

Q3 2011 Earnings Call

Company Participants

- Andre Bier Gerdau Johannpeter, Director, President, CEO
- Osvaldo Schirmer, VP, IR Director
- Unidentified Speaker, Unknown

Other Participants

- Felipe Hirai, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Martin Salario, Analyst
- Renato Antunes, Analyst
- Rene Kleyweg, Analyst

Presentation

Operator

(interpreted) Good afternoon. Welcome to Gerdau's webcast to present the results referring to the Third Quarter of 2011. Right now all participants are connected on listen mode only and later on we will initiate our Q&A session. (Operator Instructions)

Any statement that may be done during this presentation related to the business outlook of the Company. And any projections related to the operating and financial outlook for the Company are simply forecast based on expectations from management in relationship to the future of the Company, even though Gerdau believes that its comments are based on reasonable assumptions. There is no guarantee that these future events will affect these evaluation.

Here we have Mr. Gerdau, Andre Gerdau Johannpeter, Director, President and CEO; and Osvaldo Schirmer, Vice President and IR Director. I would like now to give the floor to Mr. Andre Gerdau Johannpeter. Mr. Gerdau, you have the floor.

Andre Bier Gerdau Johannpeter {BIO 1925562 <GO>}

(interpreted) Thank you, very much. Good afternoon. Once again, welcome to this audio conference that reports on the results related to the Third Quarter of 2011. I would like to begin our analysis by assessing the world's landscape of the steel market. And right after that I will talk about Gerdau's performance in the Third Quarter of 2011. And the outlook for the regions where the Company operates.

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Right after that, Mr. Osvaldo Schirmer will give you more details about the financial performance of the Company. And then, we'll be available to take your questions. It is important to remind you that during our presentation, we will evaluate the performance of the Third Quarter of the Company vis-a-vis the same period of 2010. In addition, we will also talk about the year-to-date performance of Gerdau from January to September.

For those of you who follow us on the web, on page 2, the world production of crude steel. I would like to start by giving you some figures. The total production was 375 million tons in the Third Quarter and this volume is 10% higher when compared to the same period of the year before.

If we exclude China, which had an output of 174.8 million tons during the quarter, the world's steel production was 200 million tons and this represents a 6% increase over the Third Quarter of 2010, according to this source, from the World Steel Association.

Now, in Brazil, the production was 8.9 million tons, which represents a 5% increase when we compare it to the same period of the year before.

In the United States, growth was 10% vis-a-vis the Third Quarter of 2010 with production of 22 million tons. In the countries of Latin America except for Brazil, the production was 8.5 million tons, which is an increase of 15%. And in India, the increase in production was 6% reaching 18.3 million tons during the period.

On page 3, we will give you some more figures and the highlights of the Gerdau in the Third Quarter. I have some comments about this momentum, even in view of the great volatility of the financial markets, Gerdau had very good performance in the Third Quarter due to the growing demand for steel in the markets where we operate and also due to good management of our teams, which allowed us to increase our cash position, to reduce our net debt and also other financials, in G&A and administrative expenses.

We had 4.8 million tons in terms of consolidated shipments, an evolution of 10% vis-a-vis Third Quarter of last year. And year-to-date from January to September, shipments reached 14.5 million, which represented an increase of 12% when we compared it with the first nine months of 2010.

Now steel production reached 5 million tons in the Third Quarter and that represents a 14% increase when compared to the same period of 2010. Year-to-date, that was 11% growth reaching almost 15 million tons.

Net sales 9% higher when compared to the same period of the year before, reaching BRL9 billion in the first nine months of the year. The consolidated net sales reached BRL26.3 billion which is a 12% growth when compared to the same period of the year before.

Operating cash generation, which is EBITDA was BRL1.2 billion, a reduction of 4% when compared to the same period of the year before. This is mainly due to cost pressures in

raw materials. Now, from January to September year-to-date, EBITDA was BRL3.6 billion.

Net income grew 17% when compared to the Third Quarter of 2010, reaching BRL713 million. Year-to-date, net income was BRL1.6 billion.

