

Q4 2014 Earnings Call

Company Participants

- Andre Gerdau Johannpeter, President and Chief Executive Officer
- Andre Pires de Oliveira Dias, Vice President and Investor Relations Director

Other Participants

- Alan Glezer, Analyst
- Alexander Hacking, Analyst
- Andre Pinheiro, Analyst
- Carlos de Alba, Analyst
- Christina Ronac, Analyst
- Leonardo Correa, Analyst
- Marcelo Aguiar, Analyst
- Milton Sullyvan, Analyst
- Renan Criscio, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon, and welcome to Gerdau's conference call to discuss the results for the fourth quarter of 2014. All participants will be in listen-only mode during the company's presentation. Later on, we will hold a Q&A session. (Operator Instructions).

We would like to emphasize that any forward-looking statements made during this conference call related to Gerdau's business outlook, projections, and financials and operating goals are mere assumptions based on management's expectations related to the future of the company. Even though Gerdau believes its comments are based on reasonable assumptions, there is no guarantee that future events will not affect this evaluation.

Today with us are Mr. Andre Gerdau Johannpeter, Director, President and CEO; and Andre Pires, VP and IR Officer. With no further ado, I would like to turn the floor to Mr. Andre Gerdau Johannpeter. Please, Mr. Andre.

Andre Gerdau Johannpeter

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Good afternoon, everyone. Welcome to our conference call for Gerdau's results. We will start with an overview of the world landscape for the steel industry, then we'll talk about Gerdau's performance in the 12 months of 2014 and in the fourth quarter of the year. After that we'll give you some details on investments for 2015. It's important to stress that I'll analyze the performance of consolidated results of 2014 and 4Q '14 vis-a-vis the same period of the prior year. After that Andre Pires will present Gerdau's financial performance and then we will be available for your questions.

For those of you that are following us on the Internet on slide two, we are going to talk about steel in 2014. We have faced significant challenges in the world and over capacity of around 690 million tons of steel and a weaker steel demand in markets like Brazil and other countries in Latin America, causing a higher volatility in the results.

In Brazil, there was a low economic growth in 2014, which has impacted steel consuming markets such as civil construction and manufacturing and the auto sector. According to the Brazilian Steel Institute, the apparent consumption of steel in the country in 2014 was the lowest since 2009 amounting 24.6 million tons, 6.8% down.

In Latin America, except for Brazil, the steel industry was affected not only by a slowdown in the economy, but also by the increase in the steel imports, according to the Latin America Steel Association, Alacero. Latin America is the second region with the largest volume of raw [ph] steel import from China, second only to South Korea. In the American market, Gerdau's steel demand was more or higher vis-a-vis 2013 with highlights of manufacturing and non-residential construction sector, but we remain concerned about the high imported steel inflow. Just to give you an idea, imports of long steel in US went from 17% of total consumption in 2013 to around 20% in 2014.

And the specialty sector that we highlight continuous growth of the auto markets in the US, also there has been a gradual development of European and India markets. On the other hand, Brazilian auto industry is still negatively impacting long steel sales rather specialty steel sales in the domestic market.

Now on slide three, let's talk about the main figures of results for 2014. Starting on shipments, we have consolidated 17.9 million tons of steel in 2014, 3.5% lower vis-a-vis 2013; mainly due to weaker steel demand in Brazil and other Latin American countries. Shipments in the fourth quarter amounted 4.4 million tonnes, 3.4% less than 4Q '13.

Net sales has reached BRL42.5 billion, 6.7% higher than the prior year, especially because the expansion of revenue in the American market and the positive foreign exchange effect and the currency conversion of revenues from foreign operations. In the fourth quarter, net sales amounted BRL10.8 billion, 5.1% higher vis-a-vis the same period of 2013.

Earnings before interest, taxes, depreciation and amortization, also known as EBITDA, was BRL5.1 billion in 2014, 7.1% higher vis-a-vis the prior year. This performance was impacted by earnings from the sale of our interest and the American Gallatin Steel totaling BRL637 million and by the impairment of assets in Latin America in the amount of BRL339 million. Not factoring both operations, adjusted EBITDA was 4.8 billion, stable vis-

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a-vis 2013 and the sight of the challenging scenario of the world's steel market. In the fourth quarter, EBITDA was BRL1.5 billion, net of non-recurring items of BRL1.2 billion, a drop of 9.6%.

Net income was BRL1.5 billion, 12.2% lower vis-a-vis 2013. And in the last quarter of 2014, net income totaled 393 million, a drop of 20% when compared to the same period.

