

Q1 2015 Earnings Call

Company Participants

- André Bier Gerdau Johannpeter
- André Pires de Oliveira Dias

Other Participants

- Alan Glezer
- Carlos F. De Alba
- Ivano Westin
- Leonardo Correa
- Marcos Assumpção
- Rodrigo Furtado
- Thiago Lofiego

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, and welcome to Gerdau's conference call to discuss the Results of the first quarter of 2015. Right now, all participants are connected in listen-only mode. Afterwards, we will have a question-and-answer session.

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

Today with us we have Mr. André Gerdau Johannpeter, President and CEO; and André Pires, Vice President and Investor Relations Officer.

Now I would like to give the floor to Mr. André Gerdau Johannpeter. Mr. Gerdau, you may proceed.

André Bier Gerdau Johannpeter

Thank you very much. Good afternoon. Welcome to our conference call to talk about the results of Gerdau. We will start the analysis by the world steel analysis and afterwards we will be talking about Gerdau's performance in the first quarter of 2015 and afterwards we will be detailing the investments made in the period.

FINAL

Bloomberg Transcript

FINAL

It's important to mention that the analysis of performance of the first quarter earnings performance into the first months of the year will be in relation to the same period in the previous year. After my presentation, André Pires will detail the financial performance of Gerdau, and afterwards we will be available to answer your questions. For those of you who are following us on the Internet on page number two, we'll be talking about the world steel sector that continue to go through a challenging moment this year. And in this sense, we would like to highlight the overcapacity installed that has been impacting the profitability of the industry as a whole.

Another important point in the scenario is a low growth outlook for global fuel consumption of 0.5% for 2015, and this is driven according to World Steel Association's study. From the economic deceleration of China, stable demand in the U.S. after a high consumption in the previous year, and an economic downturn both in Russia and Brazil, rotationally, we see as a path to gradual economic recovery in the European Union.

We also see that, the inflow of imports continues mainly from China in a considerable amount (00:03:02) Latin America and in spite of the fierce competition we see in the local steel market that we cater to in the U.S. a positive pace. In case of Brazil, our main markets – projections continue to point to a complex scenario characterized by an economic slowdown and pressure from import competition.

Because of this situation, steel consumption in the country should drop by 7.8% in 2015 according to data from the Instituto Aço Brasil. In the specialty steel segment, the current demand levels in the U.S. are close to the all time high, which means that the perspective is that the expansion in 2015 will be moderate in the U.S. We would like to highlight the perspective of increase in the sale of light and heavy vehicles in the European and Indian markets. Although on the other hand, the Brazilian automotive industry started 2015 with a strong deceleration in sales and production in the market of both light and heavy vehicles, which will continue to have a considerable impact on the consumption of special steel in the country.

Now let's talk about the main figures of Gerdau on page number 3, considering the scenario that I have just presented. Starting with the consolidated shipments. We shipped 4.1 million tonnes, 6% reduction, vis-à-vis the first quarter of the previous year. Net sales was BRL 10.4 billion, stable, vis-à-vis the same period of last year, and the performance was impacted mainly by the lower demand for steel in regions where the company operates and by the world overcapacity. On the other hand, net sales were positively impacted by the exchange rate effect on the conversion of dollars to real.

EBITDA. EBITDA was BRL 1.4 billion, 9% lower on a year-on-year comparison, reflecting mainly the lower demand in the Brazilian domestic market and the lower volume of shipment of iron ore. On the other hand, EBITDA of the North America operations focused on catering to the long steel market had an expressive evolution on a year-on-year basis.

SG&A, there was a 7% reduction in a comparison with the first quarter of 2014 and this reflects our endeavors to rationalize our expenses during this period and if we consider

only G&A to 10%. Net income went from BRL 440 million in the first quarter of 2014 to BRL 267 million due to the lower operating results and higher negative financial results.