Dividends, we will pay BRL204.6 million to the shareholders of Gerdau's S.A., basically equivalent to BRL0.12 per share and BRL77.2 million to shareholders of Metalurgica Gerdau S.A., which is equivalent to BRL0.19 per share.

In terms of investments in the Third Quarter, investments in CapEx totaled BRL616 million. And they are according to our disbursement rates. Out of this total, 79% were geared towards Brazil.

In terms of investments in Brazil, I would like to highlight the project of the installation of the flat steel rolling mills and also for the production of iron ore. And the increase in our capacity at Cosigua in Rio for longs and also the mill for specialty steels in Pindamonhangaba. During the initial nine months considering all the countries where we operate, the total investment was at BRL1.3 billion in asset property.

Now on page 4, I would like to highlight some of the outlook. I would like to begin by giving you some information about the International Monetary Fund. The information has been reviewed. And what is the expectation of the global GDP, the expectation is a 4% growth for 2011.

And the global economy or world economy should also grow 4%. Indeed they are figures provided by the International Monetary Fund. In terms of world steel consumption according to the World Steel Association, the forecast for growth for 2011 should be an increase of 6.5%. And that is a very strong growth and it should come from developing economies.

Now, if we think in terms of 2012, the figures from the World Steel Association indicate that we should expect growth of a little bit over 5% and this increase should come from emerging countries, mainly Greek, the Middle East and Northern Africa.

And according to the World Steel Association again, it is expected these developing economies will account for 70% of all the steel consumed in the world in 2012.

In Brazil, the expectations point to a growth in GDP of 3.2% in 2011. These are figures from the Central Bank. And as a consequence of this economic landscape, the consumption of steel according to Instituto Aço Brasil should reach almost 25.9 million tons and this is in line with volumes posted in 2010. For next year, the growth expectation of the Brazilian economy is at 3.5%.

Steel consumption on the one hand should be at 29 million tons, which accounts for a 12% increase. Considering the Brazilian steel market, I would just like to make -- to highlight that the segment of longs and flats are experiencing different moments.

According to the Instituto Aco Brasil, in the first nine months of the year, sales or shipments of longs experienced a 7% growth, whereas flats had a 4% reduction in sales during the same period. If you look at the main consumers of longs, the expectations are the following.

According to the downstream industry, the GDP of the sector should grow 1.5% in 2011 according to the Central Bank. But now if we turn to civil construction, the Central Bank estimates that there should be a growth of 3.4% in 2011.

Gerdau is already participating very actively in the construction of the soccer stadium for the World Soccer Cup in 2014 and some other very important construction works in the country like railways, windmills, ports, roads. And Minha Casa, Minha Vida Program. Therefore, we are in tune and ready to fulfill the demand for steel in Brazil, not only to fulfill the actual demand. But also whatever is in the pipeline for Brazil.

Now, continuing on to page 5, we will now talk about North America and Latin America. And I will begin by speaking about North America. Our operation, we had a very good performance in the Third Quarter. We had very good demand levels for steel, especially in industry and energy. In the period analyzed between July and September, the GDP in the US experienced growth of 2%.

And the expectation for the year is that it should grow 1.5% according to the IMF. But if we talk about 2012, the expectation for growth of the US economy is at 1.8%.

Another important indicator is the management. Indicator (inaudible) supply manager, which is one of the most important indicators of the American economy, which swung 1.6 points in September and up -- and above 50 points that means that there has been growth.

On the other hand, the construction industry still has levels below historic levels in terms of consumption. But estimates of the World Steel for the US indicates that demand should grow. In 2011 the country should have a 12% increment in steel consumption, reaching almost 12 million tons. And for 2012, the expectation overall at 5% growth reaching almost 94 million tons in consumption.

Canada, GDP experienced a 2% growth in that half year and it should reach 2.1% growth. And the consumption of steel in Canada should reach 14 million tons for 2012. GDP of the country according to the IMF should be 1.9% and the growth of the consumption should be 5%. So, these are some figures for North America.

