Q4 2010 Earnings Call

Company Participants

- Andre Gerdau Johannpeter, President and CEO
- Osvaldo Burgos Schirmer, VP, IRO
- Unidentified Speaker, Company Representative

Other Participants

- Carlos de Alba, Analyst
- Felipe Hirai, Analyst
- Jonathan Brent, Analyst
- Leonardo Correa, Analyst
- Raphael Ruderman, Analyst
- Rene Kleyweg, Analyst
- Rodrigo Barros, Analyst

Presentation

Operator

Good afternoon, welcome to Gerdau's Fourth Quarter of 2010 conference call. (Operator Instructions)

We would like to inform you that forward-looking statements that might be made during this call regarding Gerdau's business perspectives, projections and operating and financial targets are estimates based on the Company's management's expectations regarding the future of the Company. Although Gerdau believes that these remarks are based on reasonable assumptions, there is no guarantee that future events will not affect these estimates.

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

Please Mr. Johannpeter, you may proceed.

Andre Gerdau Johannpeter

(interpreted) Good afternoon, and I would like to welcome you all once again to our conference call of Gerdau's results for the Fourth Quarter of 2010. So it is a pleasure to have you again with us when we will talk about the results of the Fourth Quarter of 2010. I would like to start by talking about the world's production of crude steel and then I will talk about Gerdau in 2010 and the outlook for the Company. Right after my presentation, Osvaldo Schirmer will give you more details about the financial performance of the Company in the Fourth Quarter of 2010. After Schirmers' presentation, we will all be available to take your questions.

For those of you who follow us on the web, on page 2, I will talk about the world outlook, and I will then proceed with the main figures of the world steel production. The world steel production in 2010 was 1.4 billion tonnes, which generated an expansion of 15% year-on-year. Excluding China, the world steel production reached 787 million, which represented 28%[ph] increase and all of these figures come from the World Steel Association.

The steel production in China was 627 million tonnes with 9% increment year-on-year. China in 2010, accounted for 44% of the world's production and it is now reinstated as the world's largest steel producer. In the United States, the world production was -- the year's production was 81 million tonnes which accounted for 38% growth year-on-year.

If we look at Brazil, steel production was 33 million tonnes which represents 24% increase year-on-year. Again, the figure is from Instituto Aco Brasil. And according to ILAFA in Latin America, steel production was 29 million tonnes with an increase of 11% year-on-year. In 2010 the growth of emerging economies and the gradual re-enactment of all of developed economies contributed to a general improvement in terms of production and consumption volumes when compared to 2009.

Now, on page three of this presentation, we will look at the macro numbers of Gerdau. And I would like to begin by giving you a general overview. 2010 was a very positive year. Gerdau experienced growth in production volumes, sales, EBITDA, and net income. Shipments grew 24% reaching 17.4 million tones, and this very good performance was the result of the expansion of the world steel demand with a special highlight given to common longs Brazil and Specialty Steels coming from Brazil and the US.

In total, total sales was 4.5 million tonnes. Now, the consolidated production of crude steel was 17.9 million tonnes, which represented 32% expansion year-on-year. In the Fourth Quarter, the steel production was 4.4 million tonnes.

Consolidated net sales was BRL31.4 billion, an increase of 18% when compared to 2009. In the Fourth Quarter, net sales was BRL7.8 billion. In terms of operating cash generation or EBITDA experienced an increase of 36% year-on-year. Thus EBITDA reached BRL5.2 billion in 2010. In the Fourth Quarter of 2010 the amount was BRL850 million.

Net income was BRL2.5 billion in 2010 when compared to BRL1 billion in 2009. That result of net income in the Fourth Quarter was BRL420 million. We are also announcing the dividends which will be paid referring to the year 2010, BRL264 million to shareholders of the Metalurgica Gerdau S.A., and of that BRL37 million refer to the Fourth Quarter. Now to shareholders of Gerdau S.A., they will receive BRL630 million for that year and BRL90 million based on the results of the Fourth Quarter. In terms of investments in 2010 they totaled BRL1.3 billion of which 72% was in Brazil.

Now, I would like to talk about the outlook in each of the regions where Gerdau operates in the world. We will start by giving you a general overview, the outlook of growth of the world economy according to IMF is that GDP should experience a 4.4% growth, which should also reflect a further growth of the global steel demand. According to the World Steel Association, there should be an evolution of 5.3%, reaching 1.3 billion tonnes in terms of the world steel consumption.

Now looking at Brazil according to the Instituto Aco Brasil, consumption should reach 28 million tonnes in 2011, representing a 6% growth in relation to 2010, boosted by the expansion of GDP. And according to the central bank, we should experience a growth of 4.4% in 2011 after the economy rose 7.5% in 2010.

If we look at some of the most important segments in Brazil, civil construction according to SindusCon should experience a 6% growth. And industry, according to the central bank, should experience a 4.9% growth.

