Company Participants

- Andre Gerdau Johannpeter, President, CEO
- Andre Pires, VP
- Osvaldo Schirmer, CFO, IR
- Unidentified Speaker, Unknown

Other Participants

- Alexander Hacking, Analyst
- Carlos de Alba, Analyst
- Jonathan Brandt, Analyst
- Leonardo Correa, Analyst
- Raphael Biderman, Analyst
- Rene Kleyweg, Analyst
- Rodrigo Barros, Analyst
- Stephanie Almeida, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

(interpreted) Good afternoon. Welcome to Gerdau's webcast regarding the results of the Second Quarter 2011. At this moment, all the participants are connected -- as in the listen-only mode. Later, we will start the Q&A session. (Operator Instructions).

We would like to draw your attention that any statements made during this webcast or this conference call, with regards to Gerdau and its prospects, projects and operating and financial objectives, are more forward-looking statements, based on the expectations of management regarding the Company's future. Although the Company believes that its statements are based on reasonable assumptions, there is no assurance that future events will not affect its accuracy.

Today, we have with us, Mr. Andre Gerdau Johannpeter, President and CEO. And Mr. Osvaldo Schirmer, Executive VP and CFO. I would now like to ask Mr. Andre Gerdau Johannpeter to take the floor. Mr. Johannpeter, you have the floor.

Andre Gerdau Johannpeter

(interpreted) Thank you, very much. Good afternoon. I am delighted to have you here again at this conference call regarding Gerdau's results. As always, we will start an analysis, evaluating the world steel scenario. And, next, we will talk about the Gerdau performance in the Second Quarter. And, then, some prospects about the markets we are active in.

And, then, Mr. Schirmer will fill in on the financial performance of the Company. And, then, we will be at your disposal to answer your questions. It is important to remember that during our presentation, we will evaluate the Second Quarter performance compared to the same period in 2010. And, we will then, also, talk about Gerdau's year-to-date performance, from January to June.

For those on the internet, we have the crude steel output for this period. And, this production totaled 384.6 million tons, 6% higher than that of the same period last year. Excluding China, the output was 179.2 million tons in the Second Quarter. And, the world production of steel totaled 205.3 million tons, 3% growth, as compared to the Second Quarter, 2010.

Steel production in Brazil, 9.2 million tons, a growth of 10%, vis-a-vis the same period in the previous year. United States, production was unchanged, as compared to the same quarter last year, 21.4 million tons. Steel production in Latin American countries, except Brazil, increased 22%, 8.6 million tons, total. Estimates data, we may observe that production continues to grow, particularly in emerging economies.

On screen three, we have the highlights of the Second Quarter. Gerdau's financial performance in the Second Quarter was affected by a greater growth demand for steel, which led to the growth of shipments and net sales and by a hike in costs with raw material.

Consolidated shipments totaled 4.9 million tons, a growth of 12%, when compared to the Second Quarter of 2010. And, year-to-date shipments totaled 9.6 million tons, a growth of 14%, vis-a-vis the first half year of 2010. Steel output, totaled 5.1 million tons, a growth of 9%, compared to the April to June 2010 period. In the first six months of the year, consolidated production showed 9% growth, a total of 9.9 million tons.

Net sales, BRL9 billion, 9% higher than the same period of last year. Year-to-date, the net sales consolidated grew to BRL17.4 billion, 13% growth. The EBITDA was BRL1.3 billion, compared to BRL1.7 billion in the Second Quarter of 2010, a drop of 24%, regarding the same period in the last year. However, in comparison with the First Quarter of 2011, the operating cash generation showed a growth of 19%. In the first six months of the year, EBITDA was BRL2.4 billion.

Net income, BRL503 million, 41% less than the same period in 2010. However, when we compare this to the first three months of the year, net income grew 23%. In year-to-date, net income totaled BRL913 million. Dividends to be paid as interest on earned capital, BRL154 million, to Gerdau's shareholders, BRL0.09 per share and BRL61 million for shareholders of Metalurgica Gerdau, BRL0.15 per share.

Now, let's talk about the market prospects. Those markets where Gerdau is active for 2011. First, an overview about the estimates of the IMF, which have been reviewed. However, they are still positive. The expectation is that the world GDP will grow 4.3% in 2011. The world consumption of steel, according to the World Steel Association, forecasts 6% increase of the world consumption of steel compared to 2010. This should total 1.36 billion tons.

In Brazil, the Instituto Sao Brazil published new statistics, which indicates a consumption of 27.8 million tons in 2011. And, this means an increase of 6%, compared to last year. Even, regarding a lower expectation of the central bank of the GDP for 2011. Steel consumption should grow, particularly because of new investments in infrastructure forecasted for the next few years, for example, civil construction this year. A growth of the GDP is forecast for the sector 5.2% in 2011. And, downstream activities should have an expansion or growth of 3.6%.

