

Q3 2010 Earnings Call

Company Participants

- Andre Gerdau Johannpeter, President
- Osvaldo Burgos Schirmer, VP
- Unidentified Speaker, Unknown

Other Participants

- Alexander Romadi, Analyst
- Carlos de Alba, Analyst
- Felipe Hirai, Analyst
- Marco Assumpcao, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

(Interpreted) Good afternoon. Welcome to Gerdau's Third Quarter of 2010. At the moment all of the other participants are connected in listen only mode during the Company's presentation. (Operator Instructions)

We would like to draw your attention to the fact that certain assessments that may be made during the conference call with regards to Gerdau's business and its outlooks or projections in operating and financial objectives are mere forward-looking statements based on the expectations of management of 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 equity.

Today, we have here with us Mr. Andre Gerdau Johannpeter, President and CEO and Mr. Osvaldo Schirmer, Executive VP and CFO and Director of Investor Relations. I would like to give the floor to Mr. Andre Johannpeter.

Andre Gerdau Johannpeter

(Interpreted). Good afternoon. Welcome to the conference call on the results of Gerdau. It is -- we are very happy to have you here with us again.

As we usually do it, we will start our analysis by evaluating the steel market situation and the worldwide landscape. And we will talk about the results for the Third Quarter of 2010 and the outlook for the region where the Company operates.

Secondly, Mr. Osvaldo Schirmer will give you more details about the financial performance of the Company. And finally we will be available to answer the questions from the participants.

I would like to also note that this presentation and the performance of the Third Quarter of 2010 will be evaluated in view of the same period of the year before.

For those of you who follow us on the web we are now looking at the second screen of the presentation and I'll talk about the results of steel in the Third Quarter.

The world production of steel was 340 million tons in the Third Quarter, which represents 5% growth vis-à-vis the same period of 2009. If we exclude China, the steel, the world steel production is 188 million tons, which represented a growth of 11%. And these are figures provided by the World Steel Association.

The steel production in China was 151 million tons of steel, which represented a reduction of 2% when compared to the Third Quarter of '09. However, China steel has a very significant share of the market with approximately 45% of total steel production.

Based on the figures, we will see that the industry has had an improvement in the levels of production, which were higher than the initial expectations that we had first drawn for 2010. This performance was mainly boosted by the emerging economies.

Now on page three we will see Gerdau's highlights, the shipments 4.4 million tons. That was a growth of 14% when we compare that to the same period of 2009. And this really reflects its performance and the evolution of sales of all the operations of the Company but in different levels. I would like also to highlight the good performance of our specialty steel business and also sales in the domestic Brazilian market.

Now our net revenue experienced a 20% growth growing to BRL8.2b. Our EBITDA had a reduction of 8%, being at BRL1.3 billion in the quarter and this decrease was mainly related to cost pressure, which was heavily impacted by the cost of raw materials.

Now net income had a reduction of 7% when compared with the Third Quarter of '09, reaching BRL609m, also due to the very strong cash cost.

Dividends, we will pay BRL73 million for shareholders of Metalurgical Gerdau and BRL170 million will be paid to shareholders of Gerdau S.A. These amounts refer to anticipated payments of dividends, which are mandatory and are also in the format of interest on owned capital referring to the year of 2010.

Investments in the quarter were BRL3.2 billion of which BRL2.9 billion were geared towards acquisitions and BRL298 million geared towards fixed assets or CapEx. So from the total CapEx, 68% was used in the unit of Gerdau in Brazil.

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Now on page four we will talk about the outlook and we will start with a general view. An estimate of the IMF indicates that the world economy should grow 4.8% in 2010 and for 2011. The expectation is that the global GDP will evolve 4.2%.

According to the world steel consumption, the World Steel Association recently was more optimistic saying that world consumption should grow 13% in 2010 and 5% by 2011. This reflects an expectation that growth that will continue in emerging countries and we shall also see a recovery in the more developed economies.

In Brazil the most recent statistics provided by the Instituto Brasileiro, the Brazilian Steel Institute, indicates that the total consumption of steel in the country should reach record levels in 2010, reaching 25 million tons, which accounts for 30% -- which represents an increase of 35% vis-à-vis 2009.

And this performance is associated to the good outlook of the Brazilian economy, also considering the instruments of the Central Bank for 2010 that indicate an evolution of GDP of 7.3% sic; see presentation [ph].

For 2011, the expectation from the same Institute of Steel in Brazil also indicates that there should be increase of 9% reaching 27 million tons. In relation to the Brazilian GDP, the estimate of IMF is that there should be a growth of 4.1% sic -- see presentation [ph] in 2011.

To the construction, the outlook in the industry are very positive. And the Central Bank estimates that by 2010, by the end of 2010, there will be a growth of 13.3% sic -- see presentation [ph] in the GDP for this segment.

