Q1 2012 Earnings Call

Company Participants

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

Other Participants

- Renato Antunes, Analyst
- Rodrigo Barros, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good afternoon. Welcome to this call regarding the results of the First Quarter of 2012. At this moment all the participants are connected just as -- under listening mode. Later we will have our Q&A session. (Operator Instructions).

And we would like to say that this presentation may contain forward-looking statements. These forward-looking statements rely upon estimates, information or methods that may be incorrect or inaccurate and may not actually occur. These estimates are also subject to risks, uncertainties and assumptions, including among others, general, economic, political and commercial conditions in Brazil and in the markets where we operate and in existing and future government regulation.

Investors do not constitute [ph] to guarantee a future performance as they involve risks and uncertainties. We have with us Mr. Johannpeter and Mr. Schirmer. Mr. Andre Johannpeter now has the floor.

Andre Gerdau Johannpeter

Thank you. Thank you. And good afternoon. Welcome to our call to disclose our results for Q1 2012. We will initiate our analysis by analyzing the general landscape of the steel market and right after that maybe talk about Gerdau's performance during the first three months of the year and the outlook for the regions where the Company operates.

Right after my presentation, Osvaldo Schirmer will give you more details about the financial performance of the Company and then we will be available to take your questions.

It's important to highlight that in our presentation we will evaluate the performance of the Company in Q first 2012 when compared to Q1 2011. For those of you who follow us over the web, on page two, I would like to start by talking about the world crude steel production which reached BRL377 million in the First Quarter of 2012, which is very much in line with the world's steel production which could be experienced in the First Quarter of the year.

Excluding China, the world production was 202 million tons which was equivalent volume when compared to Q1 2011 according to the World Steel Association. The world steel production in Brazil grew 2% vis-a-vis the same period of 2011 with a production of 8.7 million tons.

Steel production in the United States was 23 million tons, up by 8% when compared to Q1 2011. Now, in the other countries of Latin America, not including Brazil, steel production was down by 2% in Q4 -- in the first Q of this year vis-a-vis the same period of 2011 with the production of 7.9 million tons.

Now, on page three, I would like to -- look forward to the major figures of Gerdau and the highlights for the First Quarter of 2012. Consolidated shipments were 4.7 million tons in the First Quarter and that volume was the same volume traded vis-a-vis the first three months of the year before.

This performance was positively influenced by higher demand coming from city construction in Brazil and also the industrial factories [ph] of energy and civic construction in non-residential areas in the US.

In Brazil, shipments were impacted by lower demand for specialty steel due to the anticipated purchases in the Fourth Quarter of 2011 and reductions in export of logs [ph]. In addition, there was reduction in the volume of sales for specialty steels in Europe due to the slowdown of the economic activity in the region.

Steel production was up 4% over Q1 2011 reaching 4.9 million tons, net sales, BRL9.3 billion in the First Quarter, which was 10% higher vis-a-vis the same period of 2011.

Now, EBITDA was BRL1 billion, there was 9% reduction of that figure when compared to the first Q of 2011. EBITDA was mainly impacted by the process of deindustrialization in Brazil and also the increase in the cost of raw materials such as iron ore, coal and scrap, which are still putting pressures on the Company's margins.

Net income. Net income was BRL397 million in the first Q of 2012. Very much aligned with their results from that first Q of 2011. In terms of dividends, there will be a dividend payout of BRL102.1 million to (inaudible) Gerdau (inaudible) and BRL32.5 [ph] million of payout to shareholders of (inaudible).

Now, we move to page four and I would like to highlight what is the outlook for 2012. Estimates from the INS were recently reviewed and growth expectation for global GDP is 3.5% in 2012, which is slightly higher than the previous estimate which was 3.3%.

World steel consumption according to most recent estimates from world steel showed above 3.6% in 2012, reaching 1.4 billion tons. There is a reduction in the expansion expectation that the world steel consumption vis-a-vis the previous estimates due to the economic crisis in Europe.

Despite all that, the outlook is that there should be a recovery in the world steel consumption after the second half of 2012 and there in turn will be growth in 2013.

If we look at Brazil, the economic activity and according to figures by the Central Bank, we should have experience growth of 3.2% in 2012. And as a consequence, the consumption of steel according to the Instituto Aco Brasil should reach 26.4 million tons, which is up 5% vis-a-vis 2011.