Now, Latin America. And some of the countries where Gerdau operates. Economic growth has been good in the Third Quarter. Just to mention one example, I would like to mention 5.2% growth in Colombia; Chile 5% and Peru 5.2% growth in GDP.

In this year, according to world steel consumption, I'm excluding Brazil, there should be a growth of 9% when you compare this to 2012 reaching almost 40 million tons. Now for

2012, the consumption should be 41.7 million tons and this should be the equivalent to a growth of 5%.

Now, I would like to talk about our specialty steel operation on page 6, starting on page 6. In the Third Quarter, we produced -- they produced 3.3 million light vehicles and that includes light vehicles and commercial light vehicles considering the markets of the United States, Canada. And Mexico. And this is the equivalent of an increase of 12% vis-a-vis same period of 2010.

In 2011, I would like to highlight very positive outlook for the market of medium and heavy vehicles and these are vehicles that take up more steel in their composition. And estimates indicate that there should be a 34% growth in the production for 2011. In relation to light commercial vehicles it is estimated that this market should experience an 8% growth.

In Brazil, the production of vehicles, the passenger vehicles, light, medium. And heavy commercial vehicles, the growth is 2% higher than what it was experienced in the quarter, reaching 890,000 units. And according to ANFAVEA, the production should reach 3.4 million tons in 2011.

In Europe, in the Third Quarter, the number of registration of light, medium. And heavy vehicles in the European Union grew 6% vis-a-vis the same period in 2010. And it is estimated that in 2010 light commercial vehicles should experience a 5% growth. And in medium and heavy commercial vehicles they will grow 18%.

It's important to mention that Germany and France are two important markets that are supplied by our operations in Spain, they are -- which are recovered.

Now we have our final comments in the next page. And now we begin to speak a little bit about the outlook for the global steel market which points to the growth in demand in 2012.

And again, according to the statistics presented by the World Steel -- nevertheless, we are still very cautious and so are our customers vis-a-vis the economic growth landscape. The economic uncertainties and the volatility of the markets, which are caused mainly by the financial situation of Europe and the United States, as well as by emerging economies like Brazil, China.

And India which are operating with monetary restrictions to deal with the rise of inflation make it difficult to predict the real impact of the deceleration of their economies in terms of steel consumption, mainly because most of our operations, we are not feeling this effect because we are located in emerging areas and the demand is still very strong.

In this regard, I would like to highlight a very good momentum of the automobile industry and oil industry in Brazil and other segments. And also, I would like to highlight the

recovery and the volume of sales and the operating results of our operations located in the US.

Another, I mean, one reason for concern that we have relates to the deindustrialization of the metal-mechanical chain in Brazil and in Latin America because they are important consumers of steel.

As a recent study indicated and according to our recent study by Instituto Latinoamericano del Fierro y el Acero ILAFA, the commercial deficit of metal-mechanical products between China and Latin America was \$57.5 billion in 2010.

In Brazil, the impacts of that segment have been quite high. There is a very clear step down in the participation of the manufacturing industry and the added value, which went from 18.1% in 2005 to 15.8% in 2010. In addition, more than 60% of extra sunshine into Brazil are of metal-mechanical products.

This loss of competitiveness of the country is mainly generated by the appreciation of real vis-a-vis dollars by high interest rates and the appreciation of the dollar and high taxation. Therefore, we have to work to eliminate bottlenecks because they are an impediment to sustainable development in the long run. And also that hampers the Brazilian and Latin America industry.

In view of this landscape that I just highlighted, our priority is to seek for continuous improvement in our operations and this involves continuous efforts to reduce the impacts of the raw materials in our business.

And I would like also to say that we are constantly looking for strategies to expand the supply of coking coal from our operations in Colombia, as well as investments to increase our own production of iron ore in the projects to monetize part of this raw material located in Minazota. In terms of our monetization plan, we have many studies as we have pointed out before.

In conclusion, I would like to mention and we are very pleased to say that it is the second time that we are awarded the Safety and Health Excellence Recognition 2011 granted by World Steel due to best practices in safety. It is the merit of our team of employees that place safety first of everything else.

