

Q2 2016 Earnings Call

Company Participants

- Ascanio Merrighi de Figueiredo Silva, Vice President, Commercial
- Cristina Morgan Cavalcanti Drumond, General Manager, Investor Relations
- Ronald Seckelmann, Chief Financial Officer and Vice-President, Investor Relations
- Sergio Leite, Vice-President, Commercial Area
- Tulio Chipoletti, Industrial Vice President Officer
- Unidentified Speaker

Other Participants

- Caio Ribeiro, Analyst
- Carlos de Alba, Analyst
- Felipe Hirai, Analyst
- Ivano Westin, Analyst
- Luis Azevedo, Analyst
- Marco Assumpcao, Analyst
- Rodolfo D'Angele, Analyst
- Thiago Augusto Ojea, Analyst
- Unidentified Participant

Presentation

Operator

Good morning ladies and gentlemen, thank you for standing by. Welcome to Usiminas Conference Call to discuss the Earnings Results of the Second Quarter of 2016. At this time, all participants are in a listen-only mode. Later on, we will conduct a Q&A session, where instructions will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded.

I would like to mention that the conference call is being broadcast live on the company's Investor Relations website, 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 made during this conference call with the respect to the company's business perspective as well as projections, operating and financial targets, regarding its growth potential are forecasts based on the management's expectation as to the future of Usiminas. These

expectations are highly dependent on the steel industry's performance, the country's economic situation and that of the international markets. Therefore, they are subject to changes.

With us today are Usiminas' Executive Board, Mr. Sergio Leite, CEO; Mr. Ronald Seckelmann; Finance and Investors Relations Vice President Officer; Ascanio Merrighi, Commercial Vice President Officer; Tulio Chipoletti, Industrial Vice President Officer; we have Takahiro Mori [ph]; Wilfred Bruijn, Managing Director of Mineracao Usiminas; Heitor Takaki, Managing Director of Usiminas Mecanica; and Cristina Morgan, Head of IR.

Mr. Sergio Leite will make some considerations, subsequently Mr. Seckelmann will present the results of the second quarter of 2016 and concluding with the management who will be available for questions-and-answer question.

I will give the floor to Mr. Sergio Leite now.

Sergio Leite {BIO 21904654 <GO>}

Good afternoon to everyone. Thank you very much for your participation in Usiminas conference call where we will talk about the earnings result of the second quarter. Before we start analyzing the results of the second quarter, I would like to make a number of statements regarding the company's movement regarding the challenges of the company and also the strategy that we have adopted in Usiminas in order to build the present and the future of Usiminas, so it becomes a sustainable enterprise in full, conditions to fulfill all of its commitments.

Our strategy is based on three pillars and it also has the basic concept and its fundamental concept undergoes through the following reflection and action. We at Usiminas, we never discuss crisis. The strategy, space that regardless of the crisis that we're undergoing this year. What is the -- our ability and how are we going to face all of these challenges, still actions that are at our reach in order to make this enterprise a sustainable enterprise. Based on this foundation, the three pillars that guide our strategy are basically number one pillar, that is teamwork. It is to have our team peer headed by a Board that is integrated, cohesive, that strongly works in team, making all the decisions of the company.

And within our Usiminas team that is totally energized and engaged, we have the participation of Brazilians, we have the participations of the experts of Nippon Steel, that are also employees of Usiminas and also the experts of Kami that are also Usiminas employees. So within Usiminas, we have an Usiminas team, that strongly works to make this company a sustainable company and to generate earnings and results.

Now the second pillar of our strategy is the pillar of the stakeholders. It is a pillar where we've -- and we are receiving support 100% from our stakeholders. I have talked to all of them and when I talk about stakeholders, I'm talking about our shareholders, I'm also talking about our customers. I'm also talking about our suppliers and I am talking about the financial market of each one of you that are participating in this call. I am talking also about

the press, I'm also talking about the communities where we operate. And I'm also talking about the government, three levels, municipal state and Federal.

