

## Q4 2015 Earnings Call

### Company Participants

- Ronald Seckelmann
- Rômelo Erwin de Souza
- Sérgio Leite de Andrade
- Unverified Participant

### Other Participants

- Carlos F. De Alba
- Gabriela Cortez
- Humberto Meireles
- Ivano Westin
- Leonardo Correa
- Leonardo Shinohara
- Marcos Assumpção
- Rodolfo de Angele
- Thiago Lofiego

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, ladies and gentlemen. Thank you so much for standing by. Welcome to the Usiminas' Conference Call to discuss the fourth quarter of 2015 results. This is the Usiminas Conference. At this time, all participants are in listen-only mode. Later on, we will conduct a question-and-answer session and instructions will be given at that time. 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/IR](http://www.usiminas.com/IR). The earnings release and the slide presentation are also available on the site. Participants, while listening to the conference in English, may also ask questions directly to the speakers.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities and Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors. Now, all the expectations depend on the steel factor in the country, economic situation and things are subject to changes.

With us today are Usiminas' Executive Board, Mr. Rômél Erwin, CEO and Technology and Quality Vice President Officer; Mr. Ronald Seckelmann, Finance and Investor Relations , Vice President Officer and Subsidiaries Vice President Officer; Mr. Sergio Leite, Commercial, Vice President Officer; Mr. Tulio Chipoletti, Industrial Vice President Officer; Mr. Nobuhiko Takamatsu, Corporate Planning Vice President Officer; Mr. Wilfred Brujin, Managing director of Mineração Usiminas; Mr. Heitor Takaki, Managing Director of Usiminas Mecanica; and Mrs. Cristina Morgan, Head of IR.

First, Mr. Ronald Seckelmann will comment on the fourth quarter of 2015 results followed by Mr. Erwin with some additional considerations and concluding with the management who we will be available for a question-and-answer session.

Mr. Seckelmann has the floor now.

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

Good morning to everyone. Ladies and gentlemen, this is Ronald speaking right now. Good afternoon to everyone. So, we are gathered today to present the results of Usiminas regarding the fourth quarter of 2015 and also regarding the yearly results. I request special attention to all for these figures that will be mentioned, so that you can clearly understand that the course of our business, please don't be only taken by the final close (3:17) figure.

During the presentation of our earnings results regarding the third quarter of 2015, we announced a temporary shutdown of the primary areas of the plants of Cubatão area. Our main measure is to revert these results. And we stated during those days that the shutdown would be done up to January 31 of 2016 this year. Now, due to the preparation and procedures in order to shut down safely and this is what we've done.

Now the focus of (04:02) actions made by career professionals, people from the market, from the technical group is within the strategic planning program of our company in 2016 presented in the report of our earnings result on page 12.

Now regarding all the speculations, many times with intentions of damaging our country in the difficult economic situation that we're undergoing, Usiminas (04:38) is still focused on its commitment and with transparency, and we're working with a lot of transparency.

Now, I would like to give the floor to Rômél so he can make comments on the slides regarding our results. Thank you very much.

### **Rômél Erwin de Souza**

Well, thank you very much, Rômél. Well, good afternoon to everyone. Now, I am going to make some comments based on the slides that you will be able to see through the Internet through our webcast.

Now, here we have a summary on the first slide, some operating and financial indicators of the fourth quarter vis-à-vis the third quarter last year. Now, the growth of steel fell in the quarter seasonally that was very weak with a drop in the sales of iron ore as it was expected. A significant deterioration in our adjusted EBITDA and we will see this in the explanation. And also, a deterioration in our net profit. There was - we have greater net profit vis-à-vis the last quarter.

Let's try to understand how everything happened.

Now, on page 3, we can see the same results in terms of year. We have a drop in iron ore sales 11% (sic) [33%] (6:04), steel 33% (sic) [11%] (6:05). This shows how the company is adapting to a market that has shrunk. Throughout this year, we have shrunk in 20 - flat steel was greater than what we see in sales here.

Iron ore as everybody knows, we had a very strong drop in price and is reducing our possibilities but export adjusted, EBITDA dropping strongly. We are also - have profit with losses as well. And as I said, we are going to try to understand subsequently the reason why this has taken place.

Now when we go to slide number 4, here we can see sales volume of steel (06:57) quarter-after-quarter, year - comparison to year and with a market mix. When we see the year, we realize that not only the volume dropped because the domestic market shrunk but also the mix has also deteriorated. We graded our share in export to avoid the pressure of export to continue. This is why we decided, number one, to reduce the rhythm of the high furnaces and then we stopped two high furnaces, one in Cubatão and Ipatinga, and we shut down the production of (07:36) Cubatão. The main objective of this action is exactly to withdraw the pressure so we don't have to export as the domestic market shrinks.