In terms of the main industry shows us (inaudible) the expectations are the following. Civil construction, the market expectation points out to a growth of approximately 5% in the GDP of that industry in 2012. Civil construction should buy more steel, should expand its steel consumption because of all of the construction work for the World Cup in 2014.

Along these lines, Gerdau should continue to supply steel not only for the construction of soccer stadiums. But also other infrastruction -- infrastructure work such as airports, other mobility, railways, HPP [ph] ports and (inaudible) innovation. There's debenture [ph] to the construction should continue to be very accelerated by (inaudible). We are still investing in new plans for reinforced steel, both (inaudible) and rail and also will expand the existing (inaudible).

Talking about the industry, according to a focus report, the industry GDP should grow 2% in 2012. Therefore, we should have -- we should experience an expansion which is below of that estimated for the country because mainly we were impacted by the industrialization process of the country.

On page five, we will now refer to North America and Latin America. In North America, that does not include Mexico or other units that produce specialty steels. There was a significant evolution of growth into the economy of North America which contributed to a 7% increase in shipments during that period.

For 2012, we estimate that the recovery of the economies of the US and Canada will continue mainly boosted by the continuous growth in the manufacturing industry and also oil, gas, energy and agricultural.

They are purchasing managers index from the engine [ph] for supply management, which is the main indicator for the industrial production in the United States, also reached 53.4 points in March and anything above 50 points means growth. And this is the 32nd consecutive month where the indicator is above 50.

In addition, according to information from the United States Census Bureau, invest in the non-residential construction grew 16% in the First Quarter of 2012 when compared to the same period of 2011 reaching $65 billion.

And throughout this landscape, IMF estimates that the GDP of the United States should grow 2.1% in 2012 and as a consequence of the US economy expansion, the outlook from the world steel pointed out steel growth of 6% in terms of steel consumption this year reaching 94.2 million tons.

In Canada, the IMF believes that GDP should also grow by 2.1% and in terms of steel consumption it is estimated that that should grow by 2% when compared to 2011 reaching 14.4 million tons.

So now, I've reported the operations in Latin America and in -- and in this regard, we are not including Brazil. So Latin America has very positive outlook for 2012 in all of the economies in the region and we should highlight the growth in GDP improved to 5.5%, Colombia was 4.7% growth and in Chile, an additional 4.3% growth. For 2012 the countries of Latin America, except for Brazil, must reach steel consumption of 41.5 million tons which is up by 6% when compared to the same period of 2011.

On page six, I would like to refer now to our specialty steels operation and but before I refer to each country I would like just to highlight that this year Gerdau is celebrating 12 years of operations in the field of specialty steels and the highlight was the acquisition of (inaudible) Pelatchy Neel [ph] that took place in 1992.

So in the past two decades, we invested more than $4 billion to acquire assets in Brazil, the United States, Spain and India, as well as we promoted a technological updating of our specialty steel plants.

Currently Gerdau is one of the largest world suppliers of specialty steels to the automotive industry.

Now, about North America. Now -- and I am referring to the markets of the United States, Canada and Mexico, the production of light commercial vehicles and automobiles 24 million units in the

First Quarter of 2012, which represents a 17% increase when compared to the same period of the year before. The production of heavy and light vehicles in turn reached 112,000 tons which is 37% growth.

So this year, I would like to highlight some positive outlook for the automotive market as a whole. An estimate of 10% increase in the production of automobiles, light, medium and heavy commercial vehicles in addition to demand for specialty steels should also be leveraged by other industries such as agriculture, oil and gas.

In Brazil according to information posted by Ensavia [ph], the production of vehicles, passenger, light vehicles, heavy size and heavy vehicles had a decrease of 11% in the First Quarter of '12 when compared to the same period of 2011, this was due mainly to the anticipation in the production of heavy vehicles of during 2011 due to the new regulation called Euro 5 for diesel engines and (inaudible) engine only out this year.

However, we estimate the production of light vehicles should increase about 4% in 2011 -- 2012, reaching 3.2 million units also influenced by the government stimulus to the acquisition of automobiles and the reduction in interest rates for financing.

On the other hand, the outlook for the (inaudible) heavy vehicles is of the reduction of 16% in the production volumes in 2012. Also, according to Ensavia.

Now, referring to Europe in the First Quarter, the automobile industry had an 8% decrease when compared to the year before. Now, in terms of commercial vehicles, there was a negative variation of 10%. We will continue to monitor the behavior of these markets and we will take all the necessary measures to adjust our production volumes to the demand in the next coming months.

