

# Q2 2004 Earnings Call

## Company Participants

- Osvaldo Schirmer, EVP, Director of IR & CFO

## Other Participants

- Andres Perez, Analyst
- Daniel Altman, Analyst
- Happayo Biedermann, Analyst
- Hoberto Nordfill, Analyst
- Jorge Beristain, Analyst
- Marcelo Aguiar, Analyst
- Pablo De Zola, Analyst

## Presentation

### Operator

Good afternoon, ladies and gentlemen. And welcome to the audio Conference Call of Gerdau. Thank you for standing by. At this time all participants are in a listen-only mode.

Later we will conduct a question and answer session. (Operator Instructions). I would now like to turn the conference over to Mr. Schirmer, Executive Vice President and Investor Relations Director. Please go ahead, sir.

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

Thank you. Good afternoon, ladies and gentlemen. Welcome to our Second Quarter conference call. The quarter's press release is already available at our web site and was filed with CVM and Bovespa this morning.

We would like to remind you that as consistent with the First Quarter, the company has also released its quarterly results according to US GAAP. These are available at our web site. This conference call is based on data presented according to Brazilian Corporate Law, Brazilian GAAP.

Let's start. Brazil. The Second Quarter has confirmed the recovery trend for the Brazilian steel markets, along with the maintenance of the favorable conditions in international markets as announced on our First Quarter conference call. The Brazilian economy is in a growth mode and gives strong indication that GDP gross may in fact reach 3.5% or maybe more, as estimated by the Brazilian government for this year.

In the industrial sector, exporters continue to demand steel products. In the civil construction sector, an important steel customer, there is an evidence of consistent pickup in demand in the last month.

Sales of Rebars increased 15% in June, compared to the same period in 2003. The steel sector is reducing exports in order to service the increasing domestic demand in spite of the fact that international prices are more attractive than domestic prices.

The reason is that our main focus continues to be satisfying the domestic market. Gerdau's businesses in Brazil are in line with good performance of the sector in the quarter. Domestic sales show an increase of 15% compared to the first three months of the previous year.

For the year to date, domestic sales increased 19%, indicating that our 12% growth estimate for 2004 as announced in our previous conference call may be well surpassed. The flip side to domestic growth has been the reduction in exports, down 13% in the quarter. The steel exports total 632,000 metric tons in the Second Quarter.

It generated revenues of \$290 million US, compared to \$220 million in the First Quarter. Even with volumes falling, the financial results of exports increased by 32%, as a consequence of increases in international prices of steel product.

When the topic is exports and international markets, the word that comes to mind is China -- the largest steel producer in the world and great steel products and raw materials importer.

The influence China has had on steel market has changed the dynamics of business in this sector. The Chinese economy has been growing at full speed. Aware of the implication of this growth, China has decided to slowdown the pace of investments and try to balance back the economy.

Nonetheless, in spite of the measures adopted by the government, restrictions on credit and the power generation deficit, their steel industry continues to grow and has put pressure back on international markets for iron ore and steel scrap. The impact of the decision to slowdown ended up generating exports from China -- throughout the quarter as they quickly worked to reduce steel inventories accumulated in previous months.

With this reaction and the reduction in volumes imported in the Second Quarter, prices of steel products suffered a slight decrease in the period. The quick depletion of inventory, however, caused an almost immediate resumption in imports and as a consequence, prices went up again.

It is worthwhile mentioning that given the short lived price fluctuation, products exported by the OR brand Gerdau Acominas to that particular region of the world, did not suffer the impact of this price decline.

North America -- The resumption of economic growth in the US, the almost 25% increase in the prices in the Second Quarter compared to the first one. And the reduction of the cost of steel scrap, allowed for a significant margin recovery in the region.

Additionally, we must highlight the effort put in by the company to increase efficiencies in its operations and in the utilization of close to full capacity level of its installed capacity.

With that, we are able to reduce per unit cost. Even though shipments fell 4% in the Second Quarter compared to the first, partially explained the anticipation of -- sorry -- this was partially explained by the purchases, the program purchase in order to avoid the program price increases in April and May. We saw that, even though net revenues increased by 26% in the quarter.

