

## Q2 2010 Earnings Call

### Company Participants

- Andre Gerdau Johannpeter, President and CEO
- Osvaldo Schirmer, VP and IRO
- Unidentified Speaker, Unknown

### Other Participants

- Alexandre Miguel, Analyst
- Bruno Montanari, Analyst
- Humberto Meireles, Analyst
- Rafael Weber, Analyst
- Rinos Antonios, Analyst
- Thais Aleluia, Analyst

### Presentation

#### Operator

(Interpreted). Good afternoon. Welcome to Gerdau's Second Quarter of 2010 earnings conference call. All participants are connected in listen-only mode and at the end we will start the question and answer session. (Operator Instructions)

We would like to stress that forward-looking statements that might be made during this call relating to Gerdau's business outlook, operational and financial projections and targets are mere assumptions based on the management expectations regarding the future of the Company. Although Gerdau believes that their remarks are based on reasonable assumptions, there is no guarantee that future events will not affect this assessment.

Today we have Mr. Andre Gerdau Johannpeter, President and CEO and Mr. Osvaldo Schirmer, Vice President and IRO. Now I would like to give the floor to Mr. Andre Gerdau Johannpeter. Mr. Johannpeter, you have the floor.

#### Andre Gerdau Johannpeter

(Interpreted). Good -- and welcome. We are very happy to have you again in our conference call about Gerdau's results. As we often do, we will begin our analysis with an evaluation of the performance in the Second Quarter of 2010, which will be then added -- will have contributions with the outlook of the markets where we operate.

Right after my presentation, Osvaldo Schirmer will give you some more information about the financial performance of the Company during that period. And right after that we'll be available to take your questions.

Throughout our presentation, we will also evaluate the performance of the Second Quarter, vis-a-vis the same period of the year before. In addition, we will also give you some figures of the first half of the year so you will have a better idea of the year-to-date performance.

So let's start talking about the world scenario. For those of you who follow us over the web, we are on page two. The world steel production reached 364 million tonnes in the Second Quarter, which was 27% higher than equal period the year before. Excluding China, the world's steel production was 198 million tonnes which represented an expansion of 35%.

Steel production in China reached 165 million tonnes, which represents 18% growth when compared to the Second Quarter of '09. China's participation in world production was still the same throughout the quarters, which was approximately 45%.

China's GDP increased 11% in this semester when compared to the same period of year before. In the Second Quarter of 2010, the expansion was 10%.

In fact, currently the world has two different economic realities. On the one hand, we have the emerging countries like China, Brazil and India which have a very impressive economic growth and have very positive outlooks, which is clearly reflected in a good expectation of growth of demand for steel in the next few years. On the other hand, the US, Europe and Japan are recovering gradually.

Now I will talk about the figures for Gerdau. I will start with shipments. Shipments, 4.4 million tonnes in the Second Quarter, which was a 30% growth vis-a-vis the same period of 2009. This performance is the result of the recovery of the market with important -- with an important outstanding figure which was the growth in sales of Brazil and the operations of specialty steels in our units of Brazil, US and Spain. As we said before, it's important to highlight the heating up of the market and the fact that that has happened in different levels according to the geographic region. Year-to-date, we sold 8.4 million tonnes, 31% more than in the same quarter of 2009.

Now, the consolidated crude steel production was 4.7 million tonnes in the Second Quarter, which represents 52% of expansion vis-a-vis the same period of 2009. Year-to-date, the consolidated crude steel production grew 61%, reaching 9.1 million tonnes. Net revenues, there was a growth of 30%, reaching BRL8.3 billion. Throughout the first semester, the consolidated net revenue was BRL15.4 billion which means 15% growth. EBITDA went from BRL595 million in the Second Quarter of 2009 to BRL1.7 billion. This growth was due to larger sales volumes and also better results in the companies of shared control and joint ventures.

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From January to June, EBITDA went to BRL3.1 billion. Net income was BRL856 million in that quarter and year-to-date was BRL1.4 billion. Dividends; dividends will be paid. And the total is BRL89 million for Metalurgica Gerdau S.A. shareholders and BRL199 million for the shareholders of Gerdau S.A. These values refer to anticipated payments of mandatory minimum dividends referring to 2010. So investments in the quarter that resulted in outlays of BRL220 million of which 62% were allocated in Brazil and 38% in the other countries. In the first half of the year, the total investment was BRL453 million.

Now I would like to tell you a little bit about the outlook for the second half of the -- of 2010 in the different markets where we operate. Just to give you a general overview, I would like to start by talking about some estimates from the IMF which have been revised once again upwards. And the expectation is that the world economy should present growth of 4.6% in 2010.

