

## Q4 2008 Earnings Call

### Company Participants

- Andre Gerdau Johannpeter, CEO
- Osvaldo Burgos Schirmer, CFO & IR
- Unidentified Speaker, Unknown

### Other Participants

- Alex Simlert, Analyst
- Ali Shandry Bregita, Analyst
- B.S. Rosenblum, Analyst
- Guillermo Sinonis, Analyst
- Juliana Chu, Analyst
- Marcos Assumpcao, Analyst
- Rafael Biderman, Analyst
- Rick Christopher Buck, Analyst
- Rodolfo de Angele, Analyst

### Presentation

#### Operator

(interpreted) Good afternoon. Welcome to Group Gerdau's Fourth Quarter earnings conference call of 2008. All participants are connected in listen-only mode. And later, we will start the question and answer period. (Operator Instructions)

We would like to stress that statements that might be made during this call related to the business outlook Gerdau projections, operational and financial targets are just forecasts, which are based on expectations on the part of the management of the Company vis-a-vis the future of the Company. Also, Gerdau believes that its 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 Mr. Osvaldo Schirmer, CFO and Controller. And IRO. I would like now to give the floor to Mr. Andre Gerdau Johannpeter. Please, you may proceed.

#### Andre Gerdau Johannpeter

Good afternoon. Welcome to our call of the Fourth Quarter of 2008 earnings. And this is a great quarter for us to be with you again. As we always do, we are going to analyze our

operating performance in the period and the outlook for the markets in which we operator. And later on, Osvaldo Schirmer will detail the information about our financial performance. And later on, we will be available to you to answer your questions.

I would also like to mention that during those three last quarters, we had this conference call in English. And the simultaneous interpretation was into Portuguese. And now this time, we're going to do the opposite. It's going to be in Portuguese and simultaneous interpretation into English.

For those of you who are following our PowerPoint presentation, please refer to page number two. And I would like to start by making a brief remark about the Fourth Quarter of 2008. In fact, in '08, we had two years in one. During the first nine months, we saw a strong demand in high prices in the international market. And as of October, besides the typical seasonal reduction in our shipments, we saw the impact of the world economic crisis on all our businesses. And the rippling's of the crisis were felt at different levels, according to the segment and according to the geography of our operations.

We saw a significant reduction in demand in the Fourth Quarter. And we needed to adjust our shipment volumes vis-a-vis this new economic scenario, as we had already told you it would happen in last November.

With this scenario, our performance in the Fourth Quarter of 2008 was as follows -- steel production 3.3 billion tons with a reduction of 34% vis-a-vis the same period of 2007. And in shipments, a reduction of 24.4% with 3.5 million tons, net revenues with an evolution of 17% vis-a-vis the same period in the previous year reaching BRL9.4 billion. EBITDA, we saw a reduction of 9.6% vis-a-vis October and December '07, totaling BRL1.5 billion and our net income reaching BRL311 million, representing a decrease at 67% vis-a-vis the same period in the previous year.

Regarding investments in PP&E and acquisition in the Fourth Quarter of '08, we have \$658 million, of which \$370 million in modernization and expansion of our units and \$288 million in the acquisition of stake or additional stake at 20% Sidenor Spain [ph].

On page three of the presentation, I'm going to talk about the steel production in general, where production of steel reached 264 million tons during the Fourth Quarter and had a reduction of 17% vis-a-vis the same period in 2007. And this reflecting the world economic crisis, of course. Practically all regions in the world had a drop with small recessions in Asia and the Middle East. China presented the biggest drop in terms of volume produced, 111 -- the highest volume and the drop of 8.3%. And the country still is the leader as the biggest producer in the world.

The prices of steel products presented a reduction in exporting countries, such as Eastern Europe and Asia. And raw material costs in general had some decrease, reflecting the crisis during the quarter. Imports negotiated on an annual basis, such as iron ore and coal, they continue to be high. And new negotiations will happen during the first half of the year.

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In the current scenario, the many mills which are scrap based, significant [ph] % of our production, have a higher operational flexibility, which compared to the integrated process, which is iron ore based due to the possibility of a higher reduction in production levels because of the fixed cost and variable cost structure.

Talking about the outlook for the world's steel market, it is difficult to talk about figures, both [ph] (inaudible) and with the Steel Association and other associations. Nobody's really making projections due to the high degree of difficulty and the many uncertainties that we have for 2009.

Now I would like to talk about the performance in Brazil on slide number four, giving you an overview of the Brazilian market in this period. In Brazil, the economic activity in this quarter has already presented some slowdown in our experience. In Brazil, the crisis came here a little bit later than in other regions. And in August, September, October, we saw major impacts in other regions. And in Brazil, it was around November and mainly December.

Brazilian steel production reached 6.9 million tons, a reduction of 21% vis-a-vis the same period of the previous year. And apparent consumption of steel, 2.1 million tons in this quarter, representing a drop of 9.8% vis-a-vis the same quarter of the previous year and the strong reduction in steel consumption happened, as I mentioned before, mainly in November and December. And the drop in demand for steel products was also reflected in the level of operation of all resident [ph] steel mills. And in Gerdau, sales had a reduction of 18% in the Fourth Quarter -- 18.9% -- reaching 1.3 million tons, domestic market and export market together.

In the domestic market, the drop was 9.3%, 984,000 tons therefore; and in exports, a strong reduction, 41% and reaching 271,000 tons. And here we have also a consequence of the international export markets. From the volume, we exclude the sales of Dilatini [ph] and Dilitis [ph], which are reported in the segment about specialty steel -- investments of Gerdau in Brazil \$197 million.