Now, when we go to page number 5, here we can start to see better the evolution of the adjusted EBITDA of steel, quarter compared to quarter, could be year compared to year. And here we can see the importance of the extraordinary effects especially on the fourth quarter of 2015, but also relevant effects that took place throughout the year.

Now, our next slide, that is number 6, will break out this comparison. So starting from our result in steel adjusted EBITDA of negative BRL 82 million in the third quarter of 2015. Here we had a higher operational result recurring of all the actions that have been taking place of BRL 49 million. Now, still insufficient is to make the EBITDA positive but our level is very close to the breakeven point. So in normal conditions, we would report during the fourth quarter an EBITDA in steel of negative BRL 33 million.

Nevertheless, when we also accounted a provision in order to shut down the primary areas in Cubatão, this would be restructuring BRL 94 million, and we also accounted this as a result of the asset sale and write-off assets in the value of BRL 52 million. And this also leads us to an adjusted EBITDA in steel that we are reporting in the fourth quarter of BRL 179 million. It is important to understand here what operational improvements we are looking for after these actions, and what were the nonrecurring results that are results of

actions that have been taking place in order to give balance to the company at the long term.

Now, here, the other page shows that exactly the main type of comparison throughout the year. Here, we can see it's a bit more extensive and more complicated. Let's try to understand the slide. Number one, we have an EBITDA from steel of 2014 BRL 1.5 billion and we excluded some effects not directly connected to the operation, like we excluded the sale of surplus electric energy that was very significant, also we excluded assets sale and write-off, and we had BRL 1.2 billion, which really represents the operational result.

Now, this we compare to the EBITDA of 2015 before the extraordinary effects of BRL 380 million, which shows us the size of the impact that we received from the steel operations due to the drop of price, drop of volume in the domestic market and another type of mix.

Now, as the EBITDA before (10:57) extraordinary effects here, we also added surplus electric energy that was very insignificant, and here we can see the results. The results here we have as a result of our restructuring, and here we have the result of the assets sale/write-off. So, we have an adjusted EBITDA of 2015 in steel of BRL 282 million.

Now, when we go to page number eight, the same volume comparison in terms of iron ore sales in the quarter ended year. But, I will go now straight to page number nine, which shows us the EBITDA results, the adjusted EBITDA in mining during the quarter and in the year. Now when we see the quarter, we can clearly see the size of the impact of the extraordinary effects in mining. Essentially, the accounting of the value that is a result of the suspension of the contract of iron ore transportation that we have with MRS, the suspension of this contract with MRS to transport iron ore, here we had to negotiate with MRS. We had to settle them because of the investments they had made in order to deal with this contract.

Now, this investment settlement will be carried out throughout 10 years as of January 2017, through the payment of yearly installments of BRL 31.5 million during 10 years adding up to BRL 315 million throughout the period that will go up to 2026. This value represents BRL 162 million and this was accounted in December last year and is being represented as an extraordinary effect in mining. Without this, mining would have registered during the quarter and it just had EBITDA that would be positive of BRL 61 million vis-à-vis BRL 24 million negative the past quarter. Now, the same comparison is also done throughout the year, the EBITDA of the year before the extraordinary effects, BRL 50 million vis-à-vis BRL 277 million in 2014.

Now, when we go to the next page, we can see this in a different way. Here, we can see the adjusted EBITDA. We can see the improvement here was of BRL 84 million higher operational results with BRL 61 million before extraordinary effects. Now, after the extraordinary effects, BRL 102 million negative.

Here on page 11, we can see the same evolution in a yearly basis. We see the results of 2014. We exclude the sale of surplus electric energy, we received BRL 200 million and we ended with BRL 221 million. We compare it with BRL 50 million, that would be the result of

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this year before extraordinary effects and we see the impact due to the drop of prices and volume of BRL 61 million (14:21) throughout this year. We go to surplus electric energy, that was BRL 24 million, the impact of the shutdown of the suspension of transportation contract, BRL 163 million, and our adjusted EBITDA of mining in 2015, that is negative BRL 89 million.

Now, finally on page 12, we have a consolidated results of the company also in the third quarter. We reported an adjusted EBITDA that was negative of BRL 250 million. When we exclude extraordinary effects, it would have been a positive EBITDA of BRL 257 million. On the right-hand side, we see the same effects on a yearly basis.

But, when we proceed on page number 13, here, this shows us in a different way broken out. And here, we can see adjusted EBITDA in the third quarter of BRL 65 million. Here, we exclude the assets sale and write-off of the third quarter. We have a quarter of the third (15:29) without recurring effects of BRL 54 million negative. They compared to the EBITDA before the extraordinary effects of the fourth quarter of BRL 57 million positive, which shows us a better operational result (15:48) of BRL 111 million quarter compared to quarter. Now, we also include the effect of business restructuring Cubatão (16:00) and also the result of the asset sale and write-off. And here, we have the adjusted EBITDA, that is negative BRL 250 million as consolidated adjusted EBITDA, but I would like to clarify how relevant the non-recurring effects had been.