Now, in terms of global steel consumption. And I know that you were following the economic growth and so you know this is in very close correlation with steel consumption for 2010. According to the World Steel Association, the world steel consumption should reach 1.2 billion tonnes a year, which represents 11% growth vis-a-vis 2009.

Now, taking a look at our local operations, Brazil. I would like to talk about the recently communicated strategies of the Instituto Aço Brasil which says that the steel consumption should reach a record level in 2010. The estimate is that steel consumption reaches 25 million tonnes, which is 34% growth vis-a-vis the year before.

This performance is related to the good outlooks of the Brazilian economy. And according to the Central Bank, for 2010 we should have a growth of 7.2% of GDP. Now, civil construction, according to the Central Bank; it's estimated GDP should grow 13% in 2010 in view of all of the different kinds of investments in infrastructure for the Minha Casa, Minha Vida program, PAC, the Olympic games and the World Cup. In terms of the downstream industry, we should have an expansion in 2010 of about 12% according to the Central Bank as well.

Now, North America, that is on page five, for those of you that are following us over the web. We had a very good performance in the Second Quarter due to the improvement in sales volumes and also metal spread and also some other actions that were taken in 2009 to improve cost efficiencies. There was a consistent demand in different lines of products like SBQ. And sales were very significant since the beginning of the year, boosted by energy, heavy machinery and the (inaudible) equipment.

In terms of bars in light profiles, there was good demand in view of low inventories in the consuming chain. In relation to rebars, demand has been stable. But there have been signs of a slowdown more recently. However, while economy progresses gradually, in the long run the demand for rebars in structural profiles should increase.

Exports in the Second Quarter added up to 184,000 tonnes. And the expectation for 2010 is that shipments starting in North America should reach significant levels.

We do believe based on the current landscape that the US economy is gradually recovering, mostly influenced by high unemployment rates and lower access to credit amongst other factors which are an impediment to a more robust recovery.

In Latin America, some countries had a very robust economic growth in the Second Quarter. And by the end of the year they will certainly reach impressive levels of GDP. And according to what we said in our last conference call.

In that region, I would like to highlight Argentina which had 8% growth in the Second Quarter, followed by Peru and Chile. In terms of Peru, I would like to say that in July we just started operations of a new electric furnace, replacing the two existing furnaces together with a very advanced dust removal system for air protection. The estimates for steel consumption in the region are for 33 million tonnes, which represents 14% growth over when compared to the year before and according to estimates from the World Steel Association.

Now, specialty steels. And that involves the US, Brazil. And Spain. I would like to start by talking about the United States. According to the Federal Reserve Board, once again there was a good improvement in the production of vehicles which is the equivalent of an expansion of 65% in the Second Quarter when compared to the same period of the year before. For 2010, the market expectation is that the North American automobile industry should get to the end of the year with a much better production level, close to the pre-crisis period, reaching approximately 11.5 million units.

So, in general, other consuming markets of specialty, long steels in the United States such as machinery, treatment and energy industries are also expressing some gradual recovery.

Now, Gerdau Brazil, specialty steels, production of vehicles in the Second Quarter had a growth of 15% when compared to the same period of 2009. This landscape is mostly marked by the truck production that had an increase of 65%, mostly influenced by tax reductions, IPI and unique financing conditions. For 2010, ANFAVEA is anticipating a very positive year with growth in sales of approximately 8%.

In Spain, the number of automobile registers had an increase of 35% in the second semester -- in the Second Quarter. And in terms of commercial vehicles, the growth was 28% according to the European Automobile Manufacturers' Association.

According to ACEA these figures are higher than the ones of Europe as a whole where the registration of passenger cars had a decrease of 8% and commercial vehicles an increase of 10%. This difference in Spain occur because incentives to the purchase of automobiles in Spain ended in June. But for the second semester the outlooks for the Spanish market indicate that sales of heavy vehicles should increase where sales of light vehicles may be reduced because of the end of the tax incentives.

Now I would like to say a few words about investments, page six. To meet the evolution for steel demand for the next few years, we should increase our investment plans for the

period between 2010 and 2014. So we will go from BRL9.5 billion, as mentioned before, to BRL11 billion. The units in Brazil will receive 80% of the total amount to be invested.

So what new investments we are talking about? So we will start with a specialty steel rolling mill. We already said in the previous quarter that we intended to conduct a study to expand the capacity of long steel rolling in the country. Thus we will invest BRL350 million in a new long steel rolling mill which will be in operation to meet the growing demand of the automobile industry. The installed capacity of 500,000 tonnes a year. The new equipment will begin operation by 2012.

