Q3 2004 Earnings Call

Company Participants

- Osvaldo Schirmer, EVP and Director of Investor Relations

Other Participants

- Daniel Altman, Analyst
- Edmo Chagas, Analyst
- Jennifer Corrou, Analyst
- Marcelo Aguiar, Analyst
- Paolo Di Sora, Analyst
- Wilfredo Ortiz, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the audio conference call of Gerdau.

(Operator Instructions)

I would like to draw to your attention to the fact that certain assessments, that may be made during this conference call with regards to good operations. And express factors, projections. And operating and financial projections, are mere forward-looking statements based on the expectations of management on the company's future. Although the company believes that its statements are based on reasonable assumptions, there can be no assurance that future events will not affect their accuracy. I would now like to turn the conference over to Osvaldo Schirmer, Executive Vice President and Investor Relations Director please go ahead sir.

Osvaldo Schirmer {BIO 1754610 <GO>}

Good afternoon, ladies and gentlemen. Welcome to our Third Quarter 2004 conference call. The quarter's information are already available at our web site. And has been send out to the CVM and the Bovespa this morning. We would like to remind you that the company has already disclosed its quarterly results in the US GAAP, which are available at our site. The numbers used throughout this conference however, are based on the Brazilian Corporate Law, Brazilian GAAP.

The first nine months of the current year has been marked by what may perhaps, have been the best cycle the steel industry has led through in more than 50 years. In spite of the strong increase in the cost of basic inputs used by the industry, the recovery of International prices, has allowed for the recomposition of margins. And as consequence enabled the main companies in the sector, to present extremely positive results. A decisive factor in the sector's recovery has been the consolidation process, the industry has been going through in different corners of the world.

In the US, where big number of companies operated at below break-even threshold, the consolidation process brought on the revitalization of the industry. And discipline to the market. Another important available in the recovery of the steel sector, has been the global scale of economic growth. The world economy should grow about 4.5% this year. North America had periods in which growth surpassed the 5% mark. And should close this year with a growth rate of about 4%.

Latin America on the other hand should grow beyond the 5% mark. The highlights are Argentina, Chile and Brazil, which should grow 8.5, 5.6 and 4.5 respectively. We cannot talk about the world. And not mention China, who of this year of 2004 alone, should grow at rates lower than those of recent years, yet still about 8%. As you all know the Chinese government is slowing down their economy, on purpose in order to avoid disrupting the balance between the different economic players.

It is in the acknowledged that the goal is to provide the basis for sustainable a growth of the countries economy without running into pockets of inefficiencies, as a result of lack of interest, infrastructure such as power etc. There is international pressure to get China to appreciate its Governs. From this perspective, the recent decision to increase interest rates, may perhaps be the first sign of change towards a floating currency exchange rate.

Comments on the operations. The first few months were rich in news for the group. Maybe the most important one, is the 30% growth in North American operation. By means of acquisition of the North Star steel assets. These are capable of producing up to 2 million short tons of steel and grow products. And after forming up to 300,000 short tons into more value, more value added products.

With this acquisition, the North American operations increased their installed capacity from 6.4 million short tons, to 8.4 million short tons. This acquisition of fixed assets was done at a cost of US $ 97 million. And the working capital for US $211 million, which means that we paid less than $50 per ton of installed capacity. In comparison, with 14 acquisitions in North America since November 1997, this one was extremely cost efficient, if compared to the average cost of building a new mill, of about no less than $200 per ton.

To finance this acquisition, the company went to the markets with a public offering for a total of 70 million shares at $4.70, which resulted in approximately $330 million in new money, already fully paid in. With intention of increase in the company shareholders base in US, at the same time the offering was being made, the company listed its shares at the New York Stock Exchange.

In this context, in Brazil, the resumption of the new Sao Paulo Mill project was announced. This project have a nominal capacity of 1.3 million metric tons of crude steel. And 1.2

million in (inaudible). And will be implemented in two phases at a cost of R$750 million. This mill should begin operating its first model of 900,000 metric tons of crude steel, no later than May 2005.

