

Q1 2010 Earnings Call

Company Participants

- Andre Gerdau Johannpeter, President, CEO
- Osvaldo Schirmer, VP, IR Officer
- Unidentified Speaker, Unknown

Other Participants

- Carlos de Alba, Analyst
- Leonardo Correa, Analyst
- Luisa Moreno, Analyst
- Marcos Assumpcao, Analyst
- Rafael Weber, Analyst
- Raphael Biderman, Analyst
- Rodolfo de Angele, Analyst
- Rodrigo Barros, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

(foreign language) -- statements might be made during this conference regarding the business outlook for Gerdau projections. Operating and financial targets are based on the expectations of the management regarding the future of the Company. Although Gerdau believes that their remarks are based on reasonable assumptions, there is no guarantee that future events will not affect this evaluation.

Today with us, we have Mr. Andre Gerdau Johannpeter, CEO. And Osvaldo Schirmer, Vice President and IRO. I would like to give the floor to Mr. Andre Gerdau for his considerations.

Andre Gerdau Johannpeter

Thank you. Good afternoon. Welcome to our teleconference on the results for the First Quarter of 2010. As we often do, we will begin our analysis with an evaluation of the performance during the period, which will be then complemented with the outlook for the market where we currently operate.

Right after that, Osvaldo Schirmer will give you more details about the financial performance of the Company. And right after, they will be available to take your questions.

Throughout our presentation, we will also evaluate the performance of the First Quarter vis a vis the same period of the year before, which will allow us to look at the positive effect of the demand that has been resumed. And also, the -- all of the efforts of the Company.

On page 2, if you are looking at the Internet, we have the main highlights. I would like to start by talking about the world steel production, which reached 342 million tonnes in the First Quarter, which represents an increase of 29% over the first three months of 2009. Excluding China, the world steel production was 184 million tonnes. And that represented a growth of 33% according to the World Steel Association.

China, the production in China was 158 million tonnes -- that means 24% growth when compared to the First Quarter of 2009. The China share in the world steel production was 46%, also according to the World Steel Association.

Now, looking at Gerdau, our good performance in the First Quarter certainly reflects increases in demand for steel. And the continuous effort to adjust very quickly to the current levels of cost and production according to the market conditions. We are prepared to supply the demand and the expansion of demand of the next few years, considering not only the installed -- the actual installed capacity. And the investments of BRL9.5 billion until 2014. We will continue to put priority in our investments in emerging countries like Brazil, Peru and India. And the increase in our own production of iron ore in an attempt to have a more competitive cost equation vis a vis the growing prices of raw materials.

Page 3. We have the major figures for Gerdau, the Gerdau highlights. And I'll start by the First Quarter, starting with shipments, which reached 4.2 million tonnes, which is a growth of 32% over the First Quarter of 2009. This is due to the recovery of the -- both US and Brazilian markets. Also, there was a good recovery of the industry. And then, we sold -- we had a good recovery of the sales in longs in the market. And we also had record growth in the Brazilian automobile industry. And also, the recovery of the automobile industry in the US, which contributed to our good figures.

It's also important to notice that the installed capacity of steel in the market is still related to their geographic position. In terms of consolidated position, we reached 4.4 million tonnes, which represents a growth of 71% vis a vis the same period of 2009.

Now, net revenue, BRL7.1 billion, which represents 2% growth. EBITDA, more than double in the period, reaching BRL1.4 billion. And this is now justified. And translated into lower sales costs and less expenses incurred. And also, the good results of the companies that are part of the joint venture. The EBITDA margin, one of the main indicators that demonstrate the operational efficiency of the Company went from 9% in the First Quarter of '09 to 20%.

Now, net income, BRL573 million, when compared to BRL35 million in the first three months of 2009.

Now, cost of sales experienced a reduction of 8%, which is due to our efforts to reduce costs throughout the year 2009. The reduction in cost of sales, together with the revenues, gave us a better margin, which went from 11% to 20%.

SG&A, there was a reduction of 16% vis a vis the First Quarter of '09. Now, the net debt had a reduction, went -- going from BRL16.3 billion in March of 2009 to BRL10.2 billion in March of 2010.

In terms of dividends, BRL170 million will be paid to shareholders of Gerdau SA. And BRL65 million will be paid to shareholders of Metalurgica Gerdau. These dividends refer to the First Quarter of this year. And this is a way to anticipate our mandatory dividend for 2010. Investments in the quarter, BRL233 million, 61% of that amount is in operations.

Now, I would like to talk about the different markets. And the outlook for the future. That would be page 4. I will start with the estimates from IMF, which points up to a growth of 4.2% in terms of the worldwide economy in 2009. And this should have a positive impact in steel consumption. The steel consumption, according to the World Steel Association, should reach 1.2 billion tonnes a year. And that represents 11% increase over 2009.

Now, looking at Brazil, the outlook according to the IABR, the Instituto Aço Brasil, steel consumption should grow to 23%, reaching 22.9 million tonnes, given the scenario of economic growth. For 2010, estimates from the Central Bank of Brazil point out to an expansion of 5.8% of GDP. It's also important to mention that the installed capacity of steel in the country is -- steel has a surplus of 100% vis a vis internal demand, also associated to a low per capita consumption and different exporting conditions, because of foreign exchange issues. And the fact that the international demand is recovering.