So with that, I conclude my presentation and I give this forward to Schirmer. And after his presentation, I will come back to take your questions. Thank you, very much.

Oswaldo Schirmer {BIO 1754610 <GO>}

(interpreted) Good afternoon. And I would like to invite you to refer to slide number 8. Third quarter of 2011, vis-a-vis the previous year; good consolidation according to IFRS. I would like to start my presentation with the consolidated results and afterward I will be talking about the business operations and the capital structure.

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If you look at slide number 8, consolidated net sales and then a bridge chart which allows us to understand the behavior of the EBITDA. Consolidated net sales for the Third Quarter of '11 was BRL9 billion as was said by Andre before; BRL777 million higher year-on-year, a 9% growth.

And you can see this on the second bar of the bridge chart. And this increase in the net sales occurred because of the higher shipment sales in all our business operations, positive, on average 10% of the volume shift.

The cost of sales increased by BRL788 million year-on-year which you can see on the third bar of this chart and represent a 12% increase year-on-year.

The higher cost of sales was because of the higher shipment sold in all our business operation. The participation of SG&A vis-a-vis net sales was kept at 7% in the periods that are being compared.

Considering these variations, the Third Quarter of 2011 EBITDA reached BRL1.2 billion, 4% lower than the one obtained in the Third Quarter of 2010, resulting into an 14% EBITDA margin. This reduction can be explained by the increase in raw material prices and the stability of prices for the final steel product.

The net of the financial result by BLR58 million will be explained on the next slide. The consolidated net income for the Third Quarter of 2010-11 year-on-year was higher, influenced by the lower financial expenses, the exchange rate effect. And also the tax benefits stemming from the payment of interest on capital established during the Third Quarter of 2011.

Slide number 9, financial results, as I said before. In the Third Quarter, financial income and expenses were positively affected by the public offering of stock which was carried out on April 18, 2011. And part of the result is obtained with the offering were the advance payment of the debt and the remaining balance remained as cash. As a consequence, the financial revenues grew by BLR85 million from the Third Quarter of 2010 to 2011 as you can see the lower part of the slide here.

And the financial expenses on the other hand had a reduction of BLR46 million during the same period compared. In relation to the effect of the exchange rate variation, it is important to stress that in this quarter there was no relevant effect on the debt, on the financial results BRL12 million positive. Accordingly, you can see on the upper part of the slide.

Based on the IFRS norms, the Company has been designating most of the debt in foreign currency contracted by companies in Brazil as hedge according to the concept of hedge account associated to our investments made by subsidiaries abroad. And as a consequence the effect of the exchange rate variation of these debts is recognized directly in the shareholders equity, significantly reducing the impact and volatility in our bottom line.

In the Third Quarter of 2010, as an important part of the debt was not yet designated as hedge. And therefore it still had the exchange rate variation having an impact on the financial results. There was a gain of a BRL198 million in this exchange rate variation and the net effect between the period that we are comparing, BRL198 million vis-a-vis BRL12 million was negative by a BRL186 million as you can see on the lower part of the slide on the third bar.

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So, Gerdau performance in Brazil, this is slide number 10. Let's talk about the Brazil business operations. The shipment volume reached 1.8 million tons, 9% higher year-on-year and of which 77% or something around 1.4 million tons went to the domestic market, as you can see on the chart on the left.

And the strong demand coming from the construction sector allowed us to have higher shipments in the domestic market. And by the way, the Central Bank expects a 3.4% increase in the civil construction GDP in 2011 and the industry and the production of capital goods had a good performance over the year.

Also according to the IBGE information (technical difficulty) with a slower pace, net sales reached BRL3.3 billion as you can see on the chart on the right with a slight growth vis-a-vis the Third Quarter of 2010.

And the higher volume of shipments in the period was offset by the reduction in the net sales per ton due to the discounts granted in the second half of 2010 and that only more recently were discontinued due to the price stability. And this business operation, just to give an idea, contributed with 36% of the consolidated net sales in the quarter.