Now, here on page 14, the same thing. Here, we have the - we excluded what is not recurring in order to compare operation per operator. We see an impact of BRL 900 million that comes from steel and also from mining, and basically, it's better price, better volume.

Now, on 15, we see another focus of the management effort that is to drop general expenses, so we're maintaining and gaining more space within the G&A. Now, the most adequate comparison is throughout the year. And although the inflation effects, we reduced over BRL 60 million, almost 12% from one year to another in expenses.

Now, on page 16, here we can see the net income of the company quarter compared to quarter, year-after-year. And here, it's very clear the size of the impact that the non-recurring effects have had. We would not have a negative net income during the year and the quarter, but without the non-recurring effects that we just described, these negative results BRL 331 million and BRL 1.7 billion in the year. These would be easily explained by the exchange rate. Throughout the year we would like to remember that the dollar appreciated 47% in 2015.

Now, on page 17, we can see another focus of the management's effort to maintain our - also our - regarding our stock and working capital. Here, we had a working capital with a slight reduction regarding the end of last year, and our stocks had been dropping, adapting themselves to the rhythm of the domestic market mainly.

Now, here we have a consolidated indebtedness, and I would like to show you that although the strong devaluation of our currency, our indebtedness did not increase

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significantly at the end of 2015, compared to the end of 2014. If increased, we have the relevant part of our debt in dollar. Nevertheless throughout the last year, we have been very consistent in changing the profile of currency views in our debt. Therefore, our debt in 2015 hasn't increased as it could have increased 50%, if we would have our debts in dollars.

So, at last, another effort from our management, that is the reduction of our CapEx. In periods of difficulty we're reducing our CapEx and what is minimum necessary from BRL 1.124 billion to a bit less BRL 812 million in 2015. And we're going to reduce even more in 2016, so these are my comments. I was a bit more lengthy than during our normal calls, but I believe it is necessary to make these explanations. So, now, we're at your disposal in order to answer questions.

## Q&A

### Operator

Ladies and gentlemen, we will now begin our Q&A session. This conference call is for investors and analysts. Questions from our journalists, please be forward to our press department through 31-3499 (20:19) or the following e-mail, imprensa@usiminas.com. Our first question comes from Thiago Lofiego, Bank of America.

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

Good morning to everyone. I have two questions. My first question is an increase of shutdown isn't approved. What alternatives do you have to stabilize the capital structure and to pay things according to (20:49)? In your understanding, what about, if you could tell how us how - what debts are finished now? Now, for example, market, I would like to talk about the domestic demand premiums, if there is a potential for any adjustment in prices or, for example, level of premium doesn't allow us to adjust prices at this moment?

### A - Operator

Thiago, no. Thank you very much for your question. No. Before I answer, if there will be an increase in capital here, I would like to remind you I already spoke about our efforts in the operational area. I would like to remind you that there are other management areas that would be the sales of assets that we recognize that their liquidity is lower and therefore their realization expectation is that a long term, but we are working on this. Now, we also talk with our creditors. We constantly - this had been taking place since last year, since the middle of last year. We are constantly talking with our creditors, and we have a long and very healthy relationship with them.

And also now, regarding also capital, we have maintained constant with our shareholders and with the board. I would like to take advantage of this question to try to clarify and also to try to show you very clean version of what happened in the board meeting yesterday. This would be to demystify everything that you can see in the press. In the press today, we saw a mismatch of information and a confusion of information regarding what took place yesterday in the board. Well, I'll go straight to the point now. Yes, there is a concept

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within our board regarding the need to inject cash to our company. This is very important and everybody has to understand this.

What was requested yesterday during the board meeting that wasn't approved, but wasn't rejected as well, the proposal of increase of capital, wherein number of additional points that should be taken back to the board in a very short period of time. This additional explanation is regarding the alternative of cash injection to the company that could be done through the increase of capital. It could be also done through, for example, loan from mother companies or intercompany loans. So, the management has to bring the best combination of all of these alternatives.

And the company was also requested to bring an assessment, the most accurate possible regarding the size of this cash injection, that is necessary for company. So, everything in a relatively short period of time, and the board currently is scheduling a new meeting for the beginning of March. We still have not defined the date, but we believe that within the first 15 days, we will have a new board meeting in order to resume the analysis and the debate regarding this point. So, basically...