To all of them, I have talked. Very recently, I was in (inaudible) I was recently in Tokyo as well. And within these meeting, I could trace three things. Number one, I thank for the support that Usiminas has received from all the stakeholders and I also carry out a presentation that is basically, all of our strategy of all our actions. And also number three, I request the support of each one of our stakeholders. I can reassure you that we have received support from 100% of our stakeholders, when it comes to making the Usiminas a sustainable company.

Now regarding our challenges basis, basically, we have two groups of challenges ahead. The first group would be the liquidity of the company, it will be our cash position. And the second group would be the groove where the challenges are to have good results, so the company become sustainable. Regarding the first set of challenges, basically regarding cash position and liquidity since the beginning of the year. And the company we have been working hardly -- hard in the last 60 days and we have very, two important actions. Number would be to increase the company's capital at BRL1 billion and the renegotiation of our the -- with Brazilian banks and Japanese banks.

Now regarding the first challenge, the increase of capital, we concluded it in the General Assembly carried out on the 19th, where we approved the increase of capital unanimously and we have to highlight here that the three main shareholders of the company, they increased capital at the maximum point according to the amount of shares that they have. This shows that we have the support of our main shareholders. So the actions are in course, we believe that Usiminas is a company with potential and has the ability of becoming a sustainable company.

Now the other set of actions would be the renegotiation of the debt, that is normal. Currently we are in final adjustments stage, we're preparing the documents and we will conclude successfully in the next six weeks. Now, the other block would be the block of the challenges of result generation to make this company a sustainable company. And that in the assessment of the Board, the most important challenges, and also the challenges that need more effort from the company. What we can state here is that from May 30th, we have been strongly working to face all of these challenges and establishing actions.

So therefore, we have created something that we call the Group of 10. The Group of 10 paying tribute of the samurais that most of you know from the history of Usiminas. This was a group created in the '50 that strongly marked the destination of Usiminas mainly during the main -- first 20 years of our history. These are professionals that represent all the areas of the company.

And there are two great challenges here. One to propose the Board actions to generate results. When I talk about generating results, I'm talking about EBITDA because we want the company to become sustainable. How this process works? This group is a group of people that knows in-depth the problem or the opportunities of Usiminas. These are

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professionals of the company, they have debated in-depth the problems and proposed action. These actions every week are taken to the Board meeting at 2 PM, every Monday, they are debated and I can state to you that up to this moment, all the proposals have been unanimously approved by the Board. Now once they are approved, they are put into action immediately under the leadership of all the -- one of the members of this group. Each action is led by one member coordinator, one member and the Group have decided to work in five fronts of actions.

Now the five fronts of actions would be something that we call Cubatao project. This is a consolidation project of the new business model of Cubatao, something that we implemented based on the decisions that we made to interrupt temporarily the primary area of Cubatao, this to use -- we are using instead of flat, we're using slabs (inaudible) iron ore. So the Cubatao is to make Cubatao operational, profitable within the new business model of Usiminas.

Now the second line would be Ipatinga. Ipatinga is a plant of high potential, it has already been referenced in Brazilian steel industry and it can improve the results and optimize them. So we have to target the optimization of the results of Ipatinga, the third line of action, that we're working with human resources.

So there are a number of projects that I would highlight today. The project regarding the management, restructuring of Usiminas work restructuring to the managerial structure of the company. We want to adapt it to the market that we have today.

Now the fourth line of action is supply. And here when we think about supply, we want to renegotiate all our contracts. We want to re-discuss all the processes that we have in terms of supply. So that, we're able to reduce cost and to optimize our process. And our fifth area would be revenue generation. Here we want to increase volumes and prices. We had already carried out during April and May, increases in distribution. As of June 1st, we implemented a distribution or something that we call the Third Wave of Increase, that was around 10%. We also deployed in June and July the increases in the industry and these increases will be reflected in an intense way during the third quarter. And also, we are working because we want to capture opportunities and also to increase the volume of our operations during the first and second quarter. We increased our sales 3.4% and also we will continue working along these lines. By and large, and in synthesis, this is the strategy of the company.

The commitment that all the Usiminas' team assumes with each one of you today is working commitment. It is our commitment that we will give the best of us to work in all of these actions to pursue new actions and I can reassure each one of you that we are doing everything, every hour, every day in an intensive fashion, the results that we will obtain from these actions. We will discuss them every three months in our conference call of -- on our earnings results calls we do.