We are fully equipped to fulfill the steel demand in Brazil. And are supplementing exports to strategic markets considering the current installed capacity and the investments that have been already approved and announced.

Now taking into account the more sectorial view of Brazil where there is surplus of installed capacity vis-à-vis the domestic demand of around 100%. But the important thing in Brazil is to moderate per capita consumption, which was of around 100kgs but it should be -- in the next 30 years.

Talking about the other regions we'll go to North America on page five. We had better performance with sales expansion. And a gradual recovery of the industry. And I would like to highlight the segment of energy and automotive.

However, low demand in infrastructure and non-residential segment, this should be stable. Despite that, there are some KPIs that are already giving signs of gradual recovery like energy where we saw some improvements.

But in addition to that, according to the information resources Industrial Association also see an improvement in the consumption of cement by 2014 according to the Portland Cement Association. The Association estimates that the consumption of cement should

grow 2.6% in 2010, 6.7% in 2011 and 1.1% in 2012 according to Portland Cement Association.

It is also interesting to notice another indicator by architecture building index, which is an economic indicator of the activities in the civil construction industry that surpass 50 points in the month of December which is something never seen before since January 2008.

And the economy of the US is still growing, slowly. But it is recovering. According to the IMF, the projection is that the GDP should grow 2.6% in 2010 and 2.3% in 2011.

In the countries of Latin America where Gerdau is also operating, we had very good economic growth. In Argentina, the economy grew 8.8%. In the region, also Chile grew also substantially, Columbia 4.7%, Mexico 4.3%.

But now according to the World Steel Association, the steel consumption in Latin America, excluding Brazil, should reach 34.5 million tons which represents a growth of 17% over 2009.

And in terms of Gerdau we are still seeking for cost improvements and profitability. And these are important challenges in the countries where we operate. In terms of the GDP, the expectation is that we should see a growth of 4.6% in 2010 and 3.9% by 2011.

Now speaking about our specialty steels operation, the United States, Brazil and Spain, I'll start by talking about the United States. The production of light commercial vehicles is still expanding with growth of 23% in the Third Quarter of 2010 when we compare to the same period of last year.

The expectation of the market is that the production of the automobile industry in the US should grow 37% in 2010, reaching approximately 12 million units. In view of this landscape, our mills that produce specialty steels in the US are working very close with the installed capacity to meet the growing demand in this industry.

In Brazil, the production of vehicles, once again, experienced growth in the First Quarter. There was a growth of 13%. In addition, ANFAVEA extended its forecast in the production of vehicles in 2010 to 3.6 million units. In addition, throughout the year Brazil has also consolidated itself and it is now the fourth in the world market in terms of sales of vehicles, surpassing Germany.

In Spain, even though according to the European Union, the number of registered automobiles have recovered to 14% in the Third Quarter. But there has been also an increment in the terms of utilization of steel of 10% according to the local automotive manufacturers association. The reduction in sales of light vehicles is justified by the end of fiscal incentives. And the trend in the European market is still of a slow recovery.

Now page six, investments. As we said before, in the Third Quarter Gerdau invested BRL3.2b. BRL2.9 billion was invested in acquisitions and BRL298 million was invested in

CapEx. The total CapEx, some 68% of it was invested in Brazil.

I would like also to talk about some acquisitions. And I'll start with Gerdau Ameristeel. In August we concluded the acquisition of minority holdings in Gerdau Ameristeel, which involved \$1.6 billion or BRL2.8b. And with that, Gerdau now has 100% of Gerdau Ameristeel acquired through ownership of the Company.

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In Colombia we concluded in August the acquisition of additional holdings to 49.1% of the total capital of Cleary Holdings Corp, which manufacturers metallurgical coke and also reserves of coking coal in Colombia. This transaction involved \$57m. And in this case again Gerdau now has 100% ownership of this company.

In the United States, in October, we concluded the acquisition of TAMCO, which is a producing mill in California that builds rebars. The company is one of the largest manufacturers of rebars in the West Coast of the US. The company has an annual installed capacity of approximately 500 million tons. And the acquisition involved \$165m.

In terms of other investments, we have an HPP in Goi  s, or an HPP in Cacu and Barra dos Coqueiros. The two units began operations in July with an installed capacity of 155MW of new production of these.

These HPPs are now meeting 20% of Gerdau's needs in Brazil. In addition, the operation of these two HPPs also allowed us to have a 20% reduction in the total energy cost of Gerdau's operations in Brazil.

Now future investments, we have a list of investments that have been approved. The others have been announced. And we will talk about the period covering 2010 to 2014. So investments that are already in the pipeline involve eight -- nine -- sorry BRL11b. And 80% of this amount will be invested in Brazil.

In terms of future investments I would like to highlight the increase of our own production of iron ore in Minas Gerais. And this will also represent important changes because it will bring about reductions in the cost of raw materials. This initiative alone involves an investment of BRL33m.