The studies for the geographic location of the investment are still being finalized. And further details about the project will be informed momentarily. The Ouro rolling mill, which is mostly geared to supply the products for the civil construction, the investment and the location is still to be defined. But it will total BRL490 million currently and 600,000 tonnes of annual capacity. And this is programmed for 2013.

Mining investments in the mining area in Minas Gerais will be expanded from BRL352 million to BRL533 million. In this new investment plan of BRL352 million, we forecast the installation of our second unit for iron ore treatment in Miguel Bournier in Minas Gerais with the capacity to produce 5.6 million tonnes a year. And according to the new project, we will add some logistics structure for transportation of raw material from the mines until the mill of Ouro Branco.

This logistics structure consists amongst other things in a long distance conveyer belt system using modern technology. It will cover an extension of 9 kilometers from Miguel Bournier until the Ouro Branco. In 2012, the production capacity for iron ore at Gerdau will reach approximately 7 million tonnes which will ensure a 100% -- compliance with 100% of the consumer construction needs of the integrated mill of Ouro Branco.

More recently, Gerdau told the market about a new investment in the unit which is the installation of a hot-roll coils mill which is the first in the country. Thus we will then introduce two new flat-steel rolling mills in the Ouro Branco mill which will be used for the production of heavy plates and now another one for the manufacturing of hot-roll coils.

Together, both equipments add up to BRL2.4 billion in investment which will reach installed capacity of 1.9 million tonnes a year. The operation of the rolling mills is supposed to start in 2012. In the future, the combined capacity of both equipments may be expanded to 3 million tonnes a year. Both products, hot-roll coils and heavy plates, will supply to the oil industry, naval industry, civil construction, mostly metallic construction and heavy equipment machinery and other equipment.

Another recent highlight is the beginning of the commercial operation of HPP, Cacu and Barra de Coqueiros, both located in the state of Goias. Together, both HPP can generate 155 megawatts of energy which will be used for -- be used internally for our own consumption, representing an investment of BRL670 million.

Well, in conclusion to my final remarks, on page seven, Gerdau's performance in the Second Quarter was in line with our expectations and also reflects a progressive recovery of the market.

Now, vis-a-vis the Third Quarter, Gerdau's outlook are very positive because of recovery of demand and despite the impact of higher warehouse stocks and also seasonal factors and the effect of a lower growth in China. So, in conclusion, I would like to say that while the world steel industry went back to the previous production and sales levels, there is still a concern in terms of price readjustments of raw materials and basic industrial inputs.

At Gerdau, we are constantly striving to find more improvements and to improve our margins and our capacity to gather more market share and to meet the growing competitiveness in the market. Now, I'll give the floor to Schirmer. And then I'll be available for questions.

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

(Interpreted). Good afternoon, could you please refer to slide number eight. And I will be talking about the consolidated performance of Gerdau where you have a summary of the major indicators starting with the revenues and income and with a bridge chart to show you the breakdown of our EBITDA.

Net revenues from consolidated sales in the Second Quarter was BRL8.3 billion, as said by Andre, meaning a BRL1.9 billion increase over revenues of the Second Quarter of '09. An additional 30%, as you can see on the chart, on the second bar of this chart. A positive contribution to this increase was given by the higher sales volumes, 30%, 38% coming from Brazil and 57% in the sales of the domestic market and specialty steels representing 73%.

The cost of sales during this period increased by BRL838 million as you can see in the third bar of this chart, which represents a 15% increase vis-a-vis the Second Quarter of '09 whereas we had a 30% increase in the net revenues, as said before. And with this, gross margin reached 22%, much higher than the 12% achieved in the Second Quarter of '09 and higher than the 20% of the First Quarter of '10.

The summation of the other lines that make up the EBITDA also gave a positive contribution stressing equity income with a positive balance of BRL69 million, which represents the sum of the three last bars in the EBITDA chart.

Considering the variations that we have already mentioned, the Second Quarter EBITDA reached BRL1.7 billion, significantly higher than the BRL595 million of the Second Quarter of '09. And the EBITDA margin reached 21%, more than twice than the 9% margin in the Second Quarter of '09. And slightly higher than the 20% delivered in the First Quarter of 2010. And this indicates the consistency in our margin recovery.

Consolidated net income was BRL856 million in the Second Quarter, vis-a-vis a negative result of BRL329 million in the Second Quarter of '09. The main contribution to this growth

came from a better EBITDA in the period, BRL1.1 billion. And it is important to stress that in the negative figure of last year, BRL329 million, it carried a negative effect of the impairment of BRL796 million for the asset impairment in this period.

Now I would like you to turn to page number nine where we will be talking about production costs and SG&A. On the upper left, you have the fixed cost, variable cost and depreciation. And in the lower part, the curve that shows the behavior of SG&As.