More important than the increase in net revenues is the recovery of operating margins in the period. EBITDA margin reached the mark of 24% the Second Quarter, compared to the 10% in the first. The combination of market sectors mentioned before and the greater control over the operation make us to believe that the average results obtained may well be sustained at the present levels through the end of the year.

South Cone. Operations in Chili, Uruguay and Argentina continue to present very positive results with increases in output, sales and improved margin. Good steel output in these countries

increased by 24% in the Second Quarter when compared to the first.

And gross margins and EBITDA margin continued to increase throughout the quarter. Economic growth in these countries. And the high prices for steel products on the international market, are factors that have made it possible to reach this market. Sorry, this mark..

Results. In consolidated terms, net revenues reached 5.3 billion in the Second Quarter, 20% greater than in the First Quarter. This growth can be explained by the greater revenue obtained from exports and from the North American operations as a reflection of price increases of steel products in those markets.

Another contributor was the 15% growth in shipments to Brazilian domestic customers. 69% of net revenues came from abroad this quarter. Companies outside Brazil and Brazil exports. 31% from sales came from the domestic market.

Gross margins surpassed, the 24% mark achieved in the First Quarter reaching 35.2% in the Second Quarter and EBITDA up from 21% to 32.4%. EBITDA increased 94.2% in the Second Quarter, reaching 1.7 billion reais in the period. The North American operations made an important contribution to this growth, jumping from 200 million reais in the First Quarter to more than 600 million reais in the second.

Consolidated net income in the quarter was 873 million reais, 104% greater than that of the First Quarter when it reached 427 million reais. Net margin in the Second Quarter increased to 16.5%, up from 10% in the First Quarter.

Based on the results of the quarter, the two Brazilian publicly traded companies, Metalurgica Gerdau and Gerdau SA will distribute 89 million reais. And 192 million reais respectively in the form of interest on capital stock and dividends. Shareholders of Metalurgica will receive on August 17, 1.8 reais per share and Gerdau shareholders, 65 cents per share.

Important remark on interest on capital stock. As an anticipation of 2004 Third Quarter results, the boards of Metalurgica and Gerdau SA decided to approve the payment of interest on capital stock to shareholders. Shareholders of Metalurgica Gerdau will receive 66 million reais, 80 cents of real per share and those of Gerdau SA will be entitled to 136 million reais, 46 cents of real per share. These amounts are to be paid on November the 17th, based on the shares held in each company on August the 13th.

With the prospective of greater demand for steel products in Brazil, Gerdau will have to accelerate its investments in smelt shops and rolling mills in order to expand its existing capacity. Its investments schedule extends through 2009. And envisions a capacity increase of about 4.4 million metric tons. This will require approximately \$1.7 billion US, still to be approved.

Highlights are investments at Gerdau Acominas, Ouro Branco. And it projects a capacity expansion from the current 3 million tons per year to 4.5 million through 2007 and to 7 million tons through 2009. At the Piratini facility, Cosigua, NTRS [ph] there will also be capacity increments in the rolling mills, all of them greater than 300,000 tons a year.

Investments and fixed assets in the Second Quarter totaled \$100 million. Brazilian based units received 83% of its total. And the units abroad 17% of that. Adding up the amounts to be invested through the end of the fiscal year, Gerdau should wrap up the year with total investments of approximately \$350 million US.

The group's net indebtedness today stands at approximately 5 billion reais, a reduction of 6% from the level of indebtedness in December 2003. This reduction was made possible by the

current cash generation by operations. Of the total gross debt of 6.4 billion in June, 66% were long-term debt.

Before we go to the Q&A part, I'd like to pass on to you our perception of our business in Brazil and abroad for the second half of 2004.

North America -- prices and volumes, the steel industry foresees increases in prices based on strong demand and as a means to compensate for cost pressures, mainly steel scrap. Imports -- Still insipid due to the fact that international prices are still in line with domestic prices. There are no forecasts of significant tonnage being introduced into the region. Operating costs: Improvements introduced at steel mills and utilization of mills at close to full capacity should offset the pressures felt by increasing steel scrap cost.

Brazil -- Domestic market demand, GDP should grow by 3.5 or 4%. Demand is strong and there are indications that the year may end with a full recovery of the volume reduction from last year. Our estimate of a 12% growth announced last quarter may be greatly surpassed. Exports: Although prices are above domestic ones, export shipments have fallen in order to supply the ever-growing domestic market. Even with smaller volumes shipped, exports continue to strongly contribute to positive results.