In terms of the outlook for the year we expect the markets to go down especially when it comes to the production of light vehicles in Europe.

Now, talking about India, automobile production outlook is to experience an extension of growth of 13% in 2012 and I would like to refer to investments and we are now on page seven.

In the First Quarter, investments in CapEx were BRL691 million and I would like to highlight investments for the beginning of the operation of our flat steel or coiled hot-rolled strips at the end of 2012 at Gerdau Acominas and we also continue to work on the expansion of the installed capacity of specialty steels in Brazil and the US and also the extension of the road product new increases belt [ph] and the implementation of the rolling (inaudible) in India.

In addition to that, we are continuing to invest to modernize our plants as a whole. The Company is still working to reach self-sufficiency when it comes to iron ore at Gerdau Acominas, which is the main consumer of the raw material. In this regard, one important highlight is our investment in mining, which amounts to BRL838 million. We are still working in the project to install the second phase of this investment by the Company.

The annual installed capacity will jump from 6.5 million tons to 11.5 million tons of iron ore. Its increase will be materialized when we start the operation of the second unit of iron ore treatment in Miguel Burnier.

This investment involves our own logistics and also investments in roads to facilitate the delivery of products, as well as the refinement of a long distance conveyor belt is approximately 9 kilometers long to transport raw material to the new at ore [ph] (inaudible).

Also I'd like to highlight a project for the implementation of our railway terminal which is at its final freight and that should be completed by 2014. In addition, due to the working in the project to (technical difficulty) capacity key process [ph] our products.

This investment is an additional investment to the existing expansion plan which will help us to expand our long [ph] steel capacity of steel and rolled products from 770,000 tons to 720,000 tons in the next coming years.

Now, in our operation in Colombia, in order to fulfill the growing demand of their domestic market, we should increase the capacity of steel production and road products in that the Company will reach a non-installed capacity of 950,000 tons and this is an investment of BRL192 [ph] million.

On page eight, I have just some final remark and with that I will conclude my part. Our performance in the First Quarter demonstrates that demand is picking up in the more available market with the level of profitability of our operations, we are mostly affected by the growing cost of production and also the deindustrialization of the steel chain in Latin America.

In Brazil, the impact spending from deindustrialization has strongly affected the domestic market. In this regard, it is also necessary to look for alternatives to our structural problem such as the Brazil costs and exchange rates, tax burden, interest rates, global costs and costs of energy.

There is very important and a truly positive measure that was virtually approved by the Senate which is the project for Resolution 72-2010 that eliminates the (inaudible) and it consists -- reach in terms of their [ph] concession or granting of tax incentives which were different according to state -- different from state-to-state to Chinese imported groups.

And I would like just to highlight that this new resolution by the Senate now, the taxes, ICMS taxes are the same for imported goods and it should come into force by January 2013. In relation to the world steel demand, the outlook according to the World Steel Association is very targeted.

And, however, we should pay attention to the economy in Europe, the high price of oil, the (inaudible) up, the political situation in the Middle East and the low growth of the Chinese economy in terms -- when compared to the historical levels.

On the other hand, we must also note there has been an extension in the emerging countries and this recovery of the US economy. Therefore, giving all that I said before, we continue to really improve the service rendered to our customers and also we will make improvement in our cost management. And I would like to highlight be it to that end that our own production of iron ore and coal does reinforce our commitment towards our shareholder generally being sustainable value.

Now, I would like to give the floor to Schirmer and after his presentation, we will proceed with our Q&A. Thank you, very much.

Osvaldo Schirmer {BIO 1754610 <GO>}

Thank you, Andre. Good afternoon, everybody. I'd like to start by our consolidated results and then I'll explain a little bit about our business operations and finally, about the capital structure of the Company.

We are on screen nine of our consolidated sales, net revenue of the First Quarter was BRL9.2 billion. We have a curve showing the development of EBITDA in this plan and I will comment on this. The net revenue of consolidated sales was in the First Quarter of '12 was BRL9.2 billion as has already said by Andre, BRL835 million more than on the First Quarter of 2011. This means 10% growth.

As you can see on the second bar of the ridge chart, the increase in net revenue is due mainly to the greater net revenue per ton sold in all the business operations. Across the sales increased BRL893 million in the Fourth Quarter.

You can see on the third bar of the chart and this means an increase of 12% when compared to First Quarter of '11. The greatest cost of sales was the direct consequence of the higher cost of raw material, these increases exceeded the growth of net revenue per sold ton, bringing a reduction of the operating margins.

