# Mineração Usiminas S.A.

## Financial statements at December 31, 2020 and independent auditor's report

# Independent auditor's report

To the Board of Directors and Stockholders
Mineração Usiminas S.A.

## Opinion

We have audited the accompanying financial statements of Mineração Usiminas S.A. ("Company"), which comprise the balance sheet as at December 31, 2020 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mineração Usiminas S.A. as at December 31, 2020, and its financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Other information accompanying the financial statements and the auditor's report

The Company's management is responsible for the other information that comprises the Management Report.

Our opinion on the financial statements does not cover the Management Report, and we do not express any form of audit conclusion thereon.

In connection with the audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

Mineração Usiminas S.A.

## Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices adopted in Brazil and with the IFRS as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of associates to express an opinion on the Company´s financial statements. We are responsible for the direction, supervision and performance of the audit, considering these investees. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Belo Horizonte, March 24, 2021

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Guilherme Campos e Silva
Contador CRC 1SP218254/O-1

# MANAGEMENT REPORT – 2020

Dear Stockholders,

The Management of Mineração Usiminas S.A. (“Mineração Usiminas” or the “Company”) hereby submits for your appreciation the Company’s Management Report and Financial Statements, accompanied by the independent auditor’s report for the year ended December 31, 2020.

## 2020: a year of challenges

In 2020, Mineração Usiminas completed 10 years. The year was marked by significant changes in society with the worsening of the pandemic triggered by the spread of the new coronavirus (Covid-19), which has resulted in increasing volatility in the local and global markets. The Company responded efficiently to this scenario, implementing measures to prevent the transmission of Covid-19, protecting the health and life of its employees and helping the community in which it operates, ensuring business continuity. In line with the sanitary measures recommended by health agencies, the implemented actions ensured a low rate of transmission in operating facilities. Regarding the population of the Itatiaiuçu region, Mineração Usiminas continued to adopt a policy of permanent communication, providing training and support, donating cleaning materials, 70% isopropyl alcohol and PPEs to hospitals and local governments. The Company has always cared for the safety of the community where it operates and will continue to implement these practices.

In 2020 the Company had record levels of production and sales volume, reaching 8.7 million metric tons. The development of trading relationships with customers in China contributed to a record level of exported volumes, which, for the first time, accounted for 68% of the total annual volume sold. The increase in the price of iron ore during the year, combined with a culture of cost control and productivity, made it possible for the Company to achieve a robust economic performance, as evidenced by the record EBITDA of R$ 2.2 billion. These improved results allowed the Company to record a cash balance of R$ 2.1 billion at the end of the year, which will be used mainly in future investments.

# Environmental, Social and Governance

## Social performance

- ### Health and safety

The year was marked by the Covid-19 pandemic, which affected how we work, but not our productivity. The health and safety of all required several new actions for coping with Covid-19, with the following highlights:

- Creation of a specific Crisis Committee for the definition of strategies and follow-up of actions;
- Body temperature measurement at the entrances with infrared thermometers and thermographic cameras;
- Distribution of numbered cloth masks for mandatory use by the Company's employees and service providers, to be replaced every three hours or when it is dirty/wet and availability of disposable masks;
- Actions to avoid contagion on chartered buses or buses running within the Company's premises, in restaurants, changing rooms and bathrooms restricting capacities and increasing hygiene;
- Improved sanitation of the Company's areas, with availability of alcohol gel and application of fifth generation quaternary ammonium solution, a product used in hospitals;
- Restricted entry of visitors in mines and prior testing with medical report required;
- Restricted business trips: essential trips only, accommodation at a limited number of accredited hotels, which evidence of implementation of Covid-19 prevention and fight measures, testing before and after any trips, provision of mask kits and specific guidance;
- Using the rules of the Ministry of Health, protocols were established for the isolation of employees (asymptomatic, symptomatic and Covid-19 positive);
- Implementation of a work from home system for administrative teams;
- Leaves of absence for employees considered to be part of the higher risk group for Covid-19;
- Donation of surgical masks, N95 masks, alcohol gel and other items to the Hospital in Itaúna;

Also with regard to safety, the Mineração Usiminas' team reduced the total rate of occupational accidents by 29% as compared to the previous year.

- ### Work force

In 2020, Mineração Usiminas were relied by 1,383 direct employees and by 2,002 service providers' employees. In 2020, 270 new employees joined the team, many of them from the Company's admission programs, such as Apprentices and Interns.

Even with the impact of the Covid-19 pandemic, abiding by all biosecurity protocols, training and development actions were carried out, totaling approximately 60 hours per employee in the year. And the Profit-Sharing Program reached 98% of the targeted maximum level.

## Community and environment

- ### Actions focusing on communities

Despite all the adversities caused by the Covid-19 pandemic, the Company maintained its commitment to strengthen and support the towns in the areas adjacent to its mines in the Serra Azul region, establishing new partnerships through actions and projects that contribute to sustainable development.

Since the beginning of the pandemic, Mineração Usiminas invested in the manufacturing of nonwoven fabric masks by the Association of Artisans and Producers of Homemade Products of Itatiaiuçu (Acirpa). These masks have been distributed to employees and institutions. Also, in April and May, the Company delivered to 450 truck driver service providers food kits and hygiene products to minimize the difficulties generated by the restrictions in the opening hours of stores in the period.

- ### Water

In relation to water issues, Mineração Usiminas maintains the recirculation rate close to 93% for all the water consumed in the processing of ore and follows up on, approximately 40 (forty) points of water quality monitoring located throughout the mining complex, analyzing the most varied physical and chemical parameters.

- ### Reuse and filtering system

As to the reuse of ore waste in the production process from the Central Dam and treated in the Flotation Ore Treatment Facility, initiated in 2014, by year-end the Company showed a record movement of more than 5 million metric tons in the year, contributing to the demobilization of the structure and recovery of the area. In addition to being part of a responsible production, it generates security, jobs and financial result.

The Company is working to stop using dams. In 2020, a license was obtained for the installation and operation of the dry stacking system.

The process of demobilization of the SOMISA dam was approved and fully completed in January 2021 and no longer has characteristics or operates as a dam.

In addition, there was progress towards the demobilization of the Central Dam. The demobilization is part of a plan to make operations sustainable, and to provide more tranquility to workers and residents of the region. The third and final structure of the complex is Samambaia, a downstream tailings dam and, even though there is no legal claim for that, it will also be demobilized.

The above actions reaffirm the Company's concern with environmental issues and sustainable development, encouraging a proactive attitude in favor of the development and application of safer and more efficient technologies regarding the consumption of energy, natural resources and other materials, offering distinguishing conditions to interested parties in the enterprise region.

- ### Fauna

Also in terms of protecting the local fauna, Mineração Usiminas has been monitoring the carnivorous mammal community (cougar, maned wolf and ocelot) since October 2020, when it received authorization from the environmental agency to carry out this work. The objective is to research, understand the behavior and preserve these species in their habitat. This monitoring is done by means of GPS necklaces placed on the animals. Through monitoring these animals ecological and behavioral information about the species are obtained. Biologists and veterinarians participate in all the monitoring process, which uses methodologies that ensure the comfort of the animals and their preservation. The necklaces used will be removed at the end of the research.

## Governance

- ### Management

The Company is managed by a Board of Directors and an Executive Board.

The Board of Directors comprises six sitting members and their respective alternates and usually convenes four times a year, and holds extraordinary meetings as required, or in accordance with previously agreed schedules.

The Executive Board, whose members are elected and may be removed at any time by the Board of Directors, is currently made up of two members appointed pursuant to the Company's bylaws, namely a CEO and a CFO.

The Company has four general managers who supervise the development, sales, sustainability and operations areas.

## Innovation

The mission of the Innovation area is to bring innovation ecosystems closer and implement emerging technologies that allow digitizing processes, modernizing equipment, developing innovative products, expanding safety practices and, above all, creating a culture of experimentation that allows all employees to innovate and generate results for the Company.

Among the main Innovation actions, the creation of the inovaAí platform stands out. The platform consists of 4 pillars (challenges, partnerships, ideas program and events).

Also, the Working Group - Mining 4.0 was created, which aims to trigger a critical look to our operations and, with a clear view of the technological trends of the Mineral Sector, to bring to our practices actions that can put us at the forefront of the Brazilian/global mining industry, in terms of sustainability, productivity and efficiency.

The positive indexes obtained are the result of the continuous incentive to employees for them to innovate, develop in-house technologies and improve those that have been acquired. In addition, new businesses are generated, either through the licensing of patents to other companies or technical support to third parties for the transfer of the developed technology.

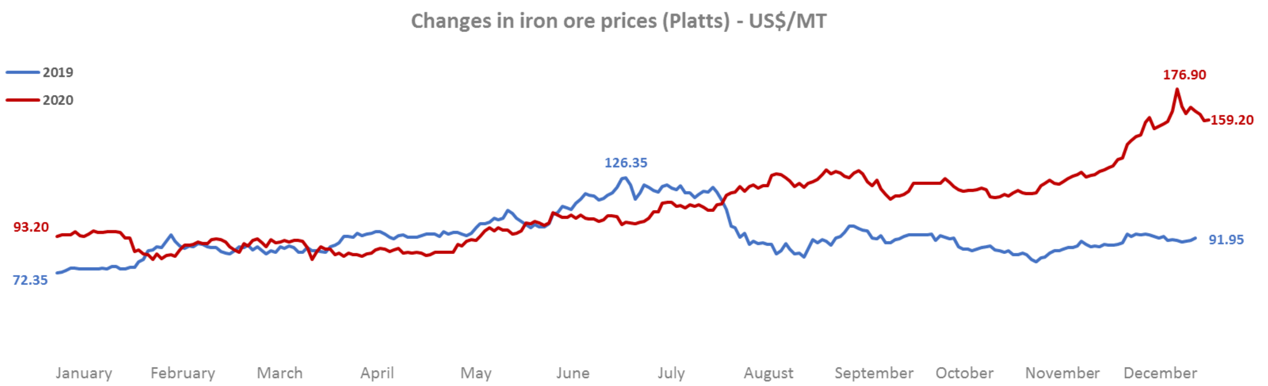
## Integrity

In 2020, the Company, in line with the department for corporate issues, made further progress in its Integrity Program, especially with regard to the General Data Protection Law (Law 13,709/2018), adjusting its internal processes to comply with said legislation, and implemented awareness actions directed at employees. The Company updated contracts with suppliers and service providers and started to use specific tools for data protection in general.

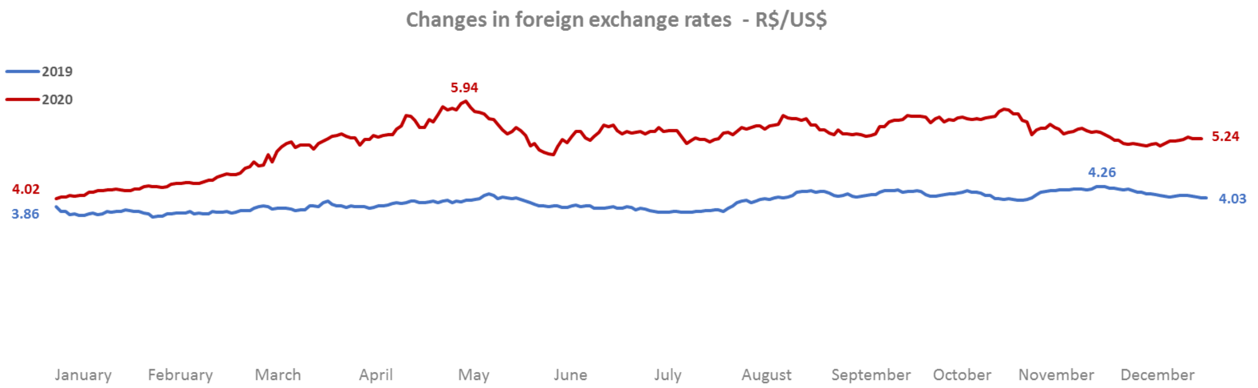
## Economic scenario

In 2020, the Brazilian Gross Domestic Product (GDP) decreased by 4.1%, according to data released by the Brazilian Institute of Geography and Statistics (IBGE) in March 2021. This result interrupts three consecutive years of growth; this reduction was influenced by the Covid-19 pandemic that affected several economic activities. For 2021, a growth of 3.3% is estimated, according to the Focus Report issued by the Brazilian Central Bank, also released in March 2021.

In relation to the iron ore market, 2020 was marked by a price increase due to a strong demand from the Chinese industry and a limited supply of Brazilian ore. Sales price (Platts IODEX 62%) achieved their highest level in recent years, reaching US$ 176.9 per metric ton. The average price in 2020 was US$ 108.7 per metric ton, an increase of 16% as compared to US$ 93.4 per metric ton in 2019.




Also in 2020, the Brazilian Real depreciated vis-à-vis the U.S. dollar, which helped achieving the better results. Comparing the Ptax for the last business day of 2019 (R$ 4.03/US$) and 2020 (R$ 5.20/US$), the U.S. dollar appreciated by 29% against the Real, peaking on May 14, 2020, at R$ 5.94/US$.




Both factors had a favorable effect on the Company's revenue.

## Highlights of the Company's performance

**EBITDA**

R$ 2.2 billion +197%

Adjusted EBITDA was R$ 2.2 billion, 196.7% above the R$ 740 million recorded in 2019, mainly due to the higher prices, higher sales volumes and the positive effect of the favorable foreign exchange rate, partially offset by higher costs, due to the volume produced.

**Sales**

8.7 MT +0.8%

The Company achieved a new record for annual production and sales volumes. The sales of iron ore totaled 8.7metric tons (MT) in 2020, against 8.6 MT in 2019.

**Production**

8.7 MT +18%

The annual production of iron ore reached 8.7 MT, an increase of 18.2% as compared to the production in 2019. In particular, a record production of pellet feed, which is exported, was set.