And now looking to the future, the scenario is full of uncertainties in Brazil as well as in the rest of the world. And the real dimension of the impact of the world crisis in Brazil -- but we believe that we have strong fundamentals in order to overcome these difficulties in the market. And this was one of the reasons why the crisis took a little bit longer to hit the Brazilian market.

We already see some signals of improvement in our domestic demand. And we believe that by the end of this quarter and beginning of the next quarter we will see a slight improvement in the levels of steel demand into the construction, capital growth. And automotive. And the work by the PAC [ph] will have a positive impact and because this has direct influence on our product.

On page number five, we're going to talk about North America and the Fourth Quarter of '08. The major indicator, which is the GDP of this activity presented a drop of 3.8% in the United States. And this decrease in demand led to a lower volume of steel products. And

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we had to adjust our shipments. And these adjustments were carved out and generated a lower use of our installed capacity.

In civic construction, which is an important segment for our product, the drop in the Fourth Quarter was 9.5% in expenditures with construction. And in spite of that, expenditures with non-residential construction, which is a major segment in construction, grew 2.2% vis-a-vis the same quarter in '07.

Steel production in Canada and the US, 18 million tons was a reduction of 38% [ph] vis-a-vis the same period of '07. At Gerdau Ameristeel, our operation in North America, the drop was 38% in sales going to 1.2 million tons, resulting in a reduction in the levels of use of our installed capacity in the period.

We should stress that in the earnings of Gerdau Ameristeel in the Fourth Quarter of '08, it was affected by the evaluation of the goodwill recovery of \$1.2 billion. And it is important to stress that this effect is an accounting one without any cash disbursement. And it does not affect the consolidated earnings of Gerdau. Later on, Schirmer's going to explain this in detail, the G&A results.

In terms of investments, we made \$55 million of investments in the region during the spirit [ph] and also for North America's very much based on and waiting for the impact of the new measures taken by the new administration that took office in January and the package that was recently approved in the United States that tends to generate economic activity and increase steel demand.

When it happens, the rippling's on Gerdau Ameristeel will be positive because it's going to increase the demand for our rebars and this is part of the stimulus package that will go to infrastructure, construction, et cetera. And the support of the government to the financial system will generate a high degree of stability in the credit market. And that in its turn will benefit the economy in general. However, there is a lot of uncertainty about the future still, in spite of the good measures taken by the US administration.

On page six, I'm going to say a few words about Latin America, excluding Brazil, Latin America ex-Brazil and as well as in other markets. The growth estimates that were very good for economies in Latin America in '08 had a reduction because of the consequences of the world economic crisis such as happened in the other regions of the world. And also, the restriction of credit in the international finances system contributed to a reduction in consumption in the domestic markets.

Steel production, 17 million [ph] tons, drop of almost 22% vis-a-vis the same period. And Gerdau's shipments in the region dropping 27%, reaching 444,000 tons -- investments in Latin America, \$40 million in the last quarter of '08.

Looking to the future, the outlook for Latin America -- demand will be lower in '09 vis-a-vis '08. Economic activity as well in this will end up affecting our operations in the region with a higher impact in terms of commodities and manufactured goods.

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However, there is an outlook for improvement because most of the governments in the region, or practically all governments in the region, are establishing investment incentive programs and packages and infrastructure, generating a degree of recovery as of the second half of '09 for the demand for steel. And we should say that Colombia has a package of \$25 billion already announced.

On page number seven, specialty steels -- and I'm going to start by the Brazilian market, where the drop was 24% in the production of vehicles in the last quarter compared to the last quarter of '07. In the US market, the decrease in the production of automotive vehicles was 30%. And the European market also had a negative performance, not only in the last quarter but presenting drops as of the beginning of the year. But mainly in the last quarter.

Shipments in specialty steel, 584,000 tons with an expense [ph] of 17% compared to the same period of '07, mainly because of the consolidation of Macsteel. Concerning Macsteel, there was a drop of 21% -- investments in the region totaling \$366 million to \$78 million in PP&E and the remainder in acquisitions. And the main acquisition was Sidenor, as we mentioned already.

The want for specialty steel markets for the three regions -- Brazil, US. And Europe -- US, Canada. And Europe -- it is -- well, the improvement is directly related to government measures. We've seen, for instance, a reduction of IPI [ph] taxes in Brazil, which boosted consumption and also some other incentives given to credit, both in the US and Europe.

The outlook for the Brazilian market is for a gradual recovery of the industry, which is already being experienced because the automobile industry is close to historic levels. And sales are much better than they were in the end of last year. Now the outlook for the North American and European automobile market is much lower in terms of the production of automobiles looking into the First Quarter and also into the Second Quarter. And the growth will be much slower than the growth experienced last year.

And unlike Brazil, the inventory of vehicles are still very high. Our strategy is now undoubtedly to boost our production inventory and demand. And also, we want to optimize the use of the old industrial facilities. We also want to diversify in the automobile market, looking for other segments, such as industry, infrastructure, the neighbor [ph] industry, or other markets that are not so highly affected as the automobile industry.

And with that, I conclude the outlook for operations. And I'll give you a general overview of Verdad al Gerdau [ph]. Undoubtedly, the financial and operational performance of the Company in '08 was very positive. However, the last quarter also brought about some negative effects in some of the Brazil operations, particularly after October of last year. We are working very hard to promote an adjustment of the operations, considering in the new landscape adjusting the operations with the demand. But we still lack some resources in terms of productivity. We need to be more flexible in our operations. It's also very important to look back and see our previous experiences in the past during previous crisis.

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I would also like to highlight the fact that our mini-mills are based on scrap. And 80% of our operations are based on scrap. And I'd also like to highlight some of the main adjustment measures. We aim at reducing cost. The early maintenance stops and early vacations and also trade union negotiations are necessary to adjust our operations to the current scenario.