In terms of the main segments where we operate, we have civil construction. And according to figures from the Central Bank, GDP for civil construction should reach 10% growth, mainly due to investments in infrastructure and the program MCMV, meaning Minha Casa Minha Vida, the PAC program, the Olympics. And the World Cup. In terms of the downstream operations, we should have also an increase of 8% according to figures from the Central Bank of Brazil.

Now, at this time, I would like to express our solidarity with the victims of the flood in Rio de Janeiro. Our workers have been able to collect millions of items of first need, such as blankets, clothing, cleaning products. And products for personal hygiene. We are also giving them some cash donations. Gerdau, through its Instituto Gerdau, really motivated the participation of its employees, donating three times over the amount that they collected. And as a result, we were able to collect 23 tons of foodstuff.

Now, on page 5, I would like to talk a little bit about North America. And the good news is that we were able to resume our good figures in our profitability in the First Quarter, particularly in terms of -- even in view of increases in the costs of raw materials, particularly scrap. The increase in volume of sales. And the results of the initiatives to reduce costs, were even, or very good. And had a very positive impact in terms of our performance in the period of analysis.

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In relation to all of the markets where we operate, we can also see that there has been a gradual recovery in the economic activity. Some industries were operating with very low inventory levels. However, we do believe that the recovery of the market should progress very gradually, even considering the very high unemployment level. And some limitations in terms of access to credit in North America.

Exports, we expect to see continuous growth in 2010, as we have anticipated before in the previous call. In the First Quarter, the performance of exports were really important. And in some instances, export prices had an improvement that varied between 20% to 30% during the period of analysis.

Now, looking at our other operation in Latin America, according to the IMF, the economies of the region should also go through a very significant recovery. In Peru, for instance, the country should grow 6.3% in 2010, Uruguay 5.7%. And Mexico 4.2%. The steel consumption in the region should reach 33 million tonnes, which represents 14% increase over the same period in 2009, according to estimates from the World Steel Association.

During the First Quarter, we should also -- the highlight is increased in shipments in Peru, Chile and Argentina. In terms of the big earthquake that took place in Chile in February, we would like to say that fortunately, there were no victims among our own employees. The units of Gerdau in the country were working normally, they are operating normally. And in addition to that, the Company is prepared to serve the clients with the available inventory.

The plant of Renca is operating normally after five days post-earthquake. And in the case of the Colina unit, their only mill started operating on April 5. And the blast furnace started operations April 18. In solidarity to the victims, our employees from Gerdau Aza, through Instituto Gerdau, they were also very much mobilized and promoted internal campaigns to collect foodstuff, clothing. And other materials. In addition to that, Gerdau also donated USD\$0.5 million to collaborate with the reconstruction of schools. And also buildings in the communities and the surrounding areas.

In terms of Peru, we expect to resume the activities of the blast furnace in June.

Specialty steels, the outlook for the United States, Brazil. And Spain. We would like to start with the United States. There was a significant recovery in the sales of automobiles in the First Quarter, 61% when we compared the figures this year with the First Quarter of '09. And in that same period, we also see the gradual recovery of other -- also, other segments like energy, machinery for civil construction. And agriculture. We see that there should be a gradual recovery throughout the year.

Now, speaking about Brazil, sales of vehicles in the First Quarter were very, very, very crucial and they're very good. We had 24% growth when compared to the First Quarter of '09.

A good highlight was the production of trucks that had an increase of 69% in sales during that period. And also, because of the reduction in excise taxes, IPI and different finance

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conditions until the end of 2010, we should experience a growth of 9.3% until 2010. That includes passenger vehicles and heavy vehicles.

In Spain, we had the recovery of sales for Specialty Steels for the automotive industry. The automobile registers for the EU also already demonstrated 11% increases in the First Quarter of this year, vis a vis the same period of the year before, according to the European Automobile Manufacturers Association.

In Spain, in particular, automobile registration experienced an increase of 44%. So we see that throughout Spain, there has been and there will be still until throughout the Second Quarter, the second semester, a good recovery of the economy.

So, now we are on page 7. And we will talk about investments. I will talk a little bit about our investments, because they are part of this package of BRL9.5 billion for the period of 2010-2014. Some of the investments have been previously announced. And some others are new. And they are still in the pipeline. I will start with Brazil, with the unit of Ouro Branco Minas Gerais, where we already announced the installation of a new steel rolling mill for heavy plate. And the expansion of the capacity of our structural shapes. Both investments have been mentioned in previous calls.

In terms of mining, there is the expansion of the iron ore production in Minas Gerais, which represents investments of BRL352 million. With that, our own production of iron ore, we reach 6.6 million tonnes in 2012. Thus, we will be able to serve 100% of the consumer needs of the integrated mill of Ouro Branco with our own production.

Another important investment in Brazil refers to the expansion of the rebar cut and bend service. And the fabrication of other products of ready-to-use steel, which should serve the civil construction market. And the amount of that investment is BRL134 million. This investment should be concluded by 2011.