**Net cash**

R$ 2.1 billion +163%

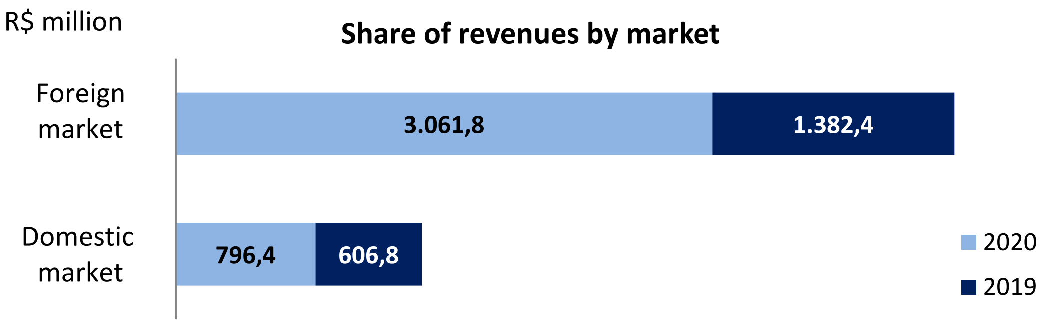
R$ 209 million (CAPEX) was invested in 2020 and the Company's net cash amounted to R$ 2.1 billion at the end of the period (R$ 813 million in 2019).

## Operating, economic and financial performance

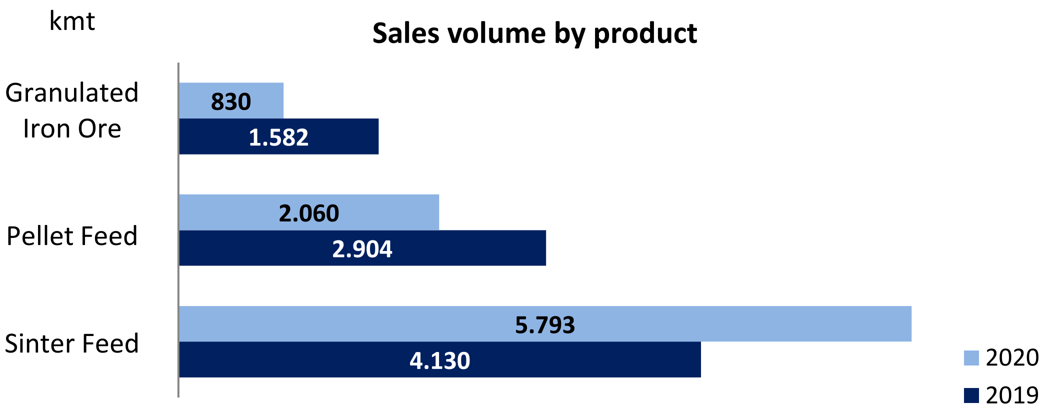
| In millions of R$ | 2020 | 2019 | Variation 2020/2019 |
|---|---|---|---|
| Sales volume (in thousands of metric tons) | 8,683 | 8,616 | +0.8% |
| Net revenue | 3,858 | 1,989 | +94% |
| Cost of sales | (1,480) | (1,143) | +30% |
| Gross profit (loss) | 2,378 | 847 | +181% |
| Net profit (loss) | 1,940 | 488 | +298% |
| Adjusted EBITDA | 2,198 | 740 | +197% |
| EBITDA margin | 57% | 37% | +20p.p. |
| Investments | (209) | (131) | +60% |
| Cash | 2,135 | 813 | +163% |

## Net revenue

In 2020, net revenue totaled R$ 3,858 million, against R$ 1,989 million in 2019, an increase of 94%.




Net revenue increased in comparison with 2019, due to higher prices, the depreciation of the Brazilian real and the higher sales volume resulting from the increase in iron ore exports.



## Cost of sales

Cost of sales was R$ 1.5 billion, an increase of 29.5% in relation to 2019 (R$ 1.1 billion). This increase accompanied the higher volume of exports on a CFR (Cost and Freight) basis. In unit terms, cost of sales per metric ton was R$ 170.4, 28.5% higher than in 2019, when it was R$ 132.6. The unit increase was due to the higher share of exports on a CFR and the increased costs linked to the U.S. dollar.

## Selling, general and administrative expenses

General and administrative expenses totaled R$ 222 million in 2020, an increase of R$ 77 million in relation to 2019. Selling expenses were R$ 195 million in 2020, as compared to R$ 121 million in 2019, an increase due to the higher sales volume affecting the cost of distribution, mainly exports. General and administrative expenses increased by R$ 2 million, primarily due to the higher costs with third-party service and communication.

## Other operating income (expenses)

Other operating income totaled R$ 528 million in 2020, a period favored by the reversal of the impairment of non-financial assets, against operating expenses of R$ 100 million in 2019. Excluding this effect, expenses increased by R$ 3 million due to Covid-19 related actions.

## Finance result

Net finance income amounted to R$ 66.0 million against R$ 3.9 million in 2019, an increase of R$ 62.2 million, mainly due to:

- Higher foreign exchange gains of R$ 57.6 million. In 2020, the Company recorded a gain of R$ 63.9 million (gain of R$ 6.3 million in 2019). In 2020, the variation in the U.S. dollar in relation to the Brazilian Real was 28.9%, as compared to 4.04% in 2019;
- Decrease in interest accruals of R$ 6.5 million due to the judicial claim to exclude ICMS from the PIS and COFINS calculation basis. In 2020, the amount totaled R$ 8.5 million (2019: R$ 15.0 million);
- Decrease in interest/indexation accruals on provisions for litigation by R$ 16.2 million, a charge of R$ 2.1 million in 2020 (charge of R$ 18.3 million in 2019).

## Equity in the results of investees

In 2020, equity in the results of associates and subsidiaries totaled R$ 49 million against R$ 53 million in 2019, mainly due to the worse result of MRS Logística, which was affected by the Covid-19 pandemic. The Company holds an 83.3% equity interest in Usiminas Participações e Logística (UPL), a company that holds a 11.13% equity interest in MRS Logística.

## Adjusted EBITDA

| R$ thousand | 2020 | 2019 |
|---|---|---|
| Profit (loss) for the year | 1,947,452 | 497,234 |
| Income tax / social contribution | 860,835 | 171,709 |
| Finance result | (66,511) | (4,443) |
| Depreciation and amortization | 142,122 | 133,403 |
| EBITDA - CVM Instruction 527 | 2,883,898 | 797,903 |
| Share of profit or loss of jointly-controlled subsidiaries | (55,668) | (60,511) |
| Impairment of mineral rights | (630,976) | 3,068 |
| Adjusted EBITDA | 2,197,254 | 740,460 |

Adjusted EBITDA considers the proportionate 50% interest in Modal, a jointly controlled subsidiary that operate road and rail cargo terminals, storage and handling of ore and steel products and road cargo transportation. In 2020, adjusted EBITDA was R$ 2.2 billion, an increase of 196.7% as compared to 2019.

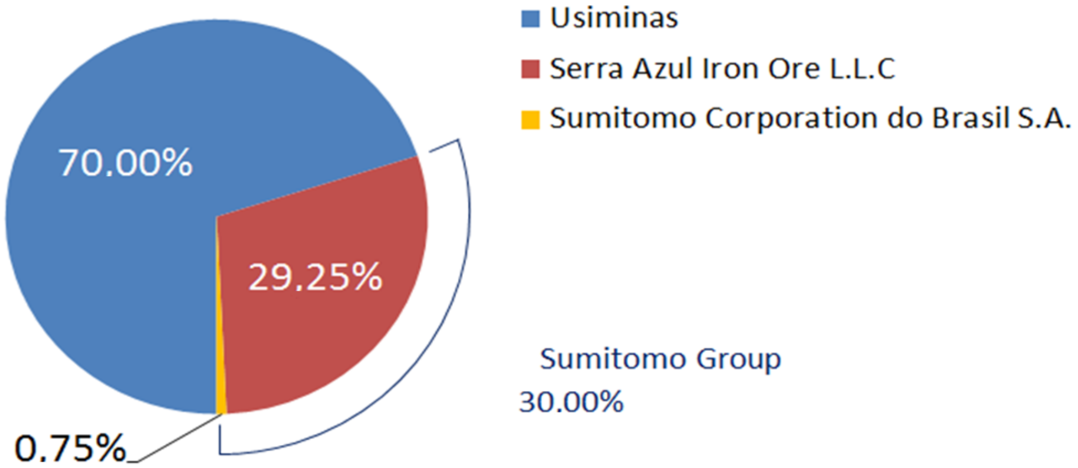
## Profit

Profit for 2020 totaled R$ 1,940 million, an increase of R$ 1,452 million as compared to 2019 (R$ 488 million).

There was an impairment adjustment in 2020, which generated a non-cash gain of R$ 631 million due to the valuation of the assets of Mineração Usiminas, mainly with the perspective of a further appreciation of the U.S. dollar in relation to the Brazilian real in the long term and, at a lower degree, the more favorable future curve of the iron ore, against losses of R$ 3.1 million in 2019.

## Shareholding structure

The Company's share capital is R$ 1,984,219,480.44, which is divided into 2,811,607,351 registered common shares. The Company is controlled by Usinas Siderúrgicas de Minas Gerais S.A. - Usiminas ("Usiminas"), which holds 70% of its share capital. The remaining 30% is held by the Sumitomo Group, through Serra Azul and Sumitomo Corporation.




## Investments

In 2020, investments reached R$ 209 million, mainly in sustainability, dewatering project, high frequency screening and spare parts. A 61% increase compared to 2019, when investments totaled R$ 131 million.

Seeking innovation and safety, up to the end of 2020, the Company invested R$ 21 million in the high frequency screening plant (Picture 1). This project reinforces the Company's competitiveness, with high-quality products, expanding the company's commercial possibilities.

We highlight the investments made in the process of dewatering and dry stacking (Picture 2) of R$ 69 million until December 2020; this project permits the filtration and reuse of waste water, reducing the dependence on the use of dams. This process will start to be used by the Company in 2021 with a view to replacing conventional waste disposal at the Samambaia dam (downstream dam), reducing the environmental impact and increasing security for all the community.

Picture 1 – High frequency screening

Picture 2 – Dry stacking (dewatering)

## Management compensation

The compensation paid or payable to key management personnel, including the Statutory Executive Board and the Board of Directors, is shown below:

| | 2020<br>R$ thousand | 2019<br>R$ thousand |
|---|---|---|
| Management fees | 3,529 | 4,318 |
| Social charges | 798 | 754 |
| **Total** | **4,327** | **5,072** |

## Internal audit

The Company's governance structure is assisted by the Internal Audit function of the parent company, whose mission is to monitor good practices in governance, assessing the Company's internal control system and risk management.

## Policy regarding the independent auditors

The Company's internal standard for the engagement of non-audit services provided by its independent auditors ensures that no conflicts of interest exist and that the independence and objectivity of these auditors are not compromised. This practice is based on internationally accepted principles that establish the following: (a) auditors should not audit their own work, (b) auditors should not hold any management position at their client, and (c) auditors should not promote the interests of their client.

PricewaterhouseCoopers was responsible for the independent audit of the Company's financial statements for the year ended December 31th, 2020, and was paid fees totaling R$ 255.9 thousand for this purpose.

(A free translation of the original in Portuguese)

## Contents

# Mineração Usiminas S.A.

## Balance sheet

**All amounts in thousands of reais** (A free translation of the original in Portuguese)

| | Note | 12/31/2020 | 12/31/2019 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 1,280,552 | 161,095 |
| Marketable securities | 9 | 854,273 | 651,823 |
| Trade receivables | 10 | 881,767 | 395,774 |
| Inventories | 11 | 108,613 | 95,206 |
| Taxes recoverable | 12 | 30,612 | 63,701 |
| Dividends receivable | | 9,130 | 11,023 |
| Current accounts | | 2,042 | 1,556 |
| Other receivables | | 4,069 | 2,109 |
| Total current assets | | 3,171,058 | 1,382,287 |
| Non-current assets | | | |
| Long-term receivables | | | |
| Deferred income tax and social contribution | 14 | 619,917 | 850,064 |
| Judicial deposits | 15 | 71,055 | 42,277 |
| Inventories | 11 | - | 1,642 |
| Contractual advances | 13 | 97,267 | 46,124 |
| Other receivables | | - | 300 |
| | | 788,239 | 940,407 |
| Investments | 16 | 440,300 | 420,752 |
| Investment properties | | 63,400 | - |
| Property, plant and equipment | 17 | 1,074,941 | 1,261,416 |
| Intangible assets | 18 | 1,408,394 | 602,349 |
| Total non-current assets | | 3,775,274 | 3,224,924 |
| Total assets | | 6,946,332 | 4,607,211 |
| **Liabilities and equity** | | | |
| Liabilities | | | |
| Current liabilities | | | |
| Trade payables | 20 | 210,160 | 167,651 |
| Borrowings | 21 | - | 1,172 |
| Salaries and social charges | | 25,480 | 23,032 |
| Taxes payable | | 41,861 | 14,720 |
| Income tax and social contribution | 14 | 436,722 | 14,953 |
| Dividends payable | 32 | 486,277 | 29,495 |
| Lease liabilities | 23 | 18,805 | 19,406 |
| Other payables | | 42,019 | 18,086 |
| Total current liabilities | | 1,261,324 | 288,515 |
| Non-current liabilities | | | |
| Borrowings | 21 | - | 487 |
| Lease liabilities | 23 | 32,030 | 50,455 |
| Environmental restoration liability | 24 | 230,002 | 231,591 |
| Provision for litigation | 25 | 10,073 | 11,125 |
| Payables to related parties | 32 | 80,042 | 121,838 |
| Other payables | | 8,267 | 4,312 |
| Total non-current liabilities | | 360,414 | 419,808 |
| Total liabilities | | 1,621,738 | 708,323 |
| Equity | 26 | | |
| Capital | | 1,984,219 | 1,984,219 |
| Capital reserve | | 1,210,322 | 1,210,322 |
| Revenue reserve | | 2,133,132 | 705,818 |
| Carrying value adjustments | | (3,079) | (1,471) |
| Total equity | | 5,324,594 | 3,898,888 |
| Total liabilities and equity | | 6,946,332 | 4,607,211 |

The accompanying notes are an integral part of these financial statements.