And in conclusion, I would like to revisit the part about investments towards the future. I would like to say that our investment plan for the three-year period of 2007 to 2008 was \$3.4 billion last year. That amount was readjusted due to the depreciation of reals because the bulk of our investments occur in Brazil. So that amount that was \$6.4 billion is now adjusted to \$5 billion at the end of '08.

So I would like just to emphasize that there hasn't been any cancellation. But we just revisited our investment portfolio because they are subject to future economic conditions. So out of that \$5 billion that remains, adjusting it according to the exchange rate variation, we have made adjustments for \$1.4 billion in '08. So the remaining amount, \$3.6 billion of future investments will be realized in the next five years.

There may be some reductions because we still believe that the cost of the investments will be also reduced according to the new price levels. And also, this will greatly depend on the current economic landscape.

And with that, I conclude the first part of my presentation. And I'll give the floor to Osvaldo Schirmer, who will talk about the financial and operational scenario of the Company in the last quarter. Thank you.

### **Osvaldo Burgos Schirmer** {BIO 1754610 <GO>}

Good afternoon, ladies and gentlemen. So we will start with slide number nine of the consolidated Gerdau performance. We have some information on our outcome. And on the right side you have in the slide, you have the margins. I think you have already looked at different models looking at different results for the Fourth Quarter. So let's make a comparison between the Fourth Quarter of '08 vis-a-vis Fourth Quarter of '07.

The net sales was BRL9.4 billion, representing an increase of 17% vis-a-vis the same period of '07. This is due to best prices in '08 because prices had a substantial recovery. But the depreciation of real in export prices and the result of companies abroad because of the depreciation of real once the prices in dollars when converted into reals was also impacted in growth. So the net sales per ton in the Fourth Quarter was 54.3% growth, the net revenue. And that says that the average was 1.741. And we also added to the operation new operations. And the most relevant of them is Macsteel.

In terms of the margins, which will be the right side of the slide, the growth margin went down from 23.6% in the Fourth Quarter of '07 to 17.9% on Fourth Quarter of '08. General costs were higher, mainly due to increased prices in iron ore and coal. Iron ore had increases of 71%. And coal prices went up over 200%. We also had a -- we experienced

lower fixed cost per ton in some regions. In some regions, sales went down 24% or shipments went down 24% as it was announced in our last estimate last November.

We also had to reassess our inventory to adjust it to market prices, mainly in Latin America and North America. And this caused an impact in COGS by approximately BRL290 million. If we did not have to go through the reassessment effect because of provisions -- and this is not a write off because prices went up -- then the gross margin would be 19.9% when compared to the 17.9% presented.

EBITDA on the left-hand side of the slide on the Fourth Quarter of '08 was BRL1.5 billion. That means a reduction of 9.6% vis-a-vis the Fourth Quarter of '07. The EBITDA margin went from 15.5% when compared to 19.9%, which was the amount of the previous year. If we were make a comparison with the margins, that margin would be 18.5%.

Well, let's not lose focus because even though the quarter was heavily affected, cash generation is very important because if you look at the entire year of '08, that represented a cash generation of 60% over the same cash generation of the previous year. We were able to generate BRL10 million in the wake against BRL6.2 million. And the respective contribution of our four major business areas -- Brazil, North America, Latin America. And the specialty steel -- means Brazil accounted for 23% of cash generation and in Latin America 8%, North America 20%. And specialty steel 14.5%.

It's still looking at the margins of the year as I have highlighted before. The 12-month margins were the following, the gross margin in '08 with 26% compared to 24% in '07, cash generation. Pardon, the EBITDA margin was 24% compared to 20% in '07. And the net margin was affected in general because of the last quarter was 11.8% in '08 against 14.7% in 2007.

Well, further in some other charts, you'll see that our net income was BRL80 million in this quarter, which means that we did not have the same fulfillment when compared to the previous year, just like in the previous quarter due to the depreciation of real. There was a depreciation of 26%. We had a net exchange rate variation that had an impact in our financial results. And I'll talk further on about that. If we were to exclude the negative effect of inventory variations, our net income would be better when comparing the last quarter of '08 and '07.

Let's go to slide number ten, the performance of Gerdau in Brazil. Here on the left-hand side, we have the net revenues, EBITDA. And margins. In Brazil, net sales in the Fourth Quarter was BRL3.3 billion. And that accounted for an increase of 24% when you compare that to BRL2.7 billion last year. Brazil accounted for 35% of Gerdau's net sales. 84% of net sales comes from the domestic market, around 16% of exports or sales abroad.

Gross margin went from 23.6% in the Fourth Quarter of '07 to 45% in the last quarter of '08. And the growth of that margin was caused by price realignment of which was implemented throughout the year and a better mix due to the reduction of the exported volume in the second half of the year.

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The per ton net sales increased to 2,614. In terms of cash generation measure by EBITDA in the Fourth Quarter, that was BRL1.3 billion, which accounted for an increase of almost 80% when compared to the last period of last year. EBITDA generation in Brazil sustained the entire group, contributing with 60% of cash generation during that same period.

The Brazil EBITDA margin was 40% in the Fourth Quarter when compared to 28% in the Fourth Quarter of '07. A contribution of expenses -- general and administrative expenses, G&A, that accounted 13.8% of net revenues in the Fourth Quarter of '08 compares to 15% in the Fourth Quarter of '07.

Certainly that all of that gave us important gains in our EBITDA margin. The net income of 670 million experience an increase of 28% in the Fourth Quarter when compared to the Fourth Quarter of the year before. And that percentage is lower than the EBITDA percentage. And this was heavily impacted by the exchange rate variation vis-a-vis the Brazilian currency. And net income was BRL386 million after tax. And according -- it was the Brazilian results that ensured a positive result in the consolidated figures of the Fourth Quarter.

