consider the amount, if it's BRL1.2 billion, this is still disputed. The court has to decide, so the assessment influence a lot in terms of the final amount that you could expect. Obviously, if we

consider opportunity that are interesting to us, we will definitely take them into consideration.

A - Unidentified Speaker

We are now closing the Usiminas conference call. If you have any questions, our IR team will be available. Thank you very much for taking part and good afternoon.

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