Now let's talk about our main investments in the quarter on page number 4. We disbursed BRL 612 million to make investments in PP&E or CapEx that had already been announced and the highlight was the installation of the new heavy plates rolling mill in the Ouro Branco mill and the equipment, I would like to remind you that it has an installed capacity of 1.1 million tonnes and should be started up by the end of 2016. For 2015, we will continue our program of disbursement and our plan continues to be BRL 1.9 billion in CapEx, considering that we maintain productivity improvement and maintenance as well.

I end my part of the presentation, then I will give the floor to Pires and then I will come back.

André Pires de Oliveira Dias

Thank you, André. Good afternoon everyone. For those who are following us on the Internet, let's start by slide number 6. And I will be talking about the result and the performance of each one of our business operations in the first quarter of 2015 and afterwards we will give you details about the consolidated results. And at the end, I will close the presentation talking about our capital structure. Starting by Brazil, the uncertainty in the economic environment has been causing a lower level of demand that has been affecting our business, few shipments in the first quarter of 2015 dropped on a year-on-year basis due to the drop in the demand from the domestic market partially offset by higher exports in Q1 2015. I would like to remind you that Q1 2014 benefited from the world cup infrastructure project.

Looking to the EBITDA of 1Q 2015 the absolute value separate the reduction of 29% on a year-on-year basis mainly due to the lower volume shipped in the domestic market and the consequent deterioration due to market mix and this also affected the EBITDA margin from 20% in Q1 2014 to 16% in Q1 2015.

In North America, the economic environment continues to be positive, but as André said, the growing pressure from imports resulted in a reduction in shipments 4%, when we compare Q1 2015 to Q1 2014, EBITDA of Q1 2015 reached BRL 226 million compared to BRL 70 million in Q1 2014 and increase is due mainly to gains from metal spread. Beside the exchange rate variation in the period, the higher metal spread contributed to the evolution of the EBITDA margin from 2.1% in Q1 2014 to 6.2% in Q1 2015.

In Latin America, shipments in Q1 2015 had a reduction of 7% on a year-on-year basis due to the increase in imports mainly from China and Turkey and the lower pace of economic growth in the region. Nevertheless, EBITDA of the first quarter of 2015 was relatively stable on a year-on-year basis. Special Steel Business deal shipment dropped by 8% on a year-on-year basis due to the reduction in demands in Brazil and the start up of the finishing line of Monroe in U.S.

The increase in the consolidated EBITDA of the Special Steel operations in Q1 2015 on a year-on-year basis occurred due to the higher net sales return in Brazil, and the positive impacts of the exchange rate variation on the results of our operation in the U.S. Thus, the EBITDA margin went from 9% in Q1 2014 to 11.6% in Q1 2015.

In the iron ore business organization, shipments in Q1 2015 vis-à-vis Q1 2014 dropped by 27% mainly due to the lower volume shipped to third party. It's important to remind you that due to the low prices of iron ore the company has been focusing its deliveries to get down units. The drop in the EBITDA and EBITDA margin in Q1 2015 as in comparison with Q1 2014 was the result of lower international prices of iron ore.

Now going to slide number 7, talking about the consolidated results, EBITDA reached BRL 1.89 billion in Q1 2015, a 9% reduction on a year-on-year basis. If we look at the bridge chart on the upper part of the slide, we can see that this reduction was driven by the lower volume shift mainly - partially offset by the higher net sales per tonne, and a reduction in SG&A. These expenses dropped by 7% more than offsetting the impact of the exchange variation in our international operation and the EBITDA margin went from 11.3% in Q1 2014 to (00:12:12) basically due to the lower operating result.

Now talking about dividends based on the results obtained in Q1 2015 we will be paying dividends amounting to BRL 8.1 million for shareholders of Metalúrgica Gerdau BRL 0.02 per share and a BRL 101.2 million for shareholders of Gerdau SA \$R0.06 per share, proceeds will be paid on June 2 based on the positions held on May 21. Besides a dividend as a way to remunerate our shareholders, Gerdau SA's share results a share buyback program from January to April finalized on April 17 now, amounting to 19.9 million preferred shares brought back, total investment of a BRL 189.2 million.