So North America, slide number 12 -- in this slide, we have on the left-hand side the net revenues and then EBITDA margin. And then we are betting on the effect of inventory evaluation in both kind of situation.

Net sales in North America has a slight increase in the last quarter vis-a-vis the equal period the year before, reaching BRL3.2 million. The region also contributed with 34% of the consolidated net sales. Just to give you an idea, net sales per ton was BRL2,616 when compared to 1.568 the year before in the same period.

Gross margin had a significant drop in the same period with 17.2%. Even with the metallic [ph] spread here on maintaining these levels, \$635 per ton, the margin was squeezed, mainly because of the lower dilution of fixed cost because since we had a lower creational [ph] volume, we had 80.6 [ph] by sales or shipments going down 38% comparing this quarter -- the last quarter of '08 with the last quarter of '07.

And in addition to that, there was a negative effect of the cost of goods sold due to the reassessment of our inventories according to the market prices. We had an impact of BRL84 million growth in terms of inventory evaluation. And this is aggravated further yet when you compare that with the margin in North America because we use the FISO [ph] system, where other's used the LIFO system in terms of reassessing their inventory.

So the overall result of the Fourth Quarter was negative by BRL56 million. When you compare that with the results by G&A and US GAAP, it's negative by BRL56 million. So that means that there was a high drop of EBITDA in the last quarter.

The EBITDA still goes down from 17.3% to minus 1.8%. The highest EBITDA decline when you compare it with what happened in the gross margin is due to the higher share of expenses associated with sales and general and administrative expenses in relation to net



sales in the last quarter as a result of the equity method and the reevaluation of the inventory because that alone represented an adjustment of BRL60 million.

So if, again, we could exclude the effect of -- with the reevaluation of the write-down of inventories of EBITDA in North America, we would have a positive result of BRL88 million with a margin of 2.7%.

In Latin America, slide number 13, net revenues or net sales in Latin America experienced an increase of 7.4% in the last quarter of '08. That resulted due to average prices, which were a little bit higher in '08 and mainly because of the depreciation of the real in the same period. Net revenue per ton increase went up from BRL1,469 to BRL2,165. Gross margin went down from 13.9% in the Fourth Quarter of '07 to 4.1% in the Fourth Quarter of '08.

So the behavior of Latin America is very similar to what happened in North America. The lower dilution of fixed cost because of the significant drop in delivery volumes and the negative effect of the reevaluation of inventories, which was down to 98 million. So the total deliveries in our operations of Latin America was 28% lower when compared to the last quarter of '07.

The EBITDA of the Fourth Quarter was negative. And it was BRL42 million when compared to BRL112 million, which was a positive figure in the Fourth Quarter of '07. The EBITDA margin was negative with minus 4.3%, whereas the year before it was 12.5% positive.

Once again, if we were able to eliminate the effect of the write-down of the inventory, we would have a much better performance. If we could -- if we were able to discount the write-down of inventory because this is not a definite posting figure [ph], we have hoped that prices will resume regular. And as an aside [ph], I put this exercise here for you if we were to exclude the effect of the inventory write downs.

The EBITDA in Latin America was positively affected by BRL58 million because our Colombian company called Cleary Holdings -- that was a company acquired in 2008. And the company began its consolidation the Third Quarter of '08.

Specialty steel, slide number 14 -- so net sales of our specialty steel operations was BRL2 billion in the Fourth Quarter of '08. And that accounted for an increase of 38% vis-a-vis the same period of last year, contributing 21% of the total net sales.

Average prices. So net sales per ton sold, went from BRL2,855 to BRL3,300 in the last quarter of '08. Shipments increased by 17.3%. And so once again, the consolidation of Macsteel had a very high contribution to the figures. The gross margin went down to 19.6% in the Fourth Quarter of '07 to 17.8% in the Fourth Quarter of '08. And again, the reasons are the same.

In EBITDA for the segment of specialty steels had a growth of BRL3.7 million vis-À-vis the Fourth Quarter of '08 -- of '07 -- reaching BRL223 million. The EBITDA margin went down

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from 15% to 11%, which was a slightly lower decline when compared to the gross margin. We had to hold back on our G&A expenses. And the share in terms of the net sales went down from 5.7 in the Fourth Quarter of '07 to 2.7 in the Fourth Quarter of '08.

Now dividends, slide number 15 -- the fact that there was a liquidity crisis, Gerdau decided to stick to its dividend policies, which is a quarterly dividend policy. And it was just 30% of the adjusted net income. So on March 12th, we'll be distributing dividends to our shareholders with positions on March 2nd. Gerdau Metalurgica will distribute BRL56.8 million, equivalent to BRL0.10 per share. And Gerdau S.A. will distribute BRL40.6 million, equivalent to BRL0.04 per share. So we will distribute BRL1.1 billion for Gerdau S.A. and BRL520 million for Metalurgica Gerdau, which corresponds respectively to BRL0.04 per share for Gerdau S.A. and BRL0.10 for Metalurgica Gerdau.

And slide number 16 I believe -- Gerdau's debt at the end of last year was BRL23.2 billion or close to \$10 billion. 17% of that debt is short term. And more than 83% of it is long term. The debt consisted of 15% denominated in local currency, 34% denominated in foreign currency taken by companies in Brazil. And those have an exposure to the exchange rate variation. And 51% denominated in foreign currency taken by companies abroad. So the total net debt was BRL17.7 billion on December 31st, 2008.