# Mineração Usiminas S.A.

## Statement of income

**All amounts in thousands of reais** (A free translation of the original in Portuguese)

| | Note | Years ended 12/31/2020 | 12/31/2019 |
|---|---|---|---|
| Net revenue | 27 | 3,858,188 | 1,989,159 |
| Cost of sales | 28 | (1,480,012) | (1,142,610) |
| **Gross profit** | | 2,378,176 | 846,549 |
| **Operating income (expenses)** | | | |
| Selling expenses | 30 | (194,910) | (120,639) |
| General and administrative expenses | 30 | (26,718) | (24,340) |
| Other operating income (expenses), net | 30 | 527,879 | (99,698) |
| Share of profit of jointly-controlled subsidiaries and associates | 16 | 49,375 | 53,142 |
| | | 355,626 | (191,535) |
| **Operating profit** | | 2,733,802 | 655,014 |
| Finance result | 31 | 66,084 | 3,854 |
| **Profit before income tax and social contribution** | | 2,799,886 | 658,868 |
| **Current and deferred income tax and social contribution** | 14 | (860,142) | (170,939) |
| **Profit for the year** | | 1,939,744 | 487,929 |

The accompanying notes are an integral part of these financial statements.

# Mineração Usiminas S.A.

## Statement of comprehensive income

**All amounts in thousands of reais** (A free translation of the original in Portuguese)

| | Years ended | |
|---|---|---|
| | **12/31/2020** | **12/31/2019** |
| **Profit for the year** | 1,939,744 | 487,929 |
| **Other comprehensive income** | | |
| Actuarial gain (loss) on retirement benefits, net of tax (Note 14) | (1,608) | (2,252) |
| **Total other comprehensive income (loss)** | (1,608) | (2,252) |
| **Total comprehensive income for the year** | 1,938,136 | 485,677 |

The accompanying notes are an integral part of these financial statements.

# Mineração Usiminas S.A.

## Statement of changes in equity

**All amounts in thousands of reais**

(A free translation of the original in Portuguese)

| | Capital | Capital reserve<br>Share premium | Revenue reserve<br>For investments and working capital | Carrying value adjustments | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| At December 31, 2018 | 1,984,219 | 1,210,322 | 424,419 | 781 | - | 3,619,741 |
| Comprehensive income | | | | | | |
| Profit for the year | - | - | - | - | 487,929 | 487,929 |
| Actuarial gains (losses) | - | - | - | (2,252) | - | (2,252) |
| Total comprehensive income | - | - | - | (2,252) | 487,929 | 485,677 |
| Transfer to reserves | - | - | 349,626 | - | (349,626) | - |
| Dividends and interest on capital - 2019 | - | - | (68,227) | - | (138,303) | (206,530) |
| At December 31, 2019 | 1,984,219 | 1,210,322 | 705,818 | (1,471) | - | 3,898,888 |
| Comprehensive income | | | | | | |
| Profit for the year | - | - | - | - | 1,939,744 | 1,939,744 |
| Actuarial gains (losses) | - | - | - | (1,608) | - | (1,608) |
| Total comprehensive income (loss) | - | - | - | (1,608) | 1,939,744 | 1,938,136 |
| Transfer to reserves | - | - | 1,427,314 | - | (1,427,314) | - |
| Dividends and interest on capital - 2020 | - | - | - | - | (512,430) | (512,430) |
| At December 31, 2020 | 1,984,219 | 1,210,322 | 2,133,132 | (3,079) | - | 5,324,594 |

The accompanying notes are an integral part of these financial statements.

# Mineração Usiminas S.A.

## Statement of cash flows

**All amounts in thousands of reais** (A free translation of the original in Portuguese)

| | Note | Years ended 12/31/2020 | 12/31/2019 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit for the year** | | 1,939,744 | 487,929 |
| Adjustments to reconcile profit to cash from operations | | | |
| Indexation charges / foreign exchange gains/losses, net | | 34,165 | 43,923 |
| Interest expenses | | (3,015) | (1,636) |
| Depreciation, amortization and depletion | 28 | 142,030 | 133,316 |
| Gain/loss on the sale/write-off of PP&E/investment | | (917) | (708) |
| Share of profit or loss of jointly-controlled subsidiaries and associates | 16 | (49,375) | (53,142) |
| Changes in impairment of assets | | (630,976) | 3,068 |
| Deferred income tax and social contribution | 14 | 230,991 | 43,157 |
| Provisions | | 618,838 | 137,720 |
| (Increase) decrease in assets | | | |
| Trade receivables | | (485,993) | (264,261) |
| Inventories | | (62,908) | 31,088 |
| Taxes recoverable | | 2,520 | (32,822) |
| Judicial deposits | | (28,677) | (35,380) |
| Other | | (35,066) | (13,908) |
| Increase (decrease) in liabilities | | | |
| Trade payables | | (20,584) | 17,994 |
| Taxes payable | | 65,931 | 34,534 |
| Other | | 179,427 | (17,809) |
| Income tax and social contribution paid | | (185,703) | (83,417) |
| Interest paid | | (10) | (182) |
| **Net cash provided by operating activities** | | 1,710,422 | 429,464 |
| **Cash flows from investing activities** | | | |
| Marketable securities | | (202,450) | (74,300) |
| Purchases of property, plant and equipment | 17 | (207,701) | (120,712) |
| Proceeds from sale of property, plant and equipment | | 1,212 | 909 |
| Additions to intangible assets | 18 | (1,114) | (1,342) |
| Capital reduction in subsidiaries | | (22) | (26) |
| Dividends received | | 31,774 | 25,962 |
| **Net cash used in investing activities** | | (378,301) | (169,509) |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | | (1,654) | (1,840) |
| Settlement of hedging transactions | | (180,719) | (5,863) |
| Dividends and interest on capital paid | | (30,291) | (245,263) |
| **Net cash used in financing activities** | | (212,664) | (252,966) |
| **Net increase in cash and cash equivalents** | | 1,119,457 | 6,989 |
| **Cash and cash equivalents at the beginning of the year** | | 161,095 | 154,106 |
| **Cash and cash equivalents at the end of the year** | | 1,280,552 | 161,095 |
| **Net increase in cash and cash equivalents** | | 1,119,457 | 6,989 |

The accompanying notes are an integral part of these financial statements.

All amounts in thousands of reais unless otherwise stated

## 1 Operations

Mineração Usiminas S.A. ("Mineração Usiminas" or the "Company") is a privately-held corporation based in the city of Belo Horizonte, State of Minas Gerais. Its stockholders are Usinas Siderúrgicas de Minas Gerais S.A. - USIMINAS ("Usiminas"), which holds a 70% interest and the Sumitomo Group, which holds a 30% interest, through its subsidiaries Serra Azul Iron Ore L.L.C. ("Serra Azul") and Sumitomo Corporation do Brasil S.A. ("Sumitomo").

The Company and its jointly-controlled subsidiaries and associates are mainly engaged in operations relating to mineral deposits and the trading of iron ore, railroad transport, logistics and cargo terminals. Currently, it has iron ore treatment facilities in the municipalities of Itatiaiuçu and Mateus Leme, State of Minas Gerais, with an annual production capacity of 12 million metric tons (unaudited).

Most of its production is sold to markets abroad and to steel plants owned by its parent company, Usiminas.

The Company holds the following direct or indirect investments in jointly-controlled subsidiaries and associates:

### (a) Jointly-controlled subsidiary

| Company | (%) Interest | (%) Voting capital | Located in | Core business |
|---|---|---|---|---|
| Modal Terminal de Granéis Ltda. | 50 | 50 | Itaúna/MG | Operates highway and railway cargo terminals, storage and handling of ore and steel products, and highway cargo transport. |

### (b) Associates

| Company | (%) Interest | (%) Voting capital | Located in | Core business |
|---|---|---|---|---|
| Terminal de Cargas Sarzedo Ltda. | 22.22 | 22.22 | Sarzedo/MG | Cargo storage and complementary services related to highway transport and general cargo handling. |
| Usiminas Participações e Logística S.A. | 83.30 | 49.90 | Belo Horizonte/MG | Investment in MRS Logística S.A, holding 11.13% of its share capital and participating in its control group (i). |
| Terminal de Cargas de Paraopeba Ltda. | 22.22 | 22.22 | Sarzedo/MG | Cargo storage and handling. |

(i) MRS Logística S.A. is a logistics company that manages a 1,643km railway network in the States of Minas Gerais, Rio de Janeiro and São Paulo. Approximately, one third of all cargo that is carried by trains in Brazil uses MRS services.

**(c) COVID-19 effects**

Since early 2020, Brazil and the world have experienced a serious health crisis due to the COVID-19 pandemic, causing severe disruptions to the economy and society as a whole.

During the year ended December 31, 2020, the Company adopted several measures to monitor and mitigate the effects of the virus and to ensure its business continuity. The health and occupational safety measures adopted included the mapping of all employee working conditions (higher risk group), provision of masks, availability of sanitizing hand gel and internal communications for preventive measures emphasizing the hygiene protocols recommended by government authorities.

The Company's management has been monitoring the receivables portfolio, for possible default or delinquency and possible extension of payment terms for customers. By the end of the year no impacts from COVID-19 on receivables had been identified. An analysis of trade receivable and maturities, as well as the changes in the provision for impairment of trade receivables, is disclosed (Note 10).

In relation to the impairment of non-financial assets, the Company performed sensitivity tests under different scenarios and did not identify the need to set up a provision for impairment in the period (Note 19).

## 2 Approval of the financial statements

The issue of these financial statements was authorized by the Company's Board of Directors on March 24, 2021.

## 3 Basis of preparation of the financial statements

### 3.1 Statement of compliance and basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention, as modified to reflect the measurement of financial assets and financial liabilities (including derivative financial instruments, if any) at fair value through profit or loss.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Those areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The financial statements have been prepared and are presented in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and the accounting practices adopted in Brazil, as issued by the Brazilian Accounting Pronouncements Committee (CPC), and disclose all information significant to the financial statements, which is consistent with the information utilized by the Company's management in the performance of its duties.

### 3.2. Functional and presentation currency

The items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in Brazilian Real/Reais (R$), which is the Company's functional and presentation currency.

### 3.3. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below:

Accounting policies applied in transactions considered immaterial are not disclosed in the financial statements.

The accounting policies applied in the preparation of financial statements have been consistently applied for the years presented.

### 3.3.1 Joint ventures and associates

The Company classifies its investments as follows:

- associated companies are entities over which the Company has significant influence, but not control or joint control, through its participation in decisions relating to their financial and operating policies; and

- jointly-controlled subsidiaries are entities over which the Company shares control with one or more parties.

Investments in associates and jointly-controlled subsidiaries are accounted for using the equity method and are initially recognized at cost.

The reporting periods of the jointly-controlled subsidiaries and associates are consistent with those of the Company. However, for equity accounting purposes, pursuant to CPC18 (R2) and IAS 28, the accounting information as at November 30, 2020 was used for the associates Terminal de Cargas Sarzedo Ltda. and Terminal de Cargas de Paraopeba Ltda. and the jointly-controlled entity Modal Terminal de Granéis Ltda.

The Company's share of profit or loss of its associates and jointly-controlled subsidiaries is recognized in the statement of income and its share of changes in reserves is recognized in the Company's reserves. When the Company's share of losses in an associate or jointly-controlled subsidiary equals or exceeds the carrying amount of the investment, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or jointly-controlled investee.

Accounting policies of associates and jointly-controlled subsidiaries have been modified where necessary to ensure consistency with the policies adopted by the Company.

### 3.3.2 Translation of transactions and balances in foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation on which the items are measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

Foreign exchange gains and losses relating to assets and liabilities are presented in the statement of income within finance income (costs).

### 3.3.3 Cash and cash equivalents and marketable securities

#### (a) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, bank deposits, and other short-term highly liquid investments, with an immaterial risk of changes in value, with the objective of meeting short-term commitments.

#### (b) Marketable securities

Highly liquid investments, redeemable in one year or less, which are not intended by management to meet short-term commitments, are classified as marketable securities.

### 3.3.4 Financial assets

#### (a) Classification

Upon initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”).

A financial asset is measured at amortized cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI if both of the following conditions are met:

- the asset is held within a business model whose objective is achieved through both the collection of contractual cash flows and the sale of financial assets; and

- the contractual terms of the financial asset give rise, on specified dates, to cash flows that represent payments of principal and interest on the principal amount outstanding.

All other financial assets are classified as measured at fair value through profit or loss.

In addition, upon initial recognition, the Company may irrevocably designate a financial asset that meets the requirements to be measured at amortized cost, as FVOCI or even as FVTPL. This designation has the purpose of eliminating or significantly reducing a possible accounting mismatch arising from the gains or losses produced by the respective asset measured on different bases.

**(b) Recognition and measurement**

Purchases and sales of financial assets are recognized at the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value recognized in profit or loss. Financial assets carried at fair value recognized in profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of income in the period in which they arise. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, prioritizing market inputs and minimizing the use of entity-specific inputs.

**(c) Impairment of assets carried at amortized cost**

The Company assesses, at the end of each reporting period, whether there is objective evidence that a financial asset or a group of financial assets is impaired. The criteria that the Company uses to determine whether there is objective evidence of impairment include:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in principal or interest payments;
- probability that the debtor will enter bankruptcy or financial reorganization; or
- the disappearance of an active market for that financial asset as a result of financial difficulties.