Screen five, we have North America. The problems have improved because of a great steel demand, affected by industry and the energy sector. In the Second Quarter of 2011, the United States GDP totaled a 2% increase of growth forecast. And, the estimate is that it will be 2.5% growth, according to the IMF. Canada has grown 1.8% of the GDP from April to June. And for the year, it should be 2.9%.

Other market data and the Institute for Supply and Management, ISM, the main indicator for the North American industrial production, it achieved 55.3 points in June. And anything above 50 points is growth.

On the other hand, the civil construction sector continues to be at levels below the historic, with exception of those works in the industrial expansion. According to industrial resources, IMC, there has been 27% growth, regarding the indicator of industrial construction in the Second Quarter of this year when compared to the same period in 2010. The estimates of the World Steel Association are still positive and a significant amount of steel consumption in the region.

In 2011, the steel consumption in the United States should total 90.5 million, 13% more than 2010. And, for Canada, steel consumption should total 14.7 million, 4% higher than 2010. In Latin America, the economy of countries in general continues to show recovery. And, according to preliminary data that we have, the GDP performance in the Second Quarter of 2011 has been positive. Particularly, Argentina 9%, Peru 6.6%, Chile 6%, Colombia 5%.

And, we believe we've got good GDP performance in Latin American countries. We're operating a thrust to the civil construction sector. And consequently, steel demand and get our business in the region. So, the estimates for the steel market are positive. And, according to the World Steel Association, steel consumption should increase 8% in Latin America, excluding Brazil, 38 million tons.

And, now, specialty steels. And, three regions are important here. North America produced 3.1 million light vehicles, passenger and light commercial vehicles in the Second Quarter of 2011. This includes Canada, United States and Mexico markets. And, this shows a slight growth regarding the same period of 2010. Prospects for 2011 is that this market for light vehicles will continue to be positive. And, a growth expectation of 9%.

In Brazil, the production of vehicles, passenger cars, light commercial, as well as medium and heavy vehicles, has exceeded 800,000 and is unchanged when compared to last year. According to Anfavea, the country's production should total 3.4 million units in 2011.

In Europe, according to the European automobile manufacturers association, the number of auto registered in the European Union from April to June dropped 2%. However, we may see that the auto production in the European Union, particularly German, continues steady because of export.

And, besides that, commercial vehicles that demand more steel in their make-up have shown a growth of 12% of registrations in the EU. And, this sales growth is in keeping with our export strategy to countries of this region from our mills and industries in Spain.

And, now, investments on screen six. In the Second Quarter, CapEx investments totaled BRL340 million, of which 71% were for Brazil. And, during the year, expenditures totaled BRL673 million. And, as for the next quarter, there should be a step up in the pace of investments in our operations.

As part of our investment plan, we are today announcing that added to the $718 million announced in May of this year for mills located in the state of Sao Paulo, Gerdau will invest another BRL183 million by the Second Quarter of 2012, in the Pindamonhangaba and Mogi das Cruzes mills, both in the state of Sao Paulo, to meet the growing demand for specialty steels, particularly for the Brazilian auto market.

This investment, which will use advanced technology, will see an installation of new, continuous casting role. And a new bullet reheating furnace, which will bring productivity and competitiveness to the mill.

In Mogi das Cruzes, the rolling capacity will be expanded from 216,000 to 276,000 tons a year. At the end of these investments, we will have generated 130 direct jobs, permanent jobs. And 570 indirect. And, 300 temporary jobs will be created at the peak of the works.

And, also, we are announcing today the continuation of new -- of detailed, technical studies for a new investment in Chile involving an increase of the annual and stored capacity of Colina, adding 280,000 tons of steel and 425,000 tons of rolled steel.

First installed, capacity of Gerdau in Chile might total 800,000 tons and 900,000 tons of rolled products. And, my final remarks to conclude this part of the presentation, on screen seven, as you may have seen, our results in the Second Quarter were affected by the unfavorable exchange rate in Brazil and the high cost of raw material.

However, when compared to the First Quarter of the year, net income of Gerdau showed a significant increase, 23%. And, this influenced also by the effort, the management effort, of our team. Here, we have two examples. One, reducing the financial cycle. And, also, the decreased general and administrative expenditures. From a sector point of view, in the world market, there is a positive trend for 2011, according to the levels of demand registered until now.

However, we have very different economic realities on the one hand. We have the emerging countries, like China, Brazil and India that have good growth prospects. On the other hand, we have the United States, Europe and Japan, whose economies are recovering more slowly and gradually. So, vis-a-vis the scenario, we are following the inflation effects in emerging countries, Brazil, China, India and, also, the financial situation in some countries in Europe. And the political crisis in the north of Africa and Middle East.

In the case of the United States, with this recent approval of the increased ceiling of the product deficit by American congress, even so, this is still causing strong instability in international markets. And, also, we are extremely worried about the de-industrialization process of the steel chain in Brazil and this is also experienced in other countries of Latin America.

Vis-a-vis Brazil, the impact has been strongly sent in the domestic market because of the less -- loss of competiveness in Brazil, because of the appreciation of the real, high interest rates and excessive taxes.