EBITDA in the Third Quarter of 2011 was BRL521 million with a 16% margin vis-a-vis 20% in Q3 2010. The reduction in the net sales per ton and the increase in the cost of raw materials generated a lower EBITDA margin in the period compared even with a higher dilution of fixed costs and the higher shipment.

It was one of the highest shipments in our recent history. However, in relation to Q2 2011, EBITDA had an increase due to the higher volumes sold in the domestic markets and the highest shipments resulting in a better mix. And as a consequence the EBITDA margin went from 15% in Q2 '11 to 16% in Q3 '11.

Slide number 11, the performance of Gerdau North America. In North America, we have 8% increase in shipments in Q3 '11 year-on-year, as you can see on the left. And this results from the higher levels of demand in the region especially from clients from the industry and from the energy sector.

Net sales of the North America business operation reached BRL2.7 billion. On the right, you can see, 15% higher year-on-year. The increase in net sales resulted from the higher shipment sold and higher net sales per ton sold.

And this business operation contributed 30% to the consolidated net sales for the quarter. The EBITDA margin went up from 8% in the Q3 2010 to 11% in Q3 2011, because of the increase in shipments which helped dilute fixed costs besides the higher net sales per ton, which grew proportionally more than the growth in the cost of raw materials.

Slide number 12, Latin America. In Latin America shipments were 711,000 tons in Q3, 26% higher year-on-year. The highlight here is higher shipment in Colombia, Mexico and Argentina coming from the good demand from the construction sector in these countries and net sales went to BRL1.1 billion vis-a-vis BRL919 million in Q3 2010. And this means a 24% growth and totally in line with the increase in shipments. This business operation, Latin America contributed 13% to the overall consolidated net sales for the quarter.

EBITDA in absolute numbers grew by 22% with -- going from BRL72 million to BRL88 million in Q3 '11, fundamentally due to the higher shipments. And the EBITDA margin in the Third Quarter of 2011 was 8% in line year-on-year.

Specialty steel, slide number 13. In the specialty steel business operation, the operations in Brazil and in the United States were stable due to the high levels of shipments that we had already reached in the previous quarters.

In the market served by Spain, mainly Germany and France, where demand was more repressed in the previous year, shipments had an important rebound in the period. Net sales grew by 10%, mainly due to the higher sales per ton.

This business operation contributed 21% to the consolidated net sales in the quarter. The Third Quarter EBITDA amounted to BRL300 million and it was 13% lower than the Third Quarter of 2010.

And the EBITDA margin went from 20% to 16% year-on-year. And the lower margin is due mainly to the increase in the prices of raw materials, which was higher than the growth in the net sales per ton, revenues per ton.

Slide number 14, some remarks about the indebtedness and liquidity of the Company. The net debt on September 30, 2011 was BRL9.1 billion representing a BRL1.3 billion increase compared to June 30. And as a consequence mainly of the devaluation of the real vis-a-vis US dollar which was 19% of the quarter.

Nevertheless, we must remember that the capital increase that we did in April helped amortize short-term debt and reduced by 37% the indebtedness that we had in December. And it also allowed us to double the level of liquidity and cash availability that we had.

Most of the gross debt, about 61% has its origin in the capital markets, debentures and bonds. And over the years, gradually we reduce the reliance on banking operations and replacing them for market operations.

The weighted nominal average cost of this gross debt on September 30 was 6.3%. And 8.3% was the amount in reals denomination and around 5.7% plus, the exchange rate variation for the total denominated in dollars have borrowed here in Brazil. And 5.9% and 6% a year for subsidiaries abroad.

Then the gross debt EBITDA ratio was around three times and the net debt EBITDA ratio two times on September 30, 2011 indicated highly or slightly secured than the levels of June, which were 2.7 times and 1.7 times respectively. Basically, due to the depreciation of the reals vis-a-vis the dollar during the same period.

But totally comfortable in relation of (technical difficulty) debt repayment schedule as you can see on the right shows a complex situation as well for the next few years.

Cash generation and net resources. So this gives us a very high level of comfort. In late September, at the end of September, the average term for debt repayment was 5.6 years.