On page four, we'll talk about investments. In 2014, we totaled BRL2.3 billion, those are investment in fixed assets. The amount was 21% lower than initially planned for 2014, in line with the company's decision which we talked about along the year to be judicious in investment approvals. It's important to highlight that investments made in 2014 were towards projects already approved, they were ongoing projects in addition to planned maintenance both in Brazil as well as abroad. For 2015, Gerdau plans to invest BRL1.9 billion in fixed assets, and that narrows the global landscape of the steel market, marked by the installed over capacity. Also we'll continue assessing the economic scenario and its impact in operations in order to adjust if needed total investments to market move.

Thank you. And now I'll turn the floor to Andre Pires.

Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Thank you, Andre. Good afternoon, everyone. And we will start on slide number six, for those of you that are following us on the webcast. And I'll talk about the results and annual consolidated performance, and then I'll talk about each business operations. And I'll close the presentation talking about capital structure. In the consolidated, the adjusted EBITDA and adjusted EBITDA margin for 2014 were rather stable, regardless lower number of shipments. That stability was mainly due to the positive effect of the exchange rate variation in the period in foreign operations and exports from Brazil. Here it's important to highlight the rebound of North America BO, which has contributed to a consistent EBITDA offsetting the lower EBITDA in Brazil BO.

Now turning to slide number seven, I'm talking about the fourth quarter of 2014. And starting by Brazil, we see that the uncertainty about the economic scenario is carving a lower demand which is impacting our business. In 4Q '14 shipments dropped 3% vis-a-vis 4Q '13 and internal market had a drop of 4%, especially in civil construction and manufacturing. In comparison to 3Q '14, sales volumes grew 5% with increased exports, 31% higher in the period because of the improvement in the international market of semi-finished products, and also (inaudible) devaluation of real.

Analyzing the EBITDA, for the fourth quarter of '14, the absolute amount was down 13% vis-a-vis 4Q '13. And a reminder that in the last quarter of '13, there were earnings from sale of real estate amounting BRL98.6 million. Net of this effect, EBITDA and EBITDA margin were stable in the comparison for both periods. Vis-a-vis 3Q '14, EBITDA was up 26% in 4Q '14 and the margin increased from 16.5% to 20.3%, thanks to greater fixed cost dilution with exports increase and to lower cost of iron ore in Ouro Branco mill.

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In the US, the economic scenario continues to be positive, but the growing pressure from imported products added to the seasonality of the period resulted in shipments down by 5% in 4Q '14 vis-a-vis 4Q '13 comparison, and by 15% vis-a-vis 3Q '14.

4Q '14 EBITDA grew 43% vis-a-vis 4Q '13, going from BRL139 million to BRL199 million, mainly thanks to the macro spread gain in addition to the exchange rate variation in the period. So the EBITDA margin went from 4.5% in 4Q '13 to 5.7% in 4Q '14. Vis-a-vis 3Q '14, EBITDA and EBITDA margin dropped due to lower volumes sold, and that was because of seasonality of our business. It is important to stress that the results of this operation in 4Q '14 did not take into account the equity in earnings from Gallatin Steel company once the sale of that was done in 2014.

In Latin America, 4Q '14 shipments were down 7% vis-a-vis 4Q '13 due to increased imports inflow, especially from China and Turkey, and the slower economic growth in the region. 4Q '14 EBITDA was lower vis-a-vis 4Q '13 due to lower shipment volume and higher operating expenses in the period, when compared to 3Q '14 EBITDA was stable.

In the specialty steel, the ore shipments in 4Q '14 were down 5%, both vis-a-vis 4Q '13 as well as 3Q '14, and that was due to lower demand in Brazil. Consolidated EBITDA increased for specialty steel in 4Q '14 vis-a-vis 4Q '13, was, thanks to higher net sales per ton, basically driven by specialty steel mills from the US, therefore, EBITDA margin was up from 10% in 4Q '13 to 12% in 4Q '14.

For iron ore comparing 4Q '14 to 4Q '13, shipments grew 5%, thanks to higher volumes sent to Ouro Branco mill vis-a-vis 3Q '14, even facing a challenging scenario sales increased with already scheduled shipments for the period, a drop in the EBITDA and in the EBITDA margin for '14 vis-a-vis 4Q '13 and also 3Q '14 was due to lower international prices for iron ore.

Now turning to slide number eight, I'm talking about the consolidated results. In the quarter, the adjusted EBITDA amounted BRL1.2 billion, 10% lower when compared to the same period of the prior year. The top chart shows the reduction was due to lower volumes sold higher costs partially offset by a higher net sales per ton. Therefore, EBITDA margin went from 13.3% in 4Q '13 to 11.4% in 4Q '14. The bottom bridge chart, we see the consolidated net income in 4Q '14, it was lower than 4Q '13 due to reduced operating results and higher negative financial results, partially offset by the net effect of non-recurring events.