The steps recently announced by the federal government, known as the Plano Brasil Maior, which among other initiatives aims to cut taxes of some industrial sectors and more than BRL24.5 billion, cutting taxes on exports and strengthening commercial sector. These are very important initial actions to help the Brazilian productive sector and regarding our strategy in raw material, we are fighting for self-sufficiency in iron ore and to expand the added value products, particularly flat steel.

We will produce more in 2012. Regarding raw materials, also we continue to expand the supply of coal based on our operations in Colombia that are really supplying 25% of Gerdau's current needs in Brazil and also a focus on expanding the captive supplies of scrape in Brazil. Regarding the plan to monetize parts of mineral resources, which we announced in the last quarter, located in Minas Gerais, we have already had a company to go into more details and studies regarding alternatives regarding the sale of these assets.

Considering all the needs of this project and draw-up [ph] a project regarding the scope of everything regarding mining, processing, transportation logistics, storage and sales of iron ore, it is important to note that we continue to hold a good capital structure in the Company.

And, because of the capital increase, operation totaling 3.6 billion and based on these initiatives, I would like to say that we will continue to strive for the maximum efficiency of operations to improve our operating margins and sustainable long-term growth. Now I would like to ask Schirmer to take the floor and he will continue the presentation and then I'll be back for the Q&A. Thank you, very much.

Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) Good afternoon. Thank you, Andre. I would like to start by our consolidated results on screen number eight and then I will be talking about the business operations and at the end our capital structure.

On slide number eight we have the comparison between the Second Quarter of 2011 and the Second Quarter of 2010, the variations between these two periods and you can see a bridge chart on the lower part showing the later variations.

The consolidated net sales in Q2 was BRL9 billion as Andre said, BRL714 million higher than in the Second Quarter of 2010, representing an increase of 9%. As you can see on the second bar of the bridge chart of the EBITDA, this increase in our net sales stems from the recovery in demand and practically all the regions where Gerdau operates.

During the period we had 12% increase in the volumes sold. The cost of sales increased by BRL1.1 billion, in Q2 2011 you can see the third bar of the bridge chart representing a 17% increase year-on-year and the highest sales cost was driven by the higher volume sold and the increase in the prices of raw materials and the different business operations and the mismatch between the raw material price increases and the transfer to the steel product prices resulted into a lower consolidated growth margin from 22% in Q2 2010 to 16% in Q2 2011.

The participation of SG&A vis-a-vis the net sales, however was kept around 7% in these two periods that we are comparing here and considering these variations, the EBITDA or Q2 2011 reached BRL1.3 billion and it is lower than the one obtained in 2010 by 24% and the EBITDA margin is 15%.

However, vis-a-vis the First Quarter of 2011, the consolidated EBITDA shows an important increase due to the better performances of the specialty steel and Brazil business operations and this improvement stems from the higher volumes sold with a consequent dilution of fixed costs and the growth in net revenues per ton sold, which increased, which went up more than the increase in the prices of raw materials.

And as a consequence of that, the consolidated EBITDA margin of Q2 2011 had an increase of 2 percentage points visibly the First Quarter of 2011 consolidated net income in Q2 if compared to Q2 2010 was lower, as you can see on this table. However, vis-a-vis the First Quarter of 2011 it went up mainly because of the better operating result that we had in the period.

On slide number nine, now we talk about return of the business operation, the Brazil operation first. Starting by shipment that in the Second Quarter of 2011 reached 1.8 million tons. You can see on the lower part, on the lower left part, meaning 7% higher quarter -- year-on-year of which 28%. A little over 500,000 tons went into the external market as you can see on the left as well on the same chart. The increase in shipments in this business operation stems from the higher exports of semi-finished products, mainly to the Asian region.

Net sales reached BRL3.2 billion, you can see on the right, on the lower right. And Q2 2011 as you can see on the chart, as I said before. And even with a higher volume in the period there was a 2% reduction in net sales when compared to the Second Quarter of 2010 due to the discounts given in the internal market, in the domestic market, in the second half of 2010 and the reduction of some discounts over this year.

And, another factor was the higher participation of exports in the overall shipments and this business operation contributed 36%, the Brazil operation with 36% of the consolidated net sales in the quarter.

Q2 '11, EBITDA was BRL487 million on the right, as you can see and this represents a 15% margin vis-a-vis 27% year-on-year due to the lower net sales per tons sold and higher cost mainly because of the raw materials.

However, visibly the First Quarter of this year, the Q2 EBITDA showed an increase due to the higher volume showed with a consequence dilution of fixed cost and the growth in net sales or net revenue per tons sold due to the partial reduction of the discounts given in the internal markets last year exceeding the cost of raw materials or the increase in the cost of raw materials. As a consequence the EBITDA margin in the second Q presented a 2 percentage point increase with visibly the first Q of 2011.