The relative share of fixed cost in the total cost of production continues to go down from 24% in the Second Quarter of '09 to 18% in the Second Quarter of 2010. In the share of SG&As in the overall net revenues went down from 9% in the Second Quarter of '09 to 7% in the Second Quarter of '10. And it was kept around 7% in the First Quarter of this year in spite of the 10% increase in expenses on a comparative basis. And if we consider the expenses per tonne shipped, we see a reduction of BRL25 going from BRL165 in the Second Quarter of '09 going to BRL140 in the Second Quarter of '10.

Now let's see all the operations starting with Brazil on slide number 10. We have a lot of information here. We have one chart about sales, another one about the cash generation and margin generation and the short summary about sales, net revenues. And cost.

So in Brazil, we have over BRL3 billion in net revenues in the Second Quarter, higher than the BRL2.4 billion delivered in the Second Quarter of '09, as you can see on the chart. The 38% increase in volumes shipped on the upper left accounted for this growth.

The volume of shipments during the third -- Second Quarter reached 1.7 million tonnes being 1.3 million for the domestic market, meaning an increase of 37% driven by a better performance of the industry and a good demand in civil construction. Exports reached almost 400,000 tonnes, in line with what was exported in the Second Quarter of '09 with a reduction in finished products offset by the export of semi-finished products and also because our blast furnace number one of the Ouro Branco unit resumed its operations.

Revenues generated from exports amounted to BRL443 million in the quarter, representing 13% of the net revenues of the Brazilian operation. The Brazil steel contributed to 40% of the consolidated net revenues in the quarter. The EBITDA margin went up from 24% in the Second Quarter to 27% in the Second Quarter of '10 on a year-to-year basis. And because of the growth in the sales volume and the better cost -- fixed cost valuations in relation to the First Quarter of '10, this margin dropped 1percentage point, mainly due to the higher raw material costs and SG&As in the period.

Slide number 11, North America, fiscal sales, net revenues, EBITDA and margins. Net revenues for the Second Quarter of '10 reached BRL2.3 billion, 10% higher than the Second Quarter of '09, driven by the 17% increase in the volume shipped. And this was partially offset by a 6% drop in the net revenues per tonne sold. This drop is due to the 14% appreciation of the real vis-a-vis the dollar. And in dollars, as you can see in the reports of G&A, the net revenue increased by 28% in the quarter. And this has been increasing 20% in the half year. The North America mill accounted for 28% of the consolidated net revenues for the quarter.

Sales by the steel increased from 1.2 to 1.4 million tonnes, driven by an improvement in demand partially related to energy projects. The increase in scrap charges -- the increase in scrap charges was higher than the increase in prices enforced. And as a consequence, the metal spread was reduced from \$440 per short tonne in the Second Quarter of '09 to \$409 in the Second Quarter of 2010.

And in spite of this reduction, the higher sales volumes and the consequent higher dilution of the fixed cost were very important in order to double our EBITDA which went from BRL125 million in 2009 to BRL249 million in the Second Quarter of 2010. The EBITDA margin went from 6% in the Second Quarter of '09 to 11% in the Second Quarter of '10.

Slide number 12 now, Latin America. The same standard of information, sales in Latin America, this was the operation that was least affected in terms of volumes with 535,000 tonnes, 6% higher than sales in the Second Quarter of '09. And the most important highlight there are the units in Chile and Argentina.

Net revenues in Latin America, BRL900 million in the Second Quarter of '10, 13% higher than the Second Quarter of '09 because of higher volumes sold, 6% increase. And a higher net revenues per tonne showed an increase by 7%. And Latin America accounted for 11% of the consolidated net revenues for the quarter.

Cash generation, having the EBITDA as the indicator, in the Second Quarter of '10 amounted to BRL191 million vis-a-vis a negative amount of BRL95 million in the Second Quarter of '09. With this, the EBITDA margin went from minus 12% in the second of '09 to plus 21% in the Second Quarter of '10.

Specialty steels, one of the stars in the quarter, it encompasses the units in Brazil, United States and Spain. Net revenues growing by 64%, stemming from the 73% increase in shipment, over 720,000 units. Specialty steel BO contributed with 21% of the consolidated net revenues in the quarter. The higher sales stemmed from the continuous production, vehicle production records in Brazil and the maintenance of the good levels of demand on the part of the automotive sector in the United States over 2010. And due to the higher volumes sold and therefore a higher dilution of the fixed cost for production.

The EBITDA margin went from minus 1%, negative therefore in the Second Quarter of '09, to plus 23% in this last quarter. EBITDA for the Second Quarter reached BRL404 million performance which is much higher than this BRL290 million in the Second Quarter of '09, as you can see in the lower part of the chart.