Now, we will continue to invest in view of this landscape to face this growing scenario of future steel demand, and this will be further boosted by all of the positive works for the World Cup, Olympics, PAC program, presold[ph] Minha Casa Minha Vida.

On page 5, I will talk about the outlook in North America. What we have seen is a gradual recovery of the market of common long steel in North America. The highlight would be the important recovery of the automobile market which is also supplied by Gerdau Ameristeel.

Despite the difficult days of the market which have been imposed by the economic momentum, our operation was quick to react in 2010. And we see -- we made improvements that allowed us to have good financial performance and also allowed us to take advantage of the good opportunity as the economic recovery was taking its course.

In 2010, the GDP of the United States had an increase of 2.8% and the estimate for 2011 is 3% according to the IMF. In terms of Canada, GDP had 2.9% growth in 2010, and it is expected that it should reach 2.3% growth in 2011. There is also the participation of the civil construction, particularly projects in infrastructure and energy.

In Latin America excluding Brazil, some countries had a different economic growth. Peru should be highlighted with plus 8.8% growth, Argentina 8.5%, Mexico 5.1%, and Chile 5.3%. For 2011, the outlook for GDP growth of -- is also very optimistic and is 4.3% growth for 2011.

One of the highlights in the economy in the region is an investment of $90 billion that should come from the mining industry both in China and in Peru together in 2011, and this will be extended into 2017, and these are industries that consume a lot of steel from Gerdau.

According to the World Steel Association, the steel consumption in Latin America should reach 37 million tonnes which is 8% about the figures of 2010.

Now, I would like to talk a little bit about Specialty Steel and I will start with North America, where we produced 12.1 -- where they produced 12.1 million units of light vehicles, passenger and light commercial vehicles and heavy vehicles in 2010 considering the markets of Canada, the United States, and Mexico.

This growth was 39% over the growth of 2009, and as a result our mills that produces the Specialty Steels in the United States are working at their full capacity to able to fulfill the demands of the market. In 2011, the market expectation is also very positive because the market should produce 13.4 million units of light and heavy vehicles, which is 10% higher than the previous year, in 2010.

In Brazil in 2010, the country produced 3.6 million units of light and heavy vehicles, which represents a 14% growth year-on-year. And these are figures from ANFAVEA. For 2011 ANFAVEA anticipates that we will produce 3.7 million units of light and heavy vehicles. Brazil reached the fourth position amongst the largest markets that produce vehicles; coming just behind the United States, China and Japan.

In Spain, the heavy vehicle that utilize more steel or commercial vehicles had an expansion of 9% both in Spain and in the European Union as a whole in 2010. In that same period, there was a 3% increment in the number of automobile registration in Spain and a reduction of 5% in the European Union.

For 2011, the production of light vehicles in Europe should reach 19.5 million units. And I am talking about light, medium, and heavy vehicles. That is a 2% expansion over 2010.

Now I will talk about investments, that is page 6. Well for the period between 2011 and 2015, we intend to invest BRL10.8 billion. From that total 75% must be geared towards Brazil. Thus we will be able to fulfill the needs -- the growing needs for steel in Brazil and also maintain the levels of exports. Yesterday, on March 2nd, we just announced new investments to expand our production of steel and rolled products at Cosigua, our operation located in the industrial district of Santa Cruz the -- in Rio de Janeiro. The steel production capacity will grow 50% by 2012, reaching 1.8 million tonnes.

In addition, we will install a rebar and wire rod rolling mill with a capacity to annually produce 1.1 million tonnes and this will happen in two phases. And the first one will start with 600,000 tonnes a year.

If you are talking about investments in our investment pipeline, we will continue expanding our iron ore facility in Minas Gerais as we have announced before. That initiative also involves a second treatment unit in Miguel Burnier with a capacity to produce 5.6 million tonnes and another logistics structure that will make the material reach the mill of Ouro Branco. This will ensure 75% of supply of all of the needs of the plant in 2011 and 100% in 2012.

So we will be self-sufficient in Ouro Branco Acominas by 2012, with a production of approximately 7 million tonnes of ore. In terms of iron ore and what is available, we have just have a bit of new news, and I will elaborate more on that further on. So in Minas Gerais in the Ouro Branco mill, we will start operation of our structural profile rolling mill, reaching a capacity of 700,000 annual tonnes in 2011.

Also, we are still about to install two new steel or Flat Steel rolling mills in Ouro Branco to produce heavy plates and also coiled rolled -- coiled hot rolled strips. And altogether both undertakings add up to 1.9 million tonnes of installed capacity.

As part of the investments, we will also improve the melt shop in Carruado[ph] and we will also make improvements in port facilities. Now in Colombia, at the end of 2011, we will conclude the modernization of the dedusting system of the Tuta unit, and in 2012 we will initiate the port facility to embark coal and coke.