**(d) Derecognition of financial assets**

A financial asset (or, when applicable, a part of a financial asset or a part of a group of similar financial assets) is especially likely to be derecognized when:

- the rights to receive cash flow from the asset have expired; and

- the Company has transferred its rights to receive cash flow from the asset or has agreed to pay the full amount of the cash flow received, with no significant delay, to a third party as a result of a “transfer” agreement; and (a) the Company has transferred substantially all of the risks and rewards of the asset, or (b) the Company has not transferred or has not substantially retained all of the risks and rewards related to the asset, but transferred control over this asset.

When the Company has transferred its rights to receive cash flow from an asset or has entered into a transfer agreement and has not substantially transferred or retained all of the risks and rewards related to an asset, the asset is recognized to the extent of the continuous involvement of the Company with this asset.

### 3.3.5 Financial liabilities

#### (a) Recognition and measurement

Financial liabilities are classified as measured at fair value through profit or loss if they are classified as held for trading or designated as such upon its initial recognition. Transaction costs are recognized in profit or loss as they are incurred. These financial liabilities are measured at fair value and any changes in fair value, are recognized in the statement of income for the year.

The Company's financial liabilities, which are initially recognized at fair value, include trade and other payables, borrowings and derivative financial instruments. The cost of the transaction directly related to borrowings and payables is added to them.

#### (b) Subsequent measurement

After the initial recognition, borrowings, debentures, trade and other payables are subsequently measured at amortized cost, using the effective interest method.

#### (c) Borrowing costs

Borrowing costs related to the acquisition, construction or production of an asset that requires a substantial period of time to prepare for its intended use or sale are capitalized as part of the cost of that asset. Borrowing costs are comprised of interest and other costs incurred by the Company in connection with the raising of funds.

#### (d) Derecognition of financial liabilities

A financial liability is derecognized when the obligation is revoked, canceled or has expired.

When an existing financial liability is substituted for another liability of the same lender with substantially different terms, or the terms of an existing liability are altered significantly, this substitution or alteration is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the corresponding carrying amounts is recognized in the statement of income for the year.

(e) **Derivative financial instruments and hedge activities**

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value through profit or loss.

### 3.3.6 Inventories

Inventories are stated at the lower of their average purchase or production cost (weighted moving average) and their net realizable value.

### 3.3.7 Judicial deposits

Judicial deposits are made into bank escrow accounts linked to legal proceedings, in Brazilian Reais and accrue interest, with the purpose of ensuring the settlement of potential future liabilities.

### 3.3.8 Property, plant and equipment

Property, plant and equipment are recorded at the cost of acquisition, formation or construction, less depreciation and, when applicable, impairment losses. Upon replacement, the key components of certain property, plant and equipment items are recorded as individual and separate assets and depreciated considering the specific economic useful lives of these components. The carrying amount of the replaced component is derecognized. Costs incurred for maintenance, aiming at restoring or maintaining the original performance standards of property, plant and equipment items are recognized in the statement of income during the period in which they are incurred. Engineering, research, studies and development expenses are accounted for as operating expenses until the economic feasibility of a certain project is evidenced; from then on, the expenses incurred shall be accounted for as fixed assets.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, except for costs to cease mineral deposit operations (environmental restoration liabilities) (Notes 3.3.13 and 17).

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, during the year.

An asset's carrying amount is adjusted immediately when it is greater than its estimated recoverable amount.

The Company has spare parts for the maintenance of property, plant and equipment items, which have estimated useful lives of more than 12 months. These are classified in property, plant and equipment.

### 3.3.9 Investment properties

Investment properties are initially measured at cost, including transaction costs. After initial recognition, investment properties are presented at fair value, which reflects market conditions at the balance sheet date. Gains or losses resulting from changes in the fair value of investment properties are included in the statement of income for the year in which they are generated. Investment properties are written off when they are sold or when the investment property is no longer permanently used and no future economic benefit is expected from its sale. The difference between the net value obtained from the sale and the carrying amount of the asset is recognized in the statement of income for the write-off period.

### 3.3.10 Intangible assets

#### (a) Goodwill

Goodwill represents the excess of the cost of acquisition over the net fair value of assets and liabilities of the acquired entity. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose, duly segregated, by operating segment.

#### (b) Mineral rights

Mineral rights are recorded at their purchase value and reduced based on the depletion of the mineral reserves.

Mineral rights arising from acquisitions of companies are recognized at their fair values, considering the allocation of assets and liabilities acquired.

Mineral rights are depleted in accordance with the development of the mineral reserves.

#### (c) Software

Software licenses purchased are capitalized and amortized on a straight-line basis over their estimated useful lives (Note 18).

### 3.3.11 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets with defined useful lives are reviewed to identify evidence of impairment at the balance sheet date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there is an indication of impairment, the assets are tested for impairment. An impairment loss is recognized when the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (Cash-generating unit or CGU). An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount.

### 3.3.12 Provision for litigation

The provision for litigation related to labor, tax and civil administrative and legal proceedings is recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

### 3.3.13 Environmental restoration liability

The liability related to environmental restoration expenditures, when related to an asset construction or acquisition, is recorded as part of the cost of that asset and takes into consideration management's estimates.

The expenditures are measured at the present value expected to be required to settle the obligation that reflects current assessments of the market and the risks specific to the obligation. The increase in the provision due to the time elapsed is recognized as interest expense.

The Company recognizes a liability related to expected costs of the mine closure and deactivation of assets connected to these mines on an accrual basis, at present value. The Company considers the accounting estimates related to the restoration of the degraded areas and mine closure costs as a critical accounting practice because it involves significant provision values and is based on estimates related to several assumptions, such as interest and inflation rates, the useful life of the asset considering the current depletion level and the projected depletion dates of each mine. These estimates are reviewed annually.

### 3.3.14 Current and deferred income tax and social contribution

Taxes on profit are recognized in the statement of income, except to the extent that they relate to items recognized in comprehensive income or directly in equity.

Deferred taxes are calculated on corporate income tax (IRPJ) and social contribution (CSLL) losses and on the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax assets and liabilities are presented on a net basis in the balance sheet when there is a legally enforceable right and an intention to offset them upon the calculation of current taxes, generally when they are related to the same legal entity and the same tax authority.

### 3.3.15 Employee benefits

#### (a) Supplementary retirement plan

The Company offers its employees supplementary pension plans, which are managed by Previdência Usiminas, a closed non-profit supplementary pension entity with administrative and financial autonomy.

Currently, the only pension plan offered to the Company's employees accepting new enrollments is USIPREV, classified as Variable Contribution (CV). However, a “Charter Member”, up to April 13, 2011, may also opt to migrate to a monthly life annuity. In this case, during the payout phase, USIPREV will be similar to a defined-benefit-type plan.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the market value of the plan assets, adjusted for: (i) actuarial gains and losses; (ii) rules for limiting the value of the asset determined; and (iii) minimum requirements. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the future cash outflows using market interest rates that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are charged or credited directly in other comprehensive income in the period in which they occur. The contributions are recognized as finance costs in the period in which they are due.

**(b) Post-retirement healthcare benefit plan**

The Company records the obligations arising from the Brazilian retirement plan legislation, which guarantees employees who contributed to the retirement plan the right to continue as beneficiaries when they retire, provided that they continue to pay the full amount of the contributions to the plan. The maintenance term after retirement is one year for each contribution year and if contributions had been made for ten continuous years, this term is indefinite.

Independent actuaries value these obligations annually.

**(c) Employee profit sharing**

The Company provides for employee profit sharing based on the fulfillment of operating and financial targets set for its employees. These amounts are recorded under "Cost of sales", "Selling expenses" and "General and administrative expenses", in accordance with each employee’s function.

### 3.3.16 Revenue recognition

Revenue is shown net of taxes, returns, rebates and discounts. Revenue is measured at the fair value of the consideration received or receivable, to the extent it is probable that future economic benefits will flow to the entity, and the amounts of revenue and costs can be reliably measured.

Sales of the Company's products refer basically to sales of iron ore as sinter feed or pellet feed fines and of granulated iron ore. The Company recognizes revenue on the date the product is delivered to the purchaser in accordance with the contractual condition. In certain cases, the selling price is determined provisionally on the date of the sale and subsequently adjusted according to the changes in quoted market prices up to the date on which the final price is fixed.

### 3.3.17 Finance income and costs

Finance income and costs, which are comprised of income from financial investments, indexation, interest, discounts and credit assignment, are recognized on an accrual basis, using the effective interest rate method.

### 3.3.18 Distribution of dividends and interest on capital

Dividends and interest on capital distributable to the Company's stockholders is recognized as a liability in the financial statements at the year-end based on the Company's bylaws. Amounts above the minimum mandatory limit established by law are only subject to provision when declared by the General Stockholders' Meeting.

The tax benefit of interest on capital is recognized in the statement of income.

### 3.3.19 Accounting standards issued but not yet effective at December 31, 2020

| | |
|---|---|
| LIBOR/IBOR Reform - IFRS 9, IAS 39 and IFRS 7 | Reform of interest rate benchmark (Phase 1) IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS16 – Reform of interest rate benchmark (Phase 2). |
| IFRS 17 | Insurance Contracts |
| IFRS 10 - Consolidated Financial Statements and IAS 28 (amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current |
| Amendments to IFRS 3 | Reference to Conceptual Framework |
| Amendments to IAS 16 | Property, Plant and Equipment - Proceeds Before their Intended Use |
| Amendments to IAS 37 | Onerous Contracts - Costs to Fulfill a Contract |
| Annual Improvements to the IFRS 2018-2020 Cycle | Amendments to IFRS 1 - First-time Adoption of International Financial Reporting Standards, IFRS 9 - Financial Instruments, IFRS 16 - Leases and IAS 41 - Agriculture |

The Company does not expect that the adoption of these standards will have a material impact on the parent company and consolidated financial statements.

## 4 Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make certain judgments and estimates and adopt assumptions that impact the stated amounts of revenue, expenses, assets and liabilities and their related disclosures, as well as the disclosure of contingent liabilities.

### 4.1 Judgments

In the process of applying the Company's accounting policies, management applied the following judgments; the more significant estimates and judgements used in applying the Company's accounting policies which affect future financial statements are as follows:

(a) **Segregation of components of interest and indexation on financial investments and local borrowings**

The Company carves-out the indexation effects of the Extended Consumer Price Index (IPCA) on borrowings and financial investments, from the charges based on the CDI and the Long-Term Interest Rate (TJLP) accruals. Thus, the IPCA portion is segregated from interest on borrowings and income from financial investments, and included in "Indexation effects" within "Finance income (costs) (Note 31).

(b) **Classification of investment control**

The Company classifies its investments in accordance with CPC 18 (R2) – "Investments in Associates and Joint Ventures" and with CPC 19 (R2) – "Joint Ventures", the adoption of which is subject to the use of judgment to determine the extent of control and significant influence over investees.

## 4.2 Estimates and assumptions

The estimates and assumptions that relate to sources of uncertainty in estimates of the future and other important sources of uncertainties in estimates at the balance sheet date, having a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are addressed below.

(a) **Impairment of non-financial assets**

Annually, the Company tests goodwill and other long-term assets for impairment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash-generating units (CGUs)). The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations were based on estimates (Note 19).

(b) **Deferred income tax and social contribution**

Management reviews, on a regular basis, the recoverability of deferred tax assets considering the estimated future taxable income, based on technical feasibility studies (Note 14 (b)).

(c) **Pension benefits**

The present value of the retirement plan obligations depends on a number of factors that are determined on an actuarial basis. The assumptions used to determine the net cost (income) for retirement plans include the discount rate.

The Company determines the appropriate discount rate at the end of each year, to determine the present value of the estimated future cash outflow.

Other assumptions for retirement plan obligations are based on current market conditions.

**(d) Provision for litigation**

Mineração Usiminas is a party to several judicial and administrative proceedings (Note 25). Provisions are recorded for all proceedings that represent probable risk of loss. The probability of loss is assessed by management based on available evidence, under the advice of internal and external legal counsel.

**(e) Environmental restoration liability**

The Company records a provision for the expected environmental restoration costs for when it ceases its mineral deposit operations in the areas affected by its activities. The provision is determined based on a specialized technical study. Upon recognition of the provision, the estimated costs are capitalized in property, plant and equipment and depreciated over the useful lives of the related mining assets, generating an expense that is recognized in the statement of income for the year. In 2020, a rate of 7.12% p.a. was used to update the balance of the provision for environmental restoration.

**(f) Useful lives of property, plant and equipment**

The depreciation of property, plant and equipment is calculated using the straight-line method over the useful lives of the assets. The useful lives of assets are based on reports issued by the Company’s engineers or by external consultants, which are reviewed annually.

**(g) Leases**

The Company has entered into lease agreements, mainly related to vehicles used for internal transportation in mines. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Lease contracts do not include restrictive covenants. However, the related leased assets cannot be given as guarantees for borrowings.

Lease liabilities are measured and estimated as described in Note 23.

Right-of-use assets are measured at cost as follows:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the lease term, on a straight-line basis (Note 17).

## 5 Financial risk management

The Company has a financial risk management program in place that seeks to reduce the impacts of these risks on its financial assets, financial liabilities and cash flows. This program was prepared in accordance with the financial policy of its parent company Usiminas. The Company's Management evaluates, monitors and adopts, when necessary, measures to mitigate the effects of these risks, also contracting derivative financial instruments for such purpose.

## 5.1 Financial risk factors

Mineração Usiminas is exposed to several financial risks, such as market risk, foreign exchange risk, interest rate risk, fair value risk, credit risk and liquidity risk. The Company's Board of Directors establishes principles for the management of these risks, including with financial instruments and investment of excess liquidity.

## 5.2 Policy regarding the utilization of financial instruments

The purpose of the policy for the management of financial assets and liabilities is to: (i) maintain the intended level of liquidity, (ii) define the level of concentration of operations, and (iii) control the level of exposure to financial market risks.

Management monitors the risks to which it is exposed and evaluates the need to contract derivative transactions in order to minimize the impacts on its financial assets and liabilities, and reduce the volatility in its cash flows caused mainly by foreign exchange exposure and the effects of the price of iron ore.