Performance of operation. North America, this Third Quarter Gerdau Ameristeel confirm its growth path, with an increase in shipment, revenues, cash generation. And net profits. Shipments in the period, total 1.3 million short ton, Gallatin not included. And according to the US GAAP revenues reached 800 million generated in EBITDA of 168 million and a net profit of 144 million.

Year-to-date the revenues total US$ 400 million and profits were grater than 270 million. Also very important, were the quarterly results and performance of Gallatin a 50% joint venture with the Dofasco, which contributes in the period with $54 million for net profit. And cash distribution of 30 million. In the year-to-date results, Gallatin has already distributed $47 million in cash to G&A.

Brazil. In Brazil, sales for the civil construction sector finally reacted. It was substantially behind in comparison to the demand of the industrial sector. These two sectors demanded 4% more than in the previous quarter. Sales in the quarter total 1.7 million metric tons, with net revenues of about R$ 2.8 billion. Generated in EBITDA of R$ 1.1 billion. And a net profit in excess of R$ 760 million.

Export or exports, an extremely important variable throughout the year, this quarter were reduced by 10% if compared to figures of the preceding quarter. This was done with the goal of better supplying the Brazilian domestic demand. Shipments in the periods, total 570,000 metric tons, compared to 632,000 of the previous quarter.

Nonetheless, revenues generated from foreign trades reached US$ 243 million. In nine months, this same export, although 18% less in the volume, generated revenues 32% greater, as a result of an average price increase of more than 60% year-over-year.

South Cone. Even this is not in a homogeneously way. The performance of operations in the South Cone, involves in a very important in a whole important fashion. Sales increased 15%, revenues increased 2%. But net profits, in spite of being much bigger than those of previous nine months, sell 9%. And is important to say that also the exchange rate between the currency in the South Cone. And the Brazilian currency made the South Cone currencies to the devalue around 6% (inaudible).

Results. From a consolidated perspective, the formation of this quarters results of R$1.2 billion was strongly influenced by the excellent profitability of the following operations and of exports. They accounted for more than 60%. And also, the utilization of fiscal credited, resulting from past losses in subsidiary such as Gerdau Acominas and Gerdau Ameristeel, which accounted for 266 million.

Also accounted for in the period, where revenue resulting from the favorable verdict, in a legal process against the improper collection of PIS, a Brazilian tax, by the subsidiary Gerdau Acominas. This precedes total R$64 million net of income tax. Another event to impact the quarter's results was the amortization of goodwill. R$ 280 million accrued at the time of the acquisition of subsidiaries in North America.

This goodwill had its amortization schedule re-calculated, due to the current performance of G&A. Finally, the positive impact of a reduced indebtedness, generated lower financial expenses, this combined with the foreign exchange gains, made a financial expenses line present revenues of 124 million.

In nine months, the accumulated net profit's total R$2.5 billion, a result three times greater than that of the same period last year. This indicates a return of 43% on the average shareholders equity of the period. Where margins are concerned, the quarter saw them practically unchanged. Gross margin was 36%, EBITDA margin stayed at about 32%. And net margin was 23%.

Indebtedness. Under this topic, it is worthwhile mentioning that due to the extraordinary cash generation, it was possible to reduce the net indebtedness by almost 40%, over numbers of September 2003. Another important aspect is that, through a series of financial operations, all announced to the market in due time, we were able to extend the debt profile to the point that currently, 68% of it is long-term with an average life of five years.

Investments. Investments in fixed assets in the quarter, totaled more than US$90 million, of which 70% in Brazil and the balance abroad. In the year-to-date investment amount, the total reached 271 million with essentially the same distribution. Prospectives. In broad terms, the on going quarter's tendency, is to present positive results. This statement is based on the fact that, even with an increase in cost being expected, the spread between price. And the cost of inputs, is still wide, if compared to historical patterns. In North America, in spite of the Presidential Election, the economy shows signs that it is strong. And should keep growing.

In Brazil, the expectation that the economies is growing or better than that, it's confirmed the expectation that the country will grow above 4%. And this make us quite confident, the demand for steel products will continue to grow, in spite of the uncertainties with regard to the price of oil. And the upward tendency of interest rates. In South America, the forecast is one of growth, Argentina inclusive, in spite of its recent problem with power shortages in the Third Quarter. Currently, its economy sends strong signals of a very strong recovery. With that said, I would like to open floor for questions.