In India, in 2012, we will start the operation of the whole set of investments that we announced during our joint venture in India in Specialty Steels rolling mill, rebars and tray[ph], coke project and also energy generation.

In the United States, we also have the installation of a new continuous testing operation to increase the capacity of the melt shop. Operations of Specialty Steels will initiate its activities in 2012 with implementation of a new re-heating furnace in Kentucky and in California in 2012. Also we will improve the -- our production in Tamco.

In terms of my final comments, we see -- on slide seven we see the first signs of the market in the fourth[ph] quarter of 2010, they are very positive. The outlook is positive. We are increasing our operating margins because of increase in demand and the recovery in the pricing in the international market, and we were able to promote higher efficiencies in our industrial units.

The recent conflicts in northern Africa and the Middle East are being monitored very closely and we are also taking -- paying close attention to the possible impact in the world steel market and economic global growth.

At Gerdau, we are still continuing to promote our management effort to improve our productivity and to increase our operating margins to comply with the expansion of demand in Brazil, and in the world we will still invest in the expansion of our common long steels, and also specialty and flat through our production plant of iron ore at Minas Gerais.

Gerdau just published a very relevant fact today where we informed that the mineral resources which have been measured, indicated and inferred, come up altogether to 2.9 billion tonnes against 1.8 billion tonnes, which was previously announced.

This raise is due to new evaluations of volume and also iron grade of all of the mineral resources which have been conducted more recently and also the acquisition -- additional acquisition of land.

These deposits and resources are located in Miguel Burnier, Varzea do Lopes, Gongo Soco and Dom Bosco in the state of Minas Gerais. And they exceed -- they largely exceed the need to supply materials to Gerdau Brazil, and also we contemplated eventual expansion plans.

So looking at our current and future needs, Gerdau decided to analyze the commercial exploration of these possible iron ore resources. Therefore we are studying some different alternatives to take advantage of these assets and we are contemplating different needs. And that involves extraction, processing, transportation, logistics, storage and commercialization.

The Company is still in its initial phase to -- in terms of making its internal decision. So at the moment, I do not have any additional information to give you in terms of how we will dispose of these assets. Then there is need -- maybe there will be a need of partnerships, but we don't know and we have to look at the schedule.

So as I said before, we are looking at the studies and to check all other possible alternatives. So now, I will give the floor to Schirmer and then we will continue this.

Osvaldo Burgos Schirmer {BIO 1754610 <GO>}

(interpreted) Good afternoon, this segment of our presentation will be the presentation of our results in a consolidated manner for the Group and we will explain each one of the business segments.

As you know, we are organized in -- based on products and by geography. On slide number 8, we have our revenues, our expenses, net sales, cash generation and the bridge chart which will help us to follow the growth of our cash generation as of the Third Quarter of '09, up to the same quarter '10.

You can see that the consolidated net sales for the Fourth Quarter was BRL7.8 billion and as Andre said. And this represents a 23% growth year on year; BRL1.4 billion increase in fact, as we can see on the second bar of the bridge chart of the EBITDA, BRL1,437 million.

And this increase in our net sales derives from the higher volume sold in the period which was higher by 23%, which is the last line that you can see here. And the cost of sales increased by BRL1.8 billion in the Fourth Quarter; you can see this on the third bar of the chart, which represents a 35% increase year-on-year.

This increase in our cost of sales is due to the higher volume sold and the increase in the prices of raw materials in the different business operations that we have. And the mismatch between the price increase in raw materials and the capacity by the Company to transfer this to final prices for the steel products resulted in a reduction in the consolidated gross margin by -- from 20% to 12% to the Fourth Quarter of '10.

The participation of SG&A vis-a-vis net sales was kept at 8%, in spite of the increase in these expenses driven by the higher level of activity in the period year on year; and you can see that in the fourth bar of this chart. Considering the variations that we mentioned before, the EBITDA for the Fourth Quarter reached BRL815 million, 35% lower than the one delivered in the Fourth Quarter of '09, resulting in an EBITDA margin which was 10% in the Fourth Quarter of '10.

And the higher contributions to this operating cash generation were the business operations of Brazil in Specialty Steels, with a 47% and 30% contribution respectively. And in this picture of reduction in our margins year-on-year, quarter-over-quarter, if we take year-on-year, this means an increase of 36% in the EBITDA. And the EBITDA margin went up from 14% of '09 to 17% in '10.

And I would like to remind you that in the Fourth Quarter of '10, due to the better conditions in the market observed in the Specialty Steel business operation, mainly in the United States, the asset impairment test identified net gains of BRL336 million in the period, or after income tax, BRL289 million.

The consolidated net sales amounted to BRL420 million in the Fourth Quarter vis-a vis BRL643 million in the Fourth Quarter of '09, and deriving mainly from the lower operating results, which I have just explained to you.