Also, there is the construction of the HPP of Cacu and Barra de Coqueiros. They will start operation in the first semester of this year, heading up to 155 megawatts serve installed capacity. The investment for the steel HPP involves BRL632 million. And out of this total, we will outlay BRL57 million.

In Peru, we are already replacing two blast furnaces by others with more advanced technology. And the production should start in the second half of this year. This initiative, which total investment is BRL67 million, also includes the implementation of new dedusting system in the melt shop.

In India, we also announced an investment of BRL88 million that involves a new rolling mill for specialty steels and rebars. And also, we will start operating with generation of energy. And this operation should start maybe in the second half of 2011. These are projects that have already been approved.

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Now I'm talking about Colombia. We are talking about a port facility for the loading. And loading of coal and coke. And the amount of the investment is BRL27 million.

Now I'd like to talk a little bit about the projects that are still underway and in the pipeline. And I'll start talking about Brazil. In view of the good outlook in the market, I would like to mention some of the most important projects in the pipeline. And one of them is the installation of a new rolling mill, the increase in rolling inspection capacity of specialty steels. And additional downstream operations in the United States, due to the gradual recovery of the automotive industry. We are also looking at investments that will increase the capacity. And at the same time, improve the quality of products that use specialty and long steels.

Now, my final comments. Certainly, the steel industry is experiencing the challenge of looking for more competitive costs, considering the risks and adjustments. And the prices of raw materials. In view of the current scenario, Gerdau is prepared to conquer new levels of efficiencies. Taking into account the actual installed capacity and the investments that have been approved, the Company will continue to be fully prepared to fulfill the future demand. And looking at the different geographies.

In addition, we are constantly monitoring the rolling out of the economic crisis in Greece. And the implications that this will have in the European economy.

And with that, I conclude my part of the presentation. I'll give the floor to Osvaldo Schirmer, who will give you more details about our financial performance. And then, I'll be available to take your questions. Thank you.

Osvaldo Schirmer {BIO 1754610 <GO>}

Thank you, Andre. Good afternoon, to all of you. Could you please turn to page number 8, screen number 8, for those who are following us over the web. We are going to talk about the consolidated results.

And on this screen, we have a balance sheet. And we have a chart that will help us understand the evolution of our main figures. I start with the net revenues, from consolidated revenues, BRL7.1 billion in the First Quarter of '10. As Andre said, meaning BRL140 million of increase over revenues of the First Quarter of '09. And you can see this on the second column of the EBITDA chart.

The positive contribution was given by the higher volume. So, 32%. And especially by the business operation of Brazil, 39%. And on the other hand, it was partially offset by the reduction, by 22% in the net revenues per tonne sold, stemming from an appreciation of 22% of the real vis a vis the US dollar. And also variations in the mix of product sold.

The cost of sales was reduced by BRL526 million during the First Quarter of 2010, as you can see on the second column of the chart, representing a drop of 8% vis a vis the First Quarter of '09, stemming from the cost reduction endeavors carried out during 2009.

And we said that more than once -- the huge efforts made by the Company to adjust the size of the operation and the costs.

And with that, the gross margin reached 20%, much higher than the 11% of the First Quarter of '09. And stable vis a vis the Fourth Quarter of '09.

The summation of the other items that make up the EBITDA also gave a positive contribution. Here, we have SG&A as one item. And then equity income as well. And because of that, we have a positive balance of BRL136 million, which is the summation of the three last bars of the chart. Considering those variations, the First Quarter EBITDA reached BRL1.4 billion, more than twofold what was obtained during the First Quarter of '09.

The EBITDA margin also had a very strong recovery, reaching 20%, much higher than the 9% in the First Quarter of '09. And stable in relation to the Fourth Quarter of '09.

Consolidated net income was BRL573 million during the First Quarter of 2010, vis a vis BRL35 million in the previous year -- a 16-fold increase, therefore. The major contribution to this growth came from the better operating cash generation, BRL802 million, which was partially offset by the negative effects of the financial results, BRL69 million. And by the higher provision for income tax to BRL110 million, deriving from the higher earnings in the quarter.

Number 9, some remarks about our efforts to optimize our costs. Here, we have the production of steel, the production costs, fixed and variable, administrative costs. And on this slide, the efforts made by us in 2009 are very clear to adapt our cost structure to the new level of demand. We had a reduction of BRL46 million in the fixed production costs, even with the increase in the production of crude steel, 71% during the First Quarter, as you can see on the left of the chart. And the lower fixed costs, together with the higher production that we saw in the First Quarter, allowed us to reduce the relative share of these costs vis a vis the total production cost, going down to 20%, as you can see on the left as well, the lower left. It's dropped from 25% to 20%.

And the same move can be seen in our SG&A, which, in spite of the 32% increase in our shipments, presented a reduction of BRL95 million. In reales per tonne sold, the reduction of these expenses was 36%, going from BRL195 per tonne, to BRL124 per tonne in the First Quarter of 2010, as you can see on the right, on the lower right.

Slide number 10. On slide number 10, I would like to start by analyzing our segments, geographical segments. And business operations. We are going to talk about Brazil first, comparing net revenues, shipments. And cash generation per EBITDA. And the EBITDA margin as well.