As you may recall, we will also have a second unit for iron ore in Miguel Burnier. And a logistics structure for the transportation of raw materials from the mines to the mill of Ouro Branco, the logistics structure.

Structure also consists of a system of a long distance conveyor that will cover a distance of nine kilometers. That will make the products arrive at the mill of Ouro Branco by 2012.

We will be able to also increase our overall capacity of iron ore. In 2010 we will also have 3 million tons of iron ore. And this volume will be able to fulfill approximately 60% of the consumer needs of Ouro Branco unit.

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As we mentioned before, the Company will invest in the increase of the rolling capacity of its specialty long steel. The investment involves BRL350 million and we also foresee the installation of a new rolling mill for specialty long steel. The capacity of this new unit is for 500,000 tons and it should start operations by 2012.

Another investment involved the implementation of long products rolling mill in Brazil. And the investment is BRL490 million to fulfill the need for 600,000 tons of installed capacity. The beginning of operation is programmed for 2013.

On page seven I have my final comments before I give the floor to Schirmer. Growth in sales in steel production derived from an improvement in demand in the different markets where we operate.

However, the economic world landscape still presents some important challenges. There is the high cost of raw material, excess of installed capacity and more competition in all the markets where we operate, which puts pressure in our margins in our results.

These challenges of course have an impact in our clients due to the volatility of the steel prices. In view of this context, Gerdau will continue to adapt to the different movements of the market. We will be very agile and flexible. And this has been a footprint of our Company.

We are totally committed to our teams. And we will work very hard to reduce cost, expenses and working capital resuming our profitability margins and at the same time increasing productivity of our operations. With the continuous process we will continue to improve the quality of service to our customers.

And now I'll give the floor to Schirmer, which will continue this call. Thank you, very much.

Osvaldo Burgos Schirmer {BIO 1754610 <GO>}

(Interpreted). Good afternoon. I would like to ask you to turn to screen eight, where we have a chart showing you the most important earnings.

And. So the net revenue of sales consolidated in the Third Quarter was BRL8.2b. This is an increase of BRL1.4 billion as compared to the revenue of the Third Quarter of '09, which you can see on the second bar of the EBITDA chart.

And this is because of the greater volumes sold, 14% more, particularly because of the specialty steels business and Brazil as we will see later on. And also to a lesser degree there has been an improvement of the net revenue per ton, 6% more.

The cost of sales increased BRL1.5b. The second bar on the bridge chart. The third bar, which is an increase of 28% vis-À-vis the Third Quarter of '09, more than the increase observed in the net revenue.

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The cost of sales was impacted by the prices of raw materials in the different business operations. The mismatch between the increases of the prices of raw materials and the prices charged for steel products left -- led to a consolidated gross margin of 21% in the Third Quarter '09 to 16% in the Third Quarter of 2010.

A participation of expenditures was SG&A vis-à-vis the net revenues kept around 7% in spite of the increase of expenditures due to a greater or higher level of activity in the period. The formation of the other lines which make up the calculation of the EBITDA also contributed positively, giving us a balance of BRL138 million sic [ph].

Considering the variations explained before, EBITDA of the Third Quarter 2010 totaled BRL1.3b, 8% less than that obtained in the Third Quarter '09, totaling an EBITDA margin of 15% in the Third Quarter 2010 as compared to 20% in the Third Quarter '09.

The major contributions for the generation of operating cash were the business operations of Brazil and specialty steel contributing with 52% and 27% respectively for cash generation.

The consolidated net income was BRL609 million in the Third Quarter of 2010 compared to BRL655 million in the previous year, reflecting better operating earnings.

Now screen number nine. After having mentioned the consolidated business in Brazil, we have the shipments and some bullets and the comparative of net revenue, EBITDA and margin.

And then we must also talk about the consolidated results. And let's talk about the performance in the different operations. We have had net revenue of BRL3. -- of BRL2.3 billion in the First Quarter, above the BRL2.8 billion in the Third Quarter of '09.

And the different amount sold in the domestic market accounted for 18%. And the better net income of 28% in Reais helped and contributed to the growth of the net revenue.

The volume of sales in the Third Quarter was 1.6 million tons, 1.2 million for the domestic market. And the industry played an important role driven by the growth of 10% in the industrial production in the last 12 months. This source was IBGE.

Civil construction continues at a good rate of demand in the Brazilian market. And we can see this by the estimate of -- estimation of growth for 13% of the GDP of civil construction for 2010 according to the Central Bank.

Exports totaled 424,000 tons; in keeping with the Third Quarter of '09 which totaled BRL465m, accounting for 14% of the net revenue of the Brazilian operations.