Now, I would like to invite you to go to slide number 9, and now we're going to talk about each unit and each business. The performance of Gerdau Brazil business operation starting with the Brazil BO. The shipment in the Fourth Quarter reached 1.8 million tonnes, an increase of 28% year-on-year, of which 59% or 1.1 million tonnes went to the domestic market, as you can see on the chart on the left.

The industry had an important role for the recovery of demand, driven by a 21% increase in the production of capital goods in 2010, and the IBGE is the source. Civil construction continues with a good pace of demand in the Brazilin market, which can be seen by the growth estimate of 11% of the GDP for civil construction for 2010 according to SindusCon. About the net sales, they went from BRL2.8 billion in the Fourth Quarter of '09 to BRL3 billion in the Fourth Quarter of '10, a 10% increase, as can be seen on the chart on the right.

Exports contributed with BRL757 million to the net sales of the period. In this business operation, Brazil contributed with 39% to the consolidated net sales for the quarter. The higher volumes sold in the foreign markets, exports grew by 128% and mainly in semi finished products, which have their prices lower to the product mix sold in the domestic market. And to that, added to the -- added, the discounts granted to clients in the domestic market caused a major impact on our margins for the Fourth Quarter.

The EBITDA margin dropped from 30% in the Fourth Quarter of '09 to 13% in the Fourth Quarter of '10. But I would like to reinforce what I said before. If we consider on a year-on-year basis, however, the EBITDA margin was kept around 22% for the average of 2010. Therefore nothing to do with the 13% that is something isolated for the Fourth Quarter of '10.

On page number 10, North America business operation. The higher volumes sold in a comparison basis, as you can see on the chart on the right -- on the upper left -- other consequence of the recovery of the industry, and the infrastructure in non-residential businesses continued to have a relatively weak demand, however, with some signs of picking up.

Net revenues from North American operations in the Fourth Quarter reached BRL2.2 billion, 32% higher than the Fourth Quarter of '09, mainly due to the effect of the 20% increase in shipments. And this business operation contributed with 28% to the consolidated net sales for the Group in this quarter. The EBITDA margin had a 7% reduction in the fourth --- reduction from 7% to 6% from the Third Quarter of '09 to the Fourth Quarter of '10, as a consequence of the increase with SG&A because of the higher level of activities. And once again, if we consider the total year-on-year, the EBITDA margin for North America went up from 8% to 9%.

Latin America, slide number 11. In this region, shipments amounted to 565,000 tonnes in the Fourth Quarter of '10; 17% higher than the Fourth Quarter of '09. Highlighting the units of Mexico, growing by 38%, and Colombia growing by 25%.

Net sales from our business operations Latin America were BRL863 million in the Fourth Quarter of '10 vis-a-vis BRL650 million only in the Fourth Quarter of '09, that is to say a 33% growth stemming from the higher volumes shipped, and to a lesser extent, to the improvement in the net revenues per tonne sold. This business operation contributed with 11% to an overall consolidated net sales in the quarter.

The EBITDA margin had a 4% increase, grew from 4% in the Fourth Quarter of '09 to 6% in the Fourth Quarter of '10, year-on-year. We had an important increase because it was a negative margin by 5% in '09 and it went to 12% positive in 2010.

Page number 12, Specialty Steels. This operation that encompasses units in Brazil, US and Spain, net sales grew by 33% as a consequence mainly of the increase in shipments, which went up 22%. The higher sales volume is due to the very good demands by the automotive sector in the US, and an improvement also in export volumes in Spain. This business operation contributed with 22% to the consolidated net sales for the quarter.

As a consequence of the higher costs, the EBITDA for the Fourth Quarter of '10, BRL248 million, was 6% lower than the Fourth Quarter of '09, and the EBITDA margin went from 21% in the Fourth Quarter of '09 to 15% in the Fourth Quarter of '10. Nevertheless, once again, if we consider the whole year, that is to say on a year-on-year basis, it went up from 9% in '09 to 19% EBITDA margin in '10.

On slide number 13, indebtedness and liquidity. The gross debt of the Gerdau Group on December 31st, consolidated, amounted to BRL14.7 billion. And it was kept relatively stable compared to December 31, 2009, and also 30 September, 2010.

Of the overall amount of the gross debt, 88% -- practically 90% of the Group's debt is long term and the remainder short term. As to the currency, 23% of the debt was in reais, 40% in foreign currency contracted by companies in Brazil, and 37% in different currencies contracted by our subsidiaries abroad.

Most of the gross debt, 51%, stems from the capital markets by means of debentures and bonds. Another important part of the debt, something like 30%, stems from loans taken or borrowed with commercial banks. The average nominal cost of the gross debt on December 31, '10 was 5.6% a year with the following breakdown.

Debt in reais, 8% is the cost. Our debt in foreign currency by companies in Brazil, 5.7% plus the exchange rate variation and debt by our companies abroad, 4 -- 4.2% a year.