Slide number 8, talking about indebtedness and also liquidity. Gross debt on March 31, 2015 was BRL 22.9 million, higher vis-à-vis December 2014 as a consequence of the effect of the exchange rate variation. The average weighted cost of the debt was 6.6% a year with an average amortization period of 6.9 years. The net debt EBITDA indicator was 3.2 times in March 2015, due to the exchange rate variation basically, that affected the whole debt immediately but we will have the EBITDA on the EBITDA over the next few months.

Slide number 9, talking about working capital, in March 2015 the cash conversion cycle increased vis-à-vis December 2014 due to the 16.4% increase in the working capital compared to a reduction of 3.7% in net sales. I would like to mention that the increase in the working capital from December 2014 to March 2015 includes the exchange rate variation on the working capital mainly or exclusively coming from the companies abroad. It appears the depreciation of the final value of the real vis-à-vis the U.S. dollar was 21%, which represented about 10 days in our cash conversion cycle.

Now I would like to give the floor back to André to his final remarks.

André Bier Gerdau Johannpeter

FINAL

Thank you André Pires. To close, I would like to make a few remarks, reinforcing our strategy of geographic diversification of Gerdau, which together with our endeavors in the management of our operations has been decreasing the impact of the challenging moment faced by the steel industry in the world on our performance besides continuously seeking to fine tune production to demand levels. We have decreased globally our G&A by 10% and for the next few months, we will continue to be cautious and track the evolution of market in a scenario of worldwide overcapacity and economic uncertainties in Brazil. It's important to say that the level of steel import will continue to affect all the markets where we operate mainly exported from China, which has been hitting all the markets.

In this regard, we will be continuing to improve our operating efficiency and the working capital management besides being selective in the choice of new investments. I would like to say - or I would like to tell you about the new governance structure of Gerdau. During last week, we defined the new compositions of the Board of Metalúrgica Gerdau and of Gerdau SA in our annual Shareholders Meeting marking an additional step in the succession process of the Gerdau-Johannpeter family and governance of the business. And I would like to remind you that this new composition of our Board allows the two companies that are listed, Gerdau SA and Metalúrgica Gerdau SA, will remain on level 1 of corporate governance of BOVESPA, which is the stock exchange in Brazil. And the Chairman of the board of both companies, Jorge Gerdau Johannpeter, and the Vice Chairmans, Germano, Klaus and Frederico, they step down from the Boards and they will become part of the Advisory Board and this is a new body that will be chaired by Jorge and it aims together with Germano, Klaus and Frederico to continue the sharing of experience in strategy and management that was as accumulated by them over the last few decades.

And lastly I would like to reinforce our confidence in the accumulated experience of Gerdau's management and the flexibility of our operations. These are essential factors for us to be able to leave this challenging factor further strengthened. Thus, we close our presentation, André Pires and myself now remain at your disposal to answer questions.

Q&A

Operator

Ladies and gentlemen, we would like to start the Q&A session. Our first question comes from Thiago Lofiego from Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good afternoon, I have 2 questions. Long steel in 2015, what was the size - or what is the size of the drop in apparent consumption that you foresee in the weak long steel market? Do you think it has to do with the situation of the construction companies? And could you say a few words about this? And the second question has to do with the U.S. market. What about imports, how will they impact you further? And what do you foresee for the next few quarters in terms of imports into Brazil?