On slide number ten, the North America business operation, 16% increase quarter-over-quarter is shown on the left and this is a consequence of a recovery of the industry and the energy sector. And, construction remains with more demand than the historical levels, exception made to the project related to the expansion of industrial parks and the demand for infrastructure is still weak except to Texas.

The net sales of the North America business operations in Q2 reached BRL2.7 billion, 16% higher to the Second Quarter of 2010 due to the higher volume sold and this business operation contributed 30% to the consolidated net sales of the quarter. The EBITDA margin increased from 11% in Q2 2010 to 13% in Q2 2011 stemming from the increase in shipments and as a consequence, the dilution of our fixed cost with relation to the first Q of '11 the margin was kept stable.

Latin American deal, slide number 11, shipment amounted to 644,000 tons in Q2 2011, 20% higher than the Q2 2010, highlighting the higher shipments in Colombia, Argentina and Mexico because of the good demand in the construction sector in these countries. Net sales amounted to BRL1 billion on the right in Q2 2011 visibly, BRL903 million in Q2 2010. This means an 11% increase, a direct consequence of the higher volumes sold.

This business operation contributed 12% to the consolidated net sales in the quarter. EBITDA margin was 11% lower than the 21% in Q2 2010. It is important to remember that in that period our coking operation in Colombia had an outstanding result because of the market conditions prevailing at the time.

Vis-a-vis the first Q of 2011 the margin was kept relatively stable. Specialty Steel, slide 12. In terms of shipment we highlight the operations located in the United States and in Spain. The United States continued to benefit from the strong rebound in the automotive sector and Spain from the increase in exports to Germany to France and to Italy.

Net sales had a 14% growth stemming from the increase in shipment which went up by 8% and the higher net revenue per ton sold and this business operation contributed 22% to the overall consolidated net sales in the quarter.

Q2 EBITDA amounted to BRL358 million on the right, on this slide and it was 11% lower than the Second Quarter of 2010 and the EBITDA margin dropped from 23% to 18% in this quarter and the lower margin is due mainly to the increase in prices of raw materials, higher than the growth in net sales or net revenue per tons sold during this period.

However in the First Quarter of 2011, there was an increase due to the higher volume sold and the growth in the net revenues per ton sold which went up more than the prices or the increase in prices of raw materials. So the EBITDA margin went from 14% in the First Quarter of 2011 to 18% in the Second Quarter of 2011.

On page number 13, we are going to talk about the indebtedness in capital structure, net debt was BRL7.8 billion on June 30th 2011, BRL4 billion lower when compared to our indebtedness on

March 31st 2011 because of the public offering that we did in April 2011 of the BRL3.6 billion raised by this offering BRL2.1 billion were immediately used for the pre-payment of loans taken by our subsidiaries in North America resulting in a reduction of our gross debt.

The remaining balance was included in the cash of the Company and in which on June 30th 82% were invested in reals. On June 30th, 2011 the gross debt was made up by 28% in reals, 45% in foreign currency, contracted by the companies in Brazil 127% in different currencies contracted by the various subsidiaries abroad.

And of the total debt, 11% only, were short-term. Therefore, 89% of the Company's indebtedness at the date were long-term. Most of the gross debt about 59% comes from the capital markets. That is to say raised by debentures, bonds, et cetera and the weighted nominal average cost of our gross debt in June was 6.4% a year and 8.3% for the amount denominated in reals, 5.7% a year, plus the exchange rate variation for the total denominated in dollars, taken in Brazil or from Brazil and 5.9% a year for the parcel [ph] taken by our subsidiaries abroad.

The cash conversion cycle in June had a three day reduction vis-a-vis March 2011 and each date represents BRL100 million and therefore, overall we were able to decrease the overall volume of our working capital at about 5%.

On screen number 14, another remark about our indebtedness and liquidity. The Gerdau's debt indicators in late June had an improvement as compared to March 2011 and this is due to the public offering that we had in April as I mentioned before.

Gross debt EBITDA ratio cash generation, was 2.7 times and net debt EBITDA ratio 1.7 times, an important improvement vis-a-vis March in the debt amortization schedule as you can see on the right, shows a comfortable situation for the next few years.

At the end of June, the average debt repayment term was 5.7 years and in order to finalize I would like to mention that on June 20 -- in July 21st fixed ratings confirmed our investment grade, BBB minus with a stable outlook.

And, I will mention what the agency wrote, the Gerdau investment grade ratings are based on the ongoing commitment on the part of the Company to keep a conservative capital structure, such as shown by their recent public offering in April 2011 and the agency also said Gerdau's strategy to maintain a strong liquidity position over the cycle, sustains even further Gerdau's ratings.

And in order to conclude I would like to reinforce the message that Andre has imparted to use, saying to everyone that the group continues to look for -- it continues improvement in costs as a way to deal with the growing competiveness in the world steel market and at the same time offering products and services with a differentiated quality to all our clients and all our markets. And as of now Andre and I will be available to you, if you wish to ask questions.

Questions And Answers

Operator

(interpreted) Ladies and gentlemen we are going to start the Q&A session. (Operator Instructions). Our first question comes from Mr. Leonardo Correa from Barclays Capital. Mr. Correa you may precede.