## 5.3 Financial risk management policy

### (a) Credit risk

Credit risk arises substantially from the relationship with financial institutions in which the Company maintains financial resources, from publicly-held companies, in which securities and notes are acquired, as well as from exposure to receivables from customers.

As a means to mitigate credit risk, with respect to cash and cash equivalents, Mineração Usiminas carries out transactions exclusively with prime financial institutions.

With respect to financial investments, only securities and notes of entities rated by the international rating agencies as "A-" or higher are traded. In addition, other criteria must be complied with, such as equity and cash concentration by institution.

Mineração Usiminas' sales policy seeks to minimize any risks arising from customer defaults. The finance and sales areas evaluate and monitor customer performance. Customers are selected based on their ability to pay, debt ratio and other items in the balance sheet.

### (b) Liquidity risk

The policy for the management of financial assets and liabilities involves an analysis of the counterparties based on an evaluation of their financial statements, equity and credit ratings. This policy is intended to ensure that the Company is able to maintain the intended level of liquidity, to define the concentration level of its operations, as well as to control the level of exposure to financial market risks, thus diluting its liquidity risk.

Cash flow forecasting is based on the budget approved by the Board of Directors; when necessary, cash flow forecasting is reviewed and updated.

At December 31, 2020, the cash was invested in Bank Deposit Certificates (CDBs) and repurchase agreements.

The table below presents undiscounted financial liabilities by maturity:

| | Less than 1 year | From 1 to 2 years | From 2 to 5 years | Over 5 years |
|---|---|---|---|---|
| At December 31, 2020 | | | | |
| Trade payables | 194,483 | - | - | - |
| Payables to related parties | 15,677 | - | 94,639 | 31,546 |
| Lease liabilities | 18,805 | 16,177 | 15,853 | - |
| At December 31, 2019 | | | | |
| Trade payables | 124,785 | - | - | - |
| Borrowings | 1,245 | 422 | 83 | - |
| Payables to related parties | 42,866 | 31,546 | 94,638 | 63,093 |
| Lease liabilities | 19,406 | 18,586 | 31,869 | - |

## (c) Foreign exchange risk

### (i) Foreign exchange exposure

Mineração Usiminas carries out transactions with counterparties abroad and, therefore, is exposed to foreign exchange risk, mainly related to the U.S. Dollar. The Company's net exposure value in foreign currency at December 31, 2020 and 2019 is presented below:

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Assets in foreign currency | | |
| Cash and cash equivalents | 227,103 | 79,532 |
| Trade receivables | 591,223 | 219,086 |
| | 818,326 | 298,618 |
| Liabilities in foreign currency | | |
| Trade payables | (10,780) | (12,898) |
| Net exposure | 807,546 | 285,720 |

### (ii) Sensitivity analysis - foreign exchange risk arising from assets and liabilities denominated in foreign currency

The Company prepares a sensitivity analysis of assets and liabilities denominated in foreign currency (U.S. Dollar), and considers as the base scenario the values at December 31, 2020. Scenario I is stressed by a reduction of 5% of the balance sheet values. Scenarios II and III were stressed based on factors of 25% and 50%, respectively, on assets and liabilities in foreign currency at December 31, 2020.

The sensitivity analysis of the U.S. Dollar is presented below:

| | | | | 12/31/2020 |
|---|---|---|---|---|
| **Currency** | **Foreign exchange rate at the end of the year** | **Scenario I** | **Scenario II** | **Scenario III** |
| US$ | 5.1967 | 4.9369 | 3.8975 | 2.5984 |

Changes in foreign exchange rates under Scenarios I, II and III, could give rise to the following financial losses:

| | | | 12/31/2020 |
|---|---|---|---|
| **Currency** | **Scenario I** | **Scenario II** | **Scenario III** |
| US$ | (21,578) | (107,892) | (215,784) |

### (d) Interest rate risk

The Company has financial investments in Reais that are linked to the interest rates of Interbank Deposit Certificates (CDI), and fixed-rate investments in U.S. dollars abroad. The net exposure to interest rates is as follows:

| | **12/31/2020** | **12/31/2019** |
|---|---|---|
| Assets in CDI | | |
| Cash and cash equivalents | 1,052,310 | 81,022 |
| Marketable securities | 854,273 | 651,823 |
| Net exposure | 1,906,583 | 732,845 |

### (i) Sensitivity analysis of changes in interest rates

The Company prepares a sensitivity analysis of assets and liabilities indexed to interest rates (CDI). Therefore, it considers as the base scenario the outstanding applicable rates in the year ended December 31, 2020. Scenario I considered a 5% decrease in the average interest rate applicable to the Company’s assets. Scenarios II and III were stressed based on factors of 25% and 50%, respectively.

The sensitivity analysis of the CDI rate based on the related scenarios is presented below:

| | | | | 12/31/2020 |
|---|---|---|---|---|
| **Index** | **Interest rate at the end of the year** | **Scenario I** | **Scenario II** | **Scenario III** |
| CDI | 1.9% | 1.8% | 1.4% | 1.0% |

The effects on the finance result of the Company, considering the changes in the CDI rate based on Scenarios I, II and III, are shown below:

| | | | 12/31/2020 |
|---|---|---|---|
| **Index** | **Scenario I** | **Scenario II** | **Scenario III** |
| CDI | (1,907) | (9,533) | (17,159) |

### 5.4 Capital management

The Company's capital management aims to establish a capital structure that ensures business continuity in the long term, and provide the expected return to stockholders. At December 31, 2020, the Company has no material financial liabilities, and retains a significant cash reserve to be used on future projects.

## 6 Derivative financial instruments

The Company enters into hedging transactions related to iron ore prices and foreign exchange rates in order to hedge its financial position and its cash flow. The Company's management analyzes the future prices of ore and future foreign exchange rates (R$/US$) in deciding to contract financial hedges.

The Company does not carry out derivative transactions for speculative purposes, nor does it settle or pay its operations before their original maturities.

In 2020, exchange rate hedging transactions were carried out, which resulted in a financial loss of R$182,841. All hedging transactions presented below had been settled by December 31, 2020.

| Financial institution | Maturity groups month/year | INDEX | | NOTIONAL AMOUNT (contracted amount) | | | | FAIR (MARKET) VALUE - BOOK VALUE | | Gain/loss for the period |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 12/31/2020 | | 12/31/2019 | | 12/31/2020 | 12/31/2019 | 12/31/2020 |
| | | Asset position | Liability position | Asset position | Liability position | Asset position | Liability position | Asset (liability) position | Asset (liability) position | Gain (loss) |
| **HEDGE OF COMMODITIES' PRICE** | | | | | | | | | | |
| Banco ABC Brasil | May/20 | Ore FWD US$ 90.50 | Ore_Fut_J20_SGX | - | - | - | - | - | - | 1,814 |
| Banco ABC Brasil | May/20 | Ore FWD US$ 90.70 | Ore_Fut_J20_SGX | - | - | - | - | - | - | 1,868 |
| Banco ABC Brasil | May/20 | Ore FWD US$ 90.90 | Ore_Fut_J20_SGX | - | - | - | - | - | - | 1,923 |
| Banco ABC Brasil | May/20 | Ore FWD US$ 86.04 | Ore_Fut_J20_SGX | - | - | - | - | - | - | 1,797 |
| Banco ABC Brasil | June/20 | Ore FWD US$ 81.63 | Ore_Fut_J20_SGX | - | - | - | - | - | - | (17,601) |
| Banco ABC Brasil | Jul/20 | Ore FWD US$ 85.00 | Ore_Fut_J20_SGX | - | - | - | - | - | - | (390) |
| Banco ABC Brasil | Jul/20 | Ore FWD US$ 85.06 | Ore_Fut_J20_SGX | - | - | - | - | - | - | (14,190) |
| Banco ABC Brasil | Aug/20 | Ore FWD US$ 77.24 | Ore_Fut_N20_SGX | - | - | - | - | - | - | (28,057) |
| Banco ABC Brasil | Sep/20 | Ore FWD US$ 75.98 | Ore_Fut_Q20_SGX | - | - | - | - | - | - | (31,818) |
| Banco ABC Brasil | Sep/20 | Ore FWD US$ 93.25 | Ore_Fut_Q20_SGX | - | - | - | - | - | - | (48,033) |
| Banco ABC Brasil | Sep/20 | Ore FWD US$ 97.57 | Ore_Fut_Q20_SGX | - | - | - | - | - | - | (23,204) |
| Banco ABC Brasil | Out/20 | Ore FWD US$ 95.35 | Ore_Fut_U20_SGX | - | - | - | - | - | - | (24,169) |
| Banco ABC Brasil | Out/20 | Ore FWD US$ 104.16 | Ore_Fut_U20_SGX | - | - | - | - | - | - | (2,566) |
| Banco ABC Brasil | Out/20 | Ore FWD US$ 104.89 | Ore_Fut_U20_SGX | - | - | - | - | - | - | (215) |
| | | | | | | | | | **Revenue from exports in the period** | **(182,841)** |
| | | | | | | | **Book balance (asset position net of the liability position)** | **-** | **-** | **(182,841)** |

## 7 Financial instruments by category and by fair value

| | 12/31/2020 | | | 12/31/2019 | | |
|---|---|---|---|---|---|---|
| | **Assets carried at amortized cost** | **Assets measured at fair value through profit or loss** | **Total** | **Assets carried at amortized cost** | **Assets measured at fair value through profit or loss** | **Total** |
| **Assets** | | | | | | |
| Cash and cash equivalents | 1,280,552 | - | 1,280,552 | 161,095 | - | 161,095 |
| Marketable securities | - | 854,273 | 854,273 | - | 651,823 | 651,823 |
| Trade receivables | 881,767 | - | 881,767 | 395,774 | - | 395,774 |
| Other asset financial instruments | 5,431 | - | 5,431 | 3,573 | - | 3,573 |
| | 2,167,750 | 854,273 | 3,022,023 | 560,442 | 651,823 | 1,212,265 |

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| | **Liabilities at amortized cost** | **Liabilities at amortized cost** |
| **Liabilities** | | |
| Borrowings | - | 1,659 |
| Trade payables | 210,160 | 167,651 |
| Lease liabilities | 50,835 | 69,861 |
| Payables to related parties | 80,042 | 121,838 |
| | 341,037 | 361,009 |

The fair values of financial instruments are categorized into different levels of the following hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities (unobservable inputs).

- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At December 31, 2020, financial instruments measured at fair value include financial investments that are fully classified at Level 2.

The amounts of the financial instruments measured at fair value do not significantly differ from their carrying amounts, since they have been contracted and recorded considering rates and conditions adopted in the market for transactions of similar nature, risk and term.

## 8 Cash and cash equivalents

Cash and cash equivalents include financial assets, as follows:

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Bank accounts | 1,139 | 541 |
| Bank accounts abroad | 227,103 | 79,532 |
| Bank Deposit Certificates (CDB) and repurchase agreements | 1,052,310 | 81,022 |
| | 1,280,552 | 161,095 |

At December 31, 2020, financial investments in Bank Deposit Certificates (CDB) and repurchase agreements have immediate liquidity and earn on average 104.96% (December 31, 2019 - 100.97%) of the CDI rate.

At December 31, 2020, the significant increase in the balance of Bank Deposit Certificates (CDB) and repurchase agreements resulted from a higher cash generation in comparison with December 31, 2019.

## 9 Marketable securities

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Bank Deposit Certificates (CDB) | 854,273 | 651,823 |

Financial investments in CDBs earn on average 104.96% (December 31, 2019 - 100.97%) of the CDI rate.

Financial investments mainly comprise CDBs, which are held at prime financial institutions, and are redeemable in one year or less.

## 10 Trade receivables

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Trade receivables - local currency | 7,196 | 67,099 |
| Trade receivables - foreign currency | 591,223 | 219,086 |
| Trade receivables | 598,419 | 286,185 |
| Receivables from related parties (Note 32) | 283,348 | 109,589 |
| | 881,767 | 395,774 |

At December 31, 2020 and 2019, the Company did not have overdue trade receivables.

## 11 Inventories

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Current assets: | | |
| Finished products | 49,695 | 47,424 |
| Work in progress | 15,932 | 17,899 |
| Raw materials | 591 | 635 |
| Supplies and spare parts | 44,687 | 34,434 |
| Imports in transit | 74 | 709 |
| Provision for losses | (2,366) | (5,895) |
| | 108,613 | 95,206 |
| Non-current assets (i): | | |
| Finished products | 1,627 | 1,642 |
| Raw materials | 53,260 | 54,464 |
| Impairment of assets (ii) | (54,887) | (54,464) |
| | - | 1,642 |
| Total inventories | 108,613 | 96,848 |

(i) Mineração Usiminas, based on its production plan, classifies as non-current assets inventory when realization is expected to exceed 12 months.

(ii) At December 31, 2020, an additional impairment loss was recorded for inventories of iron ore of R$423, due to the increase in inventories as a result of higher production as compared to consumption. At December 31, 2019, an impairment provision of iron ore inventories was reversed for R$743.

## 12 Taxes recoverable

Taxes recoverable recorded in current assets are disclosed below:

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Social Integration Program (PIS) and Social Contribution on Revenues (COFINS) | 30,612 | 63,701 |

## 13 Contractual advances

The Company signed an agreement in July 2011 for the lease of mining rights adjacent to the areas where it holds mineral titles. The agreement was established for a 30-year term, as from October 15, 2012, the closing date as authorized by the National Mining Agency (ANM), or until the depletion of the mineral reserves.

Lease payments are linked to the metric tons of ore mined in the areas covered by the lease agreement. As from 2015, the minimum annual volume of 3.6 million metric tons was set. In the event the volume of ore mined in a year is less than the minimum annual volume set, a payment under a take-or-pay arrangement will be due, to be equivalent to the difference between the minimum volume set and the ore volume mined.