And the cash conversion of cycle in September had an increase of seven days vis-a-vis the cash conversion cycle in June with a stable net sales compared to the 8% increase in our working capital.

And this increase is due to the replenishment of our inventory in the period and the exchange effective in conversion to the real, of the inventory in our companies abroad.

And finally, to finalize this balance sheet presentation, I would like to reinforce Andre's message that it is a clear objective of the Company to continue with this strategy of seeking a better management of our operating expenses. And this way we believe that Gerdau would certainly have better and better conditions to occupy differentiated positions in the markets that we operate.

And now Andre and I will be available to you to answer any questions that you might have.

Questions And Answers

Operator

(interpreted) (Operator Instructions) Our first question comes from Mr. Felipe Hirai, Merrill Lynch.

Q - Felipe Hirai {BIO 15071781 <GO>}

(interpreted) Good afternoon. I have two questions. The first one has to do with the steel demand that you see in the market. You said that you haven't seen a deceleration in the demand for your products. But maybe you could tell us what you see in the short run, especially now in the Fourth Quarter. Do we expect a slowdown, a seasonable slowdown and could it even be stronger?

And the second question has to do with prices, long steel in the domestic market. If you see any kind of pressure to reduce your prices in the short run because of the drop in prices that we see in the global market?

A - Andre Bier Gerdau Johannpeter {BIO 1925562 <GO>}

(interpreted) Good afternoon. This is Andre. About demands, as we said before, up to now our shipments haven't been affected very strongly and this is seen in part also because we are in more emerging economies that continue to grow. But even in our operation in the United States and Spain, which are developed economies, we see some signals. But nothing very important.

And it's interesting that we see the financial markets very volatile and very nervous as financial crisis and we see the situation in Europe and the United States. And control of inflation in countries such as the Brazil, China and India creates a certain degree of deceleration. But we do not know exactly how much this will affect the steel consumption ultimately.

We have some data about the GDP and steel showing a lifted growth in developing countries. But it's difficult to make -- it's difficult to foresee exactly. Of course, the Fourth Quarter has a seasonality. But it is not different from all the previous years. So, based on what we see in our portfolios, we believe that demand will continue to exist and some slowdown in developing economies.

But we do not see or foresee a crisis or anything like that. It is just a slight slowdown, I would say.

Regarding prices, it's very difficult to predict anything at all in any market because the markets are very volatile. And the raw material prices have went down this last month. Iron ore and coal and with a slight recovery already and this affects more the spot market. And it's going towards this higher stability than anything else I believe.

Q - Felipe Hirai {BIO 15071781 <GO>}

(interpreted) Thank you, very much.

Operator

(interpreted) Leonardo Correa, Barclays Capital.

Q - Leonardo Correa {BIO 16441222 <GO>}

(interpreted) Good afternoon. My first question has to do with the US market. We read some recent news about the drop in prices, a slight reduction. But, maybe you could tell us about the outlook of metal spreads in the region?

And the second has to do with mining. And Andre, I understand that in the introduction, you have already mentioned that the studies continue. But maybe you could give us an

update about the next step that we may expect from now until the First Quarter of 2012? And help us understand any logistic solution, especially regarding the forward situation. So, that would be very helpful. These are my two questions.

A - Andre Bier Gerdau Johannpeter {BIO 1925562 <GO>}

(interpreted) Okay. Schirmer, I'll answer the part of the question and you can answer the second part of it.

In terms of the North America markets, I think, I mean the local industry is really notable in terms of maintaining something important, which is the spread.

Our spread is close to \$500 per metric ton and that is a very important spread. It's in the (inaudible) not very long ago and volumes are slowly recovering. We are operating at 70% of the capacity. Of course, it could be better. But our capacity is good. Our cash generation is significant and our EBITDA margin is above 11%, 12%, which is a significant recovery once -- at the end of last year was below 10%.

We are looking at the US market in a very optimistic way, considering the background and maybe, it's easier for us than journalist. It is different when you talk about longs because the world, in a way, it's looking at what's happening to flat. But, longs, it's very different when you compare it to the segment of steel as a whole.