Questions And Answers

Operator

Yes sir. Ladies and gentleman we will now begin the question-and-answer session.

(Operator Instructions)

The first question we have comes from Daniel Altman of Bear Stearns.

Q - Daniel Altman {BIO 1855515 <GO>}

Hi Schirmer congratulations on a great result.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Thank you.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay. Just a couple of questions first regarding steel prices in Brazil, one of you can give us a number what you are average revenue per ton was in the domestic market in the Third Quarter. And the change from the Second Quarter, I'm coming up with a really big number I just want to make sure that, that's correct.

The second issue is, when I look at your cash outlays during the quarter, I can't quite reconcile the $260 million in debt reduction. It seems like you had working capital of about a 125, CapEx of a 100, cash taxes of a 100, dividends of 90, am I missing or over stating the items? Is there something else that helped your cash flow during the quarter?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Okay. While someone goes after the cash flow structure here, to answer your question. I'd like to address your average price. I did mention through my speech that, looking forward the remaining portion of the quarter is going to be rather stable. And I also mentioned that, if you should take nine months, not three months as you are suggesting. Someone is looking over the three months evaluation.

Over the nine months, compare nine months against nine months, the domestic prices have an increase around 19%. And the export price over 62%, nine months over nine months. I am still owing you the quarter-after-quarter. And in North America, we have increases in excess of 55% in the same period.

Okay. Hold on just a second. Well basically what we have here, in the Third Quarter was prices approaching $600 as supposed to 500, that's basically variation in the price increase.

Q - Daniel Altman {BIO 1855515 <GO>}

The price has appeared to have gone up by $100 in one quarter, versus the Second Quarter?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Yes. Apparently yes. That's for one segment, which is zero.

Q - Daniel Altman {BIO 1855515 <GO>}

Yes, that's coming up assets as well. But that a doesn't reconcile with the nine months guidance. That would be a -- what a more than a 20% increase the 600 over the 500, is a 20% increase just in the quarter. I'm not sure -- that would imply that the prices didn't go up in the first half?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Yes. By giving you the numbers in dollars, is always is -- a kind of misleading, because you all have the exchange impact on prices. And, when I said to you 20% nine months over nine months, we do consider a basket of products. And if you are trying to concentrate or focus part of your question on civil construction and (inaudible) we may have a confusion.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

But, that's basically what I like to state on the overall period it's 20%. And someone is refining here the calculation, trying to neutralize the effect and got the number around 16% in the quarter.

Q - Daniel Altman {BIO 1855515 <GO>}

Fair enough. Okay.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

So, you had something else?

Q - Daniel Altman {BIO 1855515 <GO>}

Yes. Just regarding the net debt reduction of the cash flow during the quarter. And obviously there is going to be distractions, because of the exchange rate movement as well. But I am just wondering if the key line items, it seems to this you have four line items that were close to a $100 million, in terms of out flows, including the dividend. I'm wondering how you're able to still reduce that by $260 million in dollar terms?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

So, I gave the indications -- going through that. Some one is going through the refining of the middle; middle of the calculation. But in essence, we have been able to reducing up to 30%, the overall indebtedness year-over-year, nine months against nine months, which strongly helps the bottom line of the quarter results.

But -- and we do have, in part our operations we did have to increase working capital, that was specific in the case of North American operation. And also in Chile, where we are able to -- that I can't recall from the top of my mind directly, due to the fact that we have to make an additional effort to increase the collection of scrap in the case of Chile. And in the US also, due to the price of scrap, we increase working capital, which very likely is going to be; is going to reduce in the remaining portion of the quarter. So, hold on just a second.

Well; what you have also, a difference between net debt. And the total debt? The gross debt was down about 10%. And the net debt was 22%. But that has to do with the increase on the amounts invested, in order to form the net debt. So I really went to the final of the conversation the real movement in working capital formation. Sorry, I may answer that better to you throughout someone is calculating how was the formation of working capital and variables that affected it.

In cost as I told you we had to increase the working capital in North America to the price of scrap and basically the same is applicable to the Chilean operation, where you had to really move up quite substantially. And absorb the amount that have been additionally offered to the operation in Chile. But I still owe you how conciliate [ph] the working capital. And the debt reduction.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay, thanks very much.