The agreement was amended on December 19, 2019, with a new mechanism providing for an offset when ore is below the minimum annual volume. For the period from January 1, 2019 to December 31, 2024, take-or-pay amounts will be treated as a credit to be offset against surplus amounts mined between 2025 and 2033.

At December 31, 2020, in accordance with the provisions of the lease agreement and its amendments, ad advance of R$97,267 was made and recorded in non-current assets.

## 14 Income tax and social contribution

### (a) Taxes on profit

A reconciliation from the hypothetical income tax expenses obtained by using statutory nominal rates to reported income tax expense is as below:

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Profit before income tax and social contribution | 2,799,886 | 658,868 |
| Nominal statutory rates | 34% | 34% |
| Taxes on profit at nominal statutory rates | (951,962) | (224,015) |
| Adjustments to determine effective taxes on profit: | | |
| Equity in the results of investees (25% and 9%) | 16,788 | 18,069 |
| Permanent differences (25% and 9%) | (8,062) | (8,234) |
| Tax incentives | 20,774 | 6,247 |
| Interest on capital benefit | 62,320 | 36,994 |
| IRPJ and CSLL determined | (860,142) | (170,939) |
| Current | (629,151) | (127,782) |
| Deferred | (230,991) | (43,157) |
| Taxes on profit in the statement of income | (860,142) | (170,939) |
| Effective rates | 31% | 26% |

### (b) Deferred income tax and social contribution

The balances and changes in deferred income tax and social contribution assets and liabilities at nominal rates are as follows:

| | 12/31/2019 | Equity/ Comprehen-sive income | Recognized in profit or loss | 12/31/2020 |
|---|---|---|---|---|
| **Assets** | | | | |
| Income tax and social contribution | | | | |
| Tax losses | 34,755 | - | (34,755) | - |
| Temporary provisions | | | | |
| Provision for litigation | 3,782 | - | (357) | 3,425 |
| Environmental restoration liability | 30,219 | - | 4,200 | 34,419 |
| Provision for inventory adjustments | 20,522 | - | (1,056) | 19,466 |
| Goodwill - merger of companies | 288,277 | - | (3,807) | 284,470 |
| Provision for employee profit sharing | 3,310 | - | 585 | 3,895 |
| Impairment of assets | 465,298 | - | (281,803) | 183,495 |
| Provision for actuarial liability | 1,140 | 844 | 80 | 2,064 |
| Other | 27,465 | - | 79,115 | 106,580 |
| Total assets | 874,768 | 844 | (237,798) | 637,814 |
| **Liabilities** | | | | |
| Income tax and social contribution | | | | |
| Indexation of charges on judicial deposits | (1,686) | - | (459) | (2,145) |
| Leasing – as per Law 11,638 | (88) | - | 25 | (63) |
| Adjustment to present value | (22,930) | - | 7,241 | (15,689) |
| Total liabilities | (24,704) | - | 6,807 | (17,897) |
| Total, net | 850,064 | 844 | (230,991) | 619,917 |

The long-term deferred income tax and social contribution were tested for impairment and justified based on projected future taxable income as estimated by the Company's management. These projections are based on reports from recognized entities operating in the mining industry and macroeconomic projections provided by public agencies, among others.

## (c) Income tax and social contribution in current liabilities

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| **Income tax** | | |
| Current income (expense) | (457,103) | (92,268) |
| Prepayments and offsets for the period | 132,403 | 81,214 |
| | (324,700) | (11,054) |
| **Social contribution** | | |
| Current income (expense) | (172,048) | (35,514) |
| Prepayments and offsets for the period | 60,026 | 31,615 |
| | (112,022) | (3,899) |
| Total IRPJ and CSLL payable | (436,722) | (14,953) |

# 15 Judicial deposits

| | 12/31/2019 | Additions | Disposals | Accruals | 12/31/2020 |
|---|---|---|---|---|---|
| Labor (i) | 6,471 | 936 | (1,751) | 258 | 5,914 |
| Tax (ii) | 35,806 | 28,042 | - | 1,293 | 65,141 |
| | 42,277 | 28,978 | (1,751) | 1,551 | 71,055 |

(i) Relate to labor claims from employees, former in-house employees and outsourced personnel of Mineração Usiminas; termination agreements and administrative proceedings related to notices served by labor inspectors.

(ii) The balance at December 31, 2020 and December 31, 2019 relates to a petition for a writ of mandamus filed against the required payment of the Financial Compensation for Mineral Resources Exploration (CFEM).

# 16 Investments

## (a) Changes in investments

| | 12/31/2019 | Additions | Equity in results of investees | Dividends | Actuarial liability | 12/31/2020 |
|---|---|---|---|---|---|---|
| **Jointly-controlled subsidiary** | | | | | | |
| Modal | 2,549 | - | 2,765 | (2,932) | - | 2,382 |
| **Associates** | | | | | | |
| Sarzedo Terminal (i) | 2,139 | - | 8,181 | (6,554) | - | 3,766 |
| Paraopeba Terminal | 920 | 22 | (17) | - | - | 925 |
| UPL | 403,276 | - | 38,446 | (20,395) | 32 | 421,359 |
| | 408,884 | 22 | 49,375 | (29,881) | 32 | 428,432 |
| **Goodwill** | | | | | | |
| Modal | 4,668 | - | - | - | - | 4,668 |
| Sarzedo Terminal | 7,200 | - | - | - | - | 7,200 |
| | 11,868 | - | - | - | - | 11,868 |
| | 420,752 | 22 | 49,375 | (29,881) | 32 | 440,300 |

(i) In order to calculate the investment in the associate Terminal Sarzedo, the prepaid dividends received in the month of December of R$400 were deducted from the equity, as well as R$1,465 for the 2019 equity valuation adjustment.

## (b) Financial information on associated companies

The Company's equity in the results of its associates at December 31, 2020 is as follows:

| | Incorporated | Interest (%) | Assets | Liabilities | Equity | Net revenue | Results |
|---|---|---|---|---|---|---|---|
| Sarzedo Terminal | Brazil | 22.22 | 34,331 | 8,989 | 25,342 | 74,204 | 41,283 |
| Paraopeba Terminal | Brazil | 22.22 | 4,153 | 9 | 4,144 | (57) | (77) |
| UPL | Brazil | 83.30 | 516,795 | 10,961 | 505,834 | - | 46,154 |

The Company used the balance sheet at November 30, 2020 to calculate the effects of equity in the results of associates Sarzedo Terminal and Paraopeba Terminal.

The capital of the associate UPL comprises 33.3% of voting shares and 66.7% of non-voting shares. The Company owns 100% of non-voting capital and 49.9% of the voting capital, and is not the controlling stockholder of UPL.

### (c) Joint ventures

Summarized financial information of the jointly-controlled subsidiary Modal is presented below:

### (i) Summarized balance sheet

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Assets | | |
| Current assets | 3,562 | 3,415 |
| Property, plant and equipment | 2,205 | 2,385 |
| Total assets | 5,767 | 5,800 |
| Liabilities and equity | | |
| Current liabilities | 1,003 | 703 |
| Equity | 4,764 | 5,097 |
| Total liabilities and equity | 5,767 | 5,800 |

### (ii) Summarized statement of income

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Net sales and services | 10,374 | 8,951 |
| Cost of sales | (3,696) | (3,333) |
| Operating income (expenses) | (3) | (87) |
| Finance income (costs) | 50 | 121 |
| Provision for IRPJ and CSLL | (1,196) | (1,048) |
| Profit for the year | 5,529 | 4,604 |

## 17 Property, plant and equipment

| | Weighted average rate of annual depreciation (%) | Cost | Accumulated depreciation | Net (12/31/2020) | Cost | Accumulated depreciation | Net (12/31/2019) |
|---|---|---|---|---|---|---|---|
| In operation | | | | | | | |
| Buildings | 13 | 133,370 | (67,277) | 66,093 | 109,744 | (50,756) | 58,988 |
| Machinery and equipment | 17 | 634,643 | (476,756) | 157,887 | 595,068 | (433,277) | 161,791 |
| Facilities | 13 | 667,379 | (397,384) | 269,995 | 660,022 | (350,904) | 309,118 |
| Furniture and fittings | 24 | 3,646 | (3,055) | 591 | 3,413 | (2,768) | 645 |
| IT equipment | 20 | 13,712 | (11,223) | 2,489 | 12,451 | (10,676) | 1,775 |
| Vehicles | 23 | 14,491 | (12,639) | 1,852 | 14,242 | (14,239) | 3 |
| Tools and instruments | 23 | 4,791 | (3,607) | 1,184 | 4,705 | (3,143) | 1,562 |
| Right of use | 25 | 75,564 | (27,729) | 47,835 | 75,136 | (6,506) | 68,630 |
| Environmental restoration liability | | 115,496 | (13,365) | 102,131 | 129,438 | (9,533) | 119,905 |
| | | 1,663,092 | (1,013,035) | 650,057 | 1,604,219 | (881,802) | 722,417 |
| Land | | 131,796 | - | 131,796 | 375,862 | - | 375,862 |
| Total in operation | | 1,794,888 | (1,013,035) | 781,853 | 1,980,081 | (881,802) | 1,098,279 |
| Under construction | | | | | | | |
| Construction in progress | | 275,409 | - | 275,409 | 147,325 | - | 147,325 |
| Imports in transit | | 5 | - | 5 | 29 | - | 29 |
| Advances to suppliers | | 13,774 | - | 13,774 | 9,460 | - | 9,460 |
| Other | | 3,900 | - | 3,900 | 6,323 | - | 6,323 |
| Total under construction | | 293,088 | - | 293,088 | 163,137 | - | 163,137 |
| | | 2,087,976 | (1,013,035) | 1,074,941 | 2,143,218 | (881,802) | 1,261,416 |

The changes in property, plant and equipment were as follows:

| | 12/31/2019 | Additions (i) | Remeasurement - IFRS 16 | Disposals | Depreciation | Transfers | 12/31/2020 |
|---|---|---|---|---|---|---|---|
| In operation | | | | | | | |
| Buildings | 58,988 | - | - | - | (16,520) | 23,625 | 66,093 |
| Machinery and equipment | 161,791 | - | - | (295) | (44,814) | 41,205 | 157,887 |
| Facilities | 309,118 | - | - | - | (46,480) | 7,357 | 269,995 |
| Land | 375,862 | 784 | - | - | - | (244,850) | 131,796 |
| Tools and instruments | 1,562 | - | - | - | (494) | 114 | 1,182 |
| Environmental restoration liability | 119,905 | - | - | (13,942) | (3,832) | - | 102,131 |
| Right of use | 68,630 | - | 428 | - | (21,223) | - | 47,835 |
| Other | 2,423 | - | - | - | (918) | 3,429 | 4,934 |
| | 1,098,279 | 784 | 428 | (14,237) | (134,281) | (169,120) | 781,853 |
| Under construction | | | | | | | |
| Construction in progress | 163,137 | 206,917 | - | (982) | - | (75,984) | 293,088 |
| | 1,261,416 | 207,701 | 428 | (15,219) | (134,281) | (245,104) | 1,074,941 |

(i) Additions to property, plant and equipment comprise cash purchases of R$207,701.

| | 12/31/2018 | Additions (i) | Adoption of IFRS 16 | Disposals | Depreciation | Transfers | Other | 12/31/2019 |
|---|---|---|---|---|---|---|---|---|
| In operation | | | | | | | | |
| Buildings | 38,926 | - | - | - | (5,284) | 25,346 | - | 58,988 |
| Machinery and equipment | 189,254 | - | - | (185) | (53,543) | 26,564 | (299) | 161,791 |
| Facilities | 356,570 | - | - | - | (58,494) | 11,042 | - | 309,118 |
| Land | 375,862 | - | - | - | - | - | - | 375,862 |
| Tools and instruments | 1,608 | - | - | - | (623) | 577 | - | 1,562 |
| Environmental restoration liability (ii) | 113,354 | 8,720 | - | - | (2,169) | - | - | 119,905 |
| Right of use | - | - | 75,136 | - | (6,506) | - | - | 68,630 |
| Other | 1,970 | - | - | (16) | (894) | 1,363 | - | 2,423 |
| | 1,077,544 | 8,720 | 75,136 | (201) | (127,513) | 64,892 | (299) | 1,098,279 |
| Under construction | | | | | | | | |
| Construction in progress | 107,753 | 120,712 | - | - | - | (64,944) | (384) | 163,137 |
| | 1,185,297 | 129,432 | 75,136 | (201) | (127,513) | (52) | (683) | 1,261,416 |

(i) Additions to property, plant and equipment comprise cash purchases totaling R$120,712.

In 2020, depreciation was recognized in "Cost of Sales", "Selling expenses", "General and administrative expenses" and "Other operating expenses" in the amounts of R$122,354, R$965, R$391 and R$10,571 (December 31, 2019 - R$98,485, R$987, R$411 and R$27,630), respectively.

## 18 Intangible assets

Changes in intangible assets are as follows:

| | Mineral rights (i) | Mining easements | Other (ii) | Total |
|---|---|---|---|---|
| Residual value at December 31, 2019 | 598,538 | 1,143 | 2,668 | 602,349 |
| Additions | - | - | 1,114 | 1,114 |
| Amortization | (7,109) | (143) | (497) | (7,749) |
| Transfers | - | - | 104 | 104 |
| Impairment | 812,576 | - | - | 812,576 |
| At December 31, 2020 | 1,404,005 | 1,000 | 3,389 | 1,408,394 |
| Total cost | 1,507,331 | 4,478 | 12,401 | 1,524,210 |
| Accumulated amortization | (103,326) | (3,478) | (9,012) | (115,816) |
| Residual value at December 31, 2020 | 1,404,005 | 1,000 | 3,389 | 1,408,394 |

(i) Mineral rights are amortized in accordance with mine depletion.
(ii) Refers basically to software - average amortization rate of 22% p.a.

| | Mineral rights (i) | Mining easements | Other (ii) | Total |
|---|---|---|---|---|
| Residual value at December 31, 2018 | 602,561 | 2,283 | 1,914 | 606,758 |
| Additions | - | - | 1,342 | 1,342 |
| Amortization | (4,023) | (1,140) | (640) | (5,803) |
| Transfers | - | - | 52 | 52 |
| At December 31, 2019 | 598,538 | 1,143 | 2,668 | 602,349 |
| Total cost | 694,755 | 4,478 | 11,183 | 710,416 |
| Accumulated amortization | (96,217) | (3,335) | (8,515) | (108,067) |
| Residual value at December 31, 2019 | 598,538 | 1,143 | 2,668 | 602,349 |

(i) Mineral rights are amortized in accordance with mine depletion.
(ii) Refers basically to software - average amortization rate of 28% p.a.