The participation of SG&A expenses regarding net revenue were annulled [ph] at the same level as the First Quarter 2011 about 7%. EBITDA in the First Quarter of 2012 reached BRL1 billion which means the reduction of 9%, vis-a-vis that seen in the Fourth Quarter of last year. And therefore, a reduced margin of EBITDA 11%.

The consequence then is the reflect of a higher cost of raw materials. The financial result in the First Quarter of this year, vis-a-vis the First Quarter of last year, was positively affected by the positive or the public offering of shares completed in April. Part of the results was explained which is also were used for the prepayment of the debts and consequence reduction of financial debts and the remaining balance remained in cash, thus reducing the leverage of the Company.

The net income consolidated in the First Quarter '12 compared to the First Quarter '11 showed a slight drop from BRL409 million to BRL397 million due to a better operating result which was partially offset by the better financial result.

Screen 10 we have a comparison of the quarter and the Brazil operating business. Now, I'm going to each of one of the units. And you will see this chart at the top. I will show you the main operations and then we will show you the shipments and then the revenue, EBITDA and the margins.

Screen 10. Before I say anything about the results and the performance of each one of the business operations it is important to say about the alterations in this regard regarding the presentation of results as in the First Quarter 2012 and reconstruct the compared period.

But first I'd like to deal with the operation of metallurgical coal and coke in Colombia, which previously was reported in the Latin American business operations. As from the First Quarter 2012, this operation was consolidated in the Brazil business operation and this occurred because of the strategic decision so as to integrate the coal and coke operation of Colombia with Gerdau Acominas because of the important and growing supply of metallurgical coal from this unit.

So our dependence (inaudible) from Australia, et cetera. And secondly, to align the documents with our financial statements with this, the comments presented, now segregates the transactions occurred within the business operations, how likely aligned caught [ph] in domination and adjustments and also the corporate expenditures of the Company which previously were reported only in the Brazil business separations.

In the Brazil unit, the volume of sales in the Fourth Quarter totaled 1.8 million tons as you can see on the left minus 2% as compared to last year of which 71%, approximately 1.3 million tons, went to the domestic markets as may be observed in the graph to the left.

The reserves to the domestic markets increased 8%, vis-a-vis the First Quarter of last year and this percentage has an expectation of growth for sales during the year of 2012. The net sales revenue totaled BRL3.2 billion in the First Quarter 2012 and this may be seen on the chart to the right showing stability vis-a-vis the First Quarter 2011.

The increased volume of sales and net revenue per ton for the domestic market offset the drops in volume and price of the exports. This business operation, Brazil, has contributed with 34% to the net -- the consolidated net revenue in this quarter.

EBITDA in the First Quarter was BRL411 million minus 18% when compared with last year with an EBITDA margin of 14% compared to 16% of the same period last year. A reduced margin occurred because of operating difficulties of Gerdau Acominas because of the rains mentioned by Andre which occurred in that period at the beginning of the year which led to less production.

Screen 11. The comparison of the two periods in North America. In North America, there was an increase of 7% in the volumes sold which shows a growing trend of the growth markets, 108,000 tons more were sold this year than last year.

As you can see on the chart at the left, the increased sales reflects the continuous demand of -- from the industrial sector and energy and also the recovery of the non-residential sector. The net revenue was BRL3.1 billion, 20% higher than that in the First Quarter of last year and you may see this on the chart at the right.

The increase of the net revenue was a result of greater net revenue per ton and also a greater volume that was sold. This business operation contributed with 34% to the consolidated net revenue of the quarter. The EBITDA margin of the First Quarter, was less than that of the First Quarter of 2011 because of the higher costs and less equity of the period.

12. Latin America. Here the sales -- 671,000 tons in the First Quarter shown on the chart at the left, 5% above the sales of last year was highlighting Colombia, Peru and Chile because of a good demand of construction sector in these countries.

The net revenue was BRL1.1 billion as you can see as compared to BRL949 million last year as you can see on the chart to the right, a growth of 21%. Once again, due to a better net revenue per tons sold and better volumes, this business operation contributed with 12% for the consolidated net revenue. The EBITDA margins showed a drop of 12% last year to 8% in the First Quarter 2012 because of the cost of raw materials that have exceeded the increase of net revenue per sold ton.