And as you know, I have been participating in this call, I'm already an old-timer here and I've been participating in these calls from 15 years. So it will be an opportunity to assess the results every quarter, because this strategy -- this mobilization of people, this

mobilization of our stakeholders supporting us, I believe we will be able to achieve our results.

This is our commitment and once -- and again, I thank every one of you for your support. Usiminas needs and counts with your support in our efforts and yes, we will proceed and to do what we are going to do, that is to build the present and the future because without present, we don't have the future.

I will give the floor now to Ronald Seckelmann, Finance and Investors Relations Vice President Officer.

Ronald Seckelmann {BIO 3722329 <GO>}

Thank you very much, Sergio. Good afternoon to everyone. Now, I will make a number of comments regarding the operating and finance highlights of the second quarter of 2016, comparing it to the first quarter of this year and based on the slides that you will be able to follow through the Internet.

Now in the first slide, we compare steel sales, iron ore sales, one product and the other. As you can see, there is a slight drop in the steel sales, strong drop in iron ore sales. You will see that the drops are concentrated in the foreign market. Sales of our products in the domestic market maintain themselves stable. One quarter compared to the other, regarding the two major financial indicators; adjusted EBITDA and the net profit of the quarter. Both of them registered a slight improvement. The EBITDA result, 31% above what we registered in the first quarter and the net loss profit, there is 19% difference from the last quarter. Here we can see the geographic distribution of steel sales.

Here you can see the volume of sales in the domestic market increased a bit and the reduction of total sales is because of the reduction of exports. Here we have the evolutions of the adjusted EBITDA, in steel with the -- our sale of surplus electric energy, we have registered losses in sales of surplus electric energy, because our contract prices are above the prices in the stock market.

Now, we would like to highlight here as well the results. Here we have asset sales that were irrelevant in this quarter, but they represented BRL72 million compared to the last -- compares. Then here we can show you the results of these -- here we have without asset sale and energy and you can see a representative improvement in one quarter when we compare it to another.

In steel, here we have the sales volume as well of iron ore and here we can also see that the drop of exports, one quarter compared to the other was very strong. We have to remember that the first quarter of this year, we took advantage of some opportunity in terms of available material, in shipment terminals, something that was repeated during the second quarter.

Now here, we have the evolution of mining quarter-after-quarter. Here we have the negative effect of the sale of surplus of electric energy. That is less relevant than in steel.

And here we can see an operating improvement one quarter after the other. Here we have the adjusted EBITDA in our consolidated effect. Here we have -- here we have the non-operating factors like the sale of assets and here, with a negative result of the sale of surplus electric energy.

Now following here, we can show you the result without these effects and once again, we have a representation that clearly shows us the operating evolution that was positive and this was registered in the second quarter.

Now here, we have G&A expenses. This -- one of the accounts where we have strongly controlled and the results appear here as you can see, are obviously, it is more and more difficult to obtain gains when you have made great movements and you have reduced a lot, the amount of accounts. Working capital is under control and financial terms have dropped a bit more this quarter.

Now here, we also have working capital and here in physical volumes, we're talking about the inventory turnover that is dropping. Now we also have the evolution of our gross and net indebtedness, gross indebtedness after the effect of the appreciation of the real and the depreciation of the dollar. And the net indebtedness shows the effect of the drop of the graph there, but here, we have an increase of capital that was already in the cash of the company at the end of the first quarter.

Now CapEx. Here CapEx, very low CapEx during the semester, but we maintained the expectation of having a CapEx for the year above BRL300 million. And here the last slide summarize the what Sergio mentioned during his initial comments.

Therefore now, we are at your disposal for a Q&A session. Thank you very much to everyone.

Questions And Answers

Operator

Ladies and gentlemen, we will initiate our Q&A session. (Operator Instructions) Our first question comes from Luis Azevedo [ph], Bradesco BBI.