Our cash in December 31st amounted to BRL2.2 billion of which 61% were invested in reais and the remainder in different currencies essentially in US dollars. Our cash conversion cycle was 94 days in December '10 being kept stable vis-a-vis December '09 as you can see on our chart above, with proportional increases in our net sales and our working capital, which although there has been an increase of BRL1.6 billion year-on-year. And this increase is due of course to the higher level of activities during the 2010 period. The net debt in December '10 amounted to BRL12.5 billion, about $7.5 billion, and was kept stable vis-a-vis September '10.

On slide number 14, indebtness and liquidity. In late December, the main indicators of Gerdau's debt were kept at comfortable levels as compared to the financial covenants of the Company established with the banking financing contracts. Gross debt/EBITDA ratio was around 2.8 times and net debt/EBITDA ratio around 2.4 times. And EBITDA/ financial expenses ratio was around 4.6 times and EBITDA/ net financial expenses ratio was higher than six times. Very comfortable indicators indeed.

The debt repayment schedule, as you can see on the right of the chart, shows also a similarly comfortable situation for the next two years. We will have to pay about BRL1.7 billion in 2011, BRL1.6 billion in 2012. And these amounts are much lower than the cash generation that we expect for these two periods. At the end of the year, the average term for debt payments was 5.3 years. And it is interesting to notice that over 50% of our debt matures only after 2015.

Slide number 15, and last slide, highlights for 2010. Before I conclude my presentation, I would like to remind you of some achievements by the Gerdau Group this year. In August 2010, Gerdau acquired an additional 49.1% stake of Cleary Holdings an operation in Colombia where we produce coke for $57 million. And after this acquisition, we hold 100% shares of this company.

And still in August, Gerdau concluded the acquisition of all common shares of Gerdau Ameristeel, which were in the hands of minority shareholders and we spent $1.6 billion into the operation. And with this operation, also the filing of Gerdau Ameristeel's stock in the stock exchanges of New York and Toronto was cancelled.

In early October, we issued a 10-year bond amounting to $1.25 billion with a 5.75% coupon per year. And the resources obtained with this issue were used for the advance payment of a perpetual bond amounting to $600 million, and a term loan by Gerdau Ameristeel amounted to $430 million.

And still in October, Gerdau acquired TAMCO, a rebar producing company in California with annual capacity of 500,000 tonnes, for $166 million. On December 30th, the shareholders of Acos Villares S.A. approved Acos Villares's merger into Gerdau S.A. The operation was carried out by means of a share swap in which shareholders of Acos Villares received one share of Gerdau for each lot of 24 shares that they had of Acos Villares. And with this operation, Acos Villares no longer is traded in stock exchanges.

And with these remarks, I would like to close my participation. And now, I will be available to you together with Andre, to answer any questions that you might have. Thank you very much.

Unidentified Speaker

Thank you very much and now we will start our Q&A session.

Questions And Answers

Operator

(Operator Instructions) Mr. Leonardo Correa, Barclays Capital.

Q - Leonardo Correa {BIO 16441222 <GO>}

(interpreted) My first question has to do with your current view of M&A moves, both in the domestic and the international market. Historically, this has been one of the major pillars for the Company's growth. And you have a track record which is quite longstanding there. So we see here in the domestic market is a loss of competitiveness. We have cost pressures, a high appreciation of the real. So taking to account the scenario, could you talk about the possibilities for consolidation in the industry?

And my second question has to do with your iron ore business. You announced an increase in your resources and the alternative to monetize the asset. And could you give us an update about the potential for production that you have in this reserve? Do you have a preliminary study for that? Do you have any idea of the average content or grade, and do you have any understandings already, or are you studying or talking with any possible strategic partners? So these are my two questions.

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

(interpreted) I'll answer the first part of your question which is about M&As and some considerations that you made about the loss of competitiveness by the industry. And Andre will answer the second part of your question which has to do with the announcement that we made today for the monetization of our mineral assets.

Regarding the first part of your question, the answer is simple. The Group decided since the crisis of 2008 to concentrate on the operations that we already have. All our acquisitions, and as you said, we made many acquisitions in the past, we expanded not only regarding segments, but also geographically. And we are totally focused to improve the competitiveness on the part of these operations.

It's exactly the point that you raised. And this is valid for Brazil because Brazil is losing a little bit of competitiveness because of the exchange rate, the over-appreciation of the real, and the cost of gas and energy. And we have to get a hold on internal costs. And the focus is on that and not on M&As. At least for the foreseeable future, our M&A activities are on the backburner, so to say.

We acquired TAMCO last year. This is a small amount. And strategically, it made a lot of sense for us to have a position in the West Coast of the US. But exception made to that, we have nothing in the pipeline.

A - Andre Gerdau Johannpeter

(interpreted) About the iron ore. Reinforcing what we said before that there are 2.9 billion tonnes. And what we can say is that the average content or grade is 41%, which is high quality in the mix.