Q - Leonardo Correa {BIO 16441222 <GO>}

(interpreted) Thank you, very much for the opportunity. I would like to ask a question about the long imports. We saw a drop in June. But they are still high compared to last year.

So, I would like to know your opinion about the outlook for the second half and we also hear about distributors trying to get into the market of long steel and I would like to know the evolution expected regarding imports in the competitive scenario in distribution. This is my first question.

Regarding the second question, already in a similar topic regarding prices, etcetera, we see an appreciation of the real and with the pressure in the international market and maybe a higher level of imports now. So I would like to ask if you are already giving some discount? Are you suffering any prices regarding -- any pressures regarding price reductions for the second half?

A - Unidentified Speaker

(interpreted) Regarding imports of long steel it's a shame that they still exist and they are higher than historic levels. But they have already had a major drop if compared to last year and if we take an average of the last seven months of 2010 and the same for 2008, from 13,000 to 8,000 on average.

So, this is a very important drop in the volume of imports and, for the next half year, due to the behavior of prices in the domestic market, we do not foresee any major differences in this kind of behavior. And, now, Andre is going to talk about prices.

A - Andre Pires {BIO 17698724 <GO>}

(interpreted) It's very difficult to make any forecasts because the market is very volatile. Even if we, maybe, look from the last quarter to now, the prices of raw materials have been changing quite frequently. And it's both prices in the market that we follow have the same situation. So, we cannot really foresee what will happen with prices and there is nothing more concrete than that that we could tell you. And the market is very volatile and it's very difficult to make any kind of forecast.

Q - Leonardo Correa {BIO 16441222 <GO>}

(interpreted) Thank you, very much.

Operator

(interpreted) Our next question comes from Renato Antunes [ph] from Fator [ph] Corretora. Renato, you have the floor.

Q - Unidentified Participant

(interpreted) Good afternoon. And thank you for your questions. My first question still has to do with long steels in Brazil. You have talked about the prices, which is difficult to know. But costs. What about the cost performance in the Brazilian operations for the next years. Talk about, please. And elaborate on scrap, enamel. And what can we expect over the next few months?

And the second question has to do with studies to monetize the iron ore. You know already how to cut the Company and I think, in the last quarter, you had time line of 180 days before you had something more concrete. Has the facility update regarding this timeline to give us something more solid regarding the strategy to monetize the iron ore?

A - Unidentified Speaker

(interpreted) Your first question, then, has to do with costs and the different components. And the second part has to do with the monetization of these reserves. Costs, I think, which we are and I think we will have greater stability and also in the call, we have, as far as the iron ore goes, a great defense, which is self-supply.

We, now, meet 50% of our needs with our own ore, which comes to the mill with a very, very important difference as far as price is concerned. And, with coal, we are doing what is possible to minimize our violability regarding Australian markets, et cetera.

And we are developing alternative sources in Colombia and our coal operations in Colombia. Today, one-fourth of our needs comes from Colombia and they are different at much more favorable prices for our operations because that it is imported from Australian.

And, as far as scrap goes, we don't really have much more to do than do more of that which we have always done. Keep the expanded base more expanded as we can in buying scrap from captive sources from all over Brazil. And this is very clear to us that we have to do more of what we have always done. And regarding managing reserves, Andre will answer this part of the question.

A - Andre Gerdau Johannpeter

(interpreted) Last quarter, we announced and, now, we already have Hungary studies. We have had a company to do this. We have people focused on this and we think that, by the end of the year, we will already have this project ongoing, which is our expectation today.

As things develop, possibly in the next quarter, we will be able to give you more information about this. But, just at the moment, we have nothing concrete to announce. But, we do have an ongoing study. We have a good team and this company was hired to help us here to lay down the basis of this project and how to go on with it. Thank you. Thank you, Renato.

Operator

Our next question comes from Carlos de Alba from Morgan Stanley. Mr. Carlos, you may proceed.

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

Thank you, very much. I just wondered if you can possibly bid on this with the price of enamel that you are seeing through the SEQ market or the specialty market both in Brazil and in Europe. We know that, in the US, they're quite strong and I just wanted to see if the same is taking place in Brazil and in Europe?

And the second question is if you can comment on the order book? How's it looking for the Third Quarter and any highlights that you can give us in terms of the US, Latin America. And specialty steel of Brazil would be very appreciated? Thank you.

A - Unidentified Speaker

(interpreted) The question was about the price of specialty steel and, more specifically, Brazil and Europe and Carlos was asking about the United States and talking about the United States. He knows about the strong demand there. Well, regarding prices, specialty steel's markets are experiencing good demand. And, similar to the United States, demand for vehicles is high and growing.

And a positive point has also been in Europe, which is recovering, in its demand for specialty steels. This has led to good strong order books and the second part of your question, what about order book. And let's start with specialty steels, continues strong. But, in North America, Brazil is okay. Spain, not so strong. But also okay regarding long steels.