Slide number 14, some remarks about debt and liquidity of the Group. So here we have 14 different data. We have the breakdown of our debt, the cost of the debt and the behavior of our working capital. Gross debt on -- at the end of the quarter was BRL14.8 billion, something like \$8.2 billion, of which 90% were long-term debt -- was long-term debt. Regarding the currency, 21% of the debt was in reais, 36% in foreign currency contracted by companies in Brazil and 43% in different currencies contracted by our subsidiaries abroad.



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Of the overall amount of the gross debt, most of that was taken in debentures and bonds, 45% more or less. And commercial banks accounting for 35% of the borrowings. The nominal average cost of the gross debt on March 31, 2010 was 6%. And it was as follows; in reais 8%, in foreign currency borrowed in Brazil, exchange rate variation plus 7%. And debt abroad 4%. And cash at the end of June amounted to BRL4.3 billion of which 62% were invested in reais and the balance in different currencies, essentially the US dollar.

In relation to March 31st 2010, cash went down by BRL188 million, mainly due to a higher need for working capital, a direct consequence of the recovery in this -- the activity.

The financial cycle went from 92 days, as you can see here on the right, on the lower right. And it dropped to 92 days in June with a 30-day reduction in comparison -- in the year-on-year comparison. And in relation to March 2010, it was kept about it where it proportional increases in net revenues and working capital. Although this has increased by almost BRL1 billion reaching BRL8.4 billion in June 2010, which is our overall working capital, net debt in June 2010 amounted to BRL10.4 billion, something like \$5.8 billion vis-a-vis BRL10 billion in March.

On page number 15, some information about debt and cash generation, the amortization schedule. And the major debt indicators in late June showed a very marked improvement vis-a-vis the previous period because of a higher generation of operating cash, EBITDA in the last 12 months and the maintenance of the indebtedness level.

The most important is the gross debt/EBITDA ratio which has been improving on an ongoing basis since September 2009, having exceeded 3.2 times, heavy -- it went from 3.2 times on March 31st to 2.6 times on June 30. And at the same time, net debt/EBITDA ratio went from 2.2 times to 1.8 times. The debt amortization schedule on the upper right of the screen, as you can see, shows a comfortable situation, were less than 15% -- less than 15% maturing by the end of 2011. The average payment price is of almost seven years.

One important remark mentioned now on the screen. As the market knows, on June 29th Gerdau S.A and Gerdau Ameristeel signed what we call an arrangement agreement, a final arrangement agreement with the objective -- a very clear objective of delisting Gerdau Ameristeel. And for that purpose, we offered to minority shareholders \$11 per share. And we intent to make the payment cash.

As has already been announced on June 2nd, the operation is being assessed in BRL1.6 billion. And it is the -- \$1.6 billion. And this is being implemented by means of a plan of arrangement. And luckily. So to say. And it was approved unanimously by the Ameristeel, Gerdau Ameristeel Board of Directors according to the report, a recommendation of the banks that were contracted for that and also with the unanimous recommendation by the special committee of independent board members that was formed only for this specific purpose. This report established that the agreement is fair to minority shareholders and it meets the best interest of the Company. Therefore it has a positive recommendation about the operation.

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And the general assembly, extraordinary shareholders' meeting was scheduled for August 10, 2010 for this specific purpose. And it is only subject to the final approval of the documents by the US regulators and will require the approval by a simple majority of the votes submitted by minority shareholders. And, additionally, the approval by the Ontario Superior Court of Justice on July 28.

Gerdau S.A. and Gerdau Ameristeel announced -- we published a press release saying that ISS Proxy Advisory Services and another institution called Glass Lewis which are leaders in proxy services, they published spontaneously a recommendation to their subscribers to vote for the resolution because they considered it as totally fair. So both reports show, among other things, the significant premium that will be paid by the Company to minority shareholders and the unanimous support by the special committee of the Board.

And the payments, the \$1.6 billion payment will be made by means of a bridge loan of \$700 million. And the balance, the additional \$900 million with resources that are in cash. With this payment structure and considering the Second Quarter of 2010 EBITDA, the gross debt/EBITDA ratio would be 2.8 times and the net debt/EBITDA ratio would become 2.3 times, levels which are still totally comfortable for these indicators and totally comfortable regarding our contracts as well.

So these were my final remarks. And now I would like to put myself at your disposal to answer your questions with Andre. Thank you.

## Questions And Answers

### Operator

(Interpreted). Thank you. Now we will initiate our Q-and-A session. (Operator Instruction) Mr. Rinos Antonios from Barclays has the first question.