Operator

Our next question comes from Paolo Di Sora of Deutsche Bank.

Q - Paolo Di Sora {BIO 3285292 <GO>}

Hi Schirmer, congratulations also for this strong results. Two questions. The first question is to regarding the margins in US. I would like to have a sense of whether the incorporation of; or what should be -- you expect in terms of margins, the impact on overall margins, in your US operations? And if you could give us more color on dependence of margins on a stand alone base in US, for the Fourth Quarter and may be First Quarter next year?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

As I had the chance to mention in the Brazilian version of this conference call, the same question was addressed. I said to you that the industry some how expecting the maintenance of final prices. And maybe some increase in some import, such as scraps, such as energy. And perhaps gas. Assuming that the industry is not going to react with the surcharges, which was as the case for the previous question. We are going to suffer some narrowing of the spread.

The only comfort the industry is enjoying that the spreads -- the current spreads in the industry are higher than $350 per ton, which is way above the historical average for spread, giving room for narrowing the margins without affecting tremendously the bottom line. So we are counting on that. But we also have heard, not from our company, because our company has been very solid, in not using the future of surcharges. But rather changing and adjusting prices.

We have heard that the industry is also thinking, in terms of using the mechanism of surcharges to compensate on the increases in some raw material. But in a clear picture, maybe some -- we are going to contemplating and expecting some cost increases, maintenance of prices, which is good. And perhaps narrowing the spread. And by consequence, having slightly lower margins.

Q - Paolo Di Sora {BIO 3285292 <GO>}

Can you share with us this is spread in [ph] this year you are mentioning?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

I beg you pardon.

Q - Paolo Di Sora {BIO 3285292 <GO>}

Yes. I would like to know if you could give us guidance on the spread behavior, from Third Quarter. Do you expect that Fourth Quarter in scrap, is any less [ph] calculation?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

No would be -- could be misleading, because I don't know exactly for how -- by how much the scrap is going to increase. We have, have some exercises. And talking about scrap prices is always misleading when you have, let's say an auction of automobile bundles, for instance that's happen -- normally happens in the Chicago area once a month.

That sort of scrap is only a part of the total market. And very much gives sign of increases or, decreases that are not normally 100% reflected in the rest of the market. So for instance, our scrap charge in Ameristeel is was around $200, $210 per ton. And you heard auctions of automobile bundles over 400. So there is a huge difference between the two. We were talking about the different products also, not exactly products. But unless I do exercise forecast on the scrap variation, I would be misleading in telling you how much the spread is going to be?

Q - Paolo Di Sora {BIO 3285292 <GO>}

And the consolidations, specifically the consolidation of North Star, what should we expect in terms of our impact in the margins on this consolidation?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Assuming that North Star we will be able to maintain the level of profitability towards obtaining before our acquisitions. In some cases North Star was even more profitable than our operations were. With this 2 million capacity North Star were contributing with more than $80 million in EBITDA and in some; the operating margins in some of the bills were even higher than ours. So, I would say at least we are going to be able to maintain the same level of profitability we had before North Star acquisitions. And then maybe even improving that.

Q - Paolo Di Sora {BIO 3285292 <GO>}

Okay. And the next question is regarding the operation in Brazil. I would like to have a sense of, on where you are in terms of steel price locally. Specifically, on civil construction that started to pick up pretty much more by the end of the quarter? What should we expect in terms of this demand on specifically civil construction or so prices for the next let's say 12 months?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Volume wise our sales people are saying that if you allow the adjustments for the low season which is the last quarter, we are going to have stable volumes. The demand is going to be rather stable in terms of volume adjusted for the seasonality. And prices are going to be also rather stable, because the gap between International prices, which in the previous quarter was almost a $100 difference between International prices and domestic prices.

These gap has narrowly -- has narrowed very substantially. So the forecast is that, stable prices and regular volumes, because the economy is growing, the demand from the civil construction is picking up, a kind of slow recovery in compared to the industry. But now in good shape and that is; we hope it is going to continue through this quarter. And the First Quarter of next year.

Q - Paolo Di Sora {BIO 3285292 <GO>}

Okay thanks.