In Brazil, demand continues, civil construction, infrastructure, not as much as we expected. Some things have been delayed, the building of stadiums, for example, where a lot of steel should be used in the infrastructure and airports for example. But, I would say, generally speaking, it's strong.

In the United States, the recovery is gradual, slow but steady. And each quarter deliveries have improved and this is what we have been doing up to now. I think what we can say is what we said this morning regarding the detachment of the delivery of steel, regarding the financial markets, which are dropping and have been dropping.

But, deliveries and shipments have increased. So, the demand of steel has not been affected by the political instability and the financial markets and the European crisis or problems in America. This has affected the financial market rather than the steel consumption world. At least to date, that is what has happened. So, Carlos, for a future forecast is difficult.

Whether this will be affected or not, we don't know. But, up to date, we think, with the data that we have, consumption will continue about 6%, which is the forecast of the World Steel Association, which thinks that this will continue. I hope that that's right and that's what I have to say, Carlos.

Operator

(interpreted) Mrs. Stephanie Almeida from Merrill Lynch. You may proceed.

Q - Stephanie Almeida

(interpreted) I have two questions. The first one has to do with the margin's dynamic that you see for the operations and, maybe, for the Brazil and US operations. Maybe, you could tell us what you expect in terms of margins for the second half, vis-a-vis the first half. And the other one has to do with your growth project. I would like to have a better idea of when you expect your operations to start up and, in reading your release, you said that the rolling mill will be in 2012. I would like to have a better idea of when in 2012 the rolling mill will be started up?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) This is Schirmer. First, I would like to talk about margins. I can tell you that, overall, what we have achieved over the last three quarters was a recovery in our margins as of the last quarter of 2010. The first was better than December and this one was better than the first. And I believe that, in this quarter that is underway, we are going to repeat the behavior of the Second Quarter.

I could say that the performance for the second half of '10 should repeat what happened in the first half. But, of course, it is easier to see the first three months than the last three months. So, I believe the situation will be repeated. Particularly, regarding the investments and the new projects, we have announced the new continuous casting and the re-heating furnace in Pinda in Sao Paulo.

That should start operations in 2012 and the increase in the Mogi rolling mill should also be started in 2012 in Mogi das Cruzes in Sao Paulo. Plus the two projects that we announced to date. I don't know whether you referred to some other projects. But, basically, we are announcing two projects for 2012 today and we would say around the middle of the year. And they usually take two years to start up.

Q - Stephanie Almeida

(interpreted) And the Acominas rolling mill when will it start up?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) I believe it's October or November if I remember well. But, anyway, I can confirm this later on. I can give you a more precise information.

Q - Stephanie Almeida

(interpreted) The rolling mill and you believe that the projects are in line with the budget or is there any delay in the project?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) In general, we keep them as budgeted. In Brazil, more specifically, we have a lot of projects and, when we have some difficulty, it has to do with contracting a construction company or assembly we are setting up.

But, in general, it has not hindered our projects and, sometimes, in Brazil, where we have more projects. But, in general, it does not affect neither our budgets nor the terms or the time lines. And there is some difference because of the exchange rate variations sometimes. But, I would say that, overall, it is in line usually with what is budgeted.

Q - Stephanie Almeida

(interpreted) Thank you, very much.

Operator

(interpreted) Our next question comes from Mr. Rodrigo Barros from Deutsche Bank. Mr. Barros, you may proceed.

Q - Rodrigo Barros {BIO 5851294 <GO>}

(interpreted) Thank you, very much. I have two questions. First of all, I would like to understand how you see the competitiveness at the export sector and you were mentioning one company.

A - Unidentified Speaker

(interpreted) Yes, today, there is the cost of slab, for instance. And integrated, it would be around $150 and the cost per ton in Brazil BRL270 [ph] is 80% higher than North America.

Q - Rodrigo Barros {BIO 5851294 <GO>}

(interpreted) So, what about the profitability of your export business and the second question, in taking advantage of Andre's presence, I would like you to say something about your projects in India and the price is very optimistic regarding the potential of these projects.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) The strength of our export is, at Acominas, it is with semi-finished products over this year with the increase in our shipments and, also, with the increase of our self-sufficiency in iron ore, we have been able to recover margins in the case of Acominas.

And we believe that, for the next quarter, this will not change quite a lot unless there is a major volatility in one of the inputs that we have no control over. But, it will not happen in the next quarter. The impact will be only after that. So, we believe that in spite of the disadvantage of the exchange rate, this will be repeated. Be it in terms of Acominas margins and exported to be equal to what we had in this quarter.

A - Andre Gerdau Johannpeter

(interpreted) This is Andre about India now. We estimate that we will have the production of steel going back. By the end of the year, we believe in November or December, we are going to reactivate the brass furnace. And resume production in December or January and the rolling mill, in the Second Quarter, it is being built, 300,000 tons. And it should produce specialty steel and rebar (inaudible)

At the Monte Carlo rolling mill, it is very, very active and we have had some delay in the civil construction part. So, it is more difficult to get people there in construction. But, the time lines for steel, by the end of the year. And the rolling mill in the Third Quarter. The First Quarter of 2012, this is our estimate as of today.