### Q - Rinos Antonios

(Interpreted). Good afternoon. Thank you for this opportunity. My first question refers to longs in Brazil. And the outlook of that product. Could you please tell us how was the mix of Acominas in the quarter? And how do you anticipate the mix for exports for Acominas. And what would be the evolution of the mix in the periods to follow?

And in steel, along the same line, how can we see the evolution of the Brazilian operations? Do you think that it will be more stable or maybe it will drop? Do you already have any prices for the whole quarter? And if you can tell me a little bit about raw material supply.

### A - Unidentified Speaker

(Interpreted). Acominas had a significant recovery of the mix with the furnace. And it's still 70/40 in terms of domestic and import market. In terms of margins for the rest of the

period, there's still a lot of volatility surrounding some raw materials. But I would say that the trend is that things will be maintained according to the figures of the Second Quarter.

## Q - Rinos Antonios

(Interpreted). Thank you. I just have a second question. How do you see the demand outlook for the North America operation? You talked about a gradual acceleration in the quarter. But you're still very optimistic in terms of the recovery. But the norm in terms of tax incentives you also referred to an energy project. Can you give me more details please?

## A - Unidentified Speaker

(Interpreted). We talked about that energy project to explain what has already happened, not necessarily this may be maintained. The rest of the industry and ourselves are still waiting for a more effective result of the financial package that could impact probably the construction and infrastructure markets. But there hasn't been yet sales in terms of the infrastructure industry.

But we're very optimistic because the status quo may be maintained. And there will be some lifts in the short run. The country or the economy is demanding more infrastructure. And certainly this is coming. It's just not coming at the speed we would like it to come.

The materialization of these promises into effective contracts or infrastructure contracts is not yet materialized, haven't materialized yet. But it's in the pipeline. I mean, you ask about the Acominas mix. The standard is for 60/40 in terms of exports and domestics.

## Q - Rinos Antonios

(Interpreted). Thank you.

## Operator

(Interpreted). Mr. Alexandre Miguel from Itau Securities would like to ask a question.

## Q - Alexandre Miguel {BIO 20712028 <GO>}

(Interpreted). Good afternoon, Andre and Schirmer. My first question has to do with the margin of the Brazil operations. Schirmer, during the call, you talked about pressures built on your cost and on SG&A which might have brought some downward pressures. So it's a little bit different from the 30% that we saw last year. So could you explain a little bit about these cost pressures? And why couldn't you have a margin improvement, because we hear that the scrap prices are going down starting in July. So don't you think your margins will be improved for your Brazil operations with costs going down?

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

(Interpreted). To talk very -- in a very candid manner, we will be recovering margin with volumes. Cost reduction work has already been done. We saw some increase in our SG&A in the First Quarter which are not separately identified. And say, well the culprit is this and

that. It's just a set of small things. So it has to do with our electric furnaces. And we saw a slight recovery in our margins because of the resuming of operations of this furnace.

And with long steel, volatility is slightly higher because we're not that international in terms of coals. And I believe that the best recommendation would be maintenance of our margins and not exactly yet the recovery of our margins.

## **Q - Alexandre Miguel {BIO 20712028 <GO>}**

(Interpreted). My second question has to do with Brazil. I would like to understand the forecast for demand by the domestic market for long steel. For flat steel, we see that you already have a very high inventory. And the automotive industry is also accelerated. And so I would like to understand the scenario for long steel, if you see an acceleration for long steel and for flat steel?

## **A - Andre Gerdau Johannpeter**

(Interpreted). This is Andre. We understand that the construction industry in Brazil which demands long steel still has a very high demand. There are some oscillations. But the trend is very strong upward. And the credit aspect has a major impact. And we see a slower movement and we are going to have a major need for infrastructure material for the -- because of the World Cup and the Olympics.

And -- but to tell you exactly how bullish we are about the next few quarters, I cannot quantify that. But I can tell that we expect an upward trend. We continue to expect an increase in this regard.

## **A - Unidentified Speaker**

(Interpreted). One last question please.

## **Operator**

(Interpreted). (Operator Instructions) Bruno Montanari from Morgan Stanley has the next question.

## **Q - Bruno Montanari {BIO 15389931 <GO>}**

(Interpreted). Good afternoon. My first question about working capital. In 2009, looking at the main companies in your industry, you had BRL3.5 billion in the first semester. We see a return of BRL2.3 billion in returns for the Company. Do you expect any further need of working capital for the year or do you think these levels are good enough?

## **A - Unidentified Speaker**

(Interpreted). I would say that basically the inventory composition is finished. But if there is any localized demand for some product segments maybe we will need some more. But our cash planning indicates that we may need an increase in working capital. But nothing substantial or nothing compared to what we did before.

**Q - Bruno Montanari {BIO 15389931 <GO>}**

(Interpreted). And my second question is about investments. Along the lines of the announcement of -- for flat, what is your outlook in terms of increasing the flat production?