I would like to interrupt you. Along this line, there is a possibility of an exception (24:43) MUSA. After we had two internal of over BRL 2 billion, this would be one point - MUSA, the net profit reserves where they can distribute dividend. MUSA alternatives are two, one, would be mutual intercompany or capital reduction.

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

Okay. Thank you.

**A - Operator**

I hope I was able to clarify not only your question, but I thought I was able to clarify the question of others. Now, I would like to hand it over to Sérgio that will talk about the market.

**A - Sérgio Leite de Andrade**

Okay, Thiago. Good afternoon. Now, regarding the Brazilian steel market, flat steel, we are undergoing an economic and political scenario of great difficulty. Yesterday, the OECD is expecting in 2016 a drop on our GDP of 4%. Now, this directly impacts the industry and also impacts the Brazilian market of flat steel. Now, regarding the demand that we expect for 2016, Brazilian steel in the beginning expects a drop of 5% in the demand with the buyers that can be even higher than that.

So, the business scenario, the market scenario, and the demand scenario I would say that is a concerning scenario for Brazil. The first is statistics (26:23) of the sectors that consume steel are emerging. We've just seen the announcement, the sales of - the drop of 32% in comparison to December and a drop of 39% in comparison to January last year. We're talking about significant figures that concern everybody. So, I believe that this is the demand scenario.

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Now, regarding the pricing premium scenario, what we can state here that the premiums are varying between 3% to 8%, which shows us the price stabilization in the market, stableness because the international price has stabled itself. We also expect to have a certain increase, but the current scenario is of price stability. So, it will be a more balanced scenario in terms of prices. So, you will continue selling to the Northeast or this was just something very specific to the fourth quarter. Now, we will continue, we should continue, something that we expect. Okay. Thank you very much.

## Operator

Next question from Marcos Assumpção, Itaú BBA.

## Q - Marcos Assumpção

Good morning to everyone. My first question would be regarding steel. Now, after the shutdown of slabs in Cubatão, do you believe that the steel business will be positive during 2016? And two regarding mining, I would like to understand if Bill could explain this. Why has mining EBITDA improved so much quarter-after-quarter and when we see EBITDA per ton of mining, it seems too high for the fourth quarter of last year?

And at last, Ronald, if you could very briefly talk about the CapEx of 2016, you said one of the initiative of the company is to reduce investments of the company to very low level due to the business proceeds that the company has to generate cash, if you could give us a guidance for your CapEx during 2016?

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

Well, okay. Good afternoon. Now, regarding the first question, regarding steel results after temporary shutdowns in Cubatão. This is exactly our intention. Yes, we paralyzed the primary areas of Cubatão so that we would no longer have pressure to export volumes that we weren't able to sell in the domestic market, because there's no domestic market. And with this, the expectation would be that after the second quarter of 2016, we would start generating positive EBITDA in steel. The intention, many people ask us what will be the result in terms of cost to drive as a result of the shutdown of Cubatão primary area, this is not the intention.

Now, of course, we will reduce cost. We are not only pursuing a reduction of cost. We don't want a production that would force us to export at prices that do not generate results. So, this is the objective of adapting the company to a production level that would be (30:10) with the level of demand that we have today. The expectation is to generate positive margins in steel as of the second quarter. Milton (30:21) will talk about MUSA and then I will talk about the CapEx on 2016.

## A - Operator

Okay. Good afternoon. Regarding the improvement of the EBITDA from the third and the fourth quarter, we would have to highlight some factors that are non-recurring factors. Ronald already explained an effect that we had regarding an agreement. We suspended the contract with them. But during the fourth quarter, we had a reversion of a provision

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that had existed throughout entire 2015 regarding the payment of take-or-pay of 2015 that should be paid in 2016.

At a certain moment, we concluded that combination of a negotiation due to the size of the provision at the end of year. We would have a reversion of provision of BRL 40 million. We also had other reversions of provisions that were positive. And the other effects are effects that we felt from the drop of costs. (31:41) how we've adapted our companies - our company in terms of sale. And then, during the fourth quarter, it was 200 million tons a month. We have adjusted the size of the company for economic situation. This is why we have positive results. But the main factor was the reversion of the take-or-pay of 2015.

### **Q - Marcos Assumpção**

I would just like to ask something, Bill. Today, you put production cost here. I believe that this production cost is BRL 55 per ton (32:25) FOB mine. Today, you're selling 100% of the volume in the domestic market, what prices are you negotiating in terms of iron ore, or how do you compare? How can we compare it to, for example, China?

### **A - Operator**

During the fourth quarter, October, November it would be \$50 per ton. And during the month of December, it was a bit lower because this is based on the average of the quarter of the past month, so it was around \$40. So currently, we are working with a slight improvement regarding two weeks ago. Currently, I believe that the combination of events that we have with freight - maritime freight that is very low, historically speaking, and the port tariff that is very interesting. And with the exchange rate helping us also, so it's drastic increase of \$46.5. And now, it's commercially feasible to export and take advantage of this window of opportunity during the fourth quarter. We know that in terms of prices when we discount internal logistics with FOB (33:53) discounting maritime freight.