A - André Bier Gerdau Johannpeter

Thiago, this is André. I will talk about Brazil. In Q1, there was a drop, and it's about 8%, the drop foreseen by Instituto Aço Brasil for the remainder of the year. And we even had something slightly higher than that in Q1. We didn't expect it to be so strong. And this is because of the real estate sector infrastructure, and this has a little bit to do with the contractors and the construction companies that you mentioned and also the environment of higher interest rates and credit squeeze. This has been generating higher uncertainties and lower investments. And we see this in the industries, for instance, the automotive industry also shrinking and also agricultural machines. So overall, this is a scenario that accompanies this negative projection of 1%, 1.5%. For the second half, we expect to see some recovery. And for - we believe that this first quarter and the second quarter will be the weaker ones. But nothing very big in terms of recovery because this is a complicated year, a year of adjustments, and this impacts the economy ultimately.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Do you believe that the second quarter will be even weaker?

A - André Pires de Oliveira Dias

This is Pires, Thiago. I was going to answer your second question. In principle, no. The second quarter has just started, and it's very difficult for us to make a comparison or an evaluation yet. Regarding North America, Thiago, in fact, imports continue to bring about a very big pressure on volumes in the market, both for flat steel, but mainly long steel, in our case, in North America. Share of long imports into the U.S. is about 20%, which is like an all-time high. However, the market is still very resilient. The nonresidential construction area is still very good, and we start to see better figures related to infrastructure expenses. I have statistics here in my hand. Total expenditures in infrastructure, if we consider the last three months, annualized comparison, it grew by 7.3%. I would like to remind you that this part of the long segment was a part that was not responding such as the others, like the industrial segment and nonresidential construction. And I would like to remind you that in terms of infrastructure, if you're talking about projects of the U.S. Department of Transportation you have to buy in America, the situation - and this is where we have a more favorable situation vis-a-vis imports. So the U.S. dynamics are still positive. The pressure by imports - or from pressure is still strong. The dollar continues to be stronger and stronger. But the market dynamics are positive. And your question regarding the metal spread, prices has - have been relatively stable since moves made by some players at the beginning of the year and as scrap dropped - metal prices dropped at the beginning. We believe that this should be maintained at the same levels that we see now, which offsets, in a way, the volume of shipments that is a little bit lower than we expected.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you. Very clear.

Operator

Carlos de Alba from Morgan Stanley.

Q - Carlos F. De Alba {BIO 15072819 <GO>}

(00:22:58). Good afternoon, gentlemen. First, congratulations on your decision to stay in Level 1 of corporate governance. I think it's very important that Gerdau controls all the capital they're investing now. I wanted to ask you how sustainable the lower G&A expenses would be going forward. We saw a dramatic decline and clearly, challenging conditions right now in the market. But I wanted to see if we can put this on a more consistent basis in the model. And the second question is regarding working capital because, clearly, there was a big jump. And even if we exclude the impact that you suggest, the currency we had in the metric, we still are about 90, 91 days on cash conversion cycle. And we wanted to see if you are already seeing some improvement in the second quarter and what are your expectations for the remainder of the year. And finally, I would really appreciate if you can comment as to the ramp-up that you expect to have on the new plant in Mexico.

A - André Bier Gerdau Johannpeter

Carlos, first question was how sustainable are the SG&A levels and if there is a trend of maintaining that or whether we risk seeing them going up. And then Pires will be answering the other two questions. In terms of SG&A, we have already started some work on this direction. And we were able to progress, and the figures show that. We understand there is still room for us to improve, and we will continue to work in this direction. It is associated to some structural reasons. We are adjusting the expenses, our SG&A to the size of the business, and we will continue to work along these lines. It is sustainable, answering your (00:25:22) question. However, we believe there is still room for improvement there.