This business operation contributed with 40% of the consolidated net revenue in the quarter. The EBITDA margin dropped from 30% in the Third Quarter '09 to 20% in the

Third Quarter 2010, a consequence of increased cost of raw materials above the improvement of the net revenue.

Screen number 10, North America. And here we have the growth of shipments and the different -- the net revenue. The net revenue of the North American business operations in the Third Quarter '10 totaled BRL2.3b, 9% above the Third Quarter '09, particularly because of the effect of an increase of 7% of volumes sold. The largest volume sold, as shown on the upper chart, are a consequence of a slow recovery of the industry.

And the infrastructure non-residential sector continued to have a weak unstable demand. This business operation has contributed with 28% of the consolidated net revenue of the quarter.

And the EBITDA margin shows a drop of 14% in the Third Quarter '09 to 8% in the Third Quarter 2010, a consequence of the increased cost of raw materials which have been higher than that of the -- or the improvement of the net revenue.

Screen 11, Latin America. The net revenue of the Latin American business operations was BRL919 million in the Third Quarter, 18% higher than the Third Quarter of '09.

Particularly, because of higher prices, prices were increased 12% in Reais followed by a slight improvement in the volumes sold. Sales were 565,000 tons, 5% above the sales of the Third Quarter '09, particularly in the Peru units, which has increased its sales 15% Argentina 20%. This business operation has contributed with 11% towards the net -- consolidated net revenue.

The EBITDA margin shows an increase of 5% in the Third Quarter '09 to 8% in the Third Quarter 2010 particularly, because of the larger net revenue per ton sold.

You must remember that the EBITDA margin of the Second Quarter 2010, 21%, was influenced by the better result of the Colombia coke operation. And this factor was not repeated in the Third Quarter 2010.

Screen 12, specialty steels. The specialty steels business operation, encompassing units in Brazil, United States and Spain, net revenue shows a growth of 51% a result of an increase of 49% of physical sales.

The larger sales are a result of record, production record of vehicles in Brazil and -- or good demand in the automotive sector in the United States. And the beginning of the recovery of this sector in Spain. This business operation has contributed with 21% to the consolidated net revenue in the quarter.

The EBITDA margin shows an increase of 18% from the Third Quarter '09 to 20% in the Third Quarter 2010, as a consequence, particularly of the greater sales volume in the period and a dilution of fixed costs.

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Slide number 13. And now we will talk about indebtedness and liquidity. Gross debt was reduced from BRL16.1 billion in September 2009 to BRL14.8 billion in June 2010 and BRL14.3 billion in September 2010.

From the amount of debt in September 83% was long term debt. And regarding distribution among currencies 23% was in Reais, 35% in foreign currency contracted by companies in Brazil and 42% in different currencies contracted by subsidiaries abroad.

From the gross debt the largest amount was raised in the capital markets. Debentures and bonds, 37%, commercial banks 42% and the remaining BNDES and export promoting agencies.

The average nominal cost of gross debt for September was 5% first distributed. Debt in Reais cost 8%, in foreign currency raised in Brazil is 5% plus foreign exchange variation and companies abroad about 3%.

Cash on September 30, totaled BRL1.7b. Of this total 66% were invested in Reais and the balance in different currencies, particularly American dollars. Vis-À-vis June 30, of 2010 cash was reduced by BRL2.6b, particularly due to the payment of -- or the acquisition of the common stock of Gerdau Ameristeel in the hands of minority shareholders. This happened on August 30, 2010.

The financial cycle, which is just working capital -- for us is working capital divided by the daily -- net revenue of the quarter in September was about 96 days.

Vis-À-vis former quarters, the financial cycle did not show any significant variations with proportional increases of net revenue and working capital, or this had increased BRL1.6 billion in the last 12 months. This increase was due to a greater level of activities so that the working capital in September 2010 was BRL8.7b.

Net debt in September 30, 2010 totaled BRL12.6b, approximately \$7.5b, compared to BRL10.4 billion in June 2010, due basically to cash reduction which has already been explained.

Still regarding indebtedness and liquidity, screen number 14 some additional remarks. At the end of September the main Gerdau debt indicators maintained -- were maintained at comfortable levels.

The gross debt over EBITDA was 2.5 times at September 30. It was 2.6 times on June 30, 2010. The net debt over EBITDA went from 1.8 times in June 30, 2010 to 2.2 on September 30. In view of the cash reduction, as we have explained on the previous slide, EBITDA over financial expenditures was 4.8.

As we had already mentioned in previous calls, Gerdau had negotiated greater flexibility of its main covenants with banks for 15 months. This period ended in September 2010.

In this way, as from October 1, Gerdau has gone back to its original covenants of net debt over EBITDA of maximum 4 times and EBITDA over financial its expenditures a minimum of 3 times. The debt repayment schedule, as you can see on the chart on the right, shows a comfortable position, less than 20% coming due until the end of 2011.