Now, regarding your CapEx. Throughout 2015, we announced the guidance of BRL 750 million. We started with BRL 750 million. We closed at BRL 784 million. This year will be much lower. It will be lower than we're talking about around half of this, more or less we expect half of this in terms of CapEx. Okay?

### **Q - Marcos Assumpção**

So, how much do you intend to expand the net financial expenses? How much do you intend to expand the net financial expenses?

### **A - Operator**

Well, I have to see this in our statement. I have the gross number. It can vary a lot. I don't know if what we have in our budget will be actually what will happen throughout the year. We have been discussing some measures that may change the capital structure of the company in the upcoming months. I really don't know if this projected figure was actually relevant.

## Q - Marcos Assumpção

Okay.

## Operator

Our question in English from Carlos De Alba, Morgan Stanley.

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

Yeah. Thank you very much. The first question is, if there are any other numbers that you can share with us on your 2016 expectations in terms of steel production and steel volumes, as well as iron ore volumes, and this is relevant given the change that is taking place at Cubatão? And also, if you can go back and give us a little bit more clarity or at least repeat the numbers that you said on the iron ore costs and the economics of these volumes? So, basically, what I understood is that you believe that despite the lower iron ore prices, the reduced port and shipping costs are making your iron ore volumes commercially feasible in the export market. If you can confirm that, and also repeat please the breakdown of your mining costs, your iron ore mining costs, that would be great. Thank you.

## A - Operator

Carlos, good afternoon. Now, regarding your question, regarding our expectations in terms of volume without mentioning specifically figures, okay, I can tell you that our expectation at the export steel volume in 2016 vis-à-vis the export volumes in 2015 will drop significantly, okay. They will drop. Now, on the other hand, although there had been a drop in the apparent demand of steel in the internal market, we will maintain our steel sales in domestic market, stable in 2016 compared to 2015. This is what I can say beforehand, okay, regarding our expectation.

Now, in the domestic steel market, I believe that our - we will have lower representation of imports. We will import less steel. Well, they have been dropping in the past months and we have seen change in level that is much lower. This in our expectation will maintain throughout next year. Now, Bill will talk about the shipping, the cost of iron ore.

Hi, Carlos. Now, regarding our volume expectation for 2016, this is a year where we will practically follow on a daily basis the combination of variables that allow us to analyze competitiveness with iron ore, as I mentioned beforehand. Today, we are undergoing a moment, although we've increased \$5.

Now regarding the exchange rate, shipping freight that is at lower levels than the past 10 years and with port costs also dropping to below two digit figures, we see a scenario where we can make money with export minimum, nothing compared to what we had in the past. Nevertheless, we can visualize for the future this. Although this is just a window of opportunity that may close quickly, so we're trying to make the best of this moment right now. Now for 2016, we believe that our production will be 2.5 million, maybe we can adjust it if the market is more favorable throughout the year.

Now, regarding the cost of production with all the improvement that have been done throughout the last three quarters, adapting the size of production of the company personnel, I believe that today we would have a cost level, production cash of around BRL 55 FOB mine, then we have the logistic chain and I believe that the price here would increase. Here, we have also - we have to fill so railway, highway transportation and maritime transportation. This is the information I have to share.

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

Thank you. Just a follow-up if may. The 2.4 million tons of iron ore expected to be produced in 2016. Is that, presumably, going to be sold mostly in the export market then or to third parties in the domestic market given that Cubatão slab production will be basically shut down?

**A - Operator**

Now, regarding your question, regarding the destination of the volume of 2.5 million tons, our expectation would be a fair of 2.5 million tons, 500,000 tons would be exported and 2 million tons would stay in the domestic market.

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

But not necessarily to your operation, right, because it doesn't make sense to ship them to Ipatinga?

**A - Operator**

The international destination would be the international destination, Asia. Now, here in the domestic market would be to Ipatinga. Yes, the domestic market would be to Ipatinga.

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

All right. Thank you very much.

**Operator**

Ivano Westin, Credit Suisse.

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

Good afternoon to everyone. Thank you very much for your question. Ronald, thank you very much for your initial comments. I believe that you clarified a number of questions, but I would like to go to a point that is the rollout of your debt. You have BRL 2 billion incurred, BRL 1.9 billion of that matures in 2016, BRL 1.8 billion in 2017. You mentioned the possibility that the company has that is being analyzed by the board. So, now the creditors, they are conditioning the rollout of the debt to one of these alternatives that you just mentioned or part of the creditors have already accepted to roll out the step regardless of any injection. It could be capital loan or contribution from the shareholders. This would be my first question.