A - André Pires de Oliveira Dias

The second question by Carlos was about our working capital, and the remark that he made was that working capital went up more than caused by the exchange rate impact that also impacted cash conversion cycle. And the second question was about the ramp-up of our structural profiles in Mexico. Carlos, talking about working capital. You're right, Carlos, our performance vis-à-vis working capital in the first quarter was below our expectation, and the reason for that was the fact that our expectations vis-à-vis the volumes of Q1 maybe were higher than what we saw materialize. So when we look at the cash conversion cycle, the drop contributed in - shipments contributed to the increase in the cash conversion cycle. For the second quarter, we believe that there is room for improvement for us to change these figures and reduce working capital in a more sustainable fashion and also because we believe that now we have a clear view about volumes in the many different operations, especially in the two main ones, which are Brazil and North America. So we continue to work in this direction in order to optimize our levels of working capital. Now talking about the Mexico mill. Our mill shop is already producing. And in the middle of the year, in the next 40 to 50 days, we should start to do our rolling operations. So the ramp-up will start - such as any new operations, it will start gradually, carrying out tests and placing the product in the market. And as we have already said, this is a market where we already operate due to exports that we make from our structural profile mill in Mexico, which means that we already have a relationship with the market, with the clients, and we believe that this mill will get to a very positive moment. And we continue to be very bullish regarding the performance of the Mexican

economy, mainly regarding the kind of product that we sell, which is a state-of-the-art product.

Q - Carlos F. De Alba {BIO 15072819 <GO>}

That's it. Thank you very much.

Operator

Leonardo Correa from BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon everyone. Thank you for the question. My question has to do with your endeavors on the cost side. In Brazil, you closed five mills, with a very strong result in the fourth quarter with an EBITDA margin of 20%. And of course, the first quarter suffers because of seasonality and the demand scenario is also lower, and maybe some fine-tuning of prices have not reflected on your earnings in the first quarter. So in order to understand Brazil, do you see any opportunities – additional opportunities of streamlining your assets, maybe closing or shutting down some mill or plant that is running below your expectations? And should we expect something closer to 20% in your EBITDA margin? And now regarding leverage. In the past, Gerdau, if I'm not mistaken, was three times leveraged of net-debt-to-EBITDA ratio. We saw some concern – a higher concern that, of course, there is an effect of the exchange rate that could be reversed in the next two quarters, but we have already seen Gerdau issue equity at similar levels – similar to the current ones. So does that change your priorities in terms of leveraging? And thirdly, just to mention something that was already mentioned regarding the U.S. in the first question. I don't know whether you mentioned the current metal spread. I think this would be helpful. And with the pressure from imports that we see, are you mobilizing to file some case against imports that's coming to the country with tempting prices? Or are you mobilizing, that is to save the industry, regarding that in the U.S?

A - André Pires de Oliveira Dias

Leonardo, this is André Pires. Let's talk with – let's start with Brazil, efforts made regarding our costs. Our endeavors continue in this direction. And of course, at the end of the year, we had the opportunity to structure our asset optimization. We have no further plans regarding that, but we continue to work on improving our costs. And André talked about expenditures in SG&A, so this is an ongoing work. So we still have room towards improvement. There is no plan regarding optimizing our asset base. But there are things that we can control. Others are not under our control, such as the market. So we are very much focused on what is under our control and focusing on costs, expenses and operating efficiency. In terms of leveraging, you are right, we, in the past, had leverage levels close to what we see today. And of course, this leverage that we have just reported at the close of the first quarter has a major impact from the devaluation of the real. I would like to remind you that in the quarter, the real devalued over 20% in three months. And when you measure leveraging, this is a snapshot of that specific date, that is to say on March 31, it was 3.21 times. Today, it's 3.05 times. So there is the effect of volatility on our leverage as well, and that you can see in the snapshot of our debt. And over time, it will get into our EBITDA due to our operations that come from abroad. But just to tell you

FINAL

about our position, we understand that we should work with leverage lower than the level that we have reported today, so we will continue to seek levels closer to 2.5 times and not 3 times or 3.2 times. This is in part a consequence of the exchange rate devaluation - the real devaluation. But there are efforts being made in the working capital area. We believe we will continue to report better figures in the next quarters for our working capital, and we continue to look at opportunities to maybe bring cash by means of other opportunities that we might see in our asset base. However, there is no plan whatsoever about that, but we are always open to new opportunities. Regarding North America, our metal spread is around \$425 per short tonne. This is a level that is even slightly higher than we expected at the end of the year, and it was sustained by the drop in the scrap prices in these last months. And in the case of trade cases, differently from the situation one year ago when a trade case was focused on rebars, now we see a lot of discomfort in the flat steel industry in Brazil. They were more comfortable last year. So there is a growing concern regarding the impact of imports into the U.S. market. So we're paying attention to this. And in case there is an opportunity of a trade case and if we understand that this is really causing damage to our activity, then we will participate in this kind of initiatives such as we did last year.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you very much.