Input prices -With the increase in international market prices for inputs, there should be pressure for price hikes in Brazil, too, especially for steel scrap and pig iron. Foreign exchange variation: We expect to see it in line with the inflation target set by the government. Interest rates: Stable. But still too high. Prices: are out of line with those of international markets. And the main raw materials.

South Cone -- Argentina, Uruguay and Chile continue to present prospective of GDP growth. Demand in these countries should remain at current semester levels but with better and higher operating margins.

We now open the floor for the Q&A session.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions).

Our first question comes from Andres Perez from Morgan Stanley. Please state your question.

### Q - Andres Perez {BIO 18609546 <GO>}

Hi. Good afternoon. Two quick questions just on the North American subsidiaries. First, I saw an article where you said that approximately a third of the increase in profit is mainly due to efficiency improvements. I was wondering how much more do you think you can get out of your existing operations just by improving efficiency levels within the US? And my second question was, I was...

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

I'll answer that. It's twice as much.

### Q - Andres Perez {BIO 18609546 <GO>}

I'm sorry?

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

Twice as much. How much you're expecting -- at least twice as much.

**Q - Andres Perez** {BIO 18609546 <GO>}

So you can double the efficiency gains that you've already gotten?

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

Absolutely.

**Q - Andres Perez** {BIO 18609546 <GO>}

Okay. My second question is, I was looking over your investment plans for the next several years. And I noticed that you weren't looking for -- looking to do anything within the US. What would it take to cause you to look to expand your facilities within North America?

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

I -- we think that it's easier to buy rather than expanding existing ones. So we are working on remodeling, increasing efficiency, revisiting majority of the processes, increasing our scrap collection. But not necessarily expanding or adding capacity to the existing units. We are monitoring the market, searching for good acquisition opportunities and that's what we are doing there.

**Q - Andres Perez** {BIO 18609546 <GO>}

Okay. The acquisition opportunity you'd be considering, is that within the current area where you're already operating, on the east coast? Or would you look to go nationwide within North America?

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

Not too far from where we are.

**Q - Andres Perez** {BIO 18609546 <GO>}

Okay, thank you.

**Operator**

And our next question comes from Jorge Beristain from Deutsche.

**Q - Jorge Beristain** {BIO 17554499 <GO>}

Hi, Osvaldo. Excellent quarter. I just had two questions as well. One was, could you give us the revised guidance for CapEx for 2004 now in US dollar terms?

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

In total, it's going to be 350 million. That was the number I described in my speech. I also mentioned in previous conference call that we have plans for short-term in order to increase our installed capacity, or adding 2 million tons to our installed capacity in Brazil, at the expense of a total CapEx of \$450 million. I'm talking about Acominas -- I'm talking about expanding the rolling mill capacity, Acominas Piratini, additional capacity in Cosigua, Riograndense and NTRS.

**Q - Jorge Beristain** {BIO 17554499 <GO>}

So the total number I should be putting in the model for 2004, would that be the sum of these two or...?

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

No. This is two years. Please take at least half of that for each year.

**Q - Jorge Beristain** {BIO 17554499 <GO>}

So about a base level of 550?

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

Right.

**Q - Jorge Beristain** {BIO 17554499 <GO>}

Okay. And my second question was regarding the sustainability of the overall EBITDA results for the company, which obviously were hugely impressive quarter over quarter. Would you say that this is sustainable into the second half of the year?

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

Part by part. The Brazilian numbers are sustainable. The North American numbers, as we can foresee, at the end of the first half, is that at least the next quarter is going to be very strong. And I try to say in my speech that on average the Second Quarter will repeat the first half -- I mean the second half will repeat, on average, the first half. I'm not saying the next quarter is going to be as strong as the second one. But on average they will tend to repeat.

**Q - Jorge Beristain** {BIO 17554499 <GO>}

Okay, thank you.

**Operator**

And our next question comes from Daniel Altman from Bear Stearns.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Hi. Congratulations on the pretty amazing results. Just two questions. One is, again, going back to the CapEx, can you give the number for next year for 2005. And if could you split that out between expansion CapEx and maintenance CapEx? The second question is if you could provide segment EBITDA under US GAAP, thanks.