And number two, I would also like to comment regarding your operating partner. When I take a look at the product breakdown that you have, you had a reduction in quarter after quarter and year after year in heavy plates. We know Gerdau is working with high volumes. I would like you to talk about the sales of heavy plates. What do you expect?

And also in galvanized, there was an increase in sales volume. Would this be a line of products where you could improve your sales volume despite a difficult scenario that you have just mentioned with the steel dropping this year? Now, if you allow me, this is a very long question. I do apologize. With the shutdown of Cubatão, do you expect to buy plates from third parties to continue rolling in this operation? Could you tell us what is the margin improvement that you expect with the measures you have taken?

## A - Operator

Well, good afternoon, Ivano. I am going to answer your first question. And what happens is that when we see our stakeholders and (44:08) our shareholders and our financial creditors, well, fortunately, the interest of all these groups are aligned. And the final objective is to have a capital structure that is balanced and that is the best to - until the growth of the domestic market comes back and that - up to the moment where we will start growing.

There is no condition one side or the other. I will only inject if there is refinance. I will only refinance if there is a - no, there is not this, but there is a conversation that takes into account both initiatives, okay. There is no doubt that it is necessary to inject cash in the company as I mentioned at the beginning. And in addition to this, we have to redefine and to create a new profile of our debt. These two things are being dealt jointly, but they're not being dealt independently and with conditions, no, from each side.

In the operational side, you mentioned two questions specifically engaging two products here. Now heavy plates. Well, here we have two main challenges with heavy plates. The consumption of heavy plate very different from other cold rolled, hot rolled, it's very concentrated with projects and investments. The demand of heavy plate is connected to investments and we are undergoing In Brazil currently, well, a significant drop of investment here. We have already had this year, as you already mentioned, a drop of - a significant drop of sales in heavy plates and we will now have a new player in the market.

Now, obviously with this new player this brings, you know fiercer competition. So in the market of heavy plates, we have two challenges here. The downturn in the market because of the economy and now we have a new competitor that makes a fiercer competition.

Now with the HDV product, well, we had a drop. A significant drop of the main market of the HDV that would be the automobile industry. The drop was a 25% in car production here and this reduction directly affects, also are the construction of HDEE and now we have greater presence (47:02) of the non-automobile markets. We did this and currently our - we have lines that that are occupied. We are participating in automobile and non-automobile market.

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I will make my comment here. You said with the shutdown of Cubatão, we will buy plates from third party - those slabs from third party and how could our cost reduce with this. Once again, I would like to say that the objective of closing the primary areas of Cubatão and to up and use third party is to have the flexibility that we did not have, that is to buy slabs and rolled products only if we had market demands at profitable levels. So this is the flexibility that we will have in Cubatão there.

If there is a sale that is interesting, well we'll buy the slabs or the plates, we roll them and then we will sell them. But we are still in a market that is shrinking and the expectation is to shrink more. And it's not worthwhile to produce steel. And if you do not have market for steel, you have to export it. So this is why we think it's better to buy from third party.

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

Just one question. You said that it's reasonable to expect this purchase of plates from third parties will not take place this year or do you consider some type of...

**A - Operator**

No. We are very - we have already tested third-party plates last year. The high furnaces in Cubatão were paralyzed at the end of January. We are already operating with what we have approved, products with plates from third parties. And they have been approved by our customers.

Next question from Rodolfo de Angele, JPMorgan.

**Q - Rodolfo de Angele {BIO 1541593 <GO>}**

Good afternoon. During your presentation, you talked about your operational results. Where did this result come from and what is the potential that you see for 2016? Thank you very much.

**A - Operator**

Could you please repeat your question? We couldn't hear very well.

**Q - Rodolfo de Angele {BIO 1541593 <GO>}**

I'll speak louder. Throughout your presentation, you showed us the slide that shows us an improvement of operational results of BRL 111 million. Where does this gain come from and what opportunities you see for 2016?

**A - Operator**

Rodolfo, this gain came from a number of areas. The BRL 111 million, well you're referring to the slide where I - the consolidated the result evolution. I think it's on slide 13. Yes, consolidated quarter (50:46) here we have mining contribution has built that throughout the period that we already carried provisionings in mining that were reverted during the third quarter.

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We also had other improvements in terms of volume in steel. Basically, if you see here, we can see a very important contribution and there is an increase of sales in the domestic market. This contributed significantly. We had lower third-party services in Cubatão. What have we done? Well, in Cubatão, after we decided to reduce and temporary shutdown primary areas, we knew that there would be a layoff of person. We minimized this (51:41). We minimized also services of third parties. We also tried to give - we tried to use quality people that we wanted to retain. So everything. We have effect on the payroll, there was no readjustment in our payroll above expected. And we took a number of measures. I can't really explain one measure that is responsible for 80% of what have happened.