Our focus is to preserve liquidity and also to invest cash in the most conservative way possible. So cash availability plus financial investments total 5.5 billion at the end of '08, something close to \$2.3 billion -- 52% of these investments -- were made in reals. They are still denominated in reals. 48% were in the hands of companies abroad.

Important initiatives to capture more capital throughout the year allows us to have a very safe cash position currently. And then we are sound enough to face the situation that we have before us. We reopened a 12-year bond by GPL [ph] trade finance in the amount of \$500 million at the cost of 7.25% a year. We also got a term loan for three years. It's at LIBOR plus one. We also had a public offering for common shares for Metalurgica Gerdau. And that was BRL1.2 billion and BRL2.8 billion, respectively. We also had an extension of the asset-backed loan facility at G&A for \$950 million.

And also, we implemented very specific actions to optimize the management of our working capital in the Fourth Quarter of '08. In this period, our working capital was reduced to approximately \$1.1 billion. We are not very happy to say that. But this is the current situation.

We also have now some committed pre-export lines of credit, which amounted more than \$2 billion. This gives us a liquidity and cash position or (inaudible) money, as the Americans would say, which is very comfortable.

In terms of indicators, on December 31st of 2008, the situation was as follows -- if we compare the gross debt and total capitalization, that was 48%. If we compare the gross debt with our cash generation measure by EBITDA, that was 2.3 times. In December of '07, that was 2.5 times. Net debt over EBITDA or cash generation was 1.8 times.

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The average term of the debt on December 30 corresponded to seven years and six months. That's why I said that our indebtedness was a long-term one. In December, the average cost of debt was 9.1% for the debt denominated in reals and 6.2% plus exchange rate variation for the debt in foreign currency taken by companies in Brazil and 6% for debt for companies abroad. That's why we are so worried about preserving liquidity and preserving cash at all costs.

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In conclusion, to conclude my remarks, I would like to call your attention to three very important events that occurred throughout the year and that merit some comment. First refers to exchange rate variation, which is slide number 17. The last quarter, we talked about a different accounting treatment that is given by IFRS in terms of the tax of exchange rate variation and which were adopted according to the Brazil GAAP, which is followed by most Brazilian companies.

IFRS says that exchange rate variation for debt denominated in foreign currency and taken by Brazilian companies are accounted and to be posted in the [ph] financial statements, whereas variations on financial assets have to be accounted for directly in the net equity.

So given the depreciation of the real vis-a-vis the dollar, which is approximately 22%. And the effects that I just mentioned led us to have a negative impact vis-a-vis the exchange rate according to what is expressed in our financial statement. And the amount is BRL582 million. And so the impact -- I mean, that was reduced in BRL634 million because we've reclassified to net equity so that we could invest abroad, which was the case of Shapera [ph] and Macsteel.

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Once 1.5 billion, which was ratified [ph] -- and this is an effect that will be maintained -- our exposure in dollars that is subject to the interpretation of IFRS is reduced to 1.5 billion since last years. So certainly, this is just an accounting figure. This doesn't even represent any cash reimbursement. And it has no relationship with any leverage actions or derivatives, which was the reason for a lot of talk last year.

And also, we have inventory write-downs. We had BRL227 million related to reevaluation of inventories or write-down of inventories according to the accounting growth following the lower criteria between the cost of production and market value. And the bulk of that amount was accounted for by the operations of North America and Latin America.

And last part's about goodwill impairment. Annually, as you already know, the Company is assessing the feasibility to recover goodwill over investment, which is called impairment test utilizing some practices which are considered common practices in the market, mainly multiple EBITDA or profit before interest, taxes. And depreciation, amortization. And this procedure is a little bit different when compared to accounting standards used by the companies outside. Abroad, we use the US GAAP. And in Brazil, we use the international accounting standards by IFRS.

According to the international accounting systems, IFRS, in Brazil, we did not identify any losses in terms of impairment test for the different segments in the Company. Therefore, in the consolidated financial statements of Gerdau S.A. we have presented in IFRS, there

was no need to recognize any kind of losses during the period. And instead, the impairment was zero for Gerdau S.A.

However, in the Gerdau Ameristeel Corporation, which prepares its financial statements according to US GAAP, the test conducted in their report units. And we have two losses in downstream projects individually. Once we compare that to the respective accounting records, we saw the need to recognize a loss in the amount of \$1.2 billion, which again I reinstated that is an accounting impact with no cash impact.

So after these three important considerations, I conclude my presentation. And I give the floor to the audience. And I'm available for questions if necessary.

## Questions And Answers

### Operator

Thank you, very much. Ladies and gentlemen, we will start our Q&A session. (Operator Instructions) Our first question comes from Mr. Guillermo Sinonis [ph] from Itau Securities.

### Q - Guillermo Sinonis

Good afternoon. My first question is the following -- do you have any details about the impact on your volumes of the package set forth by the US administration? And do you see any difficulties in terms of acquiring scrap in Brazil? And what is the reason for that? And the last question is if you intend to delist Acos Villares?

### A - Andre Gerdau Johannpeter

Democratically, I'm going to talk about Villares. Okay, we have no intention whatsoever in order to delist Villares. About the package, we see with very capable eyes what has been announced by the US administration, President Obama's administration. This is a major volume -- lot of money. And it is difficult for us to measure what the impact will be as most of these funds will go to construction and infrastructure. This affects us directly in terms of the steel products, mainly in terms of our profile and rebars. But it is difficult to evaluate this impact. Regarding scrap in Brazil, we see no difficulty whatsoever in terms of acquiring it. We are buying scrap according to our production volumes and no problem there. Thank you.

### Operator

Our next question comes from Mr. Marcos Assumpcao from Merrill Lynch.

### Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good afternoon. My first question has to do with your US operations. I would like to know if you already have some figures for the volume for the First Quarter. We have been following the news capacity use rate of your operations in the US And we see that in the First Quarter of '09, this figure is still lower than the same period in '08. So our first

conclusion is that the sales volume could be even lower than the Fourth Quarter and because there was a reasonable month, which was October.

### **A - Andre Gerdau Johannpeter**

This is Andre, Marcos. Good afternoon. The capacity use measurement is usually on the average. This is what you see in the industry. So you have to be careful about long and flat. We have legality [ph] operation, where most of the steel produced is long. And for flat, you can see that it is less effective and long. So this is my first warning. So you should be careful in this analysis because these segments are different in terms of affecting the operations.

Our expectation and what we see today in February is that most probably the volumes of our shipments will be similar in the First Quarter to what they were in the last quarter. So this is our evaluation today. And this is the best we can say now. Of course, there is a degree of uncertainty there. However, there we believe that we will repeat the number of shipments.

### **Q - Marcos Assumpcao** {BIO 7474402 <GO>}

And so regarding your US operations, do you have any expectations regarding any new inventory evaluations?

### **A - Osvaldo Burgos Schirmer** {BIO 1754610 <GO>}

This is Schirmer speaking. I don't believe so, at least not in this quarter because this is relatively stable. And the spreads in North America continue around BRL600 and some. So what we see here is a market walking sideways. We do not expect any new adjustments in inventories.

### **A - Andre Gerdau Johannpeter**

It's \$600, Schirmer. You said reals. 65 [ph].

### **Q - Marcos Assumpcao** {BIO 7474402 <GO>}

And about the market in Brazil, we saw earlier this year -- also let me tell a little bit more aggressive in terms of the flat steel. And I would like to know if we could expect any price reductions in the domestic market for long steel and if you see any risk regarding increasing imports into Brazil for the next few months because international prices have plummeted. But allow maybe not with the same quality or the same specs as the Brazilian steel but with lower prices.

### **A - Unidentified Speaker**

Well, about price adjustments, which is the first part of your question, we are monitoring this very closely on a case-by-case basis, each client being measured. And there isn't a collective understanding in the Company that we should go towards a price reduction, for instance. But some adjustments might occur later on without this meaning later moves.

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Regarding imports, when you take the average international prices and the domestic prices, it might give you this feeling that there could be an increase in imports. But then Brazilian clients have already tried to do this in other times in the past. And imports are rather complicated because of the volumes that are necessary and also because of the network set up by the domestic industry. And we can always deliver our products to the market very quickly. And imports -- it might take some time. And also the exchange rate is not something set in stone.

So nominally, it could seem very attractive. But in practical terms, it is not that easy. So we do not believe there will be a later increase in exports. Thank you.

## Operator

Mr. Rodolfo de Angele from J.P. Morgan.

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

Good afternoon. My first question has to do with your US business. You talk a little bit about volumes. And what could we expect on the cost side of the operation for the First Quarter of '09? Could we believe that your costs will go down because of scarp prices?

### A - Andre Gerdau Johannpeter

Our expectation -- this is Andre here. We believe that costs will go down. I couldn't say anything more precise about amounts or figures. The industry was operating at a certain level up to October. And everybody's renegotiating contracts. And of course, scrap is one of the major inputs. And the price is going down. And there are other imports, such as electrodes and alloys, energy, gas, that are important as well and that are being renegotiated. The supply contracts are being renegotiated.

This is not right now. But this has already started. And the new inventory being produced already is being produced with cheaper scrap and alloy. So there is a trend. There is a downward trend over the First Quarter and thereafter. There is a major internal effort as well in terms of reducing our administrative costs. And that will be shown later on. So we do expect a drop in cost. And what I saw about the US is valid also for all our operations because all of them are going through the same process.

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

Wonderful. And another question regarding your business in Brazil -- how do you see now halfway through the First Quarter the demand for long steel for the next quarter here in Brazil? And maybe you could say a few words about the export market, mainly for semi-finished goods.

### A - Osvaldo Burgos Schirmer {BIO 1754610 <GO>}

Unfortunately, we do not see a very clear recovery trend. I would say that the trend is more positive than negative regarding the domestic demand situation. And we are very much encouraged from all the information that's come through the media about

programs for investment for civil construction or the PAC in Brazil. And that could bring about good results.

But if you want me to quantify, this is very difficult. I cannot make a very precise projection. Andre has already said that and I say it as well that for the quarter we believe that we will be able to repeat the results of this quarter last year. And this is what we believe will happen for the First Quarter. But it's very difficult to talk about volumes. There is no clear trend.

Exports are improving a little bit. Our telephone is starting to ring. And it was not ringing for some time. So this is a very good signal. But there is no firm trend. This is why it's very difficult for us to make more accurate projections or more long-term projections, both about volume and prices and also about the use of the capacity [ph].

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

One last question -- what do you see capacity usage that you have in the different regions where you have your businesses?

#### **A - Unidentified Speaker**

Well, in a way, this was asked before. And the answer is a little bit complicated because we have different products in different regions. So if I could take an average figure representing the whole of that, it would be in between 50% and 60% usage. But when you talk about an average, you're going to have some which will be higher than that and others lower than that.

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

Thank you.

#### **Operator**

Excuse me. Our next question comes from Mr. Rick Christopher Buck [ph] from Barclay Capital.

#### **Q - Rick Christopher Buck** {BIO 18844391 <GO>}

Good afternoon. I'm wondering if Gerdau has been buying back any bonds recently over the Fourth Quarter and whether or not you would consider doing so moving forward.