The business operation of Brazil, we had net revenues of BRL2.9 billion in the First Quarter of 2010, higher than the BRL2.4 billion that we had in the First Quarter of '09, as you can see on the upper left. The 40% increase in volumes sold, which is on the right, was partially offset by the reduction, by 13% in the net revenues per tonne sold, caused

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partially by the change in the mix, as I said before. The sales volume in the First Quarter reached 1.5 million tonnes, being 1.2 million to the domestic market, meaning a 60% growth in our sales to the domestic market, driven by civil construction. And with the recovery of the industry as well in general terms.

And the sale of ready-to-use products for the use of civil -- from civil construction, cut and bend rebars, were very important in this recovery. And exports reached 377,000 tonnes, in line with the First Quarter of '09, as we can see here on the upper right.

Revenues generated from exports totaled BRL353 million, representing 12% of the net revenues of the Brazil business operation. Brazil accounted for 40% of the consolidated net revenues in the quarter. Gross margin dropped from 30% to 28%, due to the increase of the cost of material, the cost of raw materials, together with the net revenues per tonne sold. On the other hand, the EBITDA margin remained stable, around 28% during the First Quarter of 2010 vis a vis '09, mainly because of the lower SG&A expenses in this comparison.

Slide number 11, North America. Now, let's compare net revenues, gross margin, shipments. And cash generation and the EBITDA margin. Net revenues from the North American business operation in the First Quarter reached BRL2.0 billion, 17% lower than the First Quarter of '09, stemming from the appreciation of 22% of the real vis a vis the US dollar during this period. And a drop in net revenues in dollars per tonne, more or less -- or, less 12% when converted into reals. And this effect was partially offset by the increase in volumes sold, as you can see on the upper right, from 1.80 million tonnes to 1.345 million tonnes, more than 24%.

North America accounted for 28% of the consolidated net revenues for the quarter. And the sales of this business operation increased by 25%, going to 1.3 million tonnes, mainly because of an increase in demand. But not yet related to the infrastructure packages of the government that have been very much publicized. But not materialized yet.

The higher scrap costs used. And the lower prices practice, reduced the metal spread from USD\$528 per short tonne, to USD\$376 in the First Quarter of 2010. And in spite of this reduction, the higher sales volumes and the higher dilution of the fixed costs were essential to more than double EBITDA, which went from BRL88 million in '09 to BRL207 million in the First Quarter of 2010. Gross margin and EBITDA went from 4% during the First Quarter of '09 to 10% in the First Quarter of 2010.

Just as information, Gerdau Ameristeel also became -- now started to disclose its results in IFRS as of this First Quarter of 2010.

Latin America, slide number 12. Sales of the Latin America business operation -- this was the region the least affected by the crisis, it was 546,000 tonnes in the First Quarter of 2010, 12% higher than the First Quarter of '09. And Peru, Chile and Argentina gave the highest contribution to net revenues for Latin America -- were BRL803 million, 12% lower than the First Quarter of '09 due to the drop by 21% in net revenues per tonne sold, partially offset by the increase in the volumes sold in the period.

America Latina accounted for 11% of the consolidated net revenues in the quarter. Gross margin was negative 6%. It went to plus, or more positive, 14%, mainly because of a reduction in total costs. And the higher dilution of fixed costs in the period.

EBITDA in the First Quarter reached BRL108 million, compared to a negative amount of BRL139 million during the First Quarter of '09. And with this, the EBITDA margin went from negative 15% to plus 14%. And the higher evolution of the EBITDA margin, vis a vis the gross margin, is due to the improvement in the result of -- in the shared control companies and joint ventures.

Slide number 13, Specialty Steel. In this business unit that encompasses the operations in Brazil, the United States and Spain, net revenues grew by 11%, as you can see on the left, resulting from a 59% increase in shipments, with a total of 634,000 tonnes, partially offset by the lower net revenues per tonnes sold. And also by the appreciation of the real vis a vis the US dollar. And the euro as well.

The Specialty Steel unit contributed with 20% of the consolidated net revenues for the quarter. The higher sales result from the ongoing record in production of vehicles in Brazil. And the recovery of the automotive sector in the US. Spain had an 18% growth in sales during the First Quarter of 2010 vis a vis the same period last year.

With a beginning of recovery in demand due to the higher volumes sold and the consequent higher dilution of the fixed costs of production, the gross margin grew from negative 2% to plus 21% during the First Quarter of 2010. EBITDA reached BRL290 million with a 20% margin in the period. And this performance is much better than the one that we posted during the First Quarter of '09, as you see in the lower part of the chart.

Now, some remarks about our indebtedness, liquidity, debt composition, working capital, in the slide 14. Net debt was BRL14.6 billion on March 31, 2010, USD\$8.2 billion, of which 9% were short-term. And 91% long-term. As to the currency, 21% of the indebtedness is in reales, 36% in foreign currency contracted by companies in Brazil. And 43% in different currencies contracted by our subsidiaries abroad. From the gross debt amount, most of that was borrowed in debentures and bonds, 46%. And also commercial banks, the remaining 34%.