And about the alternatives, we are open. This is why we are making in-depth studies. We don't know yet whether we are going to establish partnerships or whether we are going to make an investment, Gerdau alone and how we are going to sell, what will be the alternatives of processing upstream, logistics, et cetera everything has to be studied, but once again they amount to BRL2.9 billion and the average grade 41%.

Q - Leonardo Correa {BIO 16441222 <GO>}

(interpreted) Thank you very much.

Operator

(interpreted) Rodrigo Barros, Deutsche Bank.

Q - Rodrigo Barros {BIO 5851294 <GO>}

(interpreted) Congratulations for your initiative with the iron ore. And I believe that everybody in the investor community was waiting for this announcement eagerly, in fact.

Two questions, one having to do with the volume of your exports in this quarter. Certainly a major part of that was semi-finished products, I understand, at the EBITDA for plates and we have some news about exports of slabs and in this quarter in billets and slabs. So could we expect an increase for semi-finished for exports and -- for this quarter.

And I would like to know about the demands for the internal market 14% are the data disclosed for January. And I would like to understand your rationale these 14% could be a very good figure for the year or do you believe that there is some indication that infrastructure works in the country have already started and what will be the path. So congratulations for the iron ore.

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

(interpreted) I'm going to answer part of the question and then Andre will complete. The margins in the quarter as I showed in my bridge chart were very much compressed because of the increase in costs. And the result that we have from exports the industry does that, it is small compared to what you sell in the domestic market especially with semi-finished products.

But we are more bullish now because the news that we have from the international markets. What I wouldn't be able to tell you how much will be maintained that is to say how much will be in exports vis-a-vis the total output, but I can tell you that the margins will be better than the last quarter. And Andre is going to say a few words about that too.

A - Andre Gerdau Johannpeter

(interpreted) Thank you for your remarks about the iron ore. About demand, the scenario that we see with a projection of the GDP of around 4.4%, 4.5% which are the most recent figures, this would generate a growth in steel consumption. And we believe that the year will be good that consumption will exist. And we will have 1.7, 1.8, 1.9 elasticity or even two times its GDP.

And sectors such as construction have a very estimate of growth 6% regarding -- according to the Sinduscon in the industrial part. The central bank says that there will be a 4.85% increase. So in general we see that there will be growth in the market, we will have demand. And there are lots of projects that have to be carried out be it for the World Cup or for the Olympics later on many investments in oil and gas and so on and so forth.

And you have to use steel for all that. And if there is a delay in some of the projects, well these delays will be recovered. And even if we do see some delays or postponements in spite of that we believe that there will be consumption. So I repeat that we have a positive outlook for demand in Brazil. Thank you.

Q - Rodrigo Barros {BIO 5851294 <GO>}

(interpreted) Thank you.

Operator

(interpreted) Carlos de Alba, Morgan Stanley.

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

My question is on investments. I wonder if you can give us an indication of the incremental EBITDA that you expect to generate once all these investments that you mentioned are fully implemented.

And the second is, are there -- the second question is are there any specific cost initiatives -- cost reduction initiative that you are undertaking in Brazil or in your other segments to try to improve the margins or all the improvement should come from higher prices? Thank you.

A - Unidentified Speaker

(interpreted) I will translate his question. He is asking whether in this investment program that we just announced to whether we have already, funded by the EBITDA increase that will be generated by each investment. So in summary that's what he asks in English.

And the second part of the question was whether the initiative that were recently announced by Andre whereby we will continue our efforts to reduce cost is that geared toward something very specific or we will rely on increase in prices to improve our margins.

(interpreted) My answer will be in Portuguese and the translators will then translate into English.

In terms of incremental EBITDA coming from each particular project, each of the projects brought with it a calculation of return. We have an internal return rate which is mandatory because there is a 15% chance that the projects could not be approved. But I wouldn't be able to quantify each project and tell you what would be the incremental EBITDA or the sum-up of everything.

In terms of initiatives to promote cost reductions, we have already put a lot of emphasis since 2008 to many internal initiatives starting from very simple operations like travelling controls, et cetera. This have been taken care of and monitored very closely because we always believe that there is always room for further improvement.

Even in terms of logistics, we still have things that can be carried out in some of our plans in terms of attitudes and disciplines. We are not so solely waiting for prices to improve because we do a lot of things internally, so it's just a whole set of measures. We are also doing something to reduce our working capital while at the same time we do not want to reduce sales; I know it is difficult but we are managing.

Operator

(interpreted) Felipe Hirai, Merrill Lynch.

Q - Felipe Hirai {BIO 15071781 <GO>}

(interpreted) I have two questions. And the first is about your pricing dynamics in the domestic market and import pressures. And would you -- could you please tell me the price behavior in the domestic market. And early this year we looked at your figures and there was a drop of approximately 7% in the domestic pricing.

And my second question is also along the same lines. I would like you to elaborate a little bit about the margin behavior of your operations throughout the year 2011 or whether you could give me some objective figure or any target in terms of your margins for this year. What is the target for your margin?