In 2020, the amortization of intangible assets was recognized in “Cost of sales” and “General and administrative expenses” in the amounts of R$7,381 and R$368 (in 2019 – R$5,336 and R$467), respectively.

## 19 Impairment of non-financial assets

To calculate the recoverable amount of non-financial assets, Mineração Usiminas uses the discounted cash flow method based on the economic and financial projections of each Cash Generating Unit (CGU). The projections take into consideration the changes observed in the economic scenario, as well as assumptions of expected results and the history of profitability of each CGU.

At December 31, 2020, Mineração Usiminas evaluated its cash generating units as described below:

**(a) Impairment testing of goodwill**

For the cash generating units holding intangible assets with indefinite useful lives (goodwill):

In the year ended December 31, 2019, an impairment loss of R$3,068 related to goodwill arising from the investment in jointly-controlled subsidiary Modal was recorded. No impairment loss on goodwill was determined at December 31, 2020

To calculate the recoverable value, six-year projections of sales volumes, average prices and operating costs were prepared by the commercial and planning areas, using inflation rates drawn from market reports. The need for working capital and investments to maintain the assets tested were also considered.

The discount rates used were based on market information available on the testing date. The actual rate used to discount the cash flow of each cash generating unit was 8.31% p.a. (pretax rate equivalent to 11.78% p.a.).

**(b) Impairment testing of mineral rights**

The recoverable value of the mining operations of CGU assets was updated to reflect management's best estimates of future results from the processing and sale of iron ore, based on projections of sales price, expenses and investments. This evaluation may change depending on commodity price fluctuations, and any changes in long-term expectations leading to future adjustments to the recognized amount.

The discount rate applied to the projections of future cash flows was an estimate of the rate that the market would use to meet the risks of the asset being evaluated. The actual rate in Brazilian Reais used was 8.31% p.a. (pretax rate equivalent to 11.78% p.a.). The Company considered market sources to project inflation and foreign exchange rates used in the future cash flows. For the projection of annual exchange rates (R$/US$), the long-term inflation rates in the United States and Brazil were considered. Projected prices for iron ore (CFR China, 62% Fe) ranged from US$77.00/metric ton to US$95.00/metric ton. The prices used to calculate future cash flows are within the range of the estimates published by market analysts.

In the year ended December 31, 2020, R$812,576 was recorded as reversal for impairment of mineral rights. The remaining impairment loss of R$539,692 continues to be monitored by the Company and may be reversed depending on future projections.

Impairment losses were recorded also on investment properties of R$181,600 in connection with the land in Itaguaí. The loss was a result of the depreciation of the fair value, which reflects the market conditions of the property at the balance sheet date in relation to its cost.

### (c) Impairment testing of other long-term assets

The assumptions used in the impairment testing of long-term assets are the same as used in the impairment testing of mineral rights (item (b) below).

In the year ended December 31, 2020, a reversal was made of the provision for impairment losses of R$1,204 for the other long-term assets. This reversal related to the use of iron ore inventories. The remaining impairment loss of R$53,260 continues to be monitored by the Company and will be adjusted considering future projections.

## 20 Trade payables

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| In Brazil | 183,703 | 111,887 |
| Abroad | 10,780 | 12,898 |
| Payables to related parties (Note 32) | 15,677 | 42,866 |
| | 210,160 | 167,651 |

## 21 Borrowings

| | Currency / index | Maturity of the principal amount | Annual interest rate (%) | 12/31/2019 Current | Non-current |
|---|---|---|---|---|---|
| FINAME (*) | R$ | 2020 to 2023 | 4.0% to 8.7% p.a. | 1,172 | 487 |

Borrowing agreements do not require covenants linked to performance indicators or assets pledged as guarantees.

In 2020, the Company settled in advance all outstanding borrowing related agreements maturing through 2023.

Changes in borrowings were as follows:

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Opening balance | 1,659 | 3,512 |
| Accrued charges | 5 | 77 |
| Indexation charges | - | 92 |
| Payment of interest | (10) | (182) |
| Repayment of principal | (1,654) | (1,840) |
| Closing balance | - | 1,659 |

(*) Government Agency for Machinery and Equipment Financing (FINAME)

## 22 Taxes payable

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Value-added Tax on Sales and Services (ICMS) | 477 | 309 |
| Withholding Income Tax (IRRF) | 1,091 | 824 |
| Services Tax (ISS) | 769 | 571 |
| Financial Compensation for Mineral Resources Exploration (CFEM) | 37,927 | 11,119 |
| Other | 1,597 | 1,897 |
| | 41,861 | 14,720 |

## 23 Lease liabilities

At December 31, 2020, the Company had entered into lease agreements, principally related to vehicles used for internal transport in the mines (off road vehicles).

The lease liability is initially measured by discounting the remaining minimum contractual payments to present value. The Company estimated discount rates, based on risk-free interest rates observable in the Brazilian market, for the term of the agreements (rates used ranged from 7.34% to 10.53% p.a.).

Changes in lease liabilities are shown below:

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Opening balance | 69,861 | - |
| Adoption of IFRS 16 | - | 75,136 |
| Remeasurement | 428 | - |
| Payments | (25,056) | (6,929) |
| Interest accrued | 5,602 | 1,654 |
| Closing balance | 50,835 | 69,861 |

The estimated future minimum payments related to lease agreements are as follows:

| | | | | 12/31/2020 |
|---|---|---|---|---|
| | Less than 1 year | From 1 to 2 years | From 2 to 5 years | Total |
| Lease agreements | 22,625 | 18,382 | 17,212 | 58,219 |
| Adjustment to present value | (3,820) | (2,205) | (1,359) | (7,384) |
| | 18,805 | 16,177 | 15,853 | 50,835 |

| | | | | 12/31/2019 |
|---|---|---|---|---|
| | Less than 1 year | From 1 to 2 years | From 2 to 5 years | Total |
| Lease agreements | 25,001 | 22,382 | 35,421 | 82,804 |
| Adjustment to present value | (5,595) | (3,796) | (3,552) | (12,943) |
| | 19,406 | 18,586 | 31,869 | 69,861 |

The estimated PIS/COFINS recoverable on lease contracts is as below:

| Cash flow | Nominal | 12/31/2020<br>Adjusted to present value |
|---|---|---|
| Lease consideration | 52,834 | 46,133 |
| Recoverable PIS/COFINS (9.25%) | 5,385 | 4,702 |
| | 58,219 | 50,835 |

| Cash flow | Nominal | 12/31/2019<br>Adjusted to present value |
|---|---|---|
| Lease consideration | 75,146 | 63,399 |
| Recoverable PIS/COFINS (9.25%) | 7,658 | 6,462 |
| | 82,804 | 69,861 |

## 24 Environmental restoration liability

At December 31, 2020, the Company had a provision of R$230,002 (December 31, 2019 – R$231,591) for environmental restoration of areas degraded during the mineral development process.

Environmental restoration expenditures were recorded as part of the costs of these assets with a corresponding entry to the provision for expenses.

Management contracted a specialized firm to calculate the estimated cost, based on a technical survey of field information and the environmental profiles and conditions of the currently degraded areas.

The estimated cost, as well as the area affected by the mineral development activity are reviewed periodically, adjusting, whenever necessary, the amounts previously recorded.

The changes in the provision for environmental recovery were as follows:

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Opening balance | 231,591 | 203,707 |
| Additions | - | 8,720 |
| Indexation charges | 14,898 | 19,878 |
| Reductions | (13,942) | (714) |
| Amortization | (2,545) | - |
| | 230,002 | 231,591 |

## 25 Provision for litigation

The changes in the provision for litigation were as follows:

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Opening balance | 11,125 | 34,184 |
| Additions | 3,193 | 14,368 |
| Interest/charges | 2,109 | 18,260 |
| Payments/reductions | (2,759) | (32,478) |
| Reversals | (3,595) | (9,122) |
| Transfers between current and non-current liabilities | - | (14,087) |
| | 10,073 | 11,125 |

### (a) Litigation - probable losses

The provision for litigation was recorded to cover probable losses arising from administrative and judicial proceedings in amounts considered sufficient by Management, based on the advice and evaluation of internal and external legal counsel. The more significant claims at December 31, 2020 and 2019 are described below:

| Description | Status | 12/31/2020 Balance | 12/31/2019 Balance |
|---|---|---|---|
| Labor proceedings involving employees, former in-house employees and outsourced personnel of Mineração Usiminas, claiming termination amounts, and administrative proceedings. | Pending judgment by the applicable agencies at various judicial levels. | 4,693 | 8,432 |
| Filing for mineral easement with a request for early relief authorizing the Company to carry out the necessary activities for the licensing and mineral development of the area. | Sentence handed down (upheld). Pending enforcement of the sentence and payment of the Indemnity related to the easement obtained. | 890 | 1,158 |
| Assessment for alleged environmental degradation, for silting up the downstream basin. | On November 5, 2019, the proceeding was changed as an appeal was filed. | 1,156 | 1,032 |
| Action claiming that the social security contribution (INSS) be not levied on the 1/3 vacation bonus. | Pending judgment By the appellate court. | 2,792 | - |
| Other | - | 542 | 503 |
| **Total** | | 10,073 | 11,125 |

## (b) Litigation - possible losses

Mineração Usiminas is a party to other proceedings that involve risks of losses classified by management as possible, under advice of its legal counsel, for which no provisions have been recorded.

| Description | Status | 12/31/2020 Balance | 12/31/2019 Balance |
|---|---|---|---|
| Tax assessment notice for the collection of PIS and COFINS on the use of credits on services related to the activity of the legal entity. | Pending judgment at an administrative level. | 38,447 | 37,663 |
| Proceeding challenging the exclusion of freight and insurance expenses incurred in the selling phase of the mineral product from the calculation and payment of the CFEM. | Pending judgment by the appellate court. | 58,364 | 29,962 |
| Other civil proceedings. | - | 12,136 | 12,728 |
| Other labor claims. | - | 6,690 | 6,014 |
| Other tax proceedings. | - | 4,019 | 3,923 |
| **Total** | | 119,656 | 90,290 |

## (c) Contingent assets

### Inclusion of ICMS in the calculation basis of PIS and COFINS

In June 2019, a final and unappealable decision was issued on the petitions for writ of mandamus filed by the Company, which challenged the inclusion of the Value-Added Tax on Sales and Services (ICMS) in the calculation basis of PIS and COFINS. After these favorable decisions, for the period from August 2010 to April 2017, the Company determined, together with its external consultants, the amounts of taxes overpaid, be supplemented by interest /indexation accruals as per the quantification of credits guidelines, especially Private Letter Ruling No. 13 - COSIT of the Brazilian Federal Revenue Secretariat. Accordingly, the Company recorded R$20,862 in the year ended December 31, 2020, under "Taxes recoverable" with a corresponding entry to "Other operating income" and "Finance income (costs)" in the amounts of R$12,679 and R$8,183, respectively.

# 26 Equity

## (a) Share capital

At December 31, 2020, the Company’s capital is R$1,984,219.

At December 31, 2020 and 2019, the Company's shareholding was as follows:

| | 2020 and 2019 | |
|---|---|---|
| | Common shares | |
| **Stockholder** | **Number** | **%** |
| Usinas Siderúrgicas de Minas Gerais S.A. - Usiminas | 1,968,125,146 | 70.00 |
| Serra Azul Iron Ore L.L.C. | 822,395,150 | 29.25 |
| Sumitomo Corporation do Brasil S.A. | 21,087,055 | 0.75 |
| Total | 2,811,607,351 | 100.00 |

Each common share gives its holder the right to one vote at General Meetings.

All stockholders are entitled to a minimum dividend of 25% of the net income for the year, calculated in accordance with Brazilian corporate legislation.

**(b) Reserves**

- Share premium - established in accordance with article 14, sole paragraph, of Law 6,404/1976. At December 31, 2020, this reserve balance is R$1,210,322 (December 31, 2019 - R$1,210,322).

- Legal reserve - credited annually with 5% of profit for the year up to a maximum of 30% of capital, provided that it includes the capital reserve amount (as provided for in paragraph 1 of article 193 of Law 6,404/1976). At December 31, 2020, the Company did make new appropriations to the legal reserve, because it had exceeded the ceiling determined in law.

- The balance of investments and working capital at December 31, 2020 is R$2,133,132 (December 31, 2019 – R$705,818), consistent with the provisions of the Company's bylaws for the development of its activities, as established in its capital budget. The application of the excess that exceeded the share capital will be decided at the General Stockholders' Meeting (as provided for in article 199 of Law No. 6,404/1976).

**(c) Carrying value adjustments**

The carrying value adjustment corresponds to actuarial gains and losses calculated in accordance with CPC 33 and IAS 19. At December 31, 2020, the balance of this account totals R$3,079 (December 31, 2019 - R$1,471).