**A - Unidentified Speaker**

(Interpreted). We are announcing two new projects, one for heavy plate and the other one for hot-roll coils, which will meet the demands of the market. And they will start producing by 2012.

So the strategy, the bulk of it will go to the domestic market. But there will be some part that will be addressed to the international market because as the market grows and absorbs it, we will then focus more in the domestic market. We will also have other perspectives or other up-mix for growth. But it will depend on the market.

And with the growth of energy market, oil and infrastructure, all of these new involvements will consume more heavy plates. And that's why this investment is very important to meet the demands of the market. And also because we want to improve the seasonality of Acominas, because at the end we are -- sometimes we are not selling new plates. But we're just adding value to the heavy plates.

**Q - Bruno Montanari {BIO 15389931 <GO>}**

(Interpreted). If I have another question in terms of Acominas, in terms of iron ore, how much of that is already reflected in your results, iron ore?

**A - Unidentified Speaker**

(Interpreted). I would say that it's already updated. We had some effects and so once again there was an increase. But we have 50% of our own ore which is good in situations where price increases occur. But this is -- has been accommodated by the production, has been already taken in and absorbed by the Company.

**Q - Bruno Montanari {BIO 15389931 <GO>}**

(Interpreted). Thank you, very much.

**Operator**

(Interpreted). Mr. Rafael Weber from Banco Geracao Futuro.

**Q - Rafael Weber {BIO 6953090 <GO>}**

(Interpreted). Good afternoon, Andre and Schirmer. Congratulations for your Second Quarter results. Maybe you could talk in detail about the inventory levels and the pipeline that were mentioned by Comercial Gerdau regarding the demand by the major sectors in the second half of the year.

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And Gerdau also talks to clients in terms of pricing the iron ore and coal in the price of steel. So would it be possible for us to get the feedback by your client? That is to say, how can you transfer these increases to the price of steel for the next few periods?

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

(Interpreted). This is Andre. I will be talking about iron ore and pricing of the ore. For us this is something new in this quarter. So we are still adapting to this novelty. On the other hand, our clients, our markets are not long-term contracts; they are more spot market. So the pricing depends on the moment of the market.

And we only have -- we do not have so many annual contracts such as happens with other sectors and other steel mills that use that kind of contract. So we're not that much impacted. And we're still adapting to this new pricing.

### **Q - Rafael Weber {BIO 6953090 <GO>}**

(Interpreted). Could you talk about the inventory levels and your pipeline. And what is the feedback by Comercial Gerdau regarding the demand by the major sectors for the second half of the year?

### **A - Unidentified Speaker**

(Interpreted). During our meeting, there was nothing about that in terms that we -- we already have the inventory which is necessary for the demand expected. As Comercial Gerdau is very much scattered, it is a very good thermometer of consumption and we haven't seen that consumption is very heavy and this means that demand will continue to be strong for the second half of this year.

### **Operator**

(Interpreted). (Operator Instructions) Mr. Rinos Antonios from Barclays.

### **Q - Rinos Antonios**

(Interpreted). Good afternoon. Thank you for the follow-up. I would like to know how you see prices in the U.S. market, in the North American market. Recently we saw some announcements regarding price increases for flat steel. So how do you believe the evolution will be in the Third Quarter for steel prices in North America?

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

(Interpreted). I will be talking about the recent history. This is Andre. There was a slight drop in scrap prices. And therefore products as well. I'm talking specifically about North America. We see some reaction by the market, by the export market that could impact the price and therefore long products as well.

Right now we have no forecast. I think yesterday there was an announcement of price increases for flat products. But for long products there is -- we believe it will be kept at the same spread levels that were reached in this quarter.

## Q - Rinos Antonios

(Interpreted). Thank you. Just a second question. I would just like to understand your new investment plan, particularly regarding mining. I just want to confirm what you said yesterday that CapEx increase for mining is mainly due to a new conveyer belt that will go from Bournier to Acominas, right?

## A - Unidentified Speaker

(Interpreted). Yes. It involves logistics. The conveyer belt is something very important. There is another thing that will connect Miguel Bournier to Acominas. It will take ore to Miguel Bournier because that's where it's processed. So there is also logistics involved in this investment increase.

## Q - Rinos Antonios

(Interpreted). Okay. Thank you, very much.

## Operator

(Interpreted). Mr. Humberto Meireles from BTG Pactual has the next question.

## Q - Humberto Meireles {BIO 16541842 <GO>}

(Interpreted). Good afternoon. My question is about the scrap market and how is your position in the second half of the year. And what is the position of the US and Brazil? I think I didn't catch that information well.