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

I mentioned that in the next two years, we're going to be adding 2 million tons capacity at the expense of 550 million. It's not a precise number because one of them includes expansion at Acominas. I can't say it's going to be split just half and half. But let's assume for model purposes that it's possible to split them in two years. Very likely the remaining portion is going to be paid out in 2006 also. But this is only for expansion. The regular CapEx of the group is going to be in this neighborhood of \$300 million, which is around the depreciation level also. We have depreciation level around 240, 250 million.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay.

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

Did you follow?

**Q - Daniel Altman** {BIO 1855515 <GO>}

I'm trying to -- the 550, you said would be spread out over the next two years. Are you including the second half of 2004, or do you mean two years...

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

No. Starting 2005 and 2006, which, as I said is out of this 550, maybe a tail in terms of disbursement, going to go through perhaps 2007. What I'm trying to say, that on top of that, you're going to continue to invest close to depreciation, sometimes higher than depreciation and I indicated to you that our depreciation level is around 240, \$250 million a year. So that brings our regular number of \$300 million a year of, say, usual CapEx program.

**Q - Daniel Altman** {BIO 1855515 <GO>}

So it would be the 250 of depreciation, roughly, plus 550 divided by 2?

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

Exactly.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Yes, I got it now. Thanks. Yes. The second question was just I noticed in your press release you provide EBITDA under Brazilian GAAP by divided out by Brazil, North America and South America, I wonder if you have a similar breakdown for US GAAP?

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

Is the same number, according to my accountants here.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Because the EBITDA number obviously is different between Brazilian and US GAAP, just for the treatment of the...

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

I was told according to the different -- it's a different approach, there's no major difference in terms of the absolute number.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay. Maybe we can go through this later on. Thanks very much.

**Operator**

Our next question comes from Mr. Pablo de Zola [ph] with Unterberg Towbin .

**Q - Pablo De Zola**

Congratulations on the result. I have two questions. One is regarding stock liquidity. We have seen very -- not very weak. But weak liquidity on your ADR level. Are the company planning something in order to improve liquidity on the ADR? And my second question is regarding acquisitions in US, should we expect the company to make some big movement like one that involve Co-Steel a couple years ago, or should we expect just minor acquisitions going forward?

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

Okay. We have no plans to do anything artificial or not regular course of business to increase liquidity in the US of GDP. I mean, we also have stocks on the stock exchange of G&A. But I understood that your question was related to GGB in the US. We have witnessed a substantial

increase in the average -- on the daily liquidity of those shares. What we are trading today, almost \$10 million a day, which was a substantial increase in -- maybe accounting for \$3.5 million a day. So -  
- but going straight to your question, no, we are not planning anything special -- that's all.

As far as acquisitions, you're saying that -- which type of acquisition we may be monitoring, because I use the expression monitoring the market and analyzing and evaluating potential acquisitions. If you sit one day in our office in North America you will receive hundreds of offers, different sizes, different markets, different regions, different types of industry.

So I couldn't answer straightforward as I would like to say to you, say yes, we're going to be following or pursuing a sizable acquisition or a couple of small ones when the day of acquiring companies will come. We have a blend of them and we haven't made any decision so far. But could be either one, could be small plant that makes sense -- that brings some synergy from which we could strike some synergy when operating together with our mills. And there's some also opportunities of bigger companies with more than one plant. But that will depend pretty much on pricing, that will depend pretty much on timing. So for the time being, I don't have a specific question. But we are monitoring both cases, both scenarios, small units and even bigger allots.

### Q - Pablo De Zola

Okay. Thank you.

### Operator

Thank you for your question sir. The next question comes from Mr. Happayo Biedermann [ph] from BBC.

### Q - Happayo Biedermann

Hello Schirmer. Congratulations for the good results. Basically my question is regarding prices in the domestic market. I mean, if you could -- what can you open for us in terms of how much prices have increased in the Second Quarter. And what is the guidance for the Third Quarter and for the rest of the year in the domestic market? And also, in terms of cost of scrap in Brazil. And especially North America, I mean you had some relief in terms of scrap cost in the Second Quarter -- I mean, can you expect this relief in the third and Fourth Quarter, or -- I mean scrap prices are already pressuring your margins again?