Operator

Out next question comes from Edmo Chagas of UBS.

Q - Edmo Chagas {BIO 1786085 <GO>}

Hi, Osvaldo. I have a question regarding your financial strategy. You mentioned, before in the call that like your working capital increases during this quarter. But you expect some reduction today and the end of the year?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

In the North Star. And the North American ones.

Q - Edmo Chagas {BIO 1786085 <GO>}

Yes. In the previous quarter call, you mentioned about acquisitions and about your expansion plan and etc. So I guess that for next year, you are assuming that you have CapEx around $500 million. But you should continue to see stronger earnings. So, looking to your leverage ratios, what would be lets say your goal looking to 2005, considering the CapEx that you are planning to do into your acquisitions?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Well, acquisitions is not considered, because acquisitions are not in the radar screen for the time being, except for those minor tickets that -- as they see and they want; we make orders that we may do in the same passion which are not really big tickets at all. We are talking about a CapEx for 2005, around 700 million, including in that the expansion and maintenance of 333. So, that's a sort of CapEx.

Q - Edmo Chagas {BIO 1786085 <GO>}

US dollars.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

I beg your pardon?

Q - Edmo Chagas {BIO 1786085 <GO>}

US dollars.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

US dollars yes. But the maintenance, which is the regular one, is very, much in line with the level of CapEx that we have had in the recent years $250 to $300 million a year. So we are going to maintain that. But since we have those projects, such as the Sao Paulo Project, such as the Acominas project. And the other minor one such as in Greece, Cosigua, (inaudible) all that, that will demand additional 372 million for expansion, capacity expansion. (inaudible) to fund this with internal cash flow, B&D is a good portion, because B&D has been a very strong player in that. And that's going to be enough.

Q - Edmo Chagas {BIO 1786085 <GO>}

Thank you. But let's say, with your net debts today around the 1.3 billion. And your EBITDA running at a rate of more than for a $100 million per quarter. Do you have any kind of minimal level to your debt, in which you would be considering distributing [ph] access cash to shareholders or, looking to others users for your excess cash?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

No we are not contemplating the cash distribution at all, because even though saying that you are not going to go after any specific target, in terms of acquiring someone, in these times of opportunities we better maintain the cash inside -- inside the company.

And based on internal cash flow generation, we are going to be approaching an EBITDA of 1.7, 1.8 billion this year gross numbers. So we have internal cash flow to fund this investments. But it is always used part of the B&D is also as I said. So, object to answering your question we do not plan to distribute cash to shareholders, it's better to maintain. And form a reserve, maybe to take advantage of the opportunities.

Q - Edmo Chagas {BIO 1786085 <GO>}

Okay, thank you Osvaldo.

Operator

(Operator Instructions)

It looks like we do have a question from Wilfredo Ortiz of JP Morgan.

Q - Wilfredo Ortiz {BIO 6113152 <GO>}

Good afternoon, Schirmer. Quick question on the North American prices. It looks like on a sequential basis prices came down in North America. And I just wanted to get a since as to -- that why we saw some marginal decline, in this quarter. And what are your expectations on prices in North America for the Fourth Quarter?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Are you asking me what is the expectation for the, in terms of price for the First Quarter 2005?

Q - Wilfredo Ortiz {BIO 6113152 <GO>}

No, no. First, why prices in North America came down in the Third Quarter from the Second Quarter. And if you have any indication for the Fourth Quarter in terms of the prices in North America?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

What I said is that, we believe prices in the Fourth Quarter are going to be pretty much in line with the Third Quarter. Yes, we did have some price movement throughout the quarter. And then maybe we kept closer to the end, because we did also have some reduction on some inputs, such as the scrap and so on.

But say the firms -- that was the reason for the reduction. And also don't forget (inaudible) did announce twice, price cuts to face imports in specific reasons of the US. And that send a message to the market that there will be operating it lower levels, which was not exactly throughout the period, throughout the quarter I mean. But only on very specific and punctual cases.

So those -- perhaps, the price decreases that you have mentioned here. Now, I am not talking about flat, flat came down almost a $100. And we felt that in Gallatin prices from 750 -- 760 to 660, 670. But that was in flat. In the longer terms, which I was mostly referring to, we will see in the Fourth Quarter prices very much in line, with the prices that are practiced throughout the quarter. I mean this part of the quarter.