Now talking about dividends considering 4Q '14 results, BRL28.4 million in dividends will be paid to shareholders of Metalurgica Gerdau, BRL0.07 per share, and 119 to shareholders of Gerdau SA, also BRL0.07 per share. These will be paid on March 26, recorded a close of business March -- business on March 16.

Now slide nine, let's talk about indebtedness and liquidity of the company. Gross debt in December 31, 2014, was BRL19.2 billion higher than in September of 2014 due to the exchange rate variation. Net of this effect, the gross debt would have dropped around 412 million when compared to December of 2013 gross debt increase especially due to

exchange rate variation. The average of that cost was 6.5% a year with an average amortization term of 7.1 years. Cash increase of BRL1.1 billion from September to December '14 was mainly caused by proceeds received from Gallatin's sale. That increase more than offset the growth of the net debt in the period, reducing the net debt-EBITDA ratio from 2.7 times in September to 2.4 times in December of 2014.

Now turning to slide number 10, we'll talk specifically about working capital. And if you look at that chart you will see that the absolute amount is around BRL10 billion in 2014 in a stable cash conversion cycle of around 85 days. Comparing December 2014 to September 2014, working capital decreased BRL100 million. It's important to stress that the exchange rate variation is accounted for in this drop and not factoring in this variation the cash effect of the working capital reduction was BRL469 million.

Now I'll turn the floor back to Andre for his final remarks.

Andre Gerdau Johannpeter

Thank you, Pires. To conclude, I would like to stress that 2014 was a very challenging year for Gerdau and the steel industry, mainly due to the installed overcapacity worldwide and also the lower demand in relevant markets, especially Brazil and other Latin American countries. Just to give you an idea, the use of installed capacity of the steel industry in the world is decreasing on an yearly basis, it has reached 91% its peak in 2008, and in the following years the average was 75% to 80% and in January of this year, it has reached 72% of use in the industry. These are data from the World Steel Association.

On the other hand, we were able to minimize the fact that this scenario in Gerdau's operating performance we have improved the performance of our operation under this difficult landscape. We have divested from non-strategic assets, for instance, the interest in Gallatin Steel and keep being selective when investing in fixed assets.

Regardless, the lower net income in 2014, our management efforts can be seen by our adjusted EBITDA level, stable vis-a-vis the prior period. About the sector perspective, we expect the world steel industry will keep on facing this low consumption growth and installed over capacity. In other countries where we operate, we believe the developed markets offer a positive scenario. The economy in the US should grow in 2015, boosting steel consumption in the country. The expansion of non-residential segment should continue given increasing private investments in the US. Infrastructure investments should be moderate in line with a modest growth of financing available in the public sector. But the continuous increase of imported steel inflow will keep on pressing margins and results of companies in the industry.

Brazil's prospective for 2015 is a difficult one taking into consideration the potential impact of the economic downturn to consumption level. Added to that, the country's systemic problems, elevated tax burden, cumulative taxes, electric power cost, and also an appreciated exchange rate, all of those have been impacting the main productive sectors. In addition, other economies in Latin America should have different level growth in 2015, impacting also the apparent consumption of steel in the region.

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About specialty steels, specifically here perspective are of modest growth in the auto industry in Brazil impacting the demand for specialty steels. On the other hand, in North America, we should continue the development of the auto industry, expanding manufacturing of light and heavy vehicles, therefore, increasing the demand of specialty steels in the region, but the oil price drop is already impacting the oil and gas industry. Another great consumer for specialty steels in the European market is slow and gradual rebound of the economy should allow for boosted production of light and heavy vehicles in 2015. And in India, there should be an increased production of light and heavy vehicles, which could also expand the consumption of specialty steels in the country.

About the iron ore market, the oversupply of 2014 has impacted the sales of the raw material and that should remain the case in 2015. Under that scenario, we should follow our strategy of focusing on the iron ore production to supply Ouro Branco mill, increasing its competitiveness. We also consider the chance of continue experiencing margin pressure in the international market and the possibility of steel import expansion in almost all market we operate in, an important point of attention to the sector, no doubt. Also geopolitical conflicts are affecting the economic growth of some regions in the world, impacting steel consumption and sales. Facing this landscape, we will keep on seeking to adjust our operations to the world steel market movements sustaining the operation efficient work and also aiming to ensure business stability.

We now conclude our presentation and are available to answer your questions. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we will now start the Q&A session. (Operator Instructions) Our first question comes from Milton Sullyvan from Brasil Plural.

Q - Milton Sullyvan {BIO 19085202 <GO>}

Good afternoon. Thank you. I have two questions. First, about Brazil operation, can you tell us what we could expect in terms of costs ahead, specifically and strategically speaking what kind of production we can see from us on the (inaudible) and what kind of impact we should expect?

