Moody's Investors Service

Rating Action: **Moody's downgrades Usiminas to Aa1.br, affirms Baa3 ratings and changes outlook to negative**

Global Credit Research - 28 Jul 2009

Approximately USD 860 million in rated debt securities affected

Sao Paulo, July 28, 2009 -- Moody's Investors Service today affirmed the Baa3 global scale senior unsecured issuer rating of Usinas Siderúrgicas de Minas Gerais S.A. -- USIMINAS and downgraded its Brazil national scale rating to Aa1.br from Aaa.br. At the same time, Moody's affirmed all existing debt ratings on the global scale of USIMINAS and downgraded the Brazilian national scale rating of its BRL 500 million local currency subordinated unsecured debentures due 2013 to Aa2.br from Aa1.br. The outlook for all ratings was changed to negative from stable.

Ratings affirmed are as follows:

Issuer: Usinas Siderúrgicas de Minas Gerais -- USIMINAS

- Issuer Rating: Baa3 on the global scale

- USD 500 million Senior Unsecured Global MTN Program: Baa3 Foreign Currency Rating

- BRL 500 million local currency subordinated unsecured debentures due 2013: Ba1 on the global scale

Issuer: Cosipa Commercial Ltd.

- USD 200 million senior unsecured foreign currency notes due 2016, guaranteed by USIMINAS: Baa3 Foreign Currency Rating

Issuer: Usiminas Commercial Ltd.

- USD 400 million senior unsecured foreign currency notes due 2018, guaranteed by USIMINAS: Baa3 Foreign Currency Rating

Ratings downgraded are as follows:

Issuer: Usinas Siderúrgicas de Minas Gerais -- USIMINAS

- Issuer Rating: Brazilian national scale rating to Aa1.br from Aaa.br

- BRL 500 million local currency subordinated unsecured debentures due 2013: Brazilian national scale rating to Aa2.br from Aa1.br

Outlook for all ratings changed to negative from stable

The rating action reflects the company's weakened operating performance in light of deteriorated market conditions for the global steel industry and our expectation that the recovery in the global steel industry will be slow, with a sustained period of lower prices and spare capacity. USIMINAS's gross margins are also being affected by high-cost iron ore and coal inventories, which are likely to continue to impact results. The fact that iron ore and coal are purchased under one-year take-or-pay contracts has prevented the company from adjusting costs as steel prices have come down. While we believe that high-cost iron ore inventories have already been liquidated, high-cost coal inventories are likely to continue to pressure margins over the next several quarters.

The rating action also reflects a reduction in covenant cushion at Usiminas, which has slightly weakened its liquidity profile. Although USIMINAS has strongly scaled back its large investment program from its original budget of USD 14.1 billion in the period from 2008-2012, we anticipate an increase in its indebtedness in the near term to fund capex, which, when combined with the weaker operating performance affecting cash flow, will result in tightened headroom under financial covenants of certain of the company's outstanding debt instruments. Moody's notes that Usiminas maintains a strong cash position of BRL 2.8 billion, which compares well with short term debt of BRL 1 billion.

The ratings continue to be supported by the company's leading position in the Brazilian flat steel market, its globally competitive production costs as evidenced by its historical EBITDA margins of around 40% (as defined by Moody's), which reflect its large scale, track record of almost full-capacity utilization (currently approximately 50% utilization is weakening margins), the proximity of its facilities to high-grade iron-ore reserves, efficient logistics, and partial selfsufficiency in iron-ore, coke and energy. As a low-cost producer, we believe that USIMINAS is better prepared to face the ups and downs of the cyclical steel industry than most of its international peers from an operational standpoint, although we note that the current downturn is more severe than a normal industry cycle.

The ratings could be downgraded if the company's performance remains weak, causing CFO less Dividends to Net Debt (total debt less estimated cash available for debt reduction) to remain consistently below 20% without prospects for improvement in the near term. A substantial deterioration in liquidity could also cause a downgrade, with cash plus unused committed credit facilities to short-term debt of below 1.3x for an extended period. Finally, a significant increase in consolidated secured debt could negatively affect senior unsecured debt ratings.

The ratings outlook could be stabilized if operating performance improves, with projected Total Adjusted Debt to EBITDA approaching 2.0x and CFO less Dividends to Net Debt (total debt less estimated cash available for debt reduction) moving above 20%. Improved covenant cushions and the maintenance of cash plus unused committed credit facilities to short-term debt of above 1.3x would also be necessary for a stabilization of the outlook.

Moody's last rating action on USIMINAS occurred on February 1, 2008 when we assigned a Ba1 local currency rating and an Aa1.br rating on the Brazilian national scale to its BRL 500 million non-guaranteed subordinated debentures due 2013.

The principal methodology used in rating USIMINAS was Moody's Global Steel Industry rating methodology, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory (January 2009). Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

Headquartered in Belo Horizonte, Brazil, Usinas Siderúrgicas de Minas Gerais S.A. - USIMINAS, is the largest fully integrated flat-steel manufacturer in Latin America, with production of 6 million tons of crude steel and consolidated net revenues of BRL 13.3 billion (USD 6.3 billion converted by the average exchange rate) in the last twelve months ended on June 30, 2009. Usiminas also owns steel distribution subsidiaries and operates several downstream facilities in Brazil.

Sao Paulo
Richard Sippli
Vice President - Senior Analyst
Corporate Finance Group
Moody's America Latina Ltda.
55-11-3043-7300

Sao Paulo
Alexander I. Carpenter
Senior Vice President - Regional Credit Officer
Corporate Finance Group
Moody's America Latina Ltda.
55-11-3043-7300