And also, we must mention that October 1 of 2010 Gerdau has concluded the issuance of 10 year bond of \$1.25 billion and a coupon of 5.75% a year through its subsidiary Gerdau Trade.

The results obtained from this omission -- from this issue were used for the prepayment of a perpetual bond that we have held since 2005. And a term loan of Gerdau Ameristeel and also the payment of the acquisition of TAMCO in the United States.

With this operation, the balance to be settled in the Fourth Quarter of 2010 exceeds BRL1.6b, as you can see on the chart, to BRL0.6 billion until the end of the year.

And the amount to be paid in 2012 shown as BRL3.1 billion dropped to BRL2.7 billion because we already used the resources to pay. Considering these operations, the average term for our -- for the total debt is 6.5 years.

So with this I conclude the presentation of our financial performance. And we now go onto questions and answers.

Andre Gerdau Johannpeter

(Interpreted). And, as has been said, this is a time of volatility. But we are very attentive to the need to make an internal effort to deal with this volatility.

And we will continue to work as we did in 2008, internally, reducing costs increasing working capital and for greater operational efficiency and profitability of our products.

So we are open to questions.

Questions And Answers

Q - Unidentified Participant

(Interpreted). In terms of M&A opportunities, both for steel and iron ore in Brazil and around the world, could you tell us whether this is one approach to be adopted or whether there are some assets in mind, or by type of asset or region? And what would be a possible size of it for a possible M&A?

And the second question refers to the economic package in the US. Whether you believe that next year we will see this stimulus package taking place in the US and what will be the marginal or potential impact that this would have over the steel demand and over Gerdau?

A - Unidentified Speaker

(Interpreted). Good afternoon. To answer your first question about opportunities, there are and we are always monitoring the market and looking at mergers and acquisitions.

Currently, we have a more domestic focus. We are looking at our internal operations and ways to improve it. The market is very competitive. We are going through raw material pressures and the competition. So the strongest focus now is to improve our operations and to resume the business. So, at the moment we do not have anything in mind in terms of mergers and acquisitions.

Q - Unidentified Participant

(Interpreted). I was taking advantage of what you just mentioned in terms of the competition, couldn't Gerdau possibly see as a solution some kind of acquisition or a combined operation in Brazil that would allow you to consolidate this market share or whether there is any asset in Brazil that you could operationalize, or you don't think that this was the right approach?

A - Unidentified Speaker

(Interpreted). I don't think it's the right approach. We are very focused in our operations. We have a lot of assets and successes. So our focus is at the moment in our own operations.

Q - Unidentified Participant

(Interpreted). Thank you.

A - Unidentified Speaker

(Interpreted). The second part of your question refers to tax incentives from the US government. And the US government has announced that for a while. But unfortunately they haven't materialized yet.

Every day the expectation of everyone in the industry increases. The US President once again talked about the need to invest in infrastructure. But I cannot anticipate what the market doesn't know.

But I -- we said in other instances that when the money begins to grow very few companies in the US will be so well equipped and located to take advantage of all of the project synergies in the States.

We have very good physical presence in many regions of the country. And we are also capable of working in a lot of works of the Government. So we are totally -- we are very good American supplier.

Q - Unidentified Participant

(Interpreted). Thank you, Schirmer very much.

Operator

(Interpreted). Mr. Anthony have the next question.

Q - Unidentified Participant

(Interpreted). Good afternoon. And thank you for your answers. My question has to do with long steel in Brazil, particularly the issue referring to pricing.

I would like to understand a bit better the discounting in long steel in Brazil because when we look at the net revenue per ton in the domestic market in this quarter it has increased vis-à-vis the previous quarter. So what should we expect in the future?

And along the same lines, how could we envisage Gerdau's strategy for the Brazilian operations from now on? Whether it would be reasonable to think that we should look at a premium for imported steel, whether that is the approach or what would be a sustainable level for this premium from now on. This is my first question and then I'll come with my second question thank you.

A - Andre Gerdau Johannpeter

(Interpreted). It's Andre. We had to promote some price adjustments to maintain our competitive position. And this has happened in -- throughout a few months but this is very isolated in some regions and some segments. So I don't have anything here that I can show you. But in fact competition, domestic competition, is very fierce. And this is also amplified through other geographies. But we have to adapt ourselves and adapt our pricing structure and we have to maintain competitive customers. And so that's what we did.

But looking ahead in the pipeline, in this landscape, we have a lot of influence coming from foreign exchange and demand. But demand will continue to grow. The GDP is very important in different regions, including Brazil.

So if we take together -- put together prices and margin and price of raw materials it's very difficult to project something forward.

In terms of prices, we look at international prices and domestic prices. And once again foreign exchange also plays an important role. And so we have to monitor and follow the trends worldwide.