And second question is still on cost. Can you tell us a little bit about scrap price? What kind of price we should expect for scrap in Brazil considering you already have some discounts in specialty steels and is there any pressure because of prices abroad? Thank you.

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Hello, Milton, this is Andre Pires. Thank you for your question. About -- let me see if I well understood your first question. If there are more opportunities to send our production to Ouro Branco to (inaudible), yes, this has been our strategy and we have been successful in it. I believe this strategy has proven to be efficient when we look at the EBITDA margin

of Brazil operation in 4Q '14. So the scenario is still favorable. Iron ore has not increased from that there to today. And so I think we could manufacture crude steel using our Ouro Branco mill.

About scrap prices, it has been stable. It's not as much related to the international price, but obviously, there is no high pressure right now. And the price in the last months has been rather stable.

Q - Milton Sullyvan {BIO 19085202 <GO>}

Thank you.

Operator

Our next question comes from Carlos de Alba, Morgan Stanley.

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

Yeah. Good morning. Thank you very much. First question has to do with working capital. Year-on-year, comparing December 2014 versus December 2013, the cash conversion cycle increased about three days. And I wonder if you can comment -- how do you see the commercial cycle in 2015? How much money do you think you can generate from controlling, hopefully reducing the cycle?

And the second question also on iron ore, how much volumes of iron ore did you expect to produce in 2016? And if you can give us a sense of the split between internal use or consume iron ore in Ouro Branco, and how much would you be able to export? Did you have any commitments to export? That'll be very useful. And just finally, I guess that on the current scenario of iron ore prices, the expansion to -- on the iron ore business is up the table right, just to confirm that? Thank you.

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Well, let me translate Carlos questions. He is asking about the working capital and the cash conversion cycle, because there was an increase of three days of the -- in conversion cycle in 2014, and what is our expectation for 2015, how much we could optimize in terms of working capital for 2015. The following question is about iron ore and I'll turn to Andre.

A - Andre Gerdau Johannpeter

Now let's talk about working capital. Really, we have started 2014 with better expectation in terms of production volume or shipment volume for Gerdau vis-a-vis what happened in the year, there was a drop of 4% in the shipment volume in the year. Therefore, the adjustment and the working capital has not been just [ph] enough as we would like it to be in 2014, and that's why the conversion cycle was three days higher and -- than the closing of 2013.

For 2015, we do not have a forecast, but obviously we are working with a very realistic expectation in terms of the delivery or the shipments for consolidated ones. We are

working in the long-term objective of bringing the cash conversion cycle to lower than 80 days getting closer to 75 days. This is our long-term goal. We don't have a short-term goal for that yet. But if we analyze the way we are working, we believe that in the long term, we'll be able to bring down the cash conversion cycle to below 80 days.

Now let me turn to Andre, and he will talk about the iron ore.

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Okay. The question was about the iron ore production, how much is going to go toward Ouro Branco exports and the trend of expansion if that is going to continue, or if it is under analysis. We are not going to disclose information about volumes right now. But 80% to 90% of what is going to be manufactured is going to be used by Ouro Branco mill. Our focus is iron ore to be used in our mill. We might have some shipments if that is feasible. But right now we are concentrated in taking our production to Ouro Branco and not -- do not intend to grow exports.

About the expansion project, we are reassessing it as we said. We don't have any further information to provide you right now. Once again, our focus is to bring production of iron ore to supply our mill, and we do not have any commitment. You have asked if we have commitments in terms of railways, ports; no, we don't have anything that gives us flexibility to decide what we wish to do ahead, when we wish to do it if the scenario changes. But if nothing happens, we'll keep on supplying to Ouro Branco that helps us very much in the competitiveness of that mill.

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

Thank you.

Operator

Our next question comes from Leonardo Correa, BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon, everyone, and thank you. My first question is about the streamlining of our assets. We have seen efforts from you from Brazil's closing capacity of higher costs, less competitive ones and they have been providing good results, we see cost controls in Brazil. But if I think globally, considering the impairment that you've done in Latin America, what can we expect? Do you still have idle capacity abroad, anything relevant? I would just like to understand if there is anything similar to what you have done in Brazil, if you're studying -- if you are considering anything especially in Latin American and United States? That was my first question.

And my second question is still about the US. Of course, there was a negative impact on the volumes and the quarter-on-quarter it was seasonal, but it might have been some cost impact, it might have been, but I just would like to understand we are crunching some numbers here and it looks like maybe you have some non-recurring costs in North America. Just -- I just want to make sure if -- just want to understand, if that make sense?

Did you have anything non-recurring costs in the US? These are my two questions. Thank you.