The nominal average cost of the gross debt, based on March 31, 2010, was the following - 8% in reales, 7% in foreign currency plus foreign exchange variation, in foreign currency in Brazil. And 4% for debt contracted abroad.

Cash position in March 31 amount to BRL4.5 billion, of which 63% were invested in reales. And the balance in different currencies, essentially US dollar. Vis a vis December 31, cash was reduced by BRL314 million, mainly because the higher need for working capital because of the higher level of activity in the period, as I said before.

The financial cycle, working capital divided by the daily net revenues in the quarter, dropped to 93 days, as you can see here on the right, on the lower right, 93 days in March 2010, a reduction by 30 days in a comparison with March 2009. And in relation to

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December 2009, it was kept practically stable with increases, proportional increases in net revenues and working capital, accounts receivable, trade accounts receivable, more inventory, less suppliers. And although this has increased BRL747 million, reaching BRL7.4 billion in March 2010 -- working capital, I mean -- net debt in March 2010 amounted to BRL10.1 billion, about USD\$5.7 billion, vis a vis BRL9.7 billion in December 2009.

Still regarding some indicators about indebtedness and liquidity on slide number 15, we have a comparison between the debt and the EBITDA. And also, the amortization schedule. And the main debt indicators at the end of March had an improvement, because of the maintenance of the indebtedness level and the higher operating cash generation in the last 12 months, or EBITDA. The gross debt EBITDA ratio went from 3.8 times on December 31, 2009, to 3.2 times on March 31. And at the same time, the net debt over EBITDA went from 2.5 times to 2.2 times on the same dates.

The debt payment schedule, according to the chart on the right, shows a comfortable situation, with less than 15% of the debt maturing by the end of 2011. And the average term is seven years.

And to conclude my presentation, I would like to give you an idea about the major macroeconomic indicators that affect our operations financially, which are exchange rates and interest rates.

Regarding the exchange rate, in spite of the traditional volatility, there is a trend towards stability. And regarding interest rates, the trend in the Brazilian market is upward, as we can follow through the press. And as the market has already been signaling, because of the futures market.

So, Gerdau is very well protected, because we have about 70% of our debt in fixed rates and long-term rates.

Okay. So now Andre and I will be available to you to answer any questions that you might have, both by telephone and over the web.

Questions And Answers

Operator

Now we will start our Q&A session. (Operator Instructions) Mr. Leonardo Correa from Barclays Capital would like to ask a question.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon. Thank you, very much for the call. The first one has to do with the prices for long steel in Brazil. We saw a drop in net revenues per tonne in the domestic market. So I would like to know if you have given any price discounts, or whether this is explained by the product mix. And maybe, you could give us an outlook for the prices in the market.

And the other question has to do with the level of imports of long products into Brazil. There was a moment when long steel was imported, 10% demand. And so maybe you could tell us about the outlook for imports. And whether this is going to impact your price dynamics. So these are my two questions.

A - Andre Gerdau Johannpeter

This is Andre. Leonardo, about prices. So far we have been managing the cost increases in raw materials and other components of our costs. And we reached the point in which we are reviewing this. And we are going to make some adjustments. And this depends on the mix, on the size. So we do not have a percentage to announce. And we shouldn't do that, because it depends on the region, it depends on the market, on the clients. And so on and so forth.

So I can tell you that we are reviewing -- we are having some adjustments, not only for Brazil. But abroad as well, because of a very strong cost pressure. And the outlook -- well, it would depend on demand. That is still growing. But also on the cost pressure.

The change in the price of iron ore every three months is something new. And it has a very strong impact, because of -- at every three months, we have increases, such as the ones that we will be seeing now. We will have to monitor this very closely.

Regarding the time, for one year and a half, more or less, we didn't adjust prices. So part of the impact that you saw on our results because of that, because last year there were some discounts, some price decreases. And now we are fine tuning the situation.

Regarding imports, there was an increase in imports in late 2009. And early 2010. And it varies according to international prices. With the recent hike in export markets, of course, imports have dropped. And we are following this very closely. But this is not something so big, 10%. It depends on the line, on the product. So I believe it will be maintained at the same levels.

If it stays between 5% and 10%, this is what historically we have been observing for all the steel products in Brazil.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you, very much. And I still have one doubt. If we consider the results of the First Quarter, we see a drop in the net revenues per tonne sold in the domestic sales. So my doubt has to be, whether -- were there any discounts given in the domestic market, or was there a deterioration into your product mix?

A - Andre Gerdau Johannpeter

There was a change in the product mix, yes, because we sold more billets, we have more exports from some units in Brazil. So this has a major impact as well. And there is a loss, in terms of prices. That has been occurring since last year. So this is both things taken together.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you, very much.

A - Andre Gerdau Johannpeter

Thank you.

Operator

Mr. Rodrigo Barros from Deutsche Bank has the next question.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Good afternoon. And congratulations for the results. I have two questions. First of all, related to iron ore, in your investments. I would like you to be a bit more specific. Could you tell me a little bit about the self-sufficiency [ph] level in terms of iron ore consumption for 2010 and 2012. And whether the price increase of 110% or 120% in the price of iron ore in the next few months will lead the Company to review its plans in terms of the mining operations?