Operator

Our next question comes from Rene Kleyweg from UBS. Please, Mr. Rene, you may proceed.

Q - Rene Kleyweg {BIO 16569285 <GO>}

Good morning, -- good afternoon gentlemen, sorry. Just to return to pricing, I understand that pricing is very volatile at the moment. But, could you, maybe, just give us an idea on Brazil specifically where prices are at the moment relative to the Second Quarter average? And, then, in terms of the situation for the steel industry in general in Brazil and do you think that the current pressure accelerates the process of consolidation or how do you see things playing out on that side of the next six to 12 months?

A - Unidentified Speaker

(interpreted) So, Rene's question has two parts to it. First, pricing in this quarter when compared to the average in the Second Quarter and, in general, in Brazil, you would see competitiveness of the industry. Whether this is going to encompass a consolidation of the industry, in the country. Regarding pricing, as I have already said in another answer, on average, we must keep the same price levels as we have had.

There has already been a recovery of prices from the first to the Second Quarter because there's less discounts. So, Rene, as I have said before, for a model, we will be working. I think it's reasonable to say that we will be working with prices much the same.

Regarding industry consolidation, Brazil, as a whole, has lost competitiveness because of the higher price raw materials, like coal, which we don't have. And energy in Brazil, energy prices is twice the price of the energy in other cases, like North American. And what might, perhaps, be an encouragement regarding the situation of those companies in Brazil in our sector has been this package announced today by the government, which seeks to bring back competitiveness to the country which the country has been losing.

There has been a change in taxing and things which will offset the strength of the national currency. Brazil has been seen by the whole world as a great investment opportunity. There is a great flow of foreign direct investments and this strengthens the currency. Regarding consolidation, as a way of defending ourselves against that, the sector has its players.

The same heritages have for some years and there are many comments about some of the players wanting to increase their share also in other businesses. But, it's much more a question of the market. Personally I don't see that there's need for this. I think that the country and the local players had a way of adjusting and improving their operations to continue to be competitive.

Operator

(interpreted) The next question comes from Mr. Raphael Biderman from Bradesco Corretora. Mr. Raphael, you may proceed.

Q - Raphael Biderman {BIO 1529743 <GO>}

(interpreted) Good afternoon, everyone. Good afternoon, Schirmer and Andre. My first question is to ask you to elaborate on what you are feeling day by day regarding civil construction in Brazil and the housing segment and heavy construction?

And my second question has to do with Latin America. Results have been good and strong in Brazil in SBQ. But, in Latin America, it could have been better had there not been a drop that occurred. So could you explain, please, what happened?

A - Andre Gerdau Johannpeter

(interpreted) Well Raphael, Andre. Good afternoon. I will talk about the first part and then she will talk about the second. Silver construction, well it continues to grow. Outlook is good and the growth will be 5.2% we think. And that is a significant amount and we continue to follow this very closely.

So we have these rolling mills that we have announced and to follow this very carefully. We continue to have credit and there is interest in the programs of Mia Casa, Mia Vida [ph] all this is work. Regarding the other part of building is the infrastructure for the World Cup. Many stadiums are being rebuilt. But regarding other works we have not seen what we were expecting. I'm talking about roads and airports and so on, which should be happening. So generally speaking in construction we see in Brazil I would say positive for this year and for the next. Schirmer?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) Regarding Latin America I think it's promising if you travel to Latin American countries you'll see that all of them are growing, the GDP and the growth of the GDP and the demand for steel. There's a good relative relationship between the two. But generally in Latin American countries with the exception of Argentina, the other countries have to import scrap because the domestic production of scrap is low. And the demand for steel continues to be strong.

And in comparative terms looking at Latin America Gerdau as I have said during my presentation had a distortion upwards last year with a very excellent operation in our coke operations in Colombia, which coke and coal, which inflated so to speak the Latin American results.

I would say the net of this effect Latin America is well in line with what is happening in Brazil. Margin recovery, good volume recovery and these volumes are sustainable due to the growth of the GDP of these countries. So I think that is what I had to say regarding Latin America, Latin America. Schirmer.

Q - Raphael Biderman {BIO 1529743 <GO>}

(interpreted) Well the last quarter there was a worse EBITDA and this one as well. Is there anything specific, something nonrecurring or some accounting points or do you think that the outlook is still good for Latin America?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) Well yes you're right because in those countries where we will have to pay a very high price for scrap and where there were also higher costs for the international price. So this brings perhaps this issue up. But I think what will happen then is the increased volume because it dilutes costs and increases efficiency that is correct. Schirmer.