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Hello, Leonardo, this is Andre Pires. About streamlining of assets as you asked, really in the second half of last year, we tried to optimize our assets in Brazil focusing on the less competitive operations in terms of cost and efficiency. And this is still our goal not only in Brazil, but also when we look at our global footprint. So we are still focusing on that and we do not have any specific plan, anything to disclose, but we do have to take that into consideration. Depending on the scenario, we might take another measure -- all the measures in that sense not only in Brazil, but also in other areas.

In North America, there is nothing non-recurring in the fourth quarter. What happened was a lower volume, therefore, there was a lower dilution of fixed cost, that's why you end up having higher costs. So also important to say is that when we compare to the fourth quarter of 2014 -- in the fourth quarter of 2013, we still had equity from Gallatin, we don't have that anymore, that was something relevant. So this might be an explanation if something that may have drawn your attention.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from (inaudible) from Merrill Lynch.

Q - Unidentified Participant

Thank you. In the CapEx budget for next year, you estimate BRL1.9 billion, how sensitive is that to FX, how much it is US dollar denominated, and does it include any iron ore CapEx?

And then my second question is regarding, I guess, the construction industry in Brazil. There was not a collapse [ph] data, '14 and '15 are supposed to be the worst years to the construction industry since 1992 and I think construction declined about 6% in 2014. What are the expectations for '15? And then in addition to auto sales were supposed to decline 10%, so are we looking for a pretty bad domestic year in Brazil?

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

This is Andre Pires. Thank you for your questions and I'll translate it. First question is about the CapEx estimate for 2015 of BRL1.9 billion, and the question is how sensitive that CapEx is to FX. And if we are here considering anything for mining within that figure. Andre will talk about the construction sector in Brazil and also the auto sector, which was the second question. But let me start by CapEx, of course, there is sensitiveness to FX, but there are a lot of investments made here in Brazil, investments in which we are at our final stage. I'll give you an example, you know it very well, it is the construction of our

heavy plate rolling plant. We are in the assembly phase already. That investment is totally made in real, equipment has already bought.

We have investments done in Latin American countries that -- and being impacted by the same factor that real has impacted, because these currencies are also depreciating. So there is sensitiveness, but is not as high, that's why we are talking about figures in real, because with the exchange rate and volatility, it's difficult to have a dollar estimate of that figure in a scenario in which part of the CapEx, CapEx and the dollar are done in different currencies and the real has depreciated vis-a-vis the dollar.

About mining CapEx, if there is anything of ore mining in the figure, very little, I would say that is from minings, only maintenance. We don't have anything for mining expansion within that figure.

Now, let me turn to Andre.

A - Andre Gerdau Johannpeter

The other question is about the construction market and the auto market as well. We talked about this year and next year being difficult years in terms of growth. Yes, as we see a difficult landscape, we see drops in steel [ph] launchings that happened already in 2014 and it's very difficult to forecast if this is going to stay like this or if we are going to see any rebound, but this is a difficult year for construction especially civil construction.

We see a little bit of infrastructure that has worked, it has gone forward last year, but now the construction companies and with all investigations for the car wash operation in Petrobras itself is a major consumer in the construction sector, so all of that causing the impact. It is a cautious scenario, and difficult to forecast.

In the auto sector, we've seen sales drop that we find in January [ph] as well, but in the auto sector we have possibility of exporting, because with exchange rate close to BRL3 per \$1 (inaudible) and we could start exporting, there is a possibility, but the whole auto sector is having that possibility of exporting as well due the FX effect, so differently from construction, in the auto sector, there is this possibility Gerdau [ph] with steel and also auto parts that could be exported. This is a possible scenario for 2015, 2016, because we believe dollar is going to go stronger.

Operator

Our next question is from Andre Pinheiro, Itau BBA.

Q - Andre Pinheiro {BIO 17114104 <GO>}

Good afternoon, everyone. I have two questions. First, considering the depreciation of the exchange rate and we have seen that stronger now in the beginning of the year, what should we expect for the sales mix for the first quarter of Gerdau, should we see more exports in the mix, and how do you expect that to progress from now on?

And the second question is about the metal spread in the US. How do you see that in the beginning of the year, and what -- do you expect to see the metal spread progressing from now on? We see more products, imported products, coming in and those two price going down worldwide. And what's that -- how is that going to impact the metal spread?

A - Andre Gerdau Johannpeter

Good afternoon, Andre. About the FX and the export mix, now -- from the third quarter to the fourth quarter, there was already a growth in exports, and this should be a trend for this first quarter of '15 and for subsequent ones as well. And despite of the drop of price worldwide, that depreciation is increasing that is deeply related in the world, so we become more competitive. So I would say, the trend is to increase exports. It's difficult to mention figures, but we have increased that already from the first -- third quarter to the fourth quarter, from the fourth quarter to the first quarter (inaudible) we have seen also some exports of rolled products already.