In some instances, in some occasions we have to give out discounts and this normal in the market. And in these few past quarters we had an increase in the cost of raw materials and it was a more substantial increase and we could not really offset that in our revenues.

And that's why our challenge now is to look for further cost reductions in raw materials, because there are many different effects in our production lines. Therefore, if we want to

re-gain margins, we have to work harder because we believe that prices will be in the -- will be around these levels.

Q - Unidentified Participant

(Interpreted). I don't know whether it's possible. But if there are any premium figure that you look forward to having should we work based on a certain premium or is there any parity premium for imports?

A - Andre Gerdau Johannpeter

(Interpreted). It's very difficult to give you a figure, because the basket of products is very large. So it's very difficult.

Q - Unidentified Participant

(Interpreted). And my second -- my other question referring to cost. You talked about your cost. But thinking about Brazil more specifically, is it possible to break it down in more details than telling us how much of that comes from scrap and how much of that comes from coal and iron ore, especially in Acominas? And what is the current level of coal in your Third Quarter results?

A - Andre Gerdau Johannpeter

(Interpreted). I can give you a more global figure that may be helpful. In terms of raw materials in general you know that ours is scrap iron and coal. I think we should expect an increase of about 50% in the second and Third Quarters 20%. And I think this will also be reflected throughout the last quarter.

Q - Unidentified Participant

(Interpreted). Thank you.

Operator

(Interpreted). Mr. (inaudible) from UBM has a question.

A - Unidentified Speaker

(Interpreted). We would like to ask the participant to ask all the questions at once.

Operator

(Interpreted). Mr. Herbert [ph] you may ask your question.

Q - Unidentified Participant

Hello. Thank you for taking my call. It's kind of a follow up to the cost pressures. I just wanted to understand it a little bit better because I'm aware you guys are self-sufficient and you provide some of your own iron ore, correct?

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So my question is what % of your iron ore do you supply the business with. And kind of maybe a little more explanation of how the margins declined and how quickly you expect them to ramp back up?

A - Unidentified Speaker

(Interpreted). So the question was about the cost pressures. The cost of raw materials and more specifically how much is it of iron ore what we consume and what we don't buy from the market and what the outlook is.

A - Andre Gerdau Johannpeter

(Interpreted). Well, our own iron ore is about 60%. This is what we have in our production 3.5 -- 3 million tons from our mines in Ouro Branco. And up to 2012 we will reach 100% of our own consumption for iron ore.

Regarding cost pressure, Schirmer has said 50% of raw materials compared with the Third Quarter of '09 with this quarter. And of the former quarter, Second Quarter to this quarter 20%. So this increase has already occurred. And some of our stocks are already full.

And with this increase of price, as we have said we are trying now to reduce these raw material costs. And this is based on production and this is what is happening.

A - Unidentified Speaker

(Interpreted). This lady from JP Morgan has a question.

Q - Unidentified Participant

Hi. Good afternoon thank you for taking my question. Could you please talk a bit more about the cost situation in Brazil, especially with focus on what is happening in the domestic scrap market? And also how do you see these cost pressures developing in the near term? Thank you.

A - Andre Gerdau Johannpeter

(Interpreted). Question is about cost in the Brazilian market of scrap how much has it increased now and the outlook.

Well, we have had cost pressure of an increase, not as -- less than 50% in this period of quarter against quarter. And scrap reached a peak around August. And already we have had a drop in the market in this last quarter.

A - Unidentified Speaker

(Interpreted). So Mr. Carlos de Alba from Morgan Stanley has a question.

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

Yes, thank you very much. I wonder if you can comment a little bit about the outlook for 2011 volumes by business. You sort of commented a little bit on North America. But if you can also talk about Brazil, especially the steel in Latin America, that would be appreciated.

And second, could you comment on the expectations or what is the return that you expect to achieve in the BRL11 billion that you have in CapEx for the next -- between 2010 and 2014? Thank you, very much.

A - Unidentified Speaker

(Interpreted). The first question refers to the outlook for the Fourth Quarter and next year. And also the BRL11 billion investment which requires a more detailed explanation about the nature and the timing of the investments of our five year program.

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

(Interpreted). I'll answer the first part which is the general outlook. As we see it, each market has a different behavior. Brazil continues with a very strong demand and very important demand in spite of the seasonality in other markets.

We understand that the year of 2011 for the Brazilian markets, admitting that Brazil will continue to grow in an important and significant way, probably the growth level of 2010 will not repeat. But it will be significant even so, because Brazil is preparing for two or three very important events and will not have time to wait. So the outlook in terms of demand is very positive.

In price terms, we have said more than once we understand that there is a certain price stability in the domestic market and a better performance of raw materials. They have had an increase during the first half of the year and part of this is already reflected in the production costs of the first half of the year and therefore, the lower margin.

In the other markets, North America will not have much of a growth. It will be low growth. But the recycling of resources promised for investment in infrastructure will repeat.