**Q - Rodolfo de Angele** {BIO 1541593 <GO>}

Would you be able to quantify something for next year?

**A - Operator**

No. For the next year, we presented a budget to our Board for next year. You talk about 2016. Okay, we have a scenario where the first quarter of 2016 still is affected by the temporary shutdown. So, our provision, in the provision of the fourth quarter of our business restructuring in steel, there are things that will still affect the first quarter that affect our improvement during the second quarter. We will have better visibility of the benefits of all these actions. Especially, the temporary shutdown of the primary areas of the Cubatão during the second semester, we want to stabilize ourselves.

Next question from Leonardo Correa, BTG Pactual.

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

Good afternoon. Thank you. Some points I would like to go back to questions that have already been made and also issues mentioned. One Romel, you said something that draw my attention, especially before what the press is saying now regarding the increase of capital. You said in some of your answers that there is a consensus amongst the controllers regarding the increase of capital. Now, what about the conditions of the creditors?

I ask if the shareholders have followed certain condition, is there something that has to be done in order to approve the increase of capital here? Are there any other operational adjustments or change of management that the press has been saying? Could you elaborate a bit more because this is very relevant matter in which circumstances would the shareholders agree to inject more capital, right?

Now, my second question here, going back to the operating side and Rômél, you also mentioned in the former question, the expectation of having a positive EBITDA and still now if we see the shutdown cost and there's always a debate in the market that is endless. Of course, you know how recurring these costs are, because we're talking a process that may last a number of quarters. So, if you could just help us to understand this cost of shutdown in Cubatão during the first quarter, how relevant are they? Can we expect something lower than what we saw in the first quarter or the shutdown cost will, nonrecurring will continue?

And last, my third question, very brief question, Romel, we (55:48) our cash is at BRL 2 billion, right? There was BRL 350 million drop quarter-after-quarter, so you have BRL 1.9 billion maturing in 2016. What is the percentage of the cash that you can use to amortize your debt for example, because a good part of this cash is the loss to Sumitomo. So, I would also like to know if you could clarify as the matter of what percentage of the cash we'd be able to use to amortize the debt? These are my questions.

## A - Rômél Erwin de Souza

Good afternoon, Leonardo. Thank you very much for your question. Mainly the first question that give me the opportunity to clarify a number of things. What I mentioned, I reiterate again, is that our board has a (56:42). They know that we need to inject cash in the company. There is a consensus. I reiterate this very clearly, there is a consensus. What I mentioned was that was requested by the board to the management is to assess the most adequate form to promote this cash injection to the company. It could be through an increase of capital. That would one of our alternative. It could be also through loans and from controllers or also inter-company. So, we have to study how to do this the best way possible. And the need of cash injection is a consensus by the Board.

Another thing that was requested to the management to determine what is the necessary amount that we need to inject that could be done in a number of ways, as I have already mentioned.

And now I go to your third question regarding the available cash maturing that everything is being analyzed within the same context. So within a short period of time, we will equate the structuring of the company. It can be through cash injection, we can also renegotiate our debt maturity with our creditors. And as you've mentioned regarding Sumitomo, this does not belong to Sumitomo. This belongs to MUSA. Sumitomo is a partner of Usiminas in MUSA. So intercompany loans, as I've mentioned, are part of the alternatives that we are assessing.

Now, your second question regarding the cost of shut down, basically there are two questions here. You're talking about the cost of the shutdown that are nonrecurring cost, costs that take place once and these are costs that would be the dismissal of personnel wide of assets that you will not be use for the production. We did not have this in December. Now, we have the cost of stocked equipment that is the cost of the equipment that will resume their activity in foreseeable period. These costs are accounted in another line not affecting the results. These are costs that we cannot forget because these are the equipments that will resume their operation and this affects the EBITDA.

Now, non-recurring cost and most of them have already been accounted in December, will appear at a lower level during the first quarter. And we will have the cost of stock equipment that will continue throughout the year. But as I've said beforehand, the visibility of positive results, it's clear for us as of third and second quarter this year.

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

Okay. Thank you very much.

## Operator

Next question from Leonardo Shinohara, HSBC.

### Q - Leonardo Shinohara {BIO 18788974 <GO>}

Good afternoon. Thank you very much for the question. Regarding what you were able to sell in the domestic market, that was a great challenge. You were able to increase your share in the domestic market.

How do you see the United States with anti-dumping of Brazilian products? Is there a scenario where you could increase your share of exports for other countries than the U.S.?

Now, also regarding your MRS, could you explain the BRL 34 million in credit or because you used MRS or is it another provision? Thank you very much.