#### **A - Unidentified Speaker**

(interpreted) I'm going to answer in Portuguese. And it will be simultaneous interpretation. If Gerdau has been buying bonds that they issue in the market, we monitor this very closely. And it would be an opportunity for us because as there is a liquidity crisis in the world. But anyway, our focus is to preserve our liquidity. Although, sometimes we are tempted to buy our own securities at a discount. We have not been doing this. And it is not in our plans either.

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**Q - Rick Christopher Buck** {BIO 18844391 <GO>}

Great. Thank you. And could you also provide any more details regarding pricing during the Fourth Quarter and perhaps some sort of average price by region? I know that's a difficult figure to come up with. But any guidance would be appreciated in terms of the Fourth Quarter. Thank you.

**A - Unidentified Speaker**

(interpreted) The question has to do with our guidance regarding the prices for the First Quarter of 2009.

**Q - Rick Christopher Buck** {BIO 18844391 <GO>}

And I'm actually --.

**A - Unidentified Speaker**

(interpreted) The person who asked the question said that it is difficult. And we have been trying to give some guidance regarding prices and volume. However, in North America, we believe that prices will continue to walk sideways, to move sideways. And in Brazil, adjustments are being made in a very gradual manner. So we don't see a clear trend of price adjustments in either direction, unfortunately.

**Q - Rick Christopher Buck** {BIO 18844391 <GO>}

Thank you.

**Operator**

(interpreted) Excuse me. Our next question comes from Mr. B.S. Rosenblum [ph] from RBS.

**Q - B.S. Rosenblum**

Hi. Thank you for the call. My question is regarding CapEx. I think you said [ph] for the 6.4 billion figure to 5 billion. But can you provide some details I guess regarding -- well, first of all, how much your aiming for in 2009? And also of that \$5 billion, how's that going to be broken out over the regions that Gerdau operates in and particularly Peru and also -- ?

**A - Andre Gerdau Johannpeter**

(interpreted) The question was about CapEx and our investments in PP&E. And the question is how it will be from now on and if there is any detail about these investments for '09, et cetera. I will go back to the figures because I think it was not made very clear. \$6.4 billion CapEx was announced for the three years '08 until '10. Regarding the appreciation of real -- and most of the CapEx was for Brazil -- we adjusted this amount, \$6.4 billion. And it became BRL5 billion so that we could make a comparison of this BRL5 billion.

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We have already invested \$1.4 billion. So the remaining balance is \$3.6 billion, which we are announcing now that the new investment packages, \$3.6 billion for the next five years. I do not have any further details. And today, as we are revising the whole program, I wouldn't be able to tell you which markets or which operations we will be invested in. And because any projects now are closely linked or directly linked to demand to the recovery of the economy in the different markets and countries where we have our operation, this is going to define where our investments will be made. So Schirmer would like to add something to that.

**A - Osvaldo Burgos Schirmer** {BIO 1754610 <GO>}

I think it is worth mentioning what was said in Andre's presentation. None of our important projects was canceled. Some of them are being reviewed. And many are -- some are being postponed.

**Operator**

Our next question comes from Ms. Juliana Chu from BES Securities.

**Q - Juliana Chu** {BIO 1551904 <GO>}

Good afternoon. I have two questions. One has to do with investments. I would like to confirm with you that the balance that you were talking about for the next five years would be around \$700 million per year. Could we consider this as a leaner investment? Or do you have a different distribution? Is it going to be the same amount but distributed differently? How are you dealing with that?

And the second question has to do with inventory adjustments. You said that there is an expectation for a change their depending on the beginning of '09. So how did you carry out this adjustment? Was it based on your price basis for late '08 or already January, February? How do you calculate your inventory adjustment?

**A - Andre Gerdau Johannpeter**

This is Andre, Juliana. I'm going to answer the first question about CapEx. You said 3.4 billion and splitting by five years. And it's going to be 700 million? Well, this is one possibility. The truth is that this might occur later on because of the situation that we're living today. So the trend is for 2009 having lower investment. I cannot have specific figures to give you now because we're monitoring this very closely. We're starting the second month. Or we're halfway the second month of the year. And there's still a lot of uncertainty in the horizon. But later on, we will have a clearer view.

So if you take this 3.4 billion divided by five, this is feasible. But most probably in 2009, it's going to be less, less of the 700 million you referred to. And Schirmer's going to answer the second part of your question.

**A - Osvaldo Burgos Schirmer** {BIO 1754610 <GO>}

Regarding inventory adjustments, we followed the classical criterion of comparing prices of the products, ready-made products that will be sold in the domestic market, how much they are in your inventory. And what are the prices that are in the market. So products that were earmarked for export compared to international prices, of course. And the opposite as well.

What really messed [ph] as North America imports products from Brazil and they import it at a certain price level at the time and the market prices went down. And they had to carry out adjustments. And the adjustments were made in Latin America over the second half of '08. And the last most important ones were made in December.

And I mentioned -- and you referred in your question also to this -- whether they would go back. And I stated that inventory adjustments are just a provision. They are not a write off. This is not a loss. This is not a write off. If the prices go up when these products are sold, they will go back to the revenues of the Company. So I would compare the December inventories compared to the December prices, yes.

## Operator

Our next question comes from Mr. Rafael Biderman from Bradesco.

## Q - Rafael Biderman

Good afternoon. My first question has to do with Ameristeel. What happened to the margins? You were expecting low margins. And this really happened. But even when we estimated that, we thought it was something else more than the dilution of the fixed costs and the drop in volumes and inventory write-downs. I would like to know if there are any other elements came into play because if you look at the revenues of the variation of Ameristeel revenues quarter over quarter, it dropped 43% or \$1 billion. The cost of goods sold for Ameristeel quarter over quarter dropped 29% by \$8 million.