Screen 13. The specialty steels business operation. Here we have a reduction of 6% in the sales volumes which was affected by the reduction which occurred in Brazil. The net -- the net sales in Brazil is due particularly because of earlier production of heavy vehicles which occurred at the end of 2011 because of the new regulation Euro 5 for diesel engines which came into force in January of 2012.

The net revenue shows a growth of 6% totaling BRL1.9 billion which can be seen on the chart to the right particularly because of the greater net revenue per sold ton which more than offset reduction in the volume of sold. This business operation contributed 20% to the consolidated net revenue in the quarter. The EBITDA, BRL250 million was 4% higher than that of the First Quarter 2011 and EBITDA margin flexed at a level of 14%.

On screen 14, we have the indebtedness of the Company and liquidity. We have four different plans of information here. First of all, the net debt which is BRL12 billion in March of 2012. And it increased 10% when compared to the debt on the 31st of December 2011, BRL13.5 billion, cash BRL3.4 billion gave us a net debt of BRL10.1 billion.

In 31st of March 2012, the gross net was made up by 23% in reals, 49% in foreign currency contracted by companies in Brazil and 28% in different currencies contracted by our subsidiary board of the total of gross debt 14% were short-term and the rest 86% were long-term.

The greater part of the gross debt, 59% originates from the capital markets, debentures and bonds. The average number of cost of the gross debt on the 31st of March of 2012 was 6.1%. And for the amount denominated in reais was 5.7%. And for that amount dominated in dollars, it was 5.7%.

And there are also the associated costs for the (inaudible) abroad. And the schedule for the debt payments, as you can see on the chart to the left up above shows a comfortable situation for next few years regarding cash generation and the cash situation for the Company.

At the end of March, the average schedule for the payment of debt was BRL5.2 million. The financial cycle in March of 2012 shows an increase of five days vis-a-vis December 2011. And this increase is a consequence of the growth of 80% in working capital in lieu of the making up of stocks for future demand and also operating difficulties of Gerdau Acominas already mentioned, compared to the stability in the net revenue of sales in the First Quarter of 2012.

To conclude, I would like to reinforce Andre's message saying we would like to tell the market that we will continue to work to improve our cost management and including the -- our own production of ore and coal and also increasing our supply of captive scrap. And Andre and I are now available for questions.

Questions And Answers

Operator

Ladies and gentlemen, we will now start our question-and-answer session. (Operator Instructions). Our first question comes from Rodrigo Barros comes from Deutsche Bank. Please proceed.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Good afternoon. I have two questions. One's about results and the other is a little more strategic. I would like to know more about the way you report. Looking at the four quarters, you see that the adjustments for the live eliminations is in Brazil units. I'd like to compare the results compared to the old criteria which should be -- should we be adding that net in the Brazilian units or -- how does that work?

Second, the BRL200 per ton, you said some years ago that was different. So could you tell me what has changed in the industry? What are the prospects of improving that cost?

A - Andre Gerdau Johannpeter

Well, regarding the question of elimination. Yes, you're right, the most important movement of exports for subsidiary is from Brazil. So if your models -- so you are correct, we have some movement of exports from the United States to other places in Latin America. But they are in the mix. But the bulk, it's from Brazil outwards.

I didn't understand your question. What is our expectation of dollars per EBITDA? Or EBITDA per ton, was that it?

Q - Rodrigo Barros {BIO 5851294 <GO>}

Yes.

A - Andre Gerdau Johannpeter

Obviously, our effort is to improve our cost matrix with the increased cost of coal and ore and our supply of scrap has been very important. And we want to improve our results obviously of the price per ton. This number of BRL200 is an important number. But there's -- I really can't foresee what will happen with this.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Thank you, very much and congratulations for your results this quarter which was perhaps a little bit more difficult.

Operator

Our next question comes from (inaudible) from Merrill Lynch. Please proceed.

Q - Unidentified Participant

Thank you, Andre. My first question has to do with mining. After you talked about 11.5 tons increased, will there be an agreement with RNS [ph]? And second, the question on the coal, what about the receiving center and Colombia and will you increase the integration of 20% to 30%, 40% of coal?

A - Unidentified Speaker

Well, regarding mining, this announcement today of BRL8.5 million -- BRL11.5 million, this is the second phase of the investments. The start of what was planned regardless of finding a strategic partner to total 11.5 million where the project is not being changed if this were to happen by 2014 and the founding of a strategic partner, this is running parallel.

So these investments are ongoing and the search for a partner will also continue.