Q - Luis Azevedo {BIO 18959015 <GO>}

Thank you very much. Good afternoon to everyone. I have two questions. If you could talk about the domestic market, how you see the premium regarding imported steel and what kind of premium do you believe will be sustainable, so that imports don't go back to 2011-2012 levels? If you could talk about the domestic demand. What have you expect for the third quarter and the expectation for 2017? And my last question, if you could talk about (inaudible) just to give payments of the -- payments of dividends of (inaudible)?

A - Ascanio Merrighi de Figueiredo Silva

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Good afternoon, this is Ascanio speaking. Regarding the premium, our view is that the situation is under control. There is no reason for imports during the second quarter, not only because of the premium, because of the combination of volatility and exchange international prices and also because of demand, internal demand matters. What I would like to add to these points would be the anti-dumping measures that were recently implemented, together with our products in our market that affects our market and our product. Therefore, we do not see any reason for importing. Now regarding the demand, we expect as a demand slightly better than that of the second quarter.

Q - Luis Azevedo {BIO 18959015 <GO>}

Thank you very much. It's MUSA, I -- MUSA. So yes we were confused with what you said, so MUSA. It's MUSA, MUSA, he apologizes for.

A - Unidentified Speaker

So your question, what was your question actually?

Q - Luis Azevedo {BIO 18959015 <GO>}

When do you expect to have a cash position for Usiminas from MUSA?

A - Unidentified Speaker

Well, this is a matter that is being debated with our partners from MUSA. MUSA currently is in a situation and you can see according to the result, it is highly balanced, it adjusted itself in a very efficient way to the market reality. MUSA's cash position continues -- marginally increasing, but anyhow MUSA has a cash position that is higher than what is necessary in their company. So we talk about the alternative of reducing and paying out significant -- significant payouts for the shareholders of dividends. So I believe that in brief, we will have a novelty, we will have some kind of answers for the first semester of next year.

Q - Luis Azevedo {BIO 18959015 <GO>}

Okay. Thank you very much.

Operator

Our next question is Caio Ribeiro of BTG Pactual.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Good morning to everyone. My first question would be regarding recent news regarding anti-dumping in the station of hot rolled material that comes from China. If you could tell me what your expectations are regarding that? And also the increase of perhaps steel, how this was implemented in June? And if today you have some price pressure or the scenario is more stable? Thank you very much.

A - Unidentified Speaker

So regarding the anti-dumping processes opened last year that would be hot rolled and well, and plates, this process was opened 120 days and we want to -- in brief, we will give you some answers. And we will be able to establish provisional anti-dumping measures today together with the publishing of these facts. And we have a very positive view regarding this. Now regarding prices, I would see that -- I would say that we increased prices and the prospect is to reap the results of the increases throughout the third quarter and the second semester of this year.

Operator

Our next question, Rodolfo D'Angele, JP Morgan.

Q - Rodolfo D'Angele

Just two questions here. My first question, well, I believe that your strategy is very clear. Your capital, the restructuring of your debt and you have time to -- for the operating sites. There is a talk about the five pillars. And I would like to talk about the two main pillars. First pillar, that would be to recover and to improve the competitiveness of Cubatao and Ipatinga. Could you tell us what opportunities do you see in order to recover, perhaps just general figures, how much of space we have in terms of EBITDA per ton? What is the situation now? Could you give us a general idea regarding the potential and what kind of actions you will carry out to reach your target?

And my second question is, the industry is undergoing a complicated movement and now, I would like to know during the last month, how was the month of June when compared to the rest of the quarter? If profitability of the company has already started to improve? Is there something that you are feeling? Do you have the prospects for the future?

A - Tulio Chipoletti {BIO 1653607 <GO>}

Rodolfo, this is Tulio speaking. I'm going to answer -- try to answer your first question. When we talk about Ipatinga, Cubatao plan, mainly we're talking about the following. When we start using the primary for example, now our -- we were above volume of the market. So what we did was to adapt our structure in terms of people in contract to level our production, that was mentioned by us, that is around 120 million tons per month, cold and hot rolled.

And buying flat, of course we need or just associated to this, we're not buying slabs to stock, we're buying flat when there is an order. We also have the energy contract. So we also have the contract to maintain the plant to support contract. So we're talking about a number of actions that are there to reduce cost of Cubatao, plate so it becomes competitive. So this is the main idea.