I understand that there is a lower dilution of the fixed costs. And I understand that the use of idle capacity dropped dramatically at the end of the quarter. But the inventory write-down seems to be a small factor coming into play there. And I would like to know if there is something else because in that spread was very high. So was there any other factor there?

And another doubt that I have is the following -- you said that you expect volumes to improve already during the First Quarter and achieving the same volumes that you achieved in the Fourth Quarter of '08. I would like to understand this very clear because it seems to me not very probable. The probability doesn't seem very concrete because as far as I understand the activities in the steel industry in the US in January, very close to December.

And I believe that the activity in December was 60%, 70% idle capacity. So could you please explain how this could be achieved because shipments would be much lower during the First Quarter than they were during the Fourth Quarter? And the EBITDA would be almost null during the First Quarter.

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## A - Unidentified Speaker

Well, this is a very long question. And it requires a very long answer. So first, the First Quarter of '09, I said that we would try to repeat the same figures as the last one of '08 on consolidated basis, which is not equal for all. I would like to draw your attention using the same reference that you used. You compare volumes, production, deliveries, shipments. And we have important shipments. And the capacity usage, yes, you are right. It went down because there was a major destocking during this period.

It went to very low levels because it was important to sell inventories. And our estimate is very much based on the fact that maybe this destocking in the chain is already advanced and that probably new orders will come through.

And as you said, it's not very relevant. But the stock adjustments in North America were \$39 million and with an additional \$25 million of guaranteed show [ph]. So as far as we are concerned, this is very important. And it is the explanation that we have for this decrease, which you were looking for an answer for.

Still talking about the margins, it is important to achieve enough spread. It always shows the scrap at the same sale price. But our inventories, it was already made up of more expensive scrap. And when production went down, you're still processing this more expensive scrap. And this is the reason why the previous question was about cost. And we answered that in January and February. The cheaper prices of scrap will start to have an impact on our margins. So this \$600 and some spread has to do with management. It's not the cost of scrap that was already in your stock. Yet we used the cost of scrap that was fed to the furnaces, for instance.

## Q - Rafael Biderman

About the First Quarter, could we expect an EBITDA margin for Ameristeel of single digits?

## A - Unidentified Speaker

You're asking too much. I would love to see that. I would love to see a good EBITDA margin. But we cannot say anything about that. I apologize.

## Operator

Excuse me. Our next question comes from Mr. Alex Simlert [ph] from George White and Associates [ph].

## Q - Alex Simlert

Yes, hi. Just explain a little bit on G&A. Apparently, the average authorization [ph] for the quarter of the US mini-mill CapEx [ph] was up between 45% and 50%. Just wonder why G&A was running at 40% capacity.

## A - Unidentified Speaker

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(interpreted) The question referred to the utilization level of Ameristeel capacity. I'm not sure whether I followed your question completely, why G&A was working at 40% of its capacity. Could you please repeat your question?

### **Q - Alex Simlert**

Yes, it seems to me that the industry -- the mini-mills -- were operating in US at around 45% utilization capacity during the Fourth Quarter. I'm just wondering why G&A was operating at 40% capacity. Was anything additional that led them to operate below the average capacity utilization from the steel industry?

### **A - Unidentified Speaker**

The question was about the average of mini-mills. There is -- you mentioned some statistics. I don't know what source you used. The mini-mills were operating at 45%. And Ameristeel, according to his calculation, they were operating at 40% and whether I could explain what happened to that 5% difference. I don't have an answer for you.

### **Q - Alex Simlert**

Okay.

### **Operator**

(interpreted) Our next question is by Mr. Ali Shandry Bregita [ph] from Explorer [ph].

### **Q - Ali Shandry Bregita {BIO 21189806 <GO>}**

Good afternoon. I know I may be ahead of myself. But I would just like to get an estimate of the impact of the slowdown of the civil construction in Brazil which took place in the Fourth Quarter of '08. The investment cycle estimates from 12 to 18 months. So I'm just trying to figure out what is happening from now to the end of the year, whether you are getting ready for a possible warm-up of the economy in the future.

### **A - Andre Gerdau Johannpeter**

It's Andre. Good afternoon. Civil construction industry -- maybe you were referring more to the construction of buildings and residences, residential homes, which had an important impact at the end of the year because of the crisis. So we said before that we begin to see some signs of recovery. Like November and December, nobody was launching any new developments. But now we see things being launched here and there, particularly in terms of (inaudible) and residences. And this is directly related to the problem of credit.

Credit was difficult. And that's why people were not taking loans. But as the government is now putting more credit available in the market, the trend is that the construction business will start moving again.

But there is another side to civil construction, which is construction of infrastructure things. And this was left on the side. And now the government is boosting some big

projects that are part of (inaudible). And then we see some important constructions and developments by the government. And new projects will come along in a way compensating the other side of the civil construction business. So this is something that we will still see in February.

**Q - Ali Shandry Bregita** {BIO 21189806 <GO>}

Thank you, very much.

**Operator**

We will now conclude our Q&A session. I would like to give the floor to Mr. Andre Gerdau Johannpeter and Osvaldo Schirmer for their final remarks.

**A - Osvaldo Burgos Schirmer** {BIO 1754610 <GO>}

Thank you, all, very much for your interest. We hope that we answered all your questions. We hope we've clarified your doubts. And we hope to meet again next quarter with good news for all of you. And this is what we all hope for. Andre?

**A - Andre Gerdau Johannpeter**

Thank you. So much for your participation. Our team of experts is available here to clarify other questions that probably we didn't have enough time to answer you. But we will have another conference call in May that will reflect on this current quarter. Thank you, very much.

**Operator**

Gerdau's conference call is now concluded. We'd like to thank you very much for attending. And have a nice afternoon. Thank you.

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