A - Andre Gerdau Johannpeter

(interpreted) This is Andre. In terms of pricing, our prices just follow the international prices. And what happened is that in the third and Fourth Quarters we had some reductions, we had to give some discounts on some instances just to follow the market and because there was an overall reduction in international prices.

But we were just following market trends. And what we're doing early -- since early this year is just to recover some of the discounts that we're giving late last year. And that is then reflected in prices not only in Brazil, but in most of our business operations. And this was also caused by raw material pricing pressures because the demand has increased early this year.

So in general, this is the pricing scenario. And we are also reducing some discounts not only those given in Brazil, but also in some of our other business operations. And as a result we were able to get better spreads in our operations.

Then you have another -- there was another part of your question that was about margins. We do not give any guidance to the market in terms of results, but I try to stress when I talked about the regions what would be the EBITDA margin for each segment year-on-year versus the quarter just to show you that that was very specific that certainly there is a general accommodation in terms of the consolidated EBITDA margin of the Group. It should be -- I mean, it should be very comfortable between 16% and 20%. That will be a very comfortable margin.

Q - Felipe Hirai {BIO 15071781 <GO>}

Okay. Thank you.

Q - Rene Kleyweg {BIO 16569285 <GO>}

Rene Kleyweg from UBS. I just wanted to follow up a little bit on a couple of earlier questions. One in terms of the high grade --- sorry, in terms of the iron ore deposit or resources. Can we assume that there's a high grade cap, which is the material that you're currently mining, and that's the bulk of the resource in terms of bringing the average down to 41 is -- (technical difficulty) -- Cosigua.

Could you just give us a little bit more detail in terms of the investments outside of the rolling and crude capacity? Just in terms of there's a balance there of about $600 million or so, which I'm just struggling to understand the extent of the spending on the environmental side, I guess? Thank you very much.

I'm sorry, this is Rene Kleyweg again, since we have problem with the line. I just wanted to try and get a little bit more information on the resource on the iron ore side. Are you currently mining a higher grade cap and the bulk the resources is lower grade compact material, which means the product is most likely to be pellet feed?

And secondly, in terms of Cosigua, could you just give us a little bit more details on the investments outside of the rolling and the crude steel expansion? It seems to be about another $600 million of investment there, which I believe is towards the finishing unit distribution center, the (inaudible). I'm just trying to get an understanding of the extent of the environmental investments in yesterday's announcement? Thank you.

A - Unidentified Speaker

(interpreted) Okay. Rene's question was, first of all, in terms of the iron ore grade in the mines, and whether we are extracting more higher grade ore which in the future -- or whether in the future would be a lower grade ore, which will be more appropriate for pellet feed.

And the second question -- the second part of his question concerned investments at Cosigua. And in addition to the rolling mill and part of the melt shop, what are other investments we have in the pipeline to amount to that total figure that I gave you.

In terms of iron ore, we are extracting higher grade ore and also low grade ore, which is being processed at Miguel Bournier plant and that is taken to the mill. So the average grade today may reflect the mix. And as it occurs in mining, you have a higher grade and a lower grade that has to be processed. But again, the mix in terms of that region and in relation to other mines and other studies the grade is very, very good. It's a rich reserve.

As we said also, we have a rolling mill, we have the melt shop, but part of the investment is also in downstream. As Rene also mentioned, in terms of the drawing mill, we also have investment in the flap[ph] shop, in the nail plant. We also have investments to store products on the logistics side. We're making investments on the energy side and the substation, and also some investments in infrastructure and so on and so forth.

And all of that is part of Cosigua, in addition to rolling mill and the melt shop. And we are compliant with the legislation. We have no problems, and everything is within our industrial park and is within what we have already planned and according to the environmental legislation.

Operator

(interpreted) Jonathan Brent, HSBC, from the English room.

Q - Jonathan Brent

Could you just (technical difficulty) and on essentially selling iron ore to third parties when previously you were committed to using this internally. Is it simply a function of having higher resources or is there another element of why -- this is my first question.

My second question is, here we've seen utilization rates in the US increasing to the first couple of months of the year. Is it fair to assume that your US utilization rates have been increasing at the same speed? Thank you.

A - Andre Gerdau Johannpeter

(interpreted) Well Jonathan's question has to do with iron ore first and (technical difficulty) what about our position in terms of selling the ore, monetizing the mines and the use of the iron ore in our own units. And the second part of the question has to do with utilization for production in North America, namely the United States, the level of utilization.

About the iron ore, once again, we will have 7 million to be self sufficient in Ouro Branco. But part of the study that we will be carrying out is to --- are to maintain self sufficiency to have our own iron ore, aiming at an expansion of Acominas, which has a master plan that could reach 11 or 12 or 13 million tonnes in the future.