As I have said, we are equipped and ready to meet the demand with facility installations and etc. The United States has become a very competitive market for producing steel and also the Buy American stimulus and we are very well positioned.

And a sector which promises a lot, because demand is growing is the specialty steels which has contributed greatly in the Third Quarter. And in fact, throughout the whole year, the United States particularly has a strong recovery of units manufactured in the country.

And we again, as we are a national manufacturer there in the United States of quality and well positioned in terms of supply with the main companies, we see in specialty steel a very positive outlook.

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And to complete this story, Spain in this First Quarter -- in the Third Quarter has shown it to be recovering. It was far behind the rest of the Group. After the crisis the rest of the Group gave positive results. But Spain was lagging. It is now reacting.

Latin America, like Brazil, as Andre has already said at the beginning of his speech the prospects of the GDP for Argentina, Peru and Colombia are highly positive. And there is a strong relationship between investment in GDP and steel demand. So this then is the scenario.

Andre now will talk about investment as you asked.

A - Andre Gerdau Johannpeter

(Interpreted). Regarding the BRL11 million in investment. And you asked about the return on these investments, well I can -- the rolling mills, where we produce the plates with the rolling mills for the flat steel, we will add value and improve the profitability of the unit.

And the same thing in investments in ore. When we get to 100% of self-sufficiency, this will be very important in terms of costs when we compare this to ore built [ph] at the market.

And also rolling mills for the industry we approved to announce -- we will announce a localization and the demand in Brazil is growing and it will continue to grow.

And also, another event is the investment in the specialty field. In Michigan we will add volume and improve the quality of the products which we can offer to our clients. So generally speaking, these are some of the investments and where we will be adding value.

A - Unidentified Speaker

(Interpreted). Mr. Felipe from Merrill Lynch has the next question.

Q - Felipe Hirai {BIO 15071781 <GO>}

(Interpreted). Good afternoon. I also have two questions. My first question refers to a previous comment by Andre about the serious competition in the Brazilian market. I want to know whether this is happening because of greater volumes for exports or whether the local domestic market is being more competitive.

My second question refers to pricing and margins. I would just like to clarify a comment by Schirmer, for Schirmer said that prices should remain stable but I think you also said that Gerdau will continue to adjust to the needs of the market. So I just want to understand price adjustment, which -- should we expect prices to go down or do you think that prices will be maintained, particularly in Brazil about 20% also in 2011?

A - Andre Gerdau Johannpeter

(Interpreted). We'll start by speaking about the competition. When I talked about the competition I referred to global and general competition and Brazil is also part of that market.

So there is an excess capacity in the world so you see people looking for other markets not only Brazil. But also I say that in regards to other countries where we operate.

In terms of the domestic market in Brazil we see competition. There are new entrants. There are not too many but we see a lot of people saying that they are entering this market. But the market is also growing in Brazil. So it is very common for a market like Brazil and also in other geographies.

Sometimes the market doesn't grow so fast as we experience a very slow decrease of capacity and then competition increases because now as soon as Brazil begins to consume again and a lot of the large distribution networks who have a lot stock and then it also brings a lot more competition. So it's hard to say whether this scenario will continue to exist or not.

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

(Interpreted). But in terms of your second question, I think it was about pricing, prices and margins. I said that the expectation is that we should not expect more increases or cost pressure. We will do some internal adjustments to make up for the differences.

But in terms of price correction, I think in the Fourth Quarter we have stable prices. But what we have to do now is an internal effort. So in terms of external changes.

Q - Felipe Hirai {BIO 15071781 <GO>}

(Interpreted). So you believe that the margins should be stable in the Fourth Quarter?

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

(Interpreted). I would say that this is still a very conservative way to look at it.

Q - Felipe Hirai {BIO 15071781 <GO>}

(Interpreted). Thank you, very much.

A - Unidentified Speaker

(Interpreted). So Marco Assumpcao from Itau has the next question.

Q - Marco Assumpcao

(Interpreted). Good afternoon. You were talking about fierce competition. I would like to understand how long do you think this fierce competition period will last? You talked about the global landscape in the steel milling industry and what kinds of measures you are taking internally. And more particularly in Brazil, to offset imports.

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And the second question refers to levels of inventory in Brazil. You said that you are a bit higher than normal. Could you give me an idea of range? What is the current level of inventory and how do you measure that as well? Thank you.

A - Andre Gerdau Johannpeter

(Interpreted). Well in terms of competition, competition always existed, always existed and is still very strong. But at some given moments it may be more difficult because there has been a reduction in other parts of the world and in Brazil as well.

But what are we doing? We are working very hard to reduce costs because we believe that prices will be more stable. So we are looking for raw materials and alloys and freight cost reductions.

Another important thing to highlight is our distribution structure. And the added value through custom bands that we deliver directly to the construction companies. And most of what we deliver is custom band materials where we add value.