And my second question relates to coal. I would like to know how the Company sees the potential increases in the price of coal in the next few months. And what is the current price level of coal in Brazil?

A - Andre Gerdau Johannpeter

Good afternoon, Rodrigo. This is Andre. In terms of ore, well, there are some new figures. The investments we're doing is BRL325 million. This is all in Minas Gerais. In the mills close to the Ouro Branco operation today, we produce 2.7 million tonnes. And this gives us approximately 50% of that unit's consumption.

So, half of it is our own ore. But with this investment, until 2012, we will be producing 6.6 million tonnes. And this will be enough to cover 100% of that Ouro Branco unit need. So that is an integrated mill. So by 2012, we will reach 100% of our own consumption.

Our plans are these. And so we are making investments to reach that figure. And we have other reserves that we are still evaluating, in terms of the use for the future. But the priority now is to reach 100% of our own consumption of ore.

In terms of coal, maybe Schirmer can answer that.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

The question about trends in the coal market -- in terms of trends, I think the prices will still continue to be pressured. We have changed the way we negotiate our purchases of coal. We are looking at the pace of the market, because the industry in other instances is more subject to these price fluctuations.

On the other hand, we are also developing new sources. And we are geared towards looking for new supply alternatives, like the one in Colombia, where we are producing coke, because we are trying to diversify our purchases in that scenario.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Thank you, very much.

Operator

Mr. Rodolfo from JPMorgan has the next question.

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

Good afternoon, Andre. Good afternoon, Schirmer. My question relates to the semi-finished market. How do you see prices and volumes? And along those same lines, I would like to know what should be expected in terms of exports in Brazil. And particularly, how much could be expected in terms of changes in capacity and volumes in the next quarters for Acominas.

A - Unidentified Speaker

The market, the export market for billets and flats had a very good price and volume recovery starting last year. And in this First Quarter, we experienced a good price evolution, because prices improved, which in turn gave us more profitability. And now, in April, there was an adjustment. So prices went down a little bit.

But I think now we see more -- like a price stability. Some products were impacted by increases and changes in price of iron ore and scrap. But Acominas exports 60% to 65% of its volume. And also, there was export of billets from other scrap units.

So this is more or less the way we see the evolution for the rest of the year.

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

Thank you.

A - Unidentified Speaker

Thank you, Rodolfo.

Operator

Mr. Carlos de Alba from Morgan Stanley has the next question.

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

This is Carlos de Alba, Morgan Stanley. Yes, hello, thank you very much. A couple of questions. The first one is, you have done a great job in reducing your fixed costs and

your SG&A expenses. I wonder what level of production and shipments can you support with this new structure of fixed costs and lower SG&A? That would be question number one.

Question number two is, I would appreciate an update as to the timing when you expect the infrastructure spending in the US to finally start again. And if you believe that the downside trend that we saw in the commercial construction in that country has bottomed out. Thank you, very much.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

The question was about to which extent we will be able to continue with the reduction in the relative share of fixed costs vis a vis total costs. As I said, 20% reduction in fixed costs. And the answer is the following.

Even with the increase in volumes that we were able to see already in the First Quarter, we did the best of two worlds. We were able to increase our production. And at the same time, further reduce our fixed costs. As the volumes go back up more than 78%, then we will see some variation in the relative position of fixed costs, that could go back to around 20% or 26%, because you cannot grow without affecting your fixed costs. And variable costs also follow the production volumes.

But even if we admit a strong recovery in all our level of activities. And if we put this in a model, I wouldn't work with a model with a relative weight of the fixed costs higher than 28%. Andre would like to add something.

A - Andre Gerdau Johannpeter

The second question was about the infrastructure projects in the United States, about the situation of civil construction, commercial construction.

The truth is that the stimulus package, the expectation was for the money to transform projects into faster projects. However, this has been slower and more gradual than we expected. And therefore, steel consumption has been slower. We expected it to be faster than it is, in infrastructure. And in commercial, commercial construction, this is a segment that grew a lot. And we expect it to pick up gradually, as we see a return of the construction, or recovery of the construction, commercial construction sector.

So, slowly but surely, this is what is happening. This is what happened last year. And then it seems to continue throughout this year.

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

Thank you.

Operator

Mr. Thiago Lofiego from Merrill Lynch.

FINAL

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good afternoon. My question has to do with the outlook for Specialty Steel in Europe. What level of use do you have in your Spain unit. And what do you expect for this region?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

This is Schirmer. We continue to be cautious regarding the European market, the Spanish market. We are operating with 50%, 55% capacity. And we do not see the possibility of the situation changing in the short run. But we could work with 60% as a good figure for a projection.

Q - Thiago Lofiego {BIO 16359318 <GO>}

The second question has to do with prices, world steel prices. With the potential reduction in the prices of raw materials for the second half of the year, because we saw very important increases up to now, do you believe we could expect to see a reduction in steel prices for the second half of this year? Could this be expected?