It's not as good as it could be by the infrastructure works. If they were happening in a different way it could be even better. We are prepared to suit the demand. But this is a view that we have for the following year, to maintain and improve the current volumes and certainly, probably the maintenance of the current volumes that will ensure good levels in the maintenance of the employed capital.

Now, about mining. We are proceeding with our studies and the goal is to continue with the same business plan and that's when we will define the exploitation, the exploration and the values and logistics and everything. So, as we said before, we already hired a company to help us. We have our own team, well structured and focused in that project.

So, if everything is according to plan. I don't have much more to say because this is yet to be defined. You asked about the port. We have an alternative of having our own port in Itaguaí that is a project that's being steady. And then, we are also studying something with CSN in the same region. And there is also the alternative to use ports from third-parties and other ports that are either being constructed or are already operational.

Therefore, I don't have any more details to give you. All I can say is that everything is according to plan and it has been announced we want to have our business plan by the end of the year and then we will define the next step. Good afternoon. And thank you.

Operator

(interpreted) (Operator Instructions) Mr. Marcos Assumpcao from Itau BBA.

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Q - Marcos Assumpcao {BIO 7474402 <GO>}

(interpreted) Good afternoon. In fact, I would like to confirm with Schirmer, you said very quickly that the discounts in the domestic markets, some of them were discontinued recently?

And could we expect some opportunities in the short run regarding the domestic part of the operations here. And according to the scenario, you have not seen an acceleration in infrastructure investments yet. So what is the expectation that you have for the domestic market for 2012?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) Regarding prices, the industry as a whole and we have to give discounts on the prices that we were practicing in June, July and August and they were extended until the end of the year and we had a slow recovery afterwards and this is why we have a higher revenue per ton in the quarter.

Our expectation for the Fourth Quarter is in expectation of price stability. I wouldn't be able to say anything or tell you about the different scenario. We expect stable price scenario for the Fourth Quarter.

Regarding shipments, which is the second part of your question, the industry as a whole. And our Company included, we are talking about 10% and 12% scenario -- growth scenario for next year.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

(interpreted) Thank you, very much, Schirmer.

Operator

Martin Salaris from HGF.

Q - Martin Salaris

Thanks. My question is about the (technical difficulty). I just think that the growth was about 15%. And your shipment was about only 2%. So if you could -- you have color why there was such a big increase in cost, given that (technical difficulty) shipment went up very little. (Technical difficulty)

Operator

(Operator Instructions) Mr. Renato Antunes, Fator Corretora.

Q - Renato Antunes {BIO 17439917 <GO>}

Good afternoon. Thank you for taking the question. From the qualitative viewpoint about the competitive environment in Brazil, could you tell us what you expect in the next few

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years making a comparison between imports and these two factories?

And the second question has to do with investments in Acominas. Could you give us an update of the schedule for your project towards the timeline for this upper growth in EBITDA growing operation?

A - Unidentified Speaker

(interpreted) Part of the question was about the competitive environment in Brazil and the entrance of new players and eventually imports in the future, in the pipeline. I would say that this is a free market, I mean new entrants can come in.

First let me say that the industry that we already have in the country is quite diversified in geographic terms because we have the means of delivering a readymade product to the customer's doorstep, which makes it more difficult for newcomers to come in.

But in terms of the competition, the market is also very competitive. In the past really demonstrated how competitive the market is. And some importers have -- to do a lot therefore to come into this market. Therefore, I would say that two or three years into the future, we would see the continuation of what we have today with the local industry playing its role, imports would play its role. But it's very difficult to compete with the local industry.

In terms of new projects in the country, they will still exist from distributors that grew. They are getting set up in the country and they will find a sound competitive niche. And Andre will tell us a little bit about Acominas.

A - Andre Bier Gerdau Johannpeter {BIO 1925562 <GO>}

(interpreted) In Acominas, we are building our hot coil rolling mill, which should begin operations by the end of the following year. And the heavy plate rolling mill should come next and that's still alongside with our plans. Thank you.