The projects of increasing the integration of Colombia and Brazil, especially with the supply of coal, is firm. It is strong. It's steady. We hope to have 40%, 45% of this supply of coal from Colombia and also the question of improvement of the -- of the -- of the port [ph] is also ongoing.

Operator

Our next question comes from Renato Antunes from Flow Corretora.

Q - Renato Antunes {BIO 17439917 <GO>}

Good afternoon. Thank you for the -- regarding the down [ph] fields in Brazil, could you speak a little bit more about what can we expect regarding the price per ton for the next quarters? Will there be any change in the price because of a change in the exchange rate?

And going back to the question of mining from the operational point of view. So this investment of BRL11.5 million, what about our own port and is the idea sort of a surplus, something which is not sold on the domestic market or will you export? What will the project be?

A - Unidentified Speaker

Well Renato, I will not comment specifically about Brazil as a region. But what I can say is something about the global scenario. In the last four to six months, we have had a price stability of raw materials, coal and ore. And consequently in international trade also there has been a certain price stability.

So this is a scenario that we are experiencing globally. Regarding the mining project 2014 where we will have BRL11.5 million need for our own consumption, is BRL3.5 million to BRL7 million in Acominas. So with Circos [ph], we will certainly sell.

About our own port, we have our own project in (inaudible) and in Santa Cruz we have our own project. And also a project together with CSM as an alternative, which is ongoing now in the study. And also the possibility of using Sir Bradley [ph] port is a possibility which will be evaluated. So I think that this then is the general scenario.

Q - Renato Antunes {BIO 17439917 <GO>}

Thank you.

Operator

Next question from Ivane Esteine [ph] from Credit Suisse. You may proceed.

Q - Unidentified Participant

Good afternoon. And thank you very much for the question. I have two questions. The first one is about specialty steels, you have -- you had fewer sales in Q1 and I think it is not very optimistic , even though steel refines [ph] have been made impacts (inaudible) of heavy vehicles, no commercial vehicle sales often been down and able in terms of 2012.

Could you tell me something about it and also about the margins. And particularly question regards to (inaudible). And my question is whether Gerdau also considers the strategy of the coal exporter. Thank you.

A - Unidentified Speaker

About specialty steels, there was a rededuction in the production of trucks which consumes more steel. In fact, there was anticipated production in specialty steels, particularly in April and the outlook for the future in our view we believe that should reach 3.2 million according to information from Ensavia.

And part of this reduction of the fair value may be very similar to that of last year or earlier this year because the government has put some pressure on the credit side to reduce insertion [ph] and this has been achieved and now the government is working on the reduction of interest rates and it should also impact the sales of automobiles to financing. So we believe that in 2012 we will see an increase in the production of vehicles.

Ensavia this is -- is 3.5% for light commercial vehicles. In terms of heavy vehicles like trucks, there should be early reduction because the production has been already impacted by this.

In terms of coal, we do not think that we will be a coal exporter to foreign market. The idea is to grow the link we have in terms of our Colombia production to supply to the coke plants [ph] of Acominas.

Q - Unidentified Participant

Thank you.

Operator

Our next question is from Luis Cornagey [ph] from Barclays Bank.

Q - Unidentified Participant

Good afternoon. And thank you very much for this opportunity. My first question is about prices of specialty steels. But having a more forward-looking view, (inaudible) more expensive. So what is your view in case there should be price increases in the future? And compared premium will that be reduced and how would prices behave in the long-run?

And my second question refers to the Brazil margin in the First Quarter. I just -- I'm just trying to understand how much of that margin was impacted by the heavy rains in the beginning of the quarter, how much oil was produced and how could that margin improve in the second half of this year once that effect will not be repeated again. So I think these are my questions. Thank you.

A - Unidentified Speaker

I am not going to talk precisely about premium prices because there are so many products and so many items that it's very difficult to talk about that. (inaudible).

It can be very important to the entire steel chain because we -- if there's a way there's a historical problem because all imported products that have steel are furnished in the (inaudible) of our products that are manufactured in Brazil. So (inaudible) is quite welcomed by all of us that operate in the steel chain because it puts an end to historical taxation problems and that has virtually impacted the entire steel chain and our customers as well.

Now, in terms of the margins we maybe (inaudible) that in the next quarter or the next half of the year we should not be impacted by heavy rains.

Q - Unidentified Participant

I think I was trying to quantify how much of that margin was hurt by these effects.