Operator

Sorry sir, our next question comes from Jennifer Corrou of Smith Barney.

Q - Jennifer Corrou {BIO 1503791 <GO>}

Hi, I just wanted to get some better details on the tax credits that you have and what is happening and what is going to happen on the tax line going forward? Sort of how much is left. And how many more of these lower tax rates will we see?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Okay. So, on the tax losses, what I can tell you that we are not expecting anything else from the North American rate, G&A (inaudible) we are not expecting any additional effect on that. On Acominas, they are around $30 to $40 million, is still to be captured in the future, sorry, sorry not dollars it's REAIS. I have been saying dollars all the time about R$ 30 to R$ 40 million, around 15 million that is the left over from Acominas.

Q - Jennifer Corrou {BIO 1503791 <GO>}

Okay. And can you give [ph] me the change in the amortization of goodwill?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Basically, what was done. And that's represented basically R$ 218 million in this quarter was related to the acquisition of the former Gerdau Ameristeel when we bought it from (inaudible) and that was all, that was finished here, in this quarter we have recognized 280 million, in terms of goodwill amortization.

Q - Jennifer Corrou {BIO 1503791 <GO>}

Okay.

Operator

Our next question comes from Marcelo Aguiar with Merrill Lynch.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Hi Schirmer good afternoon. I just have a very easy question. when I looked to your export; past export from Brazil. I mean quarter on quarter compared with the Second Quarter, how much of your prices, EBIT prices (inaudible) and how this basket [ph] would look like in the Fourth Quarter? Sales exports from the Brazilian assets, ok?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

The line is catching. But are you asking about average prices for export and the basket of export goods in the Fourth Quarter. And also our projection of prices of average price in the Fourth Quarter for the basket of the domestic market product. That is your question?

Q - Marcelo Aguiar {BIO 3721791 <GO>}

No, let me replace both by, is the average export price from Brazil --

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Yes

Q - Marcelo Aguiar {BIO 3721791 <GO>}

-- in the First Quarter how they performed, compared with the second. And if you believe that this prices, with regards for the basket in the Third Quarter will be the same in the fourth or, we should continue to see it flatly [ph] going down.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

The Third Quarter prices of the basket of export products, in the Third Quarter was on average $406 per ton. Second quarter was $419. So was a reduction of 3% or 4% more or less, in this two average prices. The talks from the front from the export area, there is a likelihood that those prices are going to be maintained around those levels in the current quarter.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay, Schirmer, another point just. And I remember, I think it was the Q2 Conference call where you mentioned that, the strong demand in the domestic market was much more driven by industrial --

A - Osvaldo Schirmer {BIO 1754610 <GO>}

-- Industry, right.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

But clearly now, we had civil construction, I think in the game [ph] again by the subjects that we have some payments (inaudible). And looking forward, you would see that today, that the mentioned civil construction in Bristol site are more or less, I mean the same. You are having the both side of the equation [ph] are doing well or, do you still see civil construction little bit slower demands on top [ph] of the industry?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Yes, basically the civil construction ate a portion [ph] that was sent to foreign market. We didn't see a major reduction on the industry. But rather a gross on the civil construction type of demand. And for the Fourth Quarter, our idea is to maintain that. If I am not mistaking the industry growth was around 16% wasn't it? 16%.

So we're counting on the industrial sector demand to be maintained as such. And a continuous gross on the export, which I do not know exactly, if we are going to have to create more room to meet the demand. The domestic reducing exports, volume wise I mean. But apparently is going to be like this quarter. The amount that they dedicate to the exports, is going to be maintained. And growing, also based on additional capacity has been added to the mills, to meet the civil construction domestic side demand.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay, just -- the last one looking to '05 you would say that, we can easily see long steel demand growing above the (inaudible)? Or just --

A - Osvaldo Schirmer {BIO 1754610 <GO>}

-- Long steel demand in 2005 you're saying? The line is really bad.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

The long steel demand for '05, compared with '04 in Brazil would grow to above the ETDB or this is too optimistic?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Well, as we had a chance to mention many times, there is this implicit rule or implicit factor that you see demand on long steel products growing at least 1.5 to times ETDB. We made that exercise this morning saying that, if ETDB is going to grow 4%, if you allow me to say the next year we are going to repeat that, I would say that civil construction not civil construction. But long common steel demand will grow at least 7% to 8%.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay, thank you.