Operator

Ivano Westin from Crédit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Good afternoon, André, André Pires. Thank you for the questions. Latin America results, with the stronger EBITDA, was a positive surprise. And you said that it was due to expense reduction and also due to currency exchange rates. Is this sustainable over time? Or the import factor will bring pressure on your results on the next few quarters? In Specialty Steels, with the opposite situation, the performance was lower than expected, so could we expect some improvement? And would this improvement come from Brazil from Specialty Steel or from the U.S.?

A - André Pires de Oliveira Dias

Ivano, this is André Pires. Regarding Latin America, we have been working in the many countries where we are in Latin America, nine countries, and with a lot of focus on costs and expenses. And in a way, this has been contributing to a higher result. As we said during our speech, in fact, Latin America - in some countries of Latin America, we had very open countries, and they receive this pressure from imports. But on the other hand, even with a slightly lower economic performance than last year, the economies are in a more, let's say, sound situation than Brazil. So in these countries, the drop in volumes is smaller as we are able to achieve better results, so we believe that this kind of results in Latin America is consistent. And of course, we have the startup of Mexico that will bring about costs because of the startup. But we don't believe there will be a major impact at the beginning. In terms of Specialty Steel, what we can say about that is that, taking the two main operations, that are Brazil and North America, we have slightly - well, different

FINAL

situations in Brazil, a strong impact from the drop in volume but a very efficient work being done in the reduction of costs and expenses and at the same time, an input job being done in terms of net sales per tonne in Brazil, if you compare it to the first quarter of 2014. And this impact contributed to the result of Specialty Steel. It was better than it could have been, about Brazil. North America, on the other hand, continues to have a strong demand. But the same way that happens in long steel, it also works with scrap surcharge. And with the drop in the prices of scrap, there was a pressure on prices of Specialty Steel in North America. But in terms of volume, this situation continues to be firm. In Europe, the market is better, better volumes, but Europe continues to be a market where supply is very fragmented, many producers, many players. So the pricing power is not so strong in the operation of Specialty Steel in Europe when you compare it to the two other big operations that we have. So I think, overall, this is what I can tell you.

Q - Ivano Westin {BIO 17552393 <GO>}

One further clarification regarding cost reduction in Brazil. Can you quantify what you expect for the remainder of this year?

A - André Pires de Oliveira Dias

No, we cannot quantify this right now. What I can tell you is that, in Brazil, when we think about net sales per tonne for the first quarter of 2015 vis-à-vis 2014, it grew much more than the variation of the cost of sales per tonne.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you.

Operator

Marcos Assumpção, Itaú BBA.

Q - Marcos Assumpção

Good afternoon. The first question is about steel prices in the domestic market. How do you see the premium of rebars in the domestic market vis-à-vis the price of rebars in Turkey? And the second question has to do with Brazil. In Q1, we see a drop in the volume of exports in the Brazil or from the Brazil operation in spite of a more favorable exchange rate than in Q4 2014. So what was the main factor that came into play that caused this drop? And what is the outlook for exports for the remainder of the year and also the profitability that you're achieving in your exports today?

A - André Pires de Oliveira Dias

Marcos, this is André Pires. We don't talk about prices and premiums, and there are many factors. And it depends on the price in Turkey, and the price was weaker than it is today. It improved and it's stabilized at the current level. So the premium is very dynamic, depending on the price abroad and also the exchange rate that is quite volatile. And what we can say and that we said this morning is that if we look at imports of long steel in the first quarter, it was weaker than it was in the last quarter of 2014 also because of volatility.