A - Unidentified Speaker

We do not have the tax figure that allows us to really pinpoint what was impacted from the rains. There was 13% [ph] in the Third Quarter. In the next half of the year, it is posting up, we received it. So the margins should improve. But it is very difficult to say how much better they will be.

We are doing the best we can do to improve our cost matrix and product mix and this will lead us to better margins. But it's difficult to tell you exactly what percentage.

(inaudible).

Q - Unidentified Participant

Could you please tell me how much iron ore was produced and how much -- and what is the production output that you expect for the second half of the year?

A - Unidentified Speaker

We do not disclose the -- our production value in that we are looking at 60% to 65% ore capacity, even because it's difficult to get the production from Acominas. Their reports are to have efficiency by the end of the year.

Q - Unidentified Participant

Thank you, very much.

Operator

Our next question is from (inaudible). Go ahead and proceed. You may proceed (inaudible).

A - Unidentified Speaker

May I speak (inaudible)? Good afternoon. My first question has to do with cost. In the First Quarter, there was a margin reduction. But there were some extraordinary factors, rain, which affected the production of ore and scrap. So could you say more about this? And also in the First Quarter there was a drop in the price of coal in the international market and the coal also -- the price of coal impacts the price in general. So could you elaborate on this, please?

Could this impact any other factors in the quarter or this quarter or will you feel this also in the following quarter? And your contracts. So those are three months or six months and also the question of inventory might be involved.

And another question regarding Colombia, you mentioned that your objective is to achieve 40% of self-sufficiently. But I'd like to know what self-sufficiency is because in Colombia you have some mines. In Colombia, they are small and a coke shop which buys coal from third parties. When you say, 40%, what do you exactly mean? Are you investing? Are you buying mines there or reserves? So I would like you to elaborate, please.

Regarding the coal and costs and the difficulties experienced in the First Quarter and it's true also in the same time, there was a change in the international prices. You are quite right. There was a reduction and this reduction of costs from now on will impact the cost matrix in the next quarter.

We were mixing these different factors. Now, regarding Colombia, when we mentioned that we want to achieve maybe 40% in terms of self-sufficiency, we are now about 25% our reserves also exceeds 24 million tons and the Colombian operation has a capacity process 1 million tons.

So between 30% first from third-parties in Colombia and the processing of our own reserves we hope to achieve this number. So it's important to mention that it's not all our own reserves. But more in Colombia.

And is your intention to increase reserves in Colombia, invest more or what are you going to do? Are you going to increase reserves in Colombia?

We are open to all opportunities, even to coal reserves in Colombia. We have people there who are always investigating opportunities. If they see an opportunity for purchasing, we certainly will be evaluating this.

One last question. The cost of scrap in Brazil has it altered in the First Quarter? What is the sale for crude [ph] future?

Well, in the quarter there has been a drop. But internally it is quite stable, about 2%. We are not forecasting any significant move order. Not even important in this way which will allow us to foresee any change. New and small suppliers might come in. But -- and that will be a change. But not much more than that.

Operator

Our next question comes from (inaudible) from Banco Safra. You may proceed.

Q - Unidentified Participant

Good afternoon. Thank you for this opportunity. I have two questions. The first refers to the Brazilian market. If you could please give us some ideas about the pace of interest -- investments and infrastructure we have followed with some players on the markets the stillness of these investments and other contracted long-term projects. Not only in infrastructure. But also because of the sporting events to be held in Brazil.

If you just give me any outlook about these possibilities of investments, that would help. And the second question, the metal spread, especially in American markets. We have observed now in this quarter certain stability of the metal spread. There are some recent yields but the suppliers of scrap and Asian scrap to the United States might be coming to a halt or some increase short-term because of the Japanese markets.

But what do you -- what do you think? Do you think this is a short-term trend? Could this reduce the cost of a Second Quarter or do you think there'll be more stability with the metal spread?

A - Unidentified Speaker

Well, I'll talk a little bit about the infrastructure. Our expectation is that with the World Cup in 2014, some things will be stepped up. The soccer stadiums, which are being built or revamped, we are supplying steel to them.

The main question is the work of infrastructure and all the work around the stadiums. There are many projects and projects of our clients and this should be accelerated. As far as infrastructure not only for the World Cup. But ports and airports, several projects of urban mobility also have been announced in several capitals.

Hydroelectric plants that are also being built and some roads and homes. So if we take all these projects in infrastructure or anything relating to the World Cup, our expectations are that they will be an increased consumption. The World Cup is getting near and because the infrastructure of the country has to be improved.