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

Let's start with the last one, scrap price in North America. As June, we are -- the price of our scrap was around 167, 168, more than \$150 per ton, versus 170 in March quarter. Don't forget one year ago it was 113. And prices are picking up again. I hope the industry will be able to maintain the spreads adjusting upward the prices of final product as well. But yes, we are witnessing pressures on scrap again, starting in the month of July.

The first part of his question was -- prices in Brazil. Yes, prices in Brazil. Well I try to -- I've tried to give some guidelines vis-à-vis prices. We have a situation in Brazil where domestic prices are around \$80 to \$100 cheaper than international prices with all the environment to introduce some price correction upward.

We have no program or planned price adjustments for time being, or even for the short run. Nevertheless, we are feeling pressure on alloys, we are feeling pressure on pig iron cost and so on. And there is this differential between international prices and local prices. But we are not programming or planning any price corrections shortly. I can tell you that year-over-year we adjust our prices around 12%. And but your specific question was on the quarter. And throughout the year was around 12%.



**Q - Happayo Biedermann**

Throughout the year it was 12%.

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

Right.

**Q - Happayo Biedermann**

Okay. And do you think like scrap costs in Brazil should also start recovering again -- it follows after then -- it's flatten I mean, should it recover again?

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

Could be. Brazil is not in direct communication with the rest of the world because Brazil does not export and Brazil does not import scrap. But there is always a price reference coming from international markets for scrap. We witness that throughout the first half of this year and with we benefited from the reduction in prices.

But the point perhaps I tried to make, Gerdau has a very solid position as a scrap purchaser. We have different alternatives to supply or to compensate the potential prices increases on scrap. We produce pig iron -- we have a steel facility. We also have the production of Acominas directly from iron ore. So we are less subject to pressures on scrap due to this matrix of input/output. But going straight to your point, yes, scrap could increase a little bit more in the domestic market but maybe not as fast and not in the same intensity that may go up in the North American market for instance.

**Q - Happayo Biedermann**

I assume if I can ask one very last question, very shortly. In terms of your project of Acominas Gerdau, our expansion in Sao Paulo, how is it evolving? I mean, do you have any new timetable for it?

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

It is kind of embarrassing, because we have been announcing that in the short run would be publicly disclosing it. And informing the resuming of the project. You haven't been able to do so. And we are in the same situation again. We are still depending on final details to go ahead with that project. But in the middle run it's a sure thing. But right now I'm still not in a position to tell you when.

**Q - Happayo Biedermann**

Okay. Thank you very much.

**Operator**

Ladies and gentlemen. as a reminder, if you would like to pose a question, please press the 'star' key followed by the 'one' key on your touchtone phone now. And our next question comes from Jorge Beristain from Deutsche.

**Q - Jorge Beristain** {BIO 17554499 <GO>}

Hi. If I could have a follow-up? You guys are obviously generating now a lot of free cash flow, maybe 200 million excess per quarter. Is there any expected change in your dividend policy over the next few quarters or would the intention of Gerdau be simply to amass cash for a potential acquisition down the road?

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

Second option is the situation. This question in fact was raised in the Portuguese version of this conference call. And I reply in the same way. We do not -- we are not contemplating changing our dividend policy, which is 30% of net adjusted profit. And yes, we may use the excess cash flow to even further reduce debt, perhaps, or for potential acquisition.

**Q - Jorge Beristain** {BIO 17554499 <GO>}

Okay. Thank you.

**Operator**

Our next question comes from Mr. Hoberto Nordfill [ph] from Gas Industry Maintenance [ph].

**Q - Hoberto Nordfill**

Regarding your efficiency gains, you mentioned that efficiency gains should going forward. I'm wondering if you could give us a timeframe to see the efficiency gains being materialized.

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

When you deal with people, when you deal with methodology, when you deal with culture, it's difficult to put everything into a time schedule or a timeframe. When I gave the 30% contribution given by the improvement in the facility, it was kind of a answer to a question asking how much was due to price, how much was due to your internal effort. That was my 30%. And when the first question came this afternoon, they said we could get even price as much as already got. We are working on reaching that maybe in the next 12 to 18 months. But there will always be something else to be done after that.