Now, in the case of Ipatinga, this is a plant that has a structure efficient from the cost point of view, but we believe we can increase -- we can improve this. So the objective here is to improve performance to improve efficiency, better working productivity, tons produced per man hours and also contracts, that are also very important in a plant that has its primary area, working with two high furnaces. So our keyword there would be to make the production more efficient in Ipatinga and we want Ipatinga to be amongst the best in the

world in terms of benchmark. So here -- this would -- one thing would be to reduce industrial cost in all the industrial process, from flat to -- up to cold-rolled and hot-rolled.

Now regarding the month of June, before I answer your question, I'm going to make a comment regarding the upcoming months. Here, we have planning management system that internally we call, PVO, the planning of sales and operation. This gives us a visibility of the market for the upcoming four months.

And based and well -- based on what we have seen, what the planning and the sales team has seen and we have a view up to November. Number one, we can reassure you that the economies have stopped, dropping economy has stabilized itself. And we can also make a second statement that Ascanio mentioned that, there are already signals, very, very little signals of recovery, where we will be able to achieve better sales in the domestic market, when we compare it to the first semester.

Now, your question was highly focused on the third quarter regarding our situation. What I can state right now is that when we analyze the second quarter well, during June, we can say three things. Our first statement that out of the three months, was the best sales volume in the domestic market. The average price in June because of the increases was the best average price of the three months.

And my third statement is like a consequence of these two, that is in the case of the operating EBITDA, due to higher volumes and higher sales, we have a better monthly EBITDA out of these three months. I hope Mr. Rodolfo I was able to answer your question.

Q - Rodolfo D'Angele

Thank you very much.

Operator

Our next question Felipe Hirai, Bank of America Merrill Lynch.

Q - Felipe Hirai {BIO 15071781 <GO>}

Good afternoon. I would like to be more specific on something of price transfers. You said in July, you transferred the third increase of prices to the distribution. I would like to know how this increase of prices have been implemented and how this affects your industrial customer and the automobile industry?

My second question would be the renegotiation of the debt. I would like to know if there is what it is still missing. Do you have to make an agreement with Japanese banks or is it just what (inaudible) that is missing to bring that negotiation to an end? Thank you very much.

A - Unidentified Speaker

Felipe, although you asked me the question, I'm going to ask Ascanio to answer this question.

A - Ascanio Merrighi de Figueiredo Silva

Okay, this was another mistake of mine in the call. Okay Felipe, okay, what we -- repeating what we mentioned, yes, there have been -- we have increased prices with success both in the distribution and also we increased that with the industrial customers with which we have an agreement. This has already been deployed and we are reaping the results of this increase in product prices. And we believe that there are no risks in the increase of these prices, they will be sustainable.

Felipe, now regarding the renegotiation of our debt. In reality, there are always clauses that are being discussed. This is very normal and common when you are formatting the final documents. The commercial conditions have already been defined, they are not being changed between Brazilian banks and Japanese banks. There is a difference in terms of form and in terms of pace of negotiation, but this will not -- these were up to negotiation as a whole. Things are going according to what expected. So we believe that we will be able to achieve successful negotiation that will please all parties.

Operator

Our next question, Marco Assumpcao, Itau BBA.

Q - Marco Assumpcao

Good afternoon to everyone. First question will be regarding the steel market in Brazil. You were talking about the recovery of the market. If we have a stronger recovery than what we expect, what would be the first high furnace in Usiminas that would be resumed, that would start working again. And if you have a cost associated to the connection, the re-reconnection of this high furnace. Tulio said it was within that -- he said that he wants to bring Ipatinga as a benchmark of the world. So how many employees and how many outsourced employees do you have in Ipatinga? So we can see what's the cost of labor is in terms of capacity and what are you going to do in order to compare it other industries in the world?

A - Unidentified Speaker

Marcos, I'm going to try to answer two questions. When we talked about re-connecting the high furnaces, well this -- here, the domestic market has to recover itself in a robust fashion. We still haven't seen anything there, because we still have a lot of rolling capacity and we can buy slabs and we can work with both plants and both plants have a surplus of lamination capacity. We have a surplus of lamination capacity. So our focus today is not re-connecting the high furnace right now. Currently, we haven't made any decisions.