And our Commercial Gerdau distributes ready to use products. And all of that helps you to add value and to be closer to the customer. And Gerdau has a very strong position to compete not only now. But in any given moment.

In terms of inventories, when I talked about figures, I was referring more to flat steel which we have four months inventory. And longs we do not have such a clear sufficient figure of that. Between June and July we had some materials in stock. But now the market is buying again. And I'm referring to longs right. The market is buying again. I think in the case of the other specialty steels the position is improving but I cannot tell you anything more precise on this.

A - Unidentified Speaker

(Interpreted). Mr. (Alexander Romadi) from Radiocor has a question.

Q - Alexander Romadi

(Interpreted). Good afternoon. Congratulations for your results. My question has to do -- well you said that there was a mismatch between the raw materials cost and increase of prices. So I'd like to know what reason you are referring to, because as far as I understand, I'm not sure if I understood correctly, this doesn't apply to Brazil because in Brazil you had a cost increase of -- the prices would not be increased. So could you tell us more about this and elaborate?

And about Brazil and also Acominas, in Acominas we have the billet prices dropping and the cost of raw materials continue to go up. So could you give us some more information on this please?

A - Unidentified Speaker

(Interpreted). Well I'll try and speak in a more general way about this. This is Berryman [ph]. Well, regarding this mismatch, well right from the beginning of the year, the market and the prices have begun to change right of more raw material and also the end product of the steel.

With all the charts up to April or May, there has been a change, a quick change of these prices and then they stabilized and even dropped. And raw materials they did not drop at the same pace and in some cases continued to go up like iron ore.

And it has only just dropped now. They will drop about 15% but this already went up more than 100%. So the stock of all our production suffered this impact. And the sales price in some cases we had to adjust.

And what we are going to do now is try to reduce the price of raw materials. This is what we can do to try and improve our margin. So this happened in Brazil and in other regions as well. Generally, this is the effect which we observed.

Q - Alexander Romadi

(Interpreted). Are you concerned about the increase of the price of scrap in Brazil? This is the second time in several years that there's increased -- a significant increase in scrap in Brazil which has impacted you.

The scrap market has always been well controlled. Is this any sign that scrap is going to be lacking of scale to the future? And will you take any strategic step regarding the supply of metal products? Or do you see this in any particular concern?

A - Andre Gerdau Johannpeter

(Interpreted). Well the scrap price I disagree with you. It's always gone up. And what we have as a strategy, well when scrap goes up we use more pig iron and visa versa. So we have this facility in Brazil particularly.

The trend is to generate scrap in Brazil because of the economic growth we see in economies that, the more economic growth and the more developed the more scrap you have like in the United States which is a huge scrap exporter, because there is always a lot left over.

Brazil is not at this point yet. But the scrap will be building surplus of scrap as the production of automobile systems increases. We also have a strong strategy of collecting scrap. And we also believe that this is a competitive advantage not only in seeking or collecting this. But also the price.

Q - Alexander Romadi

(Interpreted). Yes I understand this. But what % of scrap? Well, we are not talking about obsolete scrap. A car sold 10 years ago you know rather the consumption of rebars in the civil construction industry. Could there be a mismatch here at this end? I am talking about

obsolete scrap. And I have never seen such a margin, such a mismatch. I think this has happened just more recently.

A - Andre Gerdau Johannpeter

(Interpreted). Well I have seen increases of price during the history of Gerdau. The generation of scrap is an interesting discussion and this call would -- we would not have enough time to discuss this.

There are many obsolete scraps. When you speak this, it depends of course on the price and the network. We are very strong with our chain, our purchasing chain. And a lot of equipment that processes the scrap and -- we have a whole method and technology to collect this scrap. And it's quite impressive because it appears the 10 year car, we originally increased the production of cars this year. The last three or four years many, many new cars have been -- will be renewed.

This affects our shredders that process the cars as we put in the first shredder here some eight to 10 years ago, practically no cars came in. Now we have a lot of cars that comes through the shredder.

Q - Alexander Romadi

(Interpreted). Thank you.

A - Unidentified Speaker

(Interpreted). So we now have finished our Q&A session. I'd like to ask Mr. Osvaldo Schirmer for his final remarks.

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

(Interpreted). Thank you, very much for your interest. And for all of you who made the effort to analyze our results. And the change of level that has occurred this quarter. And we counted you also in for the next quarter. Thank you. So much.

A - Andre Gerdau Johannpeter

(Interpreted). Thank you, all for your participation, your interest, your questions and our Investor relations team is always at your disposal for other questions and answers. And we count on your for our next conference for -- at the close of the Fourth Quarter. Thank you, very much and have a good day.

Operator

(Interpreted). The Gerdau's call is closed. Thank you for your participation and have a good day.

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