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

About the metal spread, and here is Andre Pires, it is still there even with recent price reductions in the US, above 420 and 430 per short ton. Of course that when there is a price drop, the first effect is the margin reduction, then later on, it tends to normalize due to the drop in the scrap. So the average, I believe is for the metal spread should be stable in 2015 vis-a-vis 2014. We do not believe that the import pressure in the US is going to go down. We believe more imported products are going to go in. The consensus of the several agencies that estimate around non-residential construction, they say that there should be a growth of 7.7% and 8.2% in 2016. So the demand should be consistent and imported products should keep on going. And there is another driver here that helps this high import, which is the dollar that is strengthening. So we believe the metal spreads should be consistent to what it was in 2014, around 420 for short ton.

Q - Andre Pinheiro {BIO 17114104 <GO>}

Thank you.

Operator

Our next question is from Christina Ronac, HSBC.

Q - Christina Ronac {BIO 6623815 <GO>}

Hi, thank you. Can you remind me if you hedged your US dollar bonds into real? And then on follow-up on that, I have calculated to held US\$5 billion of bonds and I think you record that on your balance sheet at BRL12 billion. Is that fair?

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

The question was about our bonds, our dollar debt, if they are hedged to real? And if I'm not mistaken, the second question is about what we have issued BRL5 billion in bonds and in our balance sheet is 12. Let me clarify the figures. The first answer to your question is that no, we do not have an effective hedge vis-a-vis our dollar debt to real. What we use

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the net investment hedge methodology which is allowed by the IFRS. By using this methodology, since we have dollar investments due to our operations in the US, we find those bonds issuance to finance investments in the US. By doing that, the exchange rate they cause [ph] do not impact our P&L, our results and they go straight to our equity. So that's why you do not see a major FX variation in our income statement. Because that goes -- that is transferred to our equity. So what you see in terms of exchange variation are some in debt that we have in foreign currencies maybe a dollar operation or some payable accounts that are in dollars and they are subject to FX variation, but they are small.

About the debt of our bond, they're in dollar, they are around \$4 billion and basically we have \$1 billion for our American operations and 4 billion to the Brazilian operation. So those would total to \$5 billion that you mentioned, that is equivalent to BRL13 billion in our balance sheet.

Q - Christina Ronac {BIO 6623815 <GO>}

Thank you.

Operator

Next question is from Marcelo Aguiar, Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you. Good afternoon, everyone. My first question is about your exposure to heavy construction sector. Can you remind me what is the mix if we analyze along the steel sales, what was your retail exposure, what is your exposure for residential industry, heavy construction so that we can have an idea of the fluctuations of your domestic shipments for 2015?

And my second question is Brazilian companies will have cost pressure this year due to inflation, energy costs, and so on. I would like to understand from the energy and the power side of view, what is your exposure considering all these changes in terms of taxes and tariffs that the government is going to launch in the next year or so? There is going to be an increase of cost with the electric power and analyzing the exchange rate at 3, would you have an opportunity to rework on prices in Brazil?

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Hello, Marcelo, this is Andre Pires. Now let me remind you of our mix. What is a small consumption that represents basically 40% of long steel. What goes to production 40% is small [ph] and the other 60% are distributed to residential, commercial and infrastructure.

When you talk about heavy construction. I think you're talking about infrastructure. So that represents 20% of 60, so 12% in the last year that has represented even more with the infrastructure was pre-World Cup and also with the concessions that we had in the last year; that infrastructure is around 12% usually, but now is at 15.

Of course depending on what happens related to infrastructure and construction that might have an impact. That a small consumption is more stable, it tends to fluctuate more even with unfavorable situation. So that is just to repeat construction 60%, of those 60%, 40% are small, 20% residential, 20% commercial and 20% infrastructure. And Andre will talk about costs.

A - Andre Gerdau Johannpeter

Good afternoon, Marcelo. About cost, and you mentioned inflation, electric energy and if the exchange rate might impact prices. So first about inflation; we are strongly working and we have started last year and still are to review our contracts of material supply services, wages always aiming to be lower than inflation, restructuring and trying to lower costs under that scenario, which is a cost and margin pressure scenario.

So we have been doing a consistent work of reviewing contract services and so on. So inflation is there, it is going up, we've seen the numbers. But we are trying to go the other way around not allowing inflation to impact our figures. On the energy side during -- let me remember -- remind you that it has 5% impact in our final price. So it is important, we do work on it, but that's not the main cost. And then, we have several contracts, we buy at a spot price, we have contract negotiation, we have alternatives on generation of energy in Goias and we are going to (inaudible) we have Ouro Branco route where 70% has self energy generation and we have mills all over the country. So it is very difficult to provide you a number in terms of the impact depending on the region. But I could tell you that, we are well positioned in terms of geographic areas, the integrated routes to Ouro Branco and self-generation of energy. We have good strategy to face that difficult scenario of energy of our prices. Once again, we will not mention anything about prices, that's a market matter.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay, thank you.

Operator

Our next question is from Alex Hacking, Citibank.

Q - Alexander Hacking {BIO 6599419 <GO>}

Hi, good afternoon. Thank you for the question. My question is on your balance sheet. Obviously, we know that weaker real is going to increase your net -- your gross debt all things being equal, how do you see the net debt-to-EBITDA ratio evolving in 2015? I know that you've always looked at 2.5 as sort of feeling, is that something that you think is realistic? And then the second part of the question will be, are there any other asset sales that you're considering or a possible similar to what we saw with Gallatin Steel this year? Thank you.

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

This is Andre Pires. Alex's question is about the balance sheet and the impact of the exchange depreciation and the increase of our debt and how would -- how we would

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have the net debt-EBITDA ratio. And the second question has to do with the asset sale such as we have done with Gallatin last year.

So about the first question, obviously, in depreciation environment and real depreciation as we have a high percentage of debt in dollars, yes, that has an impact in our net debt-EBITDA ratio, and also gross debt. But do not forget, 70% of our shipments are in dollars. So we do have a snapshot impact of the balance sheet depending on where -- which moment is this snapshot is taken, but the economic impact is limited due to the fact that we have a natural hedge. Once again 60% of our shipments right now are in dollars.

Considering our North American operation, part of North American for specialty steels and also exports live in Brazil. We still have the objective of working with a net sales EBITDA ratio of 2.5 times. I believe this is still a goal for us. It's also -- obviously it depends where the exchange rate is going to go. We should remind you that we have other leverages that we have been using. Andre in his speech talked about our CapEx expectation this year that is below what it has been in 2014.

And remember, when we started 2014, we expected a CapEx in reals that was higher, BRL2.9 billion. So we are also working with investment plans that are very selective. And once again, working capital, there was already a question about this. I believe that we can do more with working capital. We had a significant reduction in 2013, 2014, the reduction was not as significant as we expected, but yes, there is an opportunity to work with working capital.

About asset sales we do not have anything in the pipeline, but we are always analyzing. As we always study any possibilities, we are always reviewing our portfolio and should we understand that there is an interesting opportunity we should consider it as a possibility.

Q - Alexander Hacking {BIO 6599419 <GO>}

Thank you.

Operator

Our next question comes from Mr. Thiago Lofiego, Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good afternoon. Thank you for the call. I have two questions. First about cost; can you tell us a little bit more in the fourth quarter, there was a sound performance in Brazil BO, also mean as specialty. And I would like to understand if this is recurring or was -- is it specific to the quarter? And under that scope of cost cutting, what do you expect for 2015 to optimize your cost base?

Second question about infrastructure market in the US, can you tell us how that market is going? We know that this is very important for you and I would like to hear more about it? We know that non-residential is there also, but if you could talk about infrastructure, I would appreciate? Thank you.

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A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Hello, Thiago, this is Andre Pires. So first about Brazilian cost and all the initiatives we have been taking. We have started a plan along the second half of 2014. We already mentioned in the call there was asset optimization, we closed some units. And initiatives we are working on to adjust our structure to the business reality not only in Brazil, but globally as well. So there is nothing non-recurring in the fourth quarter. We believe this is part of a plan of the strategy that is an ongoing one, and we will keep on working very much concentrated on costs as well as in SG&A. So these are topics in our balance sheet that will really be important in the next few years, not only in Brazil, but also in X-operations [ph].

Infrastructure in the US, yes, this is one of the tripods of the American recovery that is still slower than the others. We have the three areas, non-residential construction, industrial constructions, and infrastructure. The industry was first one, non-residential is now growing stronger in the last two years, and infrastructure is a little bit slower.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you. Andre, can you tell us what is -- can you give us a range for cost cutting potential?

A - Andre Gerdau Johannpeter

No, we do not have a goal or a figure that we could give you. This depends upon initiatives we take on a daily basis.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you.

Operator

Our next question is from Renan Criscio from Credit Suisse.

Q - Renan Criscio {BIO 18747357 <GO>}

Good afternoon, everyone, thank you for your presentation. Two questions. First about specialty sales, we saw a significant improvement and I would like to now, if possible, can you let us know where that improvement came from? You had increase in 10% in the EBITDA.

And the second question is about mining. With the exchange rate depreciation that dropped freight price, how -- what is that like the iron ore from Gerdau delivered to China? At what level of price you change to sell or to sell here more or to export more?

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Hello, Renan, this is Andre Pires. About specialty steels, in fact, this better results of the EBITDA growth vis-a-vis the same quarter of the prior year is basically, thanks to our North

American operation that offset the drop in Brazil and also thanks to our Spain, European operations, and India has a role to play there. And but India's negative result has decreased it a lot, so there was a share of these three elements; North America, Europe and India.

Now let me turn to Andre for the other question.

A - Andre Gerdau Johannpeter

Well, the iron ore before the drop in price, we were working with breakeven figures of \$80 to \$85 and then the iron ore went to 60 to 65 as we have seen and it was not possible anymore that is very difficult to give you today a new breakeven figure, because there are four, five factors that impact there. First, our OpEx and the mine logistics cost, internal cost to load, the railroad to the port, the port prices and then the sea freight.

We see that all those shares of the costs have dropped and are adjusting themselves, but not to the point of being able to export as iron ore price right now. We are still assessing, then analyzing everything and we would just raise in these operations if they become profitable. Our focus once again is internal supply to Ouro Branco that has helped us a lot in terms of competitiveness in terms of cost and integrated route there in Ouro Branco.

Q - Renan Criscio {BIO 18747357 <GO>}

That is clear. Thank you very much.

Operator

Our next question is from Alan Glezer, Bradesco BBI.

Q - Alan Glezer {BIO 17508681 <GO>}

Good afternoon, everyone. I have two questions, first about energy Brazil, I've seen that realized prices and net sales per ton has started 2% quarter-on-quarter in the fourth quarter. Are there any effect of mix change, because you've closed some plants in Brazil. Did you have any pressure in the mix change that brought the price down or if this is a policy of price reduction in the quarter. If you could take this opportunity to explain the price of the exported steel and the domestic price for steel? I think that would be interesting.

And the second is about LatAm BO, I understand the imports are a problem, but having you be able to -- but the volume has grown 3% on the fourth quarter and the margin is above 7%. So what is the trend for 2015? Do you see more pressure that could change that dynamics? These are my two questions. Thank you.

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Hello, Alan, this is Andre Pires. About your first question, about the price per ton, it has to do with mix effect. As I said before, we have more exports, therefore, we have different prices, lower margins in some situations, and at the same time, we have greater dilution

of fixed costs, and that helps us. So basically this is mix, there is no reduction policy or discounts that have happened along the fourth quarter of last year.

About the imports, we don't like to talk about premiums, because that depends on the special detail from the product where it comes from and so on, but it's obvious that in an environment where we have real depreciated vis-a-vis the dollar, it is less competitive for the imported product when the real is appreciating -- then when real is appreciated. So I would say that importer today has lower competitiveness due to real depreciation and also due to volatility that makes predictability difficult for the importer.

Now Andre is going to talk about Latin America.

A - Andre Gerdau Johannpeter

About Latin America, you mentioned the volumes year-on-year, there was a reduction there. But now in the third and fourth quarters, they are stable with some growth in the fourth quarter. Actually in Latin America, 2014 was a difficult year due to the economic growth and 2015 will be also, but just like in Brazil, each country is a little bit different, but in all these countries, currency is appreciating vis-a-vis the dollar, therefore, the competitiveness increases in terms of the imported products and that generates more volume.

So we foresee a possibility there in LatAm for some gain, some volume expansion due to this -- or thanks to this higher competitiveness, because of the exchange rate. And countries such as Peru, Chile and Colombia that are suffering just as Brazil with the depreciation of the currency that helps the steel sector and the whole chain. So there is this possibility for LatAm in 2015 to grow little bit in volume with lower imports. But once again that is going to depend on the international markets price when -- but that depends also in the exchange conversion.

Q - Alan Glezer {BIO 17508681 <GO>}

A follow-up please. About the realized price, and I mentioned real per ton in Brazil BO, I was talking about shipments and the domestic market, the volumes for the domestic market. Can you tell us anything about the product mix sold in the domestic market? Has that changed in the quarter and because of that -- this would explain a change in the cost?

A - Andre Gerdau Johannpeter

Yes in fact, when I talked I was not specific, but if we analyze the domestic market, there was a higher share of the semi-finished here -- that's why we see that small drop in the net sales per ton, this is a mix and there we had more semi-finished products.

Q - Alan Glezer {BIO 17508681 <GO>}

Thank you very much.

Operator

Right now we conclude the Q&A session. I would like to turn the floor to Mr. Andre Gerdau Johannpeter for his final remarks.

A - Andre Gerdau Johannpeter

Thank you very much for your participation. Thank you for your questions. Should you have any questions or if we were not able to address any of them, our IR team is available. And I would like to invite you to -- would like to invite you for our conference call on May 5 to disclose the results for the first quarter of 2015.

Operator

Gerdau's conference call is concluded. Thank you for your participation, and have a nice afternoon.

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