Now regarding this point, now your second question, the number of people that are working in Ipatinga. What is important to understand is, that is -- there is an international indicator. So we have an international indicator that is measured and it is comparable to any plant that is the amount of steel net per men hour. We are working with Nippon Steel,

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for example, we're making this comparison and we are using this indicator to find opportunities for improvement. This figure is just a reference that will depend a lot on the mix of products that we produce in that moment, and this is -- this analysis is just a starting point.

When we talk about labor, we have approximately 4,800 employees and like 5,000 outsourced employees. So we're talking almost about 10,000 employees in our entire plant. And we believe that the indicators could be improved, but as I said, this will depend a lot on the mix of material, cold-rolled, hot-rolled, here we have -- it's all going to depend heavy plate and this will -- and everything will depend on this to make our company a reference in the world, a benchmark in the world.

Q - Marco Assumpcao

Could you mention within the worldwide benchmark, how are you positioned and what are other fronts where Usiminas can gain more competitive?

A - Unidentified Speaker

Ipatinga isn't far from reaching our target, but we want to be -- we are being bold. So if we can achieve a worldwide benchmark, this would be excellent. I don't want to give you figures right now, because I don't want to cause confusion here, right now. This is valid for third-party contracts, when I talk about, you can have labor, your own labor or outsourced labor. So we are seeing everything in order to make our operation more efficient.

Q - Marco Assumpcao

Thank you very much.

Operator

Our next question in English, Carlos de Alba, Morgan Stanley.

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

Hello, good afternoon. First question is, if you could comment on the expectation for the steel volumes in the second half of the year. You said, you expect an improvement perhaps on a stable economy and perhaps it's live recovery. And if you could also break it down by how much you think Ipatinga will be selling versus Cubatao?

And then finally, the energy contract of the sales of excess energy have continued to weigh down your results, and I understand that you had a contract. But is there any possibility to get out of these contracts and if not, then, could you remind us when does this expire? Thank you.

A - Unidentified Speaker

Now regarding sales volume of the second quarter -- of the second semester, well, we expect a slight improvement in our figures of the domestic market. Regarding what we've

seen in the first semester, not very significant. This is according to the perspective of institute also Brazilian also with the improvement of the Brazilian economy.

Now regarding Cubatao and Ipatinga, we don't sell products per plant. We -- okay, we sell to our customers and it really doesn't matter what the origin of the product is.

A - Tulio Chipoletti {BIO 1653607 <GO>}

Carlos, this is Tulio. You asked about the contracts, the energy contracts that we have for both plants. And if there is a possibility of renegotiating one of these contracts. Well, Usiminas has long-term contracts, buying energy with (inaudible) and these energy contracts are contracts, these long-term contracts are very difficult to review these contracts or to -- to lower them, to diminish them because the energy generators also have their contract with the national agency and other customers. So it is very difficult to renegotiate these contracts.

Anyhow, we always try to carry out some type of negotiation, trying to find an opportunity. But currently, we believe that there is no solid opportunity to drop the surplus of energy, that we on a monthly basis are forced to sell in the spot market. And this is something that generates the difference in prices. Now the contract -- contract for more than 10 years. So it is very difficult to renegotiate them. What we are trying to do is find a waiver for a short period of time, but if you ask me, what the likelihood is between high, medium, low, I would say, it would be low to be able to achieve this type of waiver.

Now regarding the contracts that mature in 2019. Yeah, there is a possibility of review these contracts and the target would be to reduce 80 gigawatts if this is, well regarding what we expect to consume in the upcoming years.

Operator

Our next question, Ivano Westin, Credit Suisse. Mr. Ivano?

Q - Ivano Westin {BIO 17552393 <GO>}

Well, good afternoon to everyone. Thank you very much for your questions. For now the debt renegotiation, I would like to know if you could tell us what the estimated cost is of the debt at the end of the negotiation and then your CapEx as well in this quarter was 50 million, be very low what you informed us, that was 350 million. I would like to know what level of CapEx you expect for the second semester this year and for next year?