### A - Operator

Now, regarding the United States, that's an export market for Usiminas. The United States throughout a significant period represented a very important market. In the end of July, beginning of August, brought anti-dumping losses of cold rolled and hot rolled including Brazil. This market is closed to us now. And immediately, we decided to look for other markets intensively and we did this in Europe.

You can see that during the fourth quarter, here we have for example, in Western Europe, in Italy, Spain, Germany and we have already reached a level of practically 25%, 30% of our exports in this area. Now, if you see in the - this level was 11%, okay? So, we have already - we are also focusing our efforts also in Europe and we continue new exports to heavy plates to the American market and HDE (01:02:36) as well to the U.S. market.

### Q - Leonardo Shinohara {BIO 18788974 <GO>}

Do you see anything regarding heavy plates? Is there a risk in terms of heavy plates in the United States?

### A - Operator

No, there is very low risk in the United States regarding heavy plates for us. Now, regarding the agreement with MRS, throughout the months and due to the market deterioration and volumes of our contract were very significant in the beginning. We reached this agreement with MRS as this has already been explained. We want to settle for - clearing out of settlement because they made investments in order to fulfill the contract that we had with it.

We have terminated this contractor in 10 installments of BRL 31 million. The first one begins in 1st of January of 2017 and for you to have an idea of this, if nothing would have been done, we could shrink in value only in 2016 BRL 300 million.



So, for both parts, it was a good business in terms of settlement of MRS and Usiminas mining and well, we also have our take-or-pay but everything was totally mitigated here.

**Q - Leonardo Shinohara** {BIO 18788974 <GO>}

You said that shipping cost dropped and it's below two digits. So you see a more competitive scenario for export.

**A - Operator**

I wouldn't say that it's much more competitive but certainly there is a possibility to be able to make some cash with export because shipping cost still very little time ago it's topped \$13, now it's \$6.5. This by itself is already a very attractive factor.

Now, ports. Ports are also below two digits per ton. And the exchange rates for real to dollar also has helped us. So with the EBITDA there is a window of opportunity. In China, they are restocking and this is a window of opportunity for us. And let's see if we can take advantage of this window.

**Q - Leonardo Shinohara** {BIO 18788974 <GO>}

Okay. Thank you.

**Operator**

Next question from Gabriela Cortez Banco Do Brasil.

**Q - Gabriela Cortez** {BIO 18801371 <GO>}

Good afternoon. I would like to know about the investment plan that you have. If you will consider other asset like mining, participation of (01:06:06) and your expectation for the first quarter of 2016. And how much do you intend to raise during this period?

**A - Operator**

Good afternoon, Gabriela. Now regarding our R&D investment program, we do not have a very long list of assets that will undergo de-invested, okay. And in the current market circumstances, the realization of this sale is not something that we expect of the short term.

The main asset that we are trying to monetize is Usiminas Mecanica. This has been already announced. We are in the beginning of the process. There is no expectation to materialize this during the first semester of this year if it happens. This will happen during the second semester of the year and we are assessing others alternatives. The ones that you mentioned we have to see what as a matter of fact is nonstrategic and the debate about our participation with MRN (01:07:18) is within MUSA together with our partner, Sumitomo. We still have not defined that this is not a strategic asset for MUSA (01:07:32). There are other assets. This has already been done, but nothing very significant.

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Humberto Meireles, Goldman Sachs.

### **Q - Humberto Meireles** {BIO 16541842 <GO>}

Good afternoon. Thank you very much for the question. I would like to know if today between the controller, there is a potential to close the capital of closing (01:08:09) just a debate.

### **A - Operator**

Humberto, no. No. No. There is no conversation regarding this. This has not been even mentioned.

### **A - Unverified Participant**

There is no further questions. I would like to give the floor to Mr. Romel for his final statement.

### **A - Rômél Erwin de Souza**

So, we have finished our earnings result of the fourth quarter and the yearly results of 2015 today. This has been done in a different way, disclosing all our figures so that you could see the effort that the management and the company has been doing in order to obtain better results, which shows that we've had an evolution when we compare it to - if we see the third quarter. And with this, we would like to show once again how serious and how transparent we are being, regarding our issues and our problem. So, we continue with our purpose of transparency, being serious, always looking for the best results, and we expect our effort just it remains clear through the presentation of these results.

For all of you that participated in this call, thank you very much and good afternoon. And I would like to remind everyone that our (01:10:06) isn't really receiving questions through our side, and after our conference call, investor relations shall (01:10:13) to contact you and answer the questions that you are posing through our site. I would like to thank you for your participation. Thank you very much.

Our conference call brings to an end. If you have any questions, our investor relations team is at your disposal to help you. We thank you very much and have a very good afternoon.

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