**(d) Dividends and interest on capital**

Proposed dividends and interest on capital related to the profit for 2020 and 2019 are as follows:

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Profit for the year | 1,939,744 | 487,929 |
| Calculation basis of dividends and interest on capital | 1,939,744 | 487,929 |
| Proposed minimum dividends and interest on capital (25%), net of Withholding income tax (IRRF) | 484,936 | 121,981 |
| Proposed dividends to be considered as minimum mandatory dividends | 329,136 | 29,495 |
| Interest on capital paid and considered as minimum mandatory dividend | 155,800 | 92,486 |
| Interest on capital paid - supplementary payment (i) | 1,340 | 796 |
| IRRF on interest on capital (i) | 26,154 | 15,526 |
| Total gross dividends and interest on capital | 512,430 | 138,303 |
| Amount per share (ii) | R$0.182255 | R$0.040190 |

(i) Arising from the tax benefit (Brazil-Japan agreement) of one of the stockholders. At December 31, 2020, the effective IRRF rate levied on the payment of interest on capital was 14.3% (December 31, 2019 – 14.3%).
(ii) Calculated based on the gross amount.

Changes in dividends and interest on capital payable are presented below:

| Nature | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Dividends payable at the beginning of the year | 29,495 | 68,228 |
| Additional dividends and interest on capital related to the prior year | - | 68,227 |
| Payment of dividends and interest on capital | (55,648) | (245,263) |
| Proposed dividends and interest on capital | 512,430 | 138,303 |
| Total net dividends payable at the end of the year | 486,277 | 29,495 |

The Company's bylaws provide that the Company shall distribute a minimum mandatory dividend of 25% of adjusted profit for the year, as established in law. Dividends payable were deducted from equity at the end of the reporting period and recorded in liabilities.

The December 16, 2020 meeting of the Board of Directors approved the distribution to the Company's stockholders of interest on capital, in the gross amount of R$183,294, calculated based on the Long-term Interest Rate (TJLP), considering the net amount of R$157,141 as the 2020 mandatory minimum dividend.

## 27 Revenue

Reconciliation of gross to net revenue was as follows:

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Sales of products | | |
| Domestic market | 908,731 | 695,378 |
| Export equivalents | 520,352 | 183,242 |
| Foreign market | 2,642,380 | 1,272,063 |
| Gross revenue | 4,071,463 | 2,150,683 |
| Deductions from revenue | (213,275) | (161,524) |
| Net revenue | 3,858,188 | 1,989,159 |

### (a) Sales contracts at provisional prices

Certain commercial contracts entered into by the Company include a future price clause, with exposure to the volatility of the iron ore prices. The sales prices of products sold under this provision can be measured reliably due to the existence of an active market.

The sensitivity of the Company's risk in the final settlement of its receivables at provisional prices are shown below:

| | | | 12/31/2020 |
|---|---|---|---|
| Thousand MT | Provisional price (US$/metric ton) | Variation | Effect on revenue |
| 1,067 | 90.4 | +/- 10% | 50,091 |

## 28 Expenses by nature

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Depreciation and amortization | (142,030) | (133,316) |
| Employee benefit expense | (137,083) | (121,905) |
| Raw materials and consumables | (296,415) | (283,127) |
| Distribution costs | (165,841) | (108,352) |
| Third-party services | (210,187) | (112,514) |
| Judicial proceedings, net (additions and write-offs) | (2,002) | (8,022) |
| Gain (loss) on the sale/write-off of PP&E, investments and intangible assets | 917 | 708 |
| Gain on sale of electricity, surplus to own needs | (526) | 1,338 |
| Changes in asset impairment provisions (i) | 630,976 | (3,068) |
| Lease - mineral rights | (45,904) | (21,375) |
| Freight on sales | (767,810) | (548,910) |
| Provision for impairment of ICMS recoverable | (44,978) | (29,277) |
| ICMS in the calculation basis of PIS and COFINS | 12,679 | 18,263 |
| Other operating income (expenses) | (5,557) | (37,730) |
| | (1,173,761) | (1,387,287) |
| Cost of sales | (1,480,012) | (1,142,610) |
| Selling expenses | (194,910) | (120,639) |
| General and administrative expenses | (26,718) | (24,340) |
| Other operating income (expenses), net | 527,879 | (99,698) |
| | (1,173,761) | (1,387,287) |

(i) In the year ended December 31, 2020, a reversal of the provision for impairment of mineral rights of R$812,576 was recorded in intangible assets. Impairment allowances on investment properties of R$181,600 were recorded in connection with the land in Itaguaí. The loss was a result a decrease in the value of the land. In 2019, R$3,068 was recorded as impairment of goodwill arising from the acquisition of subsidiary Modal.

## 29 Employee expenses and benefits

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Salaries and social charges | (109,710) | (99,431) |
| Social security charges | (15,219) | (13,167) |
| Employee profit sharing | (8,640) | (6,536) |
| Other | (3,514) | (2,771) |
| | (137,083) | (121,905) |

Employee benefits expenses are recorded under "Cost of sales", "Selling expenses", "General and administrative expenses” and “Other operating expenses”, in accordance with the function of each employee.

## 30 Operating income (expenses)

### (a) Selling expenses

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Personnel expenses | (4,752) | (4,198) |
| Third-party services | (2,973) | (2,170) |
| Depreciation and amortization | (965) | (987) |
| Distribution costs | (184,049) | (110,739) |
| General expenses | (2,171) | (2,545) |
| | (194,910) | (120,639) |

### (b) General and administrative expenses

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Personnel expenses | (6,179) | (5,595) |
| Third-party services | (11,339) | (10,470) |
| Depreciation and amortization | (757) | (878) |
| Management fees | (4,327) | (4,883) |
| General expenses | (4,116) | (2,514) |
| | (26,718) | (24,340) |

### (c) Other operating income (expenses)

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Other finance income | | |
| Revenue from sale of surplus electricity | 3,795 | 6,216 |
| Recovery of expenses | 2,771 | 4,427 |
| Inclusion of ICMS in calculation basis of PIS and COFINS | 12,679 | 18,263 |
| Other revenue | 4,847 | 4,190 |
| | 24,092 | 33,096 |
| Other operating expenses | | |
| Impairment adjustment | 630,976 | (3,068) |
| Expenses from temporary shutdown of equipment | (25,698) | (57,743) |
| Provision for impairment of ICMS recoverable | (44,978) | (29,277) |
| Expenses on the sale of electricity | (3,970) | (4,303) |
| Engineering project expenses | (99) | (5,627) |
| Taxes (INSS (*), ICMS, IPTU (**), IRPJ etc.) | (14,035) | (11,128) |
| Judicial charges | (1,325) | (1,476) |
| Income (expenses) in litigation, net | (2,002) | (8,022) |
| Donation, sponsorship and cultural incentives | (18,746) | (9,460) |
| Other expenses | (16,336) | (2,690) |
| | 503,787 | (132,794) |
| | 527,879 | (99,698) |

(*) National Institute of Social Security ("INSS")
(**) Municipal Real Estate Tax ("IPTU")

## 31 Finance income (costs)

Finance income (costs) are summarized as follows:

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| **Finance income** | | |
| Income from financial investments | 11,322 | 36,467 |
| Indexation credits | 16,652 | 11,001 |
| Realization of adjustments to present value | 10,611 | 796 |
| ICMS in the calculation basis of PIS and COFINS (update) | 8,183 | 13,133 |
| Other | 5,570 | 4,652 |
| | 52,338 | 66,049 |
| **Finance costs** | | |
| Interest on contingent liabilities | (2,109) | (18,260) |
| Indexation charges | (15,843) | (20,173) |
| Realization of adjustment to present value of trade payables | (26,899) | (20,784) |
| PIS and COFINS on finance income | (3,911) | (2,953) |
| Gain/loss on hedging transactions | - | (5,863) |
| Other finance costs | (1,418) | (439) |
| | (50,180) | (68,472) |
| Foreign exchange gains/losses, net | 63,926 | 6,277 |
| | 66,084 | 3,854 |

The foreign exchange gains/losses in the statement of income arise from cash and cash equivalents, trade payables and receivables denominated in foreign currency.

## 32 Transactions with related parties

The main balances and transactions with related parties are as follows:

### (a) Current assets

| | 12/31/2020 | | 12/31/2019 | |
|---|---|---|---|---|
| | Trade receivables | Dividends receivable | Trade receivables | Dividends receivable |
| Stockholders | 283,348 | - | 109,589 | - |
| Associates | - | 9,130 | - | 11,023 |
| **Total** | 283,348 | 9,130 | 109,589 | 11,023 |

Trade receivables from related parties arise mainly from sales transactions based on terms agreed between the parties. The receivables are not secured.

## (b) Liabilities

| | 12/31/2020 | | | 12/31/2019 | | |
|---|---|---|---|---|---|---|
| | Trade payables | Dividends | Amounts payable | Trade payables | Dividends | Amounts payable |
| Stockholders | 507 | 486,277 | - | 467 | 29,495 | - |
| Jointly-controlled subsidiaries | 1,065 | - | - | 803 | - | - |
| Associates | 8,062 | - | 80,042 | 2,722 | - | 121,838 |
| Other related parties (i) | 6,043 | - | - | 38,874 | - | - |
| **Total** | 15,677 | 486,277 | 80,042 | 42,866 | 29,495 | 121,838 |
| Current | 15,677 | 486,277 | - | 42,866 | 29,495 | - |
| Non-current | - | - | 80,042 | - | - | 121,838 |
| **Total** | 15,677 | 486,277 | 80,042 | 42,866 | 29,495 | 121,838 |

(i) In December 2015, in order to restore the contract equilibrium for services for the transportation of iron ore between MRS and the Company, the parties agreed, on an exceptional basis, to suspend the performance of the Contract by paying compensation to MRS. At December 31, 2020, the amount agreed totals R$80,042 (present value) (December 31, 2019 – R$153,384), which was recognized in non-current liabilities, due to prepayments made in 2020.

Payables to related parties classified as trade payables arise mainly from purchase transactions (item (c)), based on terms agreed between the parties. Payables are interest-free.

The other amounts payable to related parties refer mainly to reimbursements of shared services.

## (c) Sales and purchases

| | 12/31/2020 | | 12/31/2019 | |
|---|---|---|---|---|
| | Sales (i) | Purchases | Sales (i) | Purchases |
| Stockholders | 832,048 | 19,251 | 530,425 | 6,839 |
| Jointly-controlled subsidiaries | - | 11,257 | - | 10,290 |
| Associates | - | 35,556 | - | 25,450 |
| Other related parties | - | 242,096 | - | 181,058 |
| | 832,048 | 308,160 | 530,425 | 223,637 |

(i) Gross sales

## (d) Finance and operating result

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Stockholders | 5,295 | (4,520) |
| Associates | (21,297) | (19,131) |
| | (16,002) | (23,651) |

The main transactions between the Company and related parties are as below:

- Purchase of railway transportation services from MRS for transportation of iron ore;
- Sale of  iron ore to Usiminas and purchase of shared services;
- Purchases from Modal and Sarzedo Terminal of services for storage and loading of iron ore; and
- Purchases of services and materials from Usiminas Mecânica S.A. for construction of project metallic structures.

Sales between related parties are based on the price lists in force and on the market terms and conditions that would be available to third parties.

**(e) Compensation of the key management personnel**

The compensation paid or payable to key management, which includes the Executive Board and the Board of Directors of the Company, is as below:

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Management fees | 3,529 | 4,318 |
| Social charges | 798 | 754 |
| | 4,327 | 5,072 |

## 33 Commitments

**(a) Contractual obligations** - The table below sets forth the required annual minimum future payments related to the contractual obligations assumed by the Company at December 31, 2020:

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Less than 1 year | 225,877 | 212,812 |
| From 1 to 3 years | 287,666 | 200,848 |
| From 4 to 5 years | 321,103 | 196,433 |
| Over 5 years | 887,000 | 767,000 |
| Total required minimum payments | **1,721,646** | **1,377,093** |

Contractual obligations relate principally to the agreement for the lease of the mining rights, acquisition of property, plant and equipment and electricity.

The Company signed an agreement with third parties to lease mining rights for areas adjacent to its own operations. The lease was established for a 30-year term, as from October 15, 2012, which is the date on which the lease agreement was authorized by the National Mining Agency (ANM), or until the depletion of the mineral reserves. Minimum future payments were calculated considering the residual lease term, ore price conditions and foreign exchange rates (R$/US$) at the end of each period.

**(b) Guarantees granted**

The Company signed with an agreement with the Public Prosecution Office of Minas Gerais and the Municipality of Itatiaiuçu as intervening parties on April 26, 2019, for a term of 24 months. The agreement authorizes the Company to continue operating the Samambaia Zero tailings reservoir, until the effective replacement of the structure with the dry iron ore filtration system. The agreement established the requirement for an environmental guarantee of R$49,000, and a related letter of guarantee was issued. The issuing bank commission was recognized as a finance cost.

At December 31, 2020 and 2019, there are no financial guarantees granted by the Company.

## 34 Insurance coverage

The insurance policies taken out by the Company provide coverage deemed sufficient by management. At December 31, 2020, these policies covered buildings, products, equipment, machinery, furniture, objects, fittings and installations at the insured establishments and the respective facilities of the Company, with value at risk of R$1,817,662 (December 31, 2019 - R$1,368,759), an insurance policy for operating risks (material damages), with a maximum indemnity of US$250,000 per claim. At December 31, 2020, the amount deductible for material damages was US$1,000 and the coverage for loss of profits (loss of revenue) had a deductible term of 45 days (lead period). This insurance policy expires on December 30, 2021.

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**Board of Directors**

Sergio Leite de Andrade
**Chairman**

Americo Ferreira Neto
**Board Member**

Haruo Matsuzaki
**Board Member**

Miguel Angel Homes Camejo
**Board Member**

Nobuhiro Yoshida
**Board Member**

Yoshiaki Shimada
**Board Member**

**Executive Board**

Carlos Héctor Rezzonico
**CEO**

Marcelo Héctor Barreiro
**CFO**

Bruno Fonseca Campos
**Accounting Manager**
**CRC-MG 086-514/O-0**


Classificação da informação: Confidencial
Grupo de Acesso: