Q4 2007 Earnings Call

Company Participants

- Andre Gerdau Johannpeter, President and CEO
- Osvaldo Schirmer, EVP, CFO AND DIRECTOR, IR

Other Participants

- Carlos Zelaya, Analyst
- Daniel Altman, Analyst
- Felipe Reis, Analyst
- Leonardo Correa, Analyst
- Marcelo Aguiar, Analyst
- Marcos Assumpcao, Analyst
- Rafael Bidderman, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. and thank you for standing by. At this time, we would like to welcome everyone to Gerdau's Fourth Quarter 2007 results conference call. We would like to inform you that this event is being recorded. And all participants will be in a listen-only mode during the Company's presentation. Later we will conduct a question-and-answer session. (Operator Instructions.)

We would like to draw to your attention to the fact that certain assessments that may be made during this conference call with regards to Gerdau's businesses and its perspectives, projections. And operating and financial objectives are mere forward-looking statements based on the expectations of management on the Company's future. Although the Company believes that its statements are based on reasonable assumptions, there can be no assurance that future events will not affect their accuracy.

Today with us we have Mr. Andre Gerdau Johannpeter, President and CEO. And Mr. Osvaldo Schirmer, Executive Vice President and CFO and Director of Investor Relations.

I would now like to turn the conference over to Mr. Andre Gerdau Johannpeter. Please go ahead, sir.

Andre Gerdau Johannpeter

Thank you. Good afternoon, ladies and gentlemen. and welcome to our conference call to present the results for the Fourth Quarter of 2007. You can also participate in this conference call through the Internet. The financial statements of the Gerdau Company's consolidated and unconsolidated for 2007 are already available in our website, the CVM. And the stock exchange.

As already announced in our last conference call, Gerdau started to disclose its consolidated financial statements in conformity with international accounting standards known as IFRS. As of the Third Quarter of 2007, therefore, the information presented below is in line with this new accounting standard.

The unconsolidated financial statements continue to be disclosed in accordance with the accounting practice of that in Brazil and which are also used as a basis for the payment of dividends to the shareholders. Also, the Chairman is present and we will later comment on the performance of the Fourth Quarter with more details.

I would like to begin by pointing out our main numbers for the year and the Fourth Quarter, which confirms the maintenance of the Group's good results.

On page two for the ones that are following on the Internet, we have Gerdau key numbers. And I will start with the gross revenue that reached $34R.2 billion, a growth of 18.5% as compared to 2006. In the Fourth Quarter, we reached $9R.1 billion, a growth of almost 26% as compared to the same quarter of 2006.

The EBITDA, also known as operating cash generation, reached $6R.2 billion, a growth of 6.8% as compared to the previous year. The EBITDA margin was 20.4%. And the EBITDA reached $1R.6 billion in the Fourth Quarter, a growth of 23.1% as compared to the Fourth Quarter of 2006. The margin was 20%, equivalent to the Fourth Quarter of 2006.

Moving to the net income, we reached $4R.3 billion, a growth of 1.1% as compared with 2006. The net income reached $951R million in the Fourth Quarter.

It's important to mention that non-recurrent items affected net income for the full year 2006 and 2007 and in both Fourth Quarters 2006 and 2007, preventing their comparability. The Fourth Quarter 2006 results were positively influenced by $87R million. And in the Fourth Quarter of 2007, results were negatively influenced by $59R million. Disregarding this non-recurrent effect described above, net income will have amount of $1R.01 billion in the Fourth Quarter against $1R.05 billion in the Fourth Quarter 2006, very similar.

On shipments, the total was 17.2 million tons in 2007, which reflects a growth of 15.2% as compared to the last year. In the last quarter of the year, sales reached 4.6 million tons--strong growth of 24.4% as compared to the same quarter of the previous year.

Exports from Brazil totaled 2.1 million tons, which was 10% less when we compare it to the previous year. And on the Fourth Quarter of '07, 999,000 tons, a very large drop of 33% as compared to the Fourth Quarter of the previous year.

Before briefly discussing the steel industry and its performance in the several regions where we operate, I would like to point out that in a year characterized by mergers and acquisitions that changed the global steel industry, Gerdau Group's strength in sales. We carried out a detailed expansion of our business, maintained our financial results in a good level. And consolidated new corporate governance.

On page 3, talking about the steel market on the Fourth Quarter, we continued to see the demand for steel fairly strong on a global basis. Economic growth continued in most regions of the world. The exception might be the United States, where there are still some uncertainties on the economic outlook. Demand should grow 7% in 2008, a growth similar to that record in 2007. It's worth pointing out that this is the fifth consecutive year of growth of the global production above 7%. In 2007, production was 1.3 billion tons, 7.4% compared to '06. China presented slightly lower growth as compared to the previous year. But continued to significantly affect the steel market in the world. China produced 489 million tons in 2007. Without China, global production grew only 3.1%. On the Fourth Quarter, the global production grew by 5% and reached 334 million tons.

On page 4, we move now to Brazil, which was a year characterized by successive records in terms of numbers in the steel industry, which reckoned Brazil as the ninth largest global steel producer.

Production reached 34 million tons, a growth of 9.3% as compared to 2006. On a quarter-to-quarter basis, production grew 8%, or 8.8 million tons.

The sales in the domestic market increased by 18% in 2007, very strong growth, reaching 20.6 million tons. This is largely due to the economic growth observed during the year in Brazil. In the steel industry in the Fourth Quarter, the sales increased 27.8%, a very strong number again in the Fourth Quarter as compared to the same period a year earlier.

In order to better fulfill the domestic demand, the steel companies reduced exports by almost 16% in 2007. And this was made to fulfill the domestic customers' needs. Exports were reduced by almost 20% in the Fourth Quarter of 2007 as compared to the same period of '06. For 2008, the Brazilian Steel Institute estimates that the steel production presents growth of approximately 11%, reaching almost 38 million tons. But also the exports should continue to grow on a growth of about 18%. This is mainly due to new production capacities like the Gerdau Acominas' 1.5 million tons.

We are now being followed with changes in the industry and increased the sales to domestic market by 15.2% and reduced export by 10%. We expect that the sales to domestic customers will present growth of a minimal of 10% in 2008. Exports should increase. But this is mainly due to the greater production of Acominas.

The costs of certain continued to increase. But we believe it will be possible to make adjustments to the price to offset those increases, as we did at the end of January for long products in Brazil.

Now moving to North America, mainly the United States and Canada, where the production of crude steel remained at the same levels, reaching almost 113 million tons. In the U.S., we saw a small drop of 1.4%. But on the Fourth Quarter, the production reached 28.2 million in Canada and the U.S., an impressive growth of 7.3% compared to the same quarter of the previous year.

An important point is that the exports to the United States have continually decreased. This is as a result of depreciation of the U.S. dollar, the high cost of the sea freight. And the solid demand in the several regions in the world. This environment, despite expectation of a lower economic growth in the U.S., opens an opportunity for domestic producers to supply this demand and fulfill the lost imports. And also which is new for that region is that opens opportunities for export of steel from the U.S., as we are already doing from our Gerdau Ameristeel operation.

With that, we think the good performance of '07 will be possible to repeat in '08. We estimate that despite the uncertainties about the management of the economic growth in the U.S., investment in infrastructure will continue, which will benefit our operation in North America.

The year of 2007 in the region consisted of consolidation and acquisition. We acquired Chaparral, the second largest structural steel producer in North America. And MacSteel, the second largest producer of special steel in the United States, in addition to a number of processing facilities. It's worth pointing out that MacSteel should be completed over the next month. But that is not done yet.

Moving to Latin America, page 6, which produced 33 million tons and grew 3.4% compared to the previous year--this does not include Brazil--and in the Fourth Quarter the increase was 6.7% on the Fourth Quarter compared to the previous year. We estimate for 2008 that the demand continues high, driven by the good economic prospect in the region and a maintenance of investments in infrastructure. As in other regions in the world, it's also clear that we've seen increases in the production costs in Latin America. Pressure from raw materials like scrap in countries like, such as Colombia and Mexico. And in Chile some pressure from the shortage of electric energy, which will increase costs in 2008. On the other hand, the strong demand continues to offset the increase in costs against increasing price in order to maintain and possibly improve our operating margins.

Gerdau's Latin America presents many opportunities for the expansion of our business like we did in 2007, where we grew in Mexico, Venezuela. And the Dominican Republic.

On page 7, I'd like to comment on Europe, where, as we are focused on specialty business, production in Europe grew 1.7%, totaling 210 million tons. And in the Fourth Quarter, the production grew by 1%, reaching 52 million tons. We see the market still high in the region with good prospects for 2008, although we estimate some increasing costs, mainly to electric energy in the region, especially in Spain. In '07 we expanded our product line by means of Trefusa, a specialty steel drawing facility acquired at the end of the year.

We are working on the reorganization of the industrial process and relocation of certain product lines in Spain with the objective of increased productivity and maximizing the use of industrial improvements. These investments resulted in certain additional costs which were allocated in the Fourth Quarter. But without a doubt, we'll see the benefit from the next year from this change.

On page eight I would like to comment on the investments that were made in 2007, which totaled $6.3 billion, now dollars. And this was fixed assets and acquisitions. We invested $1.5 billion in fixed assets, mainly in Brazil, where we should mention Gerdau Acominas growth project. The beginning of operation of the new blast furnace, the second sinter unit. And our new continuous casting for blooms. The investment will increase the total capacity from 3.0 million to 4.5 million tons per annum. There is an investment program of $1.5 billion. We also have on this program construction of a new coke plant, expansion of the structured profile rolling mill, in addition to other improvements are in progress.

With respect to acquisitions, as we mentioned, the investment total was $4.8 billion this year. We did not mention only our Acominas by means of the joint venture with Kalyani, creating Kalyani Gerdau India, which operating is not yet concluded.

As a result of the investments made in 2007, our installed capacity increased by 25%, which is now 24.8 million tons of steel.

Looking forward for the next three years, our plan is to invest $6.4 billion, which does not include acquisitions--$4.4 billion in Brazil, $2 billion abroad. And the way we'll do it is in 2008, $1.5 billion; 2009, we'll spend $2.8 billion; and in 2010, $2.1 billion. Of the amount to be invested over the next three years, approximately 60% will be used in maintenance and operating improvements. And the remaining will be used to expansion of installed capacity. After the conclusion of these investments, our crude steel capacity by 2010 will be 28 million tons. And our rolled products capacity will be almost 25 million tons.

Moving to page 10, I'd like to comment on some mineral resources. This is an investment in mineral resources, more specifically, iron ore, an important raw material used in our main production facility, Acominas. In 2003, as disclosed to the market at that time, we acquired a mineral asset in the state of Minais Gerais from (inaudible) Miguel Bournier, VÃ¡rzea do Lopes and Gongo Soco. In 2005, we had the opportunity to acquire other areas next to Miguel Bournier in the region called (Dombosc). The total amount of our mineral reserves is approximately 1.8 billion tons, which include measured, indicated. And inferred resources. These reserves overcome significantly our initial expectations.

Just to give an idea of our current consumption of iron ore, taking into consideration Ouro Blanco, the ac mill, Barao de Cocais, (inaudible) units, all located in the state of Minais Gerais. And (inaudible) in the state of (inaudible) in Brazil, is approximately 9.5 million tons per annum. Currently, 30% of the iron ore consumed by Gerdau comes from our mineral reserves. And the remaining is purchased from mining companies in the region. After the year of 2009, we intend to fulfill approximately 45% of our demand. And by 2010, we expect to have an internal supply of 80% of our consumption in Brazil from our own mines.

In addition to the $90 million already invested in mining operations, another $120 are scheduled to be invested between 2008 and 2010. This will allow Gerdau to be more cost competitive and compete in the global market.

This concludes my presentation. I will now turn it over to Schirmer to tell you more about the financial results. Thank you.

Osvaldo Schirmer {BIO 1754610 <GO>}

Thank you, Andre. Let's have some fun now, driving through the numbers. We're going to be focusing on the Fourth Quarter, starting with Brazil. If you will please follow me on slide number 11. With respect to Brazil, we can observe that net sales grew by 22% in the Fourth Quarter of '07, as compared to the Fourth Quarter of '06, where it totaled $3R.4 billion. Of this amount $542R million derived from exports. And the remaining $2R.9 million were generated from domestic sales. While the net revenues from sales in the domestic market grew 39% due to the solid demand during the period, the revenues from exports decreased by 26%. Andre also mentioned that in physical terms, we reduced our exports in 10% in order to supply the domestic market.

The net revenue from domestic production--I mean domestic market plus exports--represented in the quarter 42% of our consolidated net sales. If you take the full year, exports from Brazil plus pouring operations accounted for more than 60% in hard currency.

The net sales per ton in the quarter were equivalent to $1R,865 per ton, as opposed to $1R,581 in the Fourth Quarter of '06. This means a growth of 18% on a per-ton basis, net sales per ton basis. Basically, we achieved that by reducing the discounts in approximately 4% in the domestic sales in the first semester of '07. And also we enjoyed that by having the international prices increasing substantially throughout the period. In dollar terms, the export price went up 15% in the period.

The increase in costs of some inputs such as scrap, pig iron, iron ore and other inputs. And the high price of international freights, they were totally or strongly offset or compensated by the increase in prices so that the gross margins in the period were maintained at the same levels of '06.

With respect to EBITDA, it's possible to verify a growth of 22% in the Fourth Quarter of '07 totaling $896R million, as compared to $733R.4 million in the Fourth Quarter of '06. In this regard, the margin was also similar in the quarters and the comparisons, which is 26% in both quarters.

Solely for the purpose of observation, it would be worth mentioning that our EBITDA margin went up one percentage point every quarter in the last three quarters. The EBITDA per ton presented an increase of 18% in the last quarter of '07 when compared to the same period of '06. I'm talking about $492R per ton against $416R per ton in the previous quarter, or the quarter of the previous year. The growth in (inaudible) is absolutely in line with the previously mentioned increase in price.

Let's move to slide number 12, North America. In North America, in particular the United States and Canada, where our production facilities are located, the comparison is positively affected by the consolidation of Chaparral as of September of that year. Net sales reached $3R.1 billion in the Fourth Quarter of '07 against $2R.5 billion in '06. This means a growth of 26% quarter against quarter. This amount accounts for 38.4% of the total consolidated sales of the Gerdau Group in the quarter. The gross margin reached 17.2% in the Fourth Quarter against 14.9% in the same period of '06, partially due to the consolidation of Chaparral, which has better margin than the operations, the rest of the operations in the region.

Similarly, the EBITDA margin also increased from 12.5% to 17.3% in the period. In absolute terms, the EBITDA in the Fourth Quarter of '07 reached $535R million, a growth of 73% as compared to the Fourth Quarter of '06. The metals spread of Chaparral in the Fourth Quarter of '07 was $552 per ton. This was at approximately 30% greater than that of Gerdau Ameristeel, which has been on the average around $419 per ton. This partially explains the better margins that Chaparral added to the business in North America. The consolidated average spread of Gerdau steel in the Fourth Quarter was 13% greater than the average spread in the Fourth Quarter of '06. I'm talking about $420 per ton against $381 per ton in '06.

Latin America. In Latin America, we consolidated new companies in Mexico and Venezuela throughout '07, which affects the comparison of the last quarter of '07 with the same period of '06. Except for Brazil, the net sales in Latin America reached $897R million in the Fourth Quarter against $656R million in the same period of '06. This means a growth of 37% in the region. And this amount accounts for 11% of the consolidated net sales of Grupo Gerdau in the Fourth Quarter. Net sales in Latin America grew by 42% quarter against quarter. The increase in the costs of main materials, main raw materials. And the consolidation of new companies resulted in a reduction of margins in the Fourth Quarter of '07 as compared to '06. The gross margin was 14% in the last quarter of '07 as compared to 19% in the last quarter of '06. The EBITDA margin was 12.5% in '07 as compared to 25.0% in '06.

The comparison between '07 and '06 should take the full year so the much smaller reduction on the gross margins. I'm talking about 24% against 20% and 23% against 28% on the EBITDA margin, which reflects basically the effect of the most recent acquisitions.

In absolute terms, the EBITDA reached $112R million in the Fourth Quarter of '07 against $166R million in the same period of the previous year. Again, if you take the full year of '07, EBITDA grew 12% over '06, reaching $600R million.

It's important to mention that Latin American results in the Fourth Quarter of '06 were positively influenced by $19R million related to the adjustment to market price in connection with a put and co-option of ownership interest and also by $68R million related to a negative goodwill amortization in connection to the acquisition of Siderperu.

In the Fourth Quarter of '07, however, results were negatively affected by $27R million related to the adjustment to market price in connection to the same put option, which in great part explains the lower results in the quarter.

Europe. In Europe, we are, as Andre already pointed out, focused on the specialty steel production. The net sales reached $780R million in the Fourth Quarter against $565R million--sorry, $569R million in the Fourth Quarter of '06. This represents a growth of almost 20% in the period. It's important to mention that in the period also we added the revenues from the consolidation of (inaudible) acquired in December of '06. The net sales in the Fourth Quarter of '07 accounts for 8% of the total consolidated net sales of Gerdau in the period.

We had an industrial reorganization carried out among several facilities in Spain with the purpose of maximizing the production process and the product line. And this resulted on a non-recurrent expense item of $32R million in that quarter. But we believe that such industrial reorganization will result in very solid near future benefits. Accordingly, the gross margin was reduced in the last quarter of '07, reaching 17% against 21% in the same period of '06. The same reduction was verified with respect to EBITDA margin, which dropped from 18% to 10.5% year over year--sorry, in the quarter. If you take year over year, EBITDA margin was only 4% lower.

Without the extraordinary effect occurring in December, the EBITDA margin in the Fourth Quarter was '07 would have been in line with that of '06. In other words, it would be, our EBITDA margin for Spain would be around 18% to 19% as usual.

The EBITDA recorded in the Fourth Quarter of '07 reached $71R million against $104R million in the same period of '06. Year over year again, however, cash generation in Spain went up by 12%.

On slide number 15, let's make some comments on the consolidated numbers. On a consolidated basis, the net sales grew by 24.6% in the Fourth Quarter of '07 as compared to the same period of '06. The growth is affected by the consolidation of companies acquired during the year, such as Chaparral in the United States and acquisitions in Venezuela and Mexico. The solid demand in Brazil also strongly contributed to the increase in revenues. The domestic sales in Brazil went up by 30% when compared to the Fourth Quarter of '06. The gross margin remained at the same levels, around 23% in both quarters. The EBITDA reached $1R.6 billion in the Fourth Quarter, which means a growth of 23%. And in line with increasing net sales. The EBITDA margin was 20% in both quarters, a stable number.

In '07, net financial revenues reached $343R million, lower than the previous year, which was $444R million, basically due to the increase in the net debt since the Third Quarter of '07, when we had to raise money for the acquisition, namely Chaparral. As to net income, there was a strong effect of non-recurring items, without which results would have been 12% better on a year-to-year comparison. You can see in the chart above. If you take and consider the adjusted net income for '07, this would be equivalent to $4R.5 billion compared to $3R.9 billion of '06. This means 12% growth.

The same non-recurring items also affected the comparison on a quarter-to-quarter basis. Such non-recurring items are basically additional increases to the '06 income and reduction to the '07 income. Namely, in '06, positive revenue adjustments for that already referred call option in Latin America, that represented $111R million. A negative goodwill amortization in Siderperu of $68R million. And net income from legal settlement on the (inaudible) tax sue in Brazil, which represented $84R million.

In '07, we had non-recurrent events such as the payment of $132R million related to legal (inaudible) on IPI tax in Brazil. And $30R million related to the already referred industrial reorganization in Europe.

On page 16, a few words on investments. The net debt as of December totaled $11R billion. This amount is greater than the amount of last December 31, '06, as it includes the financial--sorry, the financing rates for the payment of acquisitions carried out during the year--in particular, Chaparral in September. In December 16% of the gross debt was short term. And more than 80% was long term. The average payment term of the average maturity of the indebtedness of Gerdau is 6.4 years. As of December 31, the gross debt consisted of 20% in Brazilian real, 19% in foreign currency contracted by the Company in Brazil. And 57% in different currencies contracted by the subsidiaries abroad.

On the right portion of your chart, you're going to see that the monies borrowed in Brazil in local currency have the cost, the average cost of 10%. When we borrow in foreign currency out of Brazil, the cost is 6% less foreign exchange variation. And when you take the average cost for the companies abroad, that represents around 7.4%.

As of December 31 again, the gross debt over EBITDA ratio was 2.5 times. And the net debt over EBITDA only 1.7 times. At the end of the year, cash and cash equivalents totaled $5R.1 billion, out of which $3R.1 billion were indexed to the foreign currencies and the balance in reals.

In order to improve the debt profile, in particular after the Chaparral payment, we launched a 10-year bond in the Fourth Quarter of '07. The transaction amounted $1 billion at a cost of 7.25% per annum in interest payable on a six-month basis. It's important to mention that after the acquisition of Chaparral and even after the transaction announced on (inaudible), the rating agencies, namely Standard & Poors and Fitch, maintained our investment grade.

I'd like to finish my comments by briefly speaking about the financial structure that we put in place in order to pay for the three acquisitions still not included. I'm talking about MacSteel, Corsa in

Mexico. And Kalyani down in India that Andre referred as a joint venture. Most Corsa and the joint venture in India will fully paid in cash using our liquidity to do that. And they will require around $172 million for that. With respect to MacSteel, we originally announced that we would be using our liquidity to pay for the full amount. We are reconsidering that and very likely it's going to be a mix of liquidity plus additional debt. And the source is still to be defined. And I might still just refresh it's going to cost us $1.5 billion and we have to assume around $200 million in debt--existing debt--at the company.

Well with that comments, I finish my portion. And as Andre said, I also offer myself to be available for your questions. Thank you.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions.) Your first question is coming from Marcos Assumpcao with Merrill Lynch. Please go ahead.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Good afternoon, gentlemen. The first question is regarding the operation in Europe. I would like to understand what do you think is the sustained momentum of the margin that you expect this operation to reach after the benefit of this reorganization of initial processes after the benefits kicks in?

A - Andre Gerdau Johannpeter

I would say that basically I pointed out during my speech that you could expect around 18% to 20%, I think, from (inaudible) and it's going to happen very quickly.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Great. Schirmer, just wondering out of this year that it was taking off. And I would like to know if you agree with me that potentially margins for Gerdau, the operating margins for Gerdau, should be very closely (inaudible), since if you look to each of the operations directly, you will be aware potentially of some rich, some benefits with Chaparral synergies throughout 2008. In Latin America, you also would have the integration of the Mexican, Venezuelan. And Dominican Republican operation. In Europe, you just mentioned right now. And in Brazil, capacity will be increasing in the domestic price and continued increase in sales mix, we should see, we could see actually margins for Gerdau in the Fourth Quarter of close to 20%. But the margins would be above level for the company going forward?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Yes. I think your overall description was quite fair. And I only would put more emphasis on the Brazilian front, because as Andre pointed out, we have a very strong demand sign, price recuperation for the whole industry. So I would overweight slightly more the Brazilian front.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Great. Thank you very much.

Operator

Thank you. Your next question is coming from Gina Montone with Bradesco. Please go ahead.

Q - Rafael Bidderman

Hi. It's Rafael Bidderman. Congratulations, Andre, for the results. My first question comes, is regarding the United States. I'd like to understand. There was an increase in sales overall in the United States. But I'd like to understand and most of. And part of it was because of the consolidation of Chaparral. My question is, if you exclude Chaparral's deal, was there, how was sales going in the United States? Was there an increase year over year, throughout, quarter over quarter, how are you seeing that? And if you could elaborate a little on whether you are seeing impacts of the crisis in the U.S., not specifically of the housing. But an indirect impact of all this crisis in the U.S. My second question is regarding Brazil. If you could give more details on how is the ramp-up of Acominas? The increase on some exports from Brazil was a little shy in my opinion, according to my estimates. And I would like to understand how is the ramp-up going on. And when do you think you will reach full capacity of the new plant in Acominas after it's been completed?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Well let's go part by part. And very likely Andre will make a comment at the end, just to fill in my answer.

First of all, vis a vis volumes in North America, not including Chaparral, we try to say now (inaudible), that basically, volumes were maintained in that market despite all the potential recession in the U.S. and so on. And you probably remember when Andre said at the beginning that the overall market in the U.S. fell basically 9% or 10%, if I'm not mistaken. And Gerdau Ameristeel was able to maintain their volumes. And they also, if you read what's coming from the front into this beginning of the year, we see no sign of, at least in our particular field, of recession. The demand is strong. And on top of it, we have been able to maintain the spreads, which is the beauty of the case.

Talking about the ramp-up of Acominas, as also indicated, we already started the process. I mean, no longer a project. They're at full operation. This normally has a learning curve. And you have to wait until it reaches the full utilization of the additional 1.5 million tons, which was the increase. Well I don't have a very straightforward question for that--I mean answer for that--but give us at least a year to be close to full utilization.

Q - Rafael Bidderman

Can you say how much was the sales of Acominas in the Fourth Quarter of the new blast furnace of Acominas or the new unit of Acominas? How much was the sales in the Fourth Quarter? And also, how much was the sales of Chaparral in the Fourth Quarter?

A - Andre Gerdau Johannpeter

Chaparral sales was along 500,000 ton. And the number of Acominas, I don't have the sales number here. I don't have specific number of the plant. But that's a hard number to get now. Maybe later we could work some.

Q - Rafael Bidderman

So Chaparral was 500,000 tons just in the Fourth Quarter, or in the full year?

A - Andre Gerdau Johannpeter

That's Fourth Quarter, yes. Because it was only 15 days of the previous quarter. And year over year, (inaudible) was very similar volumes. But this information is, is that the spreads were bad and margins were better, both on the same volume, results are better.

Q - Rafael Bidderman

And could it be that--?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

I have a correction to Andre's results. In, my people here say that I (inaudible) something, which is obviously totally correct. Andre repeated it. And I already said. Year over year was equal volumes. If you take Fourth Quarter of '07 on top of Fourth Quarter of '06. And not including Chaparral, Ameristeel went up 10% in volumes. Okay? And I, my, the way I answer, I gave you a broader sense over year over year. But you're also asking quarter against quarter. So I'm correcting my answer while explaining better.

Q - Rafael Bidderman

Oh, okay. And you mentioned also that Ameristeel is not yet being harmed by the closures in the U.S. Wouldn't it be, why would you think it's better? I mean, is there something specific from Ameristeel, or are the results so initial that clients, distributors, reviewing their inventories and then they sell one off plus in the sector and maybe we could see a sharp downturn later on in the year?

A - Andre Gerdau Johannpeter

Yes, overall, the long products market is pretty healthy. We haven't seen an impact on the financial crisis. And this is very much related with residential, which is not our target market. It's only 8% of our market. We more focus on infrastructure. Then more heavy construction. This is one thing. Another, there is quite low inventories on the whole chain. There is a need to supply the inventories on the customers and distributors. And third. And maybe the most important is the drop in imports in the U.S. because of the weak dollar, as I mentioned. So this gives an opportunity for domestic mills to supply, which has not been imported. Traditionally, the U.S. is a fairly large importer of steel. Now, with the weak dollar, this has been changing. And actually we are exporting from Gerdau Ameristeel to Central America and South America, which is something new, too. So this is part of what explains why we keep the volumes. And we haven't seen any slowdown so far.

Q - Rafael Bidderman

And just one last question. There was an increase on prices in Brazil this Carnivale. Can you comment a little if you would, about this price increase. And if you believe there's going to be further price increases this year. And how you see the demand, the outlook for the demand in Brazil? Do you have any guidance on the (inaudible) sales volume in Brazil?

A - Andre Gerdau Johannpeter

Okay. The price increase was from 5% to 14%, was done at the end of January. And this is for long products in Brazil. At this point, we don't foresee any more increases. But they might come as we've seen pressure on the cost side from scrap, energy, iron ore. And so on. On the volumes, we see the market growing at least 10% or more for the year, as the economy in Brazil is very strong.

Q - Rafael Bidderman

Okay. Thank you very much.

A - Andre Gerdau Johannpeter

Thank you.

Operator

Thank you. Your next question is coming from Marcelo Aguiar with Goldman Sachs. Please go ahead. Marcelo, your line is live.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Hi, everyone. Sorry. It was on mute. So good afternoon, everyone. A couple of questions, Schirmer, if you'll allow me. In the case of, I was, tried looking at your Gerdau Ameristeel results, operating results. And comparing to your North American results and IFRS. I know there's some difference between IFRS and U.S. GAAP numbers. But I was a little bit intrigued by the performance on EBITDA per ton between Ameristeel results and your North American and also EBITDA margin.

When you look to Gerdau Ameristeel EBITDA margin performance on the quarter-over-quarter, from Third Quarter to Fourth Quarter, I mean, it was flat at 18%. And also, when you look to the debt per ton performance on Ameristeel, it almost was flat also in a very short-term basis. And when you did the same (inaudible) number, North American results that the DLSA put out today, you show that EBITDA margin for North American business increased 200 bips. And EBITDA per ton in dollar denominated currency increased by 18% quarter on quarter. So I would like to, if you can draw some, try to clarify to me to help me understand why you have that significant difference between your North American numbers in EBITDA and EBITDA number in your balance sheet to what Ameristeel reported in their release? This is the first question.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Marcelo, very easy. Unfortunately, you live in a country where we have to report things in reals. And reals are such a strong currency, when you translate inventory into reals, everything becomes weak. If you take the analysis of Ameristeel as an American would do, looking dollar against dollar, you are absolutely right. They have improved prices, average margin. And everything. And they also review reported a new issue right after our disclosure when you were disappointed about the expectations. So the real explains that. We had to convert everything into reals. And so that seems less than it is. But looking dollar against dollar as they have to do because they are an American company, consolidated U.S. dollars, that's the answer.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Sorry, Schirmer. I didn't explain myself very well. When I compared their (inaudible), say, to Ameristeel, they're looking, just on dollar denominated. I'm not thinking, I'm already converting your numbers in reals to, let's say, the average exchange rate in the third and the Fourth Quarter. And I'm talking about margins and EBITDA and the dollar per ton EBITDA for the (inaudible). So I'm not looking at reals for Brazil and dollars for Ameristeel. I'm just looking at the same, the united currency. There's a big deviation on those numbers. That's what I'm trying to understand.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Well they're not supposed to be different. If you are taking the conservation, what you reported and what they report, making that, the correction for the real, it shouldn't be different. And I have to go over that, Marcelo. And I'll get back to you.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. The second one, Schirmer, just, I mean, I know, the way you talk, I think about the price increasing with your product two or three times over this to an hour and a half conference call we had already. But I mean, 5% to 14% is a pretty wide range for price increases. If you can give us about, like a broad sense of how much a basket, a basket of long steel products in Brazil kind of grows like 8% or 9%? And it's really starting in February, or just there's something that you start to negotiate. And we're falling back to, let's say, in April.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

I would take 9.5%, close to 10%, because the, I would say that the bulk of the basket that you're referring to is rebar. And rebar is (inaudible) that.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. So for the average of the products, something like 9.5% for the domestic shipments. Okay. And also, in terms of costs, we talk a lot about price increases, if you can give some details about, let's say, we don't have a scrap market in Brazil. So it's tough to get a sense of which level of scrap price we're buying right now. So if you can give us some of a price. What happened? Why did the scrap price, for example, today or for March compared to the scrap price in average, what at the end of 2007? And the same thing for real what you buy on pig iron in Brazil, that would be great.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Well first scrap, you can take 350 real per ton in Brazil's current average market price. And pig iron is basically international price less rate.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. And during the Fourth Quarter, which was this level, more or less?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Let's see. Yes. Maybe around 280.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

This is still, okay, this is for scrap?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

For pig iron, I'm talking about. Pig iron set. Scrap I gave you. It's 350 reals per ton, or between $170 and $180 per ton. On that to more. Oh, dollars. Okay. So now I'm receiving some input here. Talking about last quarter? Ah, this quarter. Okay. This quarter, $250 a ton.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. And that was my question. What's the fourth compared to this level? So can you give both numbers, in the fourth and the first? I apologize for this confusion.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

They're very similar prices. They haven't changed as much as they did in the international market.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. You talk about pig iron. And scrap is the same thing?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

No. I was talking about scrap price. Pig iron, this went up like almost $100 from December to February. That's international market.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay, okay, okay. And also, I mean, sorry, this is a difficult question. But already I'm passing my three questions. Related to energy, I mean, we saw already prices in Brazil skyrocketing to 500 reals per megawatt per hour. And now we're getting back to the 200 in real level because of all the rain that we saw in Carnivale, unfortunately. How, tell us more or less how much of efficiency you have reminded us on today in energy. And what you do have, I mean, generated inside of using your hydroelectric states? And how much of that you buy on the free market?

A - Andre Gerdau Johannpeter

Most of our contracts, most of our mills have contracts for years. So we don't buy in the spot. Some contracts come up and then you have to renegotiate. But I would say most of the milling mills in Brazil have contracts for two or three years and so on.

On the sales of energy, or Acominas is the one that has almost 70% of their own energy consumption.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. So we shouldn't expect a significant increase in your energy because of in line with what happened with the free market for energy in Brazil, right?

A - Andre Gerdau Johannpeter

Not the three. But when the contract is up, you have to go to market and renegotiate.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay.

A - Andre Gerdau Johannpeter

But (inaudible) you mentioned market spot price. When you negotiate a long term, you don't have to pay this $200R or $300R per (inaudible) megawatt.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. Thank you very much, gentlemen.

A - Andre Gerdau Johannpeter

Thank you.

Operator

Thank you. Your next question is coming from Carlos Zelaya with Morgan Stanley. Please go ahead.

Q - Carlos Zelaya

Yes. Good afternoon. The first question would be, what would it take to increase the capacity utilization that you have? In 2006 it says on (inaudible) in December, the capacity was about 24.8 million tons. And the production was only about 17.9 million of crude steel, that is. So the first question will be, what will it take for you to increase this capacity utilization? And the second question would be related to the Latin American margins, EBITDA margins. So in 2006, you had some benefit that are non-recurrent. And then in 2004, you had some negative impacts that were also non-recurring. So what would be the normalized EBITDA margin that you expect in this business going forward, please? Thank you.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

On the--I understand what you, whether your calculation of 24 million capacity. But don't forget, 1.5 million tons of Acominas are just, have been just added to the complex. And the 2 million tons of Chaparral also have (inaudible) working. So please do not consider that in your ratio when we take that reported divided by what was delivered during the year.

I think you, we tried to get, you were trying to get a normalized number for EBITDA margin in throughout Latin America. So currently as I said in a previous question, somewhere between 18% and to 20%.

Q - Carlos Zelaya

Do you know what's related to Europe?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Back to Europe? All right. And to Europe also. Okay. Fair enough.

Q - Carlos Zelaya

So similar margins in Europe and in Latin America?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Without Brazil, of course Latin America, we referred to Latin America but not including Brazil.

Q - Carlos Zelaya

Right, right. Okay. Thank you very much.

Operator

Thank you. Your next question is coming from Daniel Altman with Blake. Please go ahead.

Q - Daniel Altman {BIO 1855515 <GO>}

Hi. Good afternoon. Two questions. First on the volume side, can you give us an idea of 2008 given the expansion (inaudible) some of the other rolling lines, what you're targeting in terms of total volumes for Brazil this year? Then the second question is on your CapEx budget. Can you explain on 2009 the increase--I believe it was $1.5 billion last quarter, now you're looking for $2.8 billion--I wonder if you can explain that as well as any other increases, I guess until 2010?

A - Andre Gerdau Johannpeter

Let me look first to CapEx. This is Andre. Could you repeat? You mentioned that last year CapEx compared to this year's projection? Or--I couldn't?

Q - Daniel Altman {BIO 1855515 <GO>}

I'm just comparing the investment that on your investment plan that you published last quarter, I think you had a much lower number, or your consolidated CapEx for 2008 investment?

A - Andre Gerdau Johannpeter

Yes. We revised this projection because there is new acquisition, new mills. And so we'll revise that. That's the question which, for we've been talking last year, we had the $4 billion two-year CapEx. That was '07, '08. And '09. Now we have the $6.3 billion, which is '08, '09. And '010. But this is on a new base of capacity. It was 20 million tons. Now it's 24 million. So there's more CapEx needed. And also when we buy new companies in Latin America and so on, there is more to do, like in Peru or Mexico. New (inaudible) with Mexico and so on. Does this answer your question?