A - Andre Gerdau Johannpeter

Thiago, this is Andre. Prices went up during the First Quarter for demand reasons. And for inventory reduction reasons as well. And the cost of iron ore and scrap. And in April, we saw a slight drop in the spot prices for exports. Iron ore, which will have price increases every three months, we know that the spot price is higher than the contract price. So the trend is to have an adjustment. So we have to wait for the end of the quarter to check the price, coal as well. And scrap, because they go hand in hand. I believe it's going to remain around the levels that we see today.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you, very much.

Operator

Mr. Marcos Assumpcao from Itau has the next question.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good afternoon. And congratulations for your results. The first question refers to scrap prices, both in Brazil and in the US. You said that in the US, it's going down a little bit quarter after quarter. And a loss when you compare one year and the next. And I'll just want to understand the outlook for metals back in the US. And how do you see also the evolution of scrap prices in Brazil?

A - Unidentified Speaker

Good afternoon. I will start by talking about the spread in North America. We had to back up, because of the heavy pressure of scrap prices. And that was an impact in the final product. And that's why we had to back up a little.

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But the main issue is how far prices can go. And what about exports and price pressure and purchases for exports? Now, in the beginning of May, when we start buying again. And this week, we will define how things will happen. We don't have the figures. But I think that the trend is for spreads to be maintained. There may be slow change, particularly in the operations of Canada and the US.

In terms of Brazil, prices are very stable. Scrap and pig iron are stable at the moment. But we are still trying to understand what will happen with ore. And there may be some adjustments in pig iron. And as a consequence, this will bring the pressures for -- you know, in scrap prices. But we just have to wait for the next quarter to see what will happen with the ore prices.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay, thank you. The second question refers to demand in the internal market in Brazil. You also said that demand here is still very good, particularly in civil construction. And in the industry segment. But do you feel already any effect related to investments in infrastructure in Brazil. And when do you see any real impact in demand?

And secondly, could you please elaborate a little bit more, because you said that you may pass over some price increases to your final costs. And what about the Second Quarter? Will that impact be below one digit, or above one digit?

A - Unidentified Speaker

About demand, we -- the outlook is good, because increases in GDP, there was a very good recovery of the automotive industry. And in terms of the major jobs related to the World Cup, Olympics and the PAC program, we see some projects in the pipeline. But things are still in very infant stages. And I think that the impact will be more enhanced later on, in the near future.

The impact in the industry sector is not so significant. So I think that by the end of this year or early next year, in 2012 and 2013, I think we will be able to see a more profound impact. There are some adjustments in prices, both in Brazil and other countries, because of the cost pressure. We had been managing things as much as we could. But there was a lot of pressure, be it in terms of scrap and iron ore, personnel loss [ph]. So we will have to make some readjustments, because -- well, it depends on the geography, on the segment. And so on and so forth. It depends on manufacture.

So I cannot tell you exactly what percentage increase will be applied. The question also referred to the impact of this quarter, in terms of all of the adjustments. I would say that maybe we -- one month in the quarter, we will have revised products. So they will -- so looking again at your model, the benefit would be heavier in the last month of the quarter.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Thank you, very much. Thank you, Andre, thank you, Schirmer.

Operator

Andre Sandremat [ph] from Bradesco.

Q - Raphael Biderman {BIO 1529743 <GO>}

Good afternoon, this is Raphael Biderman. My first question has to do with your strategy, the strategy for raw material supply -- scrap, mainly. In the Fourth Quarter of '09, for the first time, we had a very major hike in the price of scrap in Brazil. And Andre and Schirmer, you said that scrap in Brazil is stable. But there could be some variation regards the price of iron ore.

So I would like to know your opinion about scrap in Brazil. Brazil is not a country that generates scrap as much as the United States. And the demand is growing very strongly, generating a demand for raw material, the demand for steel is growing. And do you anticipate any changes in the paradigm or the control that you had in the past over scrap prices? And in case this is true, what is your strategy regarding scrap prices?

And the other question has to do with steel prices. Rebar prices, as you said. And plate, they are going up. And the prices for long steel as well, the slabs. And in flat steel, we see an increase in the prices of flat steel because of the increase in the price of iron ore generating some margin gains for some companies.

So, do you believe this could happen also with long steel? And do you think this could bring you some margin gains as well?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

This is Schirmer. In a way, I think this has been made quite clear already. When Andre spoke. And when I spoke as well, the way we price -- the way iron ore is priced. And of course, it affects the price of the pig iron, which is a natural substitute for scrap. And so the price of scrap becomes more volatile.

Of course, Brazil does not produce as much scrap as the United States. But we are not scrap exporters. And we generate sufficient scrap to be used by our industry. If this paradigm would change, well, it might change. And we do not believe the growth will be so accelerated. So the combination, in a group such as ours, when we produce. And we can produce steel based on iron ore. And we can produce this with electric [ph] furnaces, with scrap and pig iron. And in some regions, we have the direct reduction resource.

So this is a very good matrix. And it allows us to defend ourselves against this kind of volatility.

About prices, as we said before, we are reassessing this. And we are doing some fine tuning, as I said before, according to the product line, to the region in the country. And with the cost pressure that we are undergoing. And for one year and a half, we didn't do anything about our prices. So we believe a recovery will be seen, because we have to cope with the price hike that we see.