Regarding the metal spread, that's it's either I didn't understand you correctly. But you also said the question of supply of China to the United States what could be changed. When, in fact, you had the United States as a metal exporter.

Regarding the spreads, your question has to do with what this will be. If I take the object [ph] to question, there will be no change. First of all, the First Quarter of last year the spread was about 420, 430 [ph] and the second it went to 450, the third 449, 448, 436 six months ago.

So it's about 458 more or less, this is our expectation. This is what it will continue to be.

I was referring to my supply of metal to the United States. Thank you.

Operator

Our next question is from Montelle Olivier [ph] from Goldman Sachs. You may proceed.

Q - Unidentified Participant

Good afternoon. And thank you very much for this opportunity. Most of my questions have been answered. But I still have two more. Now, talking about export, the exchange rate that you've not appreciated, you intend to place your credit into international market despite the fact that this demand is going down? That is (inaudible).

A - Unidentified Speaker

Since there're no sizeable exchange rate and even if prices are maintained, which is the international trend mostly the prices, they have an advantage in Brazil because our products here are more competitive and maybe we can think about exports like it happen in the first half of the year.

But to say how much more? It's still hard to say because things are (inaudible).

The second question has to do with the extension of flat steels, I just want to verify that despite the heavy rain (technical difficulty) in the start up of the (inaudible) and what time and what point you decide you will decide to (inaudible).

Q - Unidentified Participant

My follow-up. Talking about flat steel, the goal is up till the end of this year the call of hot rolled is (inaudible) the rains affected the construction. But we're still following that target, eventually would happen by December of this year.

A - Unidentified Speaker

So have you (inaudible) First Quarter of 2013. Thank you.

Operator

(Operator Instructions). Please wait while we collect more questions. Please just wait while we collect more questions. Please hold while we collect further questions.

Our next question is from (inaudible) from Santander. You may proceed.

Q - Unidentified Participant

Good afternoon. My question relates to the utilization of iron ore. Could you give a little more details, please? At the end of last year, the Company started talking about that. Do you think you could expect (inaudible) completed at the end of this year? I think -- do you think it -- could it be possible to tell me a little bit more about this process? Thanks.

A - Unidentified Speaker

All right. About the iron ore project, we are now -- we're reviewing [ph] through that list of participants or candidates. Now, we find results in the days where the candidates are visiting the website and they are conducting the analysis. Therefore I do not have a timeframe to give you, that timing really depends on the conversations that we have with them. We already reduced our list of participants, have now initiated the visiting passes to the website.

Q - Unidentified Participant

Can you tell me how many candidates you have?

A - Unidentified Speaker

No, I cannot disclose that information. Thank you.

Operator

Next question comes from Renato Antunes from Flow Corretora. You may proceed.

Q - Renato Antunes {BIO 17439917 <GO>}

Thank you for that follow-up. Can you tell me a little bit about the North American market? I know that the performance was much better. Now, could you tell me what you expect for 2012 and what (inaudible) for the Third Quarter? And what do you think should happen throughout the year?

My second question is about working capital in this quarter and you already mentioned that part of that was due to stock -- the inventory and problems that (inaudible). Could you tell me where you had to replenish your inventory maybe because of demanding issues in Brazil and (inaudible) anticipate further news in the second half of the year?

A - Unidentified Speaker

In fact, the main increase driver as we said. Unfortunately, it is not coming from the infrastructure industry. That will certainly come in the future but it came from know-how and from the energy industry in the different forms.

Now, in terms of increasing our working capital, that's very much related to influence in sales output in the value of inventories also and accounts receivable. And it is something that was generalize throughout other companies that operate in the industry.

Operator

We would like to complete our Q&A session. Now, I would like to give the floor to Mr. Gerdau -- Andre Gerdau Johannpeter for his final remarks.

A - Andre Gerdau Johannpeter

(inaudible), I would like to thank you very much for your interest and your attention and we hope we have answered all your questions. Our IR department is certainly at the disposal of all of you analysts in case you need (inaudible) which in I hope to see you again in the near future.

Thank you for participating and thank you for your questions. Right now, I'd like to take this opportunity to invite you to be with us again in the next call for our next quarter (inaudible) of our next quarter. And I hope you all have a very good day.

Operator

Gerdau broadcast is now completed. I would like to thank you all for participating and I wish you a very good afternoon.