## A - Unidentified Speaker

(Interpreted). What we see is that prices are now stable. There was a slight drop in the past one-and-a-half and two months. There was a drop in the world market and also in Brazil, which gave the market more stability, because demand is very stable; that's why there isn't such a drastic reaction.

There may be something mostly due to ore which has an impact in pig iron and scrap or probably we have a stronger demand in the Third Quarter. We may also experience some seasonality drop in summer in the Northern Hemisphere, et cetera. So there may be some adjustments in that period of May and June. So now we are just hoping to see what will happen in the Third Quarter.

## Q - Humberto Meireles {BIO 16541842 <GO>}

(Interpreted). Thank you.

## Operator

(Interpreted). Thais Aleluia from Credit Suisse has the next question.

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**Q - Thais Aleluia** {BIO 17540373 <GO>}

(Interpreted). Good afternoon. My question refers to the acquisition at Ameristeel. When will the operation be concluded? And this bridge loan of \$700 million, do you have any plans for it? Will we be able to issue bonds?

**A - Unidentified Speaker**

(Interpreted). The calendar which refers to the first part of your question is that by August 10 we will have a general extraordinary assembly. And then they will look at the taxes that will be received by the 6th. And that's when we will have the approval -- a non-approval by Gerdau S.A. to the minority shareholders. And then we will have to wait for the court approval.

But all of that is subject to the approval of all of the documentation. And that approval comes from the regulating agencies. I'm referring to the US authorities and the Canadian authorities. So this is part of the calendar. So we will still have an opinion in this month of August.

Now, in terms of the bridge loan we have already hired that with an international financial organization. So it exists as a bridge. But it can be renewed after the end of the year. But it is already contracted until the end of the year. But there are several alternatives. We can even use our own cash. We just have to look at the better alternative.

**Q - Thais Aleluia** {BIO 17540373 <GO>}

(Interpreted). Thank you, very much.

**Operator**

(Interpreted). Mr. Alexandre Miguel from Itau Securities would like to ask a question.

**Q - Alexandre Miguel** {BIO 20712028 <GO>}

(Interpreted). I have two questions. One has to do with prices in Brazil since the announcement that you made in May regarding price increases in Brazil. Will you be able to see a progressive increase over the Third Quarter? Will you be able to see this already in the Third Quarter? This is one question.

**A - Unidentified Speaker**

(Interpreted). Since the previous conference call in early May, we have been making some fine adjustments. And this has been going on over May and June. It will continue for an additional one or two months. So this is the timeframe.

**Q - Alexandre Miguel** {BIO 20712028 <GO>}

(Interpreted). Okay. And my second question has to do with Latin American recovery. We saw EBITDA going up in spite of rather stable volumes. So do you believe that the EBITDA

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increases will continue to happen over time or do you expect any drop in the EBITDA for the second half of the year?

### **A - Unidentified Speaker**

(Interpreted). In Latin America, in coking coal, we had a good contribution from coking coal. And -- but it will be not as important as in the Second Quarter for modeling effect, margins could be slightly hindered in the Third Quarter. But nothing very significant in this direction.

### **Q - Alexandre Miguel {BIO 20712028 <GO>}**

(Interpreted). Thank you.

### **Operator**

(Interpreted). Mr. Bruno Montanari from Morgan Stanley.

### **Q - Bruno Montanari {BIO 15389931 <GO>}**

(Interpreted). One question about the specialty act. The 127,000 tons, is it a sustainable volume? Can you give us a guidance for volume for the rest of the year?

### **A - Unidentified Speaker**

(Interpreted). As far as we can see, it is sustainable because most of it in Brazil is Brazil, which continues with the major production. And in the United States Ameristeel also has very good operations and everything points to the possibility of keeping these volumes.

In Spain, we could have a slight drop. In August, we have vacations which always have a slight impact on the delivery of specialty steel. But in the US, we believe that the levels will be maintained.

### **Operator**

(Interpreted). Due to time constraints, we will have to close our Q-and-A session. Now I would like to give the floor back to Mr. Osvaldo Schirmer and Mr. Andre Gerdau for their final remarks.

### **A - Unidentified Speaker**

(Interpreted). Thank you, all very much for your interest in participating in our quarterly calls. And we expect to give you good news in the next quarter.

(Interpreted). Likewise, I would like to thank you all for participating in our call, for your interest. And in case you still have questions that have not been answered or any doubt that you might have, please contact our Investor Relations area so that we may clarify any doubts.

And I already invite all of you to participate in our Third Quarter of 2010 conference call in early November. Thank you, very much.

## Operator

(Interpreted). Gerdau's conference call is closed. We thank you very much for your participation and wish you all a very good afternoon.

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