Q - Daniel Altman {BIO 1855515 <GO>}

Pretty much. But just for Brazil, it's planned there you're spending $4.5 billion over three years?

A - Andre Gerdau Johannpeter

Yes.

Q - Daniel Altman {BIO 1855515 <GO>}

Can you explain what the largest items are upfront?

A - Andre Gerdau Johannpeter

Okay. Some is Acominas. There's some more steel. There's some probably rolling mill for structural increase. Maybe wire rod. Then there is long products in Brazil, more steel capacity, probably in Rio and Sao Paolo. Some rolling mill increase, also in Sao Paolo. Demand in Brazil is growing a lot for long products. And we also have some investments for special steel, which will be done in Piratini.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Are you. So it's primarily rolling mills and in terms of the increase in (inaudible) or mini-mill capacity for bridge steel, it's only about 1 million tons?

A - Andre Gerdau Johannpeter

I give you some of the key projects. I mean, I have the list here. I'm going over it again. But I think I gave you mainly the ones, basically the most important.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Then in just, in terms of, if you have a volume forecast for Brazil?

A - Andre Gerdau Johannpeter

Well we're, we're working with a 10% increase on market or more. So that's our plan, to follow the market.

Q - Daniel Altman {BIO 1855515 <GO>}

I was thinking more in terms of total volumes.

A - Andre Gerdau Johannpeter

Total volumes of production?

Q - Daniel Altman {BIO 1855515 <GO>}

Of sales, including exports from Brazil.

A - Andre Gerdau Johannpeter

That number, I don't have it. Because our aim is to follow the market and supply the growth. So it's at least a 10% boost, we'll follow. If it's more, we'll do more.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Thanks.

A - Andre Gerdau Johannpeter

Thank you.

Operator

Thank you. Your next question comes from Felipe Reis with Santander Investments.

Q - Felipe Reis {BIO 7103920 <GO>}

Oh, thanks. I already got my answer. Thank you.

A - Andre Gerdau Johannpeter

All right?

Operator

Thank you. Our next question is coming from Leonardo Correa with Credit Suisse. Please go ahead.

Q - Leonardo Correa {BIO 16441222 <GO>}

Yes. Good afternoon. My only question is that basically on your mining asset, we've seen recently, we've been meaning to acquire and get into the mining business with (inaudible). From what we know, at least preliminary bid on the mine, is that there is around 1.4 billion tons of reserves which they intend to take to 29 million tons and become a net exporter. Just, well, just looking at your presentation, you're stating that you're aiming at 80% of your own requirements. Just, are you, should you revise that and maybe consider getting into an export business of making mining an important part of your business?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

I'm not sure we find this (inaudible). The very last part of your question, yes. We do refer that by 2010, we intend to use our own reserves to satisfy 80% of our channel demand. And that, we said more than once today, that it's going to be a gradual process that will take into consideration the natural growth of our operations in Brazil. The iron ore reserves are mainly devoted to supply the Brazilian operations. Andre had the chance in the previous conference calls to say that depending on the evolution, we may also use part of the reserves to satisfy demand of operations in Peru, for instance, where we may have a need. But basically it's for Brazil. So that's the scope and we have, Andre said--correct me--1.8 billion tons of reserves. As also we indicated before, it's going to be able to set price for a couple of decades our needs with plenty of room. So but I may have missed part of your question.

Q - Leonardo Correa {BIO 16441222 <GO>}

Oh, what I was basically trying to assess, is that given all of your reserve potential, even superior as to what we've seen, as for example, recently, couldn't you be more, potentially more aggressive on your expansion plan of the mine? Or, I just want to understand if you have any bottleneck in terms of logistics, for example, that would impede some sort of expansion, of more of an aggressive expansion to, let's say, 30 million tons? Because you have thee reserve potential. I'm just trying to see if it's more of a strategic objective of only supplying part of your needs?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

It's not, it's not a case of logistics or difficulty to strike. There has to be some sort of balance between utilization, price of foreign ore, trend of prices on the global basis for iron ore. That is the guidance. And you also have to take into consideration it has a very, a very strong base of suppliers surrounding the mills in Minais Gerais that are able to supply it for quite some time. So we intend to preserve that thing. So that's going to be a gradual move instead of jumping into a much larger exploration and transforming it in a different profit center or a different business. That's the philosophy as we speak.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay. Thank you.

At this time, I would like to turn the floor back over to Mr. Andre Gerdau Johannpeter for any closing remarks.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

I'm going to finish first. Thank you for your interest and attention. We hope that we brought good news to all our investors, including you on the line. We also mentioned that we're going to have a Brazilian (inaudible) with investors in April in Minais Gerais. We're going to have a chance to take them to visit the mills and the iron ore operations as well. So we're just re-emphasizing that. And thank you again for your questions. And Andre would like to say the last word. Thank you.

A - Andre Gerdau Johannpeter

So on my part, thank you very much for your participation and the questions. And we're looking forward to see you on the next conference call or at the visit in Minais Gerais. Thank you. Have all a great day. Bye.

Operator

Thank you. This does conclude today's presentation. You may disconnect your lines at this time. And have a nice day.