Operator

Our next question comes from Edmo Chagas of UBS.

Q - Edmo Chagas {BIO 1786085 <GO>}

Hey Osvaldo, just two follow ups. You mentioned that you expect demands for the building operations to remain half in the Fourth Quarter. And looking to the Fourth Quarter in the beginning of next year, could you quantify what kind of cost versus cost reductions you may face into your mini mill operations is Brazil. And in Acominas [ph]?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

We may see cost appreciation in iron ore, because as everybody aware that iron ore producers are announcing some increase on that front. We are enjoying a reduction on freight cost, which is very likely will affect their overall cost on coal that we bought basically from Australia. So we are going to have a compensation right there. But on the other hand, we have been able to increase the level of efficiency for Acominas, which somehow compensates for increases. So maybe could; it could be reasonable to assume, that perhaps the 10% overall we may see, in as I say in the matrix of input for Acominas throughout the next year.

Q - Edmo Chagas {BIO 1786085 <GO>}

Okay. And the mini mills?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Mini mills is pretty much dependent on scrap. If you have a good clue where the scrap price is going to go in the domestic market, you have the answer. Scrap and metallic inputs are accounting for roughly 45% or 50% of the total cost. So, honestly I don't know.

Brazil was kind of; let's say insulated from the rest of the world, because Brazil does not export scrap, Brazil does not import scrap. It's totally locally generated by the industry. And by obsolescence [ph]. If you allow me to say that the industry is going to grow, that Brazil is going to grow, this supply of scrap is going to increase, kind of compensating for international price references.

On the other hand, Gerdau has a protection also because the input matrix that Gerdau is enjoying kind of unique, we do produce steel out of scrap, we do produce steel out of pig iron, we do produces steel out of direct reduction in (inaudible) for instance. And also we have the integrated mill in Acominas.

So we are less vulnerable to the movements on scrap. But we have to recognize that scrap has gone up in Brazil, not to the extent it has gone up in the rest of the world. But has gone up. So honestly, even though assuming that scrap may suffer some movements, we do have means to neutralize that movement domestically.

Q - Edmo Chagas {BIO 1786085 <GO>}

Okay. So the cost increase is more concentrating in Acominas than in your mini mill operations?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Because Acominas somehow, is more vulnerable to the importation of coal for instance, which is dependent of international long-term contract, that will come due sometime next year, maybe beyond the half of the year. And freight cost. Iron ore is bought around the mill from 213 or 214 different sources, besides CVRD, it's an issue. But this is less -- is more protected because the source is close by.

Q - Edmo Chagas {BIO 1786085 <GO>}

Okay. And another question on the tax credit and the tax benefits that you mention. You said that, you have zero additional benefit in Ameristeel. And about 15 million in Acominas.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

R35 million or 50 -- 35 to 45 which is $50 million in total [ph] you are saying, yes.

Q - Edmo Chagas {BIO 1786085 <GO>}

Okay, do you get that many (inaudible) for the Third Quarter says that they two have another $15 million to be recognized in next three years. Does it affect your consolidated members in Brazilian GAAP or that's just on a US GAAP issue?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Hold on. If am not clear on what I said before, I said those 30 now and 15 in the future are the tax effect. But the total amount which is the base for calculation the benefit is all.

Q - Edmo Chagas {BIO 1786085 <GO>}

All right. It's Okay. So that's -- 50 is just a cash payment reduction?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Right.

Q - Edmo Chagas {BIO 1786085 <GO>}

Okay, Okay. Thank you.

Operator

(Operator Instructions)

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Okay.

Operator

This concludes today's question-and-answer session. Mr. Schirmer, at this time you may proceed with the closing statement sir.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

Okay, since there are no more questions, I thank you all for your interest in our conference call. And I hope to have you with us next quarter. Thank you, very much.

Operator

That does concludes, Gerdau audio conference for today. Thank you, very much for your participation. Have a good day. And thank your for using conference call of Brazil.