**Q - Hoberto Nordfill**

Okay. Thank you. My second question is, regarding the holdings structured by which Gerdau controls Gerdau, is there any news regarding a possible merger between the both companies? It is known that investment held by the controlling investment shareholders have been increasing their stakes in the company?

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

No. There is no idea, no plan whatsoever in terms of changing that structure.

**Q - Hoberto Nordfill**

Okay. Thank you.

**Operator**

Our next question comes from Mr. Marcelo Aguiar with Merrill Lynch.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Hi, congratulations on the results. I apologize that I just joined the conference. If I can, I'm going to ask a question that you already answered.

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

But you were in the Portuguese one also, weren't you?

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Yes. As usual. Tell me...

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

You are checking on my answers, see if I'm consistent. That's Okay. Keep doing it.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

I'm just asking, I would like to ask you if you could give a guidance, I mean we are ride in the middle of the Third Quarter. And probably already book all the exports for the Third Quarter. So I would like just to know if you could provide a guidance regarding the price in the third compared to the Second Quarter. This is the first question.

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

We are -- this question was raised before. This point was raised before. We are working with the possibility of maintaining prices at the level they are, or even enjoying some additional increases in the remaining portion of the quarter and beginning of the following quarter. That's the sort of horizon we are working with.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Okay. And the second question would be regarding domestic sales. I mean, we discussed this previously, very strong first half. And we know the civil construction is picking up and industry continue to be strong. Going forward, I mean looking to the Third Quarter compared with the Second Quarter, do you believe we could see domestic sales increasing quarter-on-quarter? I mean looking to the third compared to the second?

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

Yes. I wouldn't be able to be specific by how much. But we are counting on a stronger Third Quarter on top of Second Quarter.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Okay, fantastic. That's all. Thank you.

**Operator**

Our next question comes from Mr. Pablo de Zola from Unterberg Towbin.

**Q - Pablo De Zola**

Okay. Two easy questions for you now.

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

The previous one was tough, you think in...

**Q - Pablo De Zola**

Okay. The first question is regarding competition in Brazil. We know that some of these are moving towards consolidations operations in Brazil. Are you expecting any change in competition environment with you going forward, or no?

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

Well we are both fighting for every inch in this market. We will continue fighting. They are bigger than us. If you assume that bigger body beats the smaller body, they're going to beat us. But we're going to keep fighting as strong we have doing for the last 30, 40 years. Depending on us, nothing will change. On the contrary, we may try to increase our market share but nothing different from that.

**Q - Pablo De Zola**

Okay. And the second question, I've been asking with investors regarding 2005, if there are many people asking that in 2005 you should reduce your results considering the eventual drop in US operation. But my feeling is that your Brazilian operation is going to prove to increase more than the eventual drop in the US operation. What's your feeling considering our experience in the business, what's your feeling regarding 2005 vis-a-vis 2004?

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

I would say that for projection purposes, we are going through a situation maybe never seen in the recent past. I'm talking recent past, the last 20, 30 years, of markets that are changing so dramatically in such a short span of time. We are not counting forever with this enjoyable situation we're having in North America. But that's why you are working so hard to change structurally our operations and not depending so much of external factors to keep producing good results in the North American operation.

But looking into 2005, we may see some changes in the spread levels, in the terms of cost of scrap and so on. And I hope that you'll be prepared by having done our homework in our mills to face that situation. Honestly, I cannot predict how much worse it's going to be how much down we're going to go in terms of results. But very likely the absolute scenario of huge spread we are enjoying now are not going to continue forever.

**Q - Pablo De Zola**

But -- if you look to Brazil and you'll see the strong demand you are facing, potential price increase, don't you think this should more than compensate in eventual drop in US?

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

I hope God is on duty listening to you.

**Q - Pablo De Zola**

Okay. But the spread now is minus 25%, that's correct? \$100 per ton. And your average price is \$350 per ton?

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

The spread between the two markets, I think you are kind of right, yes.

**Q - Pablo De Zola**

Yes. Okay. Thank you.

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

Okay. Thank you.

**Q - Pablo De Zola**

All right.

**Operator**

Ladies and gentlemen. (Operator Instructions).

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

Okay. Assuming that there are no more questions, I would like to thank you for the time and interest for our conference call. We hope to have you with us again next quarter. Thank you very much. Good afternoon to all of you. Bye-bye.

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