Operator

(interpreted) (Operator Instructions)

A - Andre Bier Gerdau Johannpeter {BIO 1925562 <GO>}

(interpreted) Before the next question, there was a question in English that we could not understand because of the quality of the telephone line. So, we would like him to repeat his question please.

Operator

(interpreted) He is getting into the queue right now. Standby please. Mr. Martin.

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Q - Martin Salario

Thanks. My question is about specialty steel. And basically what I'm trying to understand is why this shipment went up 2% and the cost went up 15%? So, if you could give us some insights on what happened in the specialty steel and what we can expect going forward?

A - Andre Bier Gerdau Johannpeter {BIO 1925562 <GO>}

(interpreted) The question was about the specialty steel segment. With a comparison of the cost increase, as you would like to understand how -- why the cost went up so much if we had a drop in shipments?

Basically, there is this one single factor that is. So to say, to be blamed. It was the very high increase in the price of specialty steel scrap and there was a very big price hike there during this period. And this was the only reason and it continued to be a very important and very profitable operation for us. And it shows one of the best EBITDA margins in revenues per ton. Even because of the whole nature of the business itself.

Operator

Rene Kleyweg, UBS.

Q - Rene Kleyweg {BIO 16569285 <GO>}

Good afternoon, gentlemen. Thanks for taking my question. Just, I'm not sure if there is discussion earlier on or not. But, could you just touch on what's happening with domestic scrap prices?

And secondly, what you are seeing and where you are thinking now in terms of sustainable domestic premiums versus the international market? Thank you.

A - Andre Bier Gerdau Johannpeter {BIO 1925562 <GO>}

(interpreted) The question was about the prices of scrap in Brazil. And the second part was about the premium price for scrap in Brazil. What is the trend?

Q - Rene Kleyweg {BIO 16569285 <GO>}

Premium price for international products and scraps, right.

A - Andre Bier Gerdau Johannpeter {BIO 1925562 <GO>}

(interpreted) Raw materials tend to follow the movements that we see in the global markets, which have dropped either in iron ore or coal and also in the scrap markets. And this is when you can have a downward trend. We are still working on that; we do not have any figures to give you.

And likewise, when we talk about the sale, the premium, the market is very volatile once again, once we saw was a drop in prices spot internationally for raw materials that

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dropped in this last month and now it stopped probably. And there we see some slight rebound.

And so, it's very difficult to make any kind of prediction because the market is volatile, the spot market, the world spot market and consequently the domestic market as well.

Operator

(interpreted) Mr. Marcos Assumpcao, Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

(interpreted) Well, I would like you to tell me what is your expectation in terms of capacity utilization in the US in 2012? And why you see the metal spread in the US in the short run?

A - Andre Bier Gerdau Johannpeter {BIO 1925562 <GO>}

(interpreted) Well, I think I already mentioned that -- two answers ago, because the spread landscape in the US should be maintained, thanks to the great effort on the part of the industry to quickly readjust to the maintenance of raw materials. And so, we will have a scenario of maintenance. And we will see a gradual maintenance in volumes and that took place throughout 2011 and also 2010.

So, what we see is a continuation and the figures should improve at the end of this year and next year in terms of volumes, not saying dramatic. We will not resume the volumes of 2008. But it will be a gradual recovery. This is in terms of the use of longs for the energy industry. Therefore, we will see the maintenance and the increased use of long steel in North America. Thank you.

Operator

(interpreted) (Operator Instructions) We now conclude this session of questions-and-answers.

Now, I would like to give the floor to Mr. Andre Gerdau Johannpeter for his final remarks.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) I would like to thank you for your participation. There was a good number of participants today both in English and Portuguese. I would like to put at your disposal our Investor Relations department in case we did not fully answer your questions. And now I'll give the floor to Andre.

A - Andre Bier Gerdau Johannpeter {BIO 1925562 <GO>}

(interpreted) Thank you, all very much for your participation and interest in our results and I would like to invite you to take part in our next meeting when we will tell you more about our results on February 28th. Thank you, very much and have a good day.

Operator

(interpreted) Gerdau's webcast is over. Thank you, very much. And have a good afternoon.

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