Q - Raphael Biderman {BIO 1529743 <GO>}

(interpreted) If you will allow me to just make a comment. In Latin America and Colombia regarding the coal project how is it going and the geological studies of the mines that you have there, could you tell us a bit about that please?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) Well the results of the geological studies in Colombia are still ongoing. Ever since we acquired the Company, these studies have been ongoing. And we have already managed -- we already have 25% of the consumption in Colombia which is already produced in the country. It's a very competitive price compared to other supplying countries like United States or Australia. So we continue to invest. Today it's about 25% and we are making efforts to improve the logistics in the mining process and also our purchases from the market.

So our operations are focused on Colombia and our expectation is that the potential might even double up to 50% over the next few years. We continue our studies like the mining project and our expectation is in time we will be able to manage to have 50% supply of coal from Colombia to our Brazilian operations.

Q - Raphael Biderman {BIO 1529743 <GO>}

(interpreted) 50% of the Acominas needs, right?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) Yes, exactly.

Q - Raphael Biderman {BIO 1529743 <GO>}

(interpreted) Thank you, very much.

Operator

We have now a question from the English room. Next question comes from Mr. Jon Brandt from HSBC. Mr. Jon, you may proceed.

Q - Jonathan Brandt {BIO 5506998 <GO>}

Hi. Good afternoon. Thanks for taking my call. Just had a quick question on the US. We've seen a lot of the US steel companies come out and guide towards a tougher Third Quarter there be it in margins or in pricing. And I was wondering if you could comment a little bit more on what you're seeing in the US in terms of potential margin pressure in the Third Quarter and second half?

And then if you could talk a little bit about where you're seeing good demand, if it's coming from industry, what you're seeing on the construction side and those sorts of things? Thank you.

A - Unidentified Speaker

(interpreted) Good question about was about margins in North America, the behavior of margins in this quarter and the trend for the next half year and for the Third Quarter. This was the question. What I can say is that we have already seen an improvement, a rebound in the EBITDA margin during the first half because it was lower than two digits at the end of last year and the trend is basically linear as we're able to increase our shipments we improve our margins in general and our shipments are going up 16%. And the trend is for this to be maintained without losing what we have already recovered.

And demand from the infrastructure sector is slow and we do not have an expectation about something very important happening in the next half. So the trend is to maintain the volumes and the margins will be maintained around what we had achieved in this quarter as I had already said in answer to a previous question.

Operator

Our next question comes from Alex Hacking from Citibank. Mr. Alex, you may proceed.

Q - Alexander Hacking {BIO 6599419 <GO>}

Good afternoon. Thank you, very much for the call. I have just one quick question. The share price clearly has been very weak this year not just Gerdau but the whole sector. If this weakness continues further would you consider reallocating some capital away from some of the expansion projections into a share buyback program? Thank you, very much.

A - Unidentified Speaker

(interpreted) Alex question has to do with the share price and the behavior of share prices of Gerdau S.A. such as what happened to the sector it was an almost 40% drop in share prices and if the Company would be willing to delay some CapEx expenditures and use the resources in a share buyback program. We have already answered this in other occasions as well. And this is not in the Company's plans now to -- not to invest because we were hindered in the 2008 crisis and for prudency reasons we held back our CapEx investment project.

And we believe it is very important to continue to be competitive in the industry and maintaining our investment programs. Although we do understand that this would be a very good moment to have a share buyback program. But it's a matter of choice. We consider our business as a long-term business and maintaining our competitiveness in the long run has to do with investing and continuing to invest in improvements and productivity gains, et cetera.

So we believe that this is the best way for us to defend ourselves against an increasingly competitive market and the situation in Brazil is not so good because of the appreciation of our currency. So the answer is that. We are not considering a share buyback program now and most probably this will not happen this year.

Operator

(interpreted) The next question comes from Mr. Rodrigo Barros from Deutsche Bank. Mr. Barros, you may proceed.

Q - Rodrigo Barros {BIO 5851294 <GO>}

(interpreted) Schirmer, I would like to understand the following. Within the small adverse scenario what do you see as an adequate indebtedness level more than three times in two and a half year, a little bit more cautious or could you tell us about the debt-EBITDA ratio?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) Whenever we can manage this variable the debt profile and our terms we have been trying to have the most extended term as we can and not extend this a lot not only for covenant effects but also for rating agency purposes and to comply with our internal indebtedness policy as well.

So we have been conservative and we'll continue to be conservative. If you're looking for the debt-cash generation ratio we like to be around 2.5, 2.7, 2.8 times gross debt-cash generation ratio. Thank you.

Operator

(interpreted) Now we would like to close the question-and-answer period and I would like to give the floor to Mr. Andre Gerdau Johannpeter for his final remarks.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) This is Schirmer speaking before Andre. I would like to thank you very much for your interest and I hope to communicate with you again in the next quarters. And we will continue to work very hard towards our competitiveness. Thank you, very much.

A - Andre Gerdau Johannpeter

(interpreted) Thank you, all very much for participating and for your interest. I know that there is some points pending and our team is at your disposal. And I invite you all to come back in November to meet with us again for our Third Quarter results. Thank you, very much and have a very good day.

Operator

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