A - Unidentified Speaker

Ivano, good morning, good afternoon. Actually now regarding the cost of our debt, it has already been negotiated, but we still cannot make this data public, okay? Now regarding our CapEx, as I mentioned in my initial remarks, although it has been very low in the semester, 220 million, we confirm our guidance for the year, that would be something above BRL300 million, okay?

Q - Ivano Westin {BIO 17552393 <GO>}

It's clear. And for next year?

A - Unidentified Speaker

Well, next year would be around BRL315 million.

Q - Ivano Westin {BIO 17552393 <GO>}

So, thank you very much.

A - Unidentified Speaker

It would be at more or less the same level.

Operator

Now next question, Thiago Ojea, Citibank.

Q - Thiago Augusto Ojea {BIO 17363756 <GO>}

Good afternoon. Thank you. I would like to ask Tulio, expenses with Cubatao furnace disconnection. If -- what level of expenses will we have with the disconnection of the service -- of the furnace? There has been a gain of working capital in the quarter, if we will have additional gain in working capital during the upcoming quarter or in 2017? Thank you very much.

A - Cristina Morgan Cavalcanti Drumond

This is Cristina. Regarding the expenses, temporary equipment shutdown, what we're doing now is we have reclassified, since the equipment that were idle in the past, they were registered as cost in our accounting book and last year when we temporarily shut down some equipment in Cubatao, we believe that we have displayed the figures from cost to expenses, and we don't expect any additional run-off, because what we want to do is to follow-up clearly what to expect -- what.

Now regarding the working capital, our working capital is totally adjusted to our level of current activities, in terms of financial accounts, accounts receivable, accounts payable and also in terms inventories. When we see the inventory turnover, you can see it's very, very fair. From here on the -- we will not have a great drop in working capital. If we improve our operation, we will have increased the working capital, but highly controllable. If I could add another point regarding the expenses, I would like to highlight that this total number contemplates a depreciation, 90% of the figures that we report are regarding depreciation.

Q - Thiago Augusto Ojea {BIO 17363756 <GO>}

Thank you very much.

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Bloomberg Transcript

Operator

(Operator Instructions) Our next question now Rodolfo D'Angele, JP Morgan.

Q - Rodolfo D'Angele

I would like to talk about the operational side and I would like to know more about the profitability without the non-recurring effects. You know and EBITDA per ton for your -- world machines [ph].

A - Unidentified Speaker

We throughout the first quarter, we re-adapted the Cubatao plant. We imagined that during the second quarter, the effects of the -- non-recurring effect costs would reduce a lot. But we still are not operating the Cubatao plant at the minimum. Something that we consider adequate there would be a 100,000, 120,000 tons of laminated -- laminated of flat that are bought. So this is the level that is minimum to achieve the sustainability in this one. As we haven't reached this point, I will not be able to present specific figures regarding this.

Q - Rodolfo D'Angele

Now, a follow-up here. During the second quarter, what was your EBITDA margin, because there is room for -- there is still room for improvement. Was it positive, was it negative, to see -- just to know what we can expect in the upcoming quarters.

A - Unidentified Speaker

We have not announced EBITDA margins per plant. Internally when we sell, we don't sell per plant, we sell and then we see what is the best way of servicing the customers. We also don't like to calculate the results per plant, we follow up cost, the performance of each one of the plants, but we do not intend to announce profitable index -- profit index per plant.

Q - Rodolfo D'Angele

Okay, thank you very much.

Operator

Our next question, (inaudible).

Q - Unidentified Participant

Good afternoon. My question is, after the restructuring process, what is the company's view for the future?

A - Unidentified Speaker

Andrew, the bonus of 2016 were -- bonds were liquidated, we -- they matured in June, they were cancelled, we bought them. Well, we have to remind, we have eurobond

balance that mature in 2018. We will deal with this after we renegotiate with our financial creditors and we will try to see the balance of \$180 million of eurobonds that mature in 2018.

Q - Unidentified Participant

The idea -- is the idea to buy. What is your idea actually?

A - Unidentified Speaker

We still are not going to announce our strategy.

Operator

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

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