So we intend to use ore in order to maintain the competitiveness of Acominas. And there is a possibility of bringing ore to our unit in Minas Gerais as well and even to the Peru and India units that also consume ore. And this will all be analyzed and ---

Besides this part of the issue, we will be looking for manners to monetize by means of commercializing the surplus of our resources in iron ore, which, after covering all our needs, could be monetized. So it would be a mix between using the ore in order to keep our competitive cost, and part of that, as we announced, the resources are very high. And the surplus, we will be looking for the best way to monetize these assets.

The second part has to do with utilization and Schirmer will be answering.

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

The second part of your question had to do with the level of utilization of our capacity in North America. And as we have already told the market, it is around 60%. And we believe it will further improve. We believe the volume will grow around 10% for 2011, which would lead us to a level around 65% or even 70% utilization to be -- if our expectations regarding an increase in demand are confirmed.

Operator

(interpreted) Raphael Ruderman, Bradesco.

Q - Raphael Ruderman

(interpreted) Congratulations for the wonderful decisions that you have been making about the iron ore. I think it's very timely. And my doubt --- well, I have two questions, in fact. One has to do with imports; how you see the evolution of imports of steel into Brazil? And we understand that rebars in Brazil have a different technical rule or regulation, so it is not just the certification by the producers, but sometimes they even have to change the setup of production of their units in order to be able to send their rebars to Brazil. So how do you see that? Do you think imports of rebars into Brazil are going down or how do you see that?

And the second question has to do with the cost of scrap in Brazil. Has there been an increase in scrap cost in Brazil? How do you see this? What is the trend because you are experts in this market? But the price of iron ore is going up because of the coal prices. And so how do you see the generation of scrap if there is a gap between supply and demand?

A - Andre Gerdau Johannpeter

(interpreted) First about imports. The statistics are showing a drop in long steel imports in the last few months. And we understand that what happened last year it was over 20% imports into Brazil. The situation will not be repeated this year. And we will see a drop and our estimates at Gerdau are that there will be a reduction in imports of steel and the world market has grown as well. And because of that there is a higher demand for these products by other regions, other countries and also for price competitiveness and competitiveness by Brazilian companies.

So our estimate is that we will see a decrease in the share of imports in the market. They will continue to exist, but at a lower rate than last year. Most countries have their technical norms -- about your second question. When you have a country that is subject to earthquakes, there is one norm, and the other countries have another one. So it's just normal to have a technical norm. And there is no major difference between or among these technical regulations. And there are still imports that meet or comply with all the technical norms in other countries.

And I would like to ask Schirmer to answer the remainder of your question.

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

(interpreted) You are talking about the behavior of scrap in Brazil and the prices and the pig iron et cetera. We saw two different behaviors in the Fourth Quarter vis-a-vis the Fourth Quarter of '09. Scrap in Brazil dropped by 6% after having had a very strong hike in the Third Quarter and then it was stable.

And if you take the Fourth Quarter over the Third Quarter, there was a reduction of 10% in the price of scrap. Today the market is well stabilized because it was very volatile in the last quarter of the year. And I would say that there is a balance between supply and demand. So we do not expect any major surprises there.

And more and more markets are communicating the pricing influences of the imported pig iron, okay? It does have an impact. But as scrap -- the scrap market is well regulated and we have always been very active even when we see the market shrinking we do not abandon our traditional suppliers of scrap. And we believe that things will remain stable over the quarter.

Q - Raphael Ruderman

(interpreted) Regarding scrap you have a partnership with your suppliers and you have a very strong presence in this market which gives the prices a certain stability. And the recent volatility that we saw in the prices, I don't know what happened. Don't you think this could be a sign or a yellow light blinking telling you that the historical stability that we have had in scrap prices in Brazil may be -- or is coming to an end and that there could be more pressure on prices from now on and maybe a strategic move on your part on your part regarding the supply of metallics?

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

(interpreted) Well I believe that your question is an extension of my own remark about how we see the supply of scrap in Brazil. We buy from north to south and most of our supply comes from small and very small or even medium sized suppliers. And we believe it will continue to be like that exactly to offset all these volatilities that you have mentioned yourself. But there is a correlation which I mentioned myself. We are not thinking about changing our policy regarding scrap collection and starting to acquire our supplies in a different manner. This is not what we intend to do.

Operator

(interpreted) Please stand by while we wait for questions. Please wait while we collect the questions. We would like to conclude the q-and-a session and now I would like to give the floor to Mr. Osvaldo Schirmer and Andre Gerdau Johannpeter for their final remarks. You have the floor.

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

(interpreted) This is Schirmer. I would like to thank you all for your attention and for your interest. And I hope we can meet again in the next quarter with even better results. Thank you, all very much for your interest. And if you still have any question or if there is anything still pending, our team will be available to assist you and to clarify any possible question. So have a good day, and I will see you again in May.

Operator

(interpreted) Gerdau's conference call is now concluded. I would like to thank you all for your participation and I wish you all a very good afternoon.