Q - Raphael Biderman {BIO 1529743 <GO>}

Thank you.

Operator

Luisa Moreno from LUSIGHT Research.

Q - Luisa Moreno {BIO 17080970 <GO>}

My first question, I would like to note your total production capacity right now in Brazil. And in North America. And in South America.

A - Andre Gerdau Johannpeter

Good afternoon. This is Andre. You want to know our total installed capacity? Over 25 million tonnes.

Q - Luisa Moreno {BIO 17080970 <GO>}

Could you break it down between Brazil, North America, South America? I would like to have an idea of your installed capacity in each one of the regions. And the average investment made.

A - Andre Gerdau Johannpeter

I do not have this -- these figures with me. Maybe we could get in touch with you later on. And of course, on our website, you have more detailed information.

Q - Luisa Moreno {BIO 17080970 <GO>}

The other question has to do with your increase in capacity for the short term and for the long term. In your presentation, on page number 6, you talk about 1 billion increase in your capacity in Ouro Branco. Is this the only increase that you are projecting in the short run?

A - Andre Gerdau Johannpeter

In fact, Luisa, this is not the capacity increase. It is the rolling mill that will be processing the products that will already be produced, that is to say, the slabs that will be produced. So we are going to roll these slabs [ph] in that region.

So when you look at the slide, you see this capacity. In fact, it is in terms of downstream operations in (inaudible).

Q - Luisa Moreno {BIO 17080970 <GO>}

Thank you.

A - Andre Gerdau Johannpeter

Thank you.

Operator

Mr. Rafael Weber from Banco Geracao Futuro has our next question.

Q - Rafael Weber {BIO 6953090 <GO>}

Good afternoon, Andre. Good afternoon, Schirmer. And congratulations for the -- your quarter results. My question is, how the Company sees the inventory levels in your pipeline, if there is any changes in your accounts in terms of -- just to accommodate for prices, increases. And what are the main markets that you are servicing from Brazil? You know, your exports.

And then the second question has to do with your steel inventories. I think 49 square meters of a house that is constructed would consume about one tonne of steel. So could you give me any estimate about steel consumption?

A - Andre Gerdau Johannpeter

Andre -- good afternoon. Well, in terms of inventories, there has been some anticipation because of increases. And whenever there are increases, people try to buy before increases, anticipating what is about to come. And all of that is part of the effect. But I think most part of it is because demand is recovering. And we see some industries, like the automobile industry, which in North America was very low, they had to produce more inventory. And even because of the crisis, everybody was working with very low levels of inventory. They had like medium sized to very low inventories. And now they have to replace that.

The second point was, I think, about markets, the main markets that are being assisted by -- or, served by exports that really grew in the first part of the year. Asia, I think we export a lot to Asia. But also, the Caribbean and Africa. And the Middle East. I think maybe the main market is Asia, in terms of our export market.

Q - Rafael Weber {BIO 6953090 <GO>}

What about that relationship provided by CSN[ph]? They said that for a small house, the house would take up about one tonne of steel. Do you think that figure is feasible, that number is feasible?

A - Andre Gerdau Johannpeter

I think you have to be cautious. And first identify what kind of steel. It could be rebar in concrete, or it could be a profile with -- you know, in a flat shop, or different kinds of steel. So it's very difficult to say that every square meter of a construction, we use a certain amount of steel, because it depends very much on the type of construction.

There are several different types of construction. And we use different types of steels in different shapes. So I cannot really say that that number is correct, because it depends on the construction.

Q - Rafael Weber {BIO 6953090 <GO>}

Thank you, very much.

Operator

Mr. Rodrigo Barros from Deutsche Bank has one more question.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Well, I just have two very quick questions. Let's assume a price of USD\$200 per tonne of billets. What kind of outlook that would have for exports? And the second question is, considering a more positive scenario, in terms of the cash flow of the Company, if you have any kind of upstream ideas in terms of raw material, or it's still too soon to talk about that?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Okay. So, regarding the margin that we have, with USD\$600 per tonne, we do not disclose this kind of information. When we export with this price level, what I can say is that the result is positive.

Regarding cash generation, as was said before, as Andre said early on, in terms of mining, we're not expending our mining areas. It's very encompassing. We have enough (inaudible).

And regarding acquisitions in general, we have already told the market this. And we repeat this, that first of all, we have to trust the projections and the soundness of the market. Before having all the certainty, we will not be getting into mergers and acquisitions. However, we pay keen attention to everything that happens in the market, everything is on our radar screen.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Thank you.

Operator

The Q&A session is closed. And we would like to give the floor to Mr. Andre Gerdau, and Mr. Schirmer, Osvaldo Schirmer, for their final remarks.

A - Andre Gerdau Johannpeter

I would like to thank you all very much for your interest in this conference call. And for the high number of questions asked. And of course, our Investor Relations area is totally at your disposal. I would like to thank you all for your participation, your interest in the Company. And we count on your participation in August when we analyze, announcing the results of the Second Quarter.

Operator

The Gerdau conference call is closed. We thank you for your participation. And wish you all a very good afternoon.

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