FINAL

Regarding exports, if we compare it to the fourth quarter, there was a slight drop in the first quarter of (00:41:48) 2015. But this happened because in the fourth quarter, historically, you have higher volumes in exports. This is a normal seasonality of the market. But we saw that the profitability of exports in the first quarter of 2015 compared to the fourth quarter of 2014 was higher, it has been higher in the first quarter of 2015. We have been exporting with relatively good margins, and the outlook for exports for the remainder of the year are positive. We continue to see the international markets as a good alternative to the domestic market that continues and will probably continue to be not that strong. And exports are an alternative, and of course, it depends on international prices. And as I said before, in the last few weeks, they have been more resilient and they have stabilized at slightly higher levels than they were at the beginning of this year. So we are relatively bullish with the possibility of exports.

Q - Marcos Assumpção

As a follow-up, Pires, we know that the quarter has just started, but can you compare the profitability of the operation in April with the average of the first quarter?

A - André Pires de Oliveira Dias

Marcos, as you said yourself, we are just starting the second quarter. Let's wait for a couple of weeks, and then we will have a better idea, okay?

Q - Marcos Assumpção

Thank you.

Operator

Alan Glezer from Bradesco BBl.

Q - Alan Glezer {BIO 17508681 <GO>}

Good afternoon everyone. Thank you for the opportunity. I have two questions. The first question has to do with the Brazil business unit. We saw a drop from 20% to 16% in the first quarter, but the volume dropped by 10% and the costs dropped only 5%. I would like to understand what was the factor that drove this drop in cost that was lower. Is it because of energy prices? Were they higher? Was there any change in your cost structure that led to this discrepancy? And the second question had to do with the iron ore business operation. We see that the purchase of iron ore from third parties dropped vis-à-vis the previous ones. Was it because in the last quarter you saw the opportunity to buy iron ore at lower prices and this did not repeat itself in the first quarter? Or is it - is there a different rationale behind that? Thank you.

A - André Pires de Oliveira Dias

Alan, this is André Pires. About the drop in cost that was lower than the drop in volume, this is basically the effect of the dilution of our fixed cost as you have lower volumes. If you compare to the first quarter of 2014, the drop was 13% and then 3%. You have a dilution of fixed costs - lower dilution, and as a consequence, the costs drop at a slower pace than

sales. Regarding the iron ore, I didn't really understand. You said purchase from third parties? Or are you - do you mean sale to third parties?

Q - Alan Glezer {BIO 17508681 <GO>}

I'm sorry, sale to third parties.

A - André Pires de Oliveira Dias

Basically, as we have been repeating, this is part of our strategy that is revised on an ongoing basis. Because there was a significant drop in the prices of iron ore, so we have been decreasing our sales to third parties and we have been focusing our iron ore operations in order to meet the needs of our own units, Ouro Branco and others. So this has to do with our strategy of not - our strategy of being a supplier, so to say, to our own units that buy iron ore and not so much as a commercial operation selling iron ore to third parties. Our production capacity is higher than our own needs, so this means that we will continue to sell to third parties. But this is more the exception than the rule currently. Thank you.

Q - Alan Glezer {BIO 17508681 <GO>}

Thank you for your answers.

Operator

Rodrigo Furtado, XP Management - Asset Management.

Q - Rodrigo Furtado {BIO 19240500 <GO>}

I would like to know if, due to the restructuring that impacted G&A, is there some nonrecurring effect in the first quarter, be it in costs or in expenses? Is there something nonrecurrent?

A - André Pires de Oliveira Dias

Rodrigo, this is Pires. Nothing very significant nonrecurrent in the first quarter of 2015.

Q - Rodrigo Furtado {BIO 19240500 <GO>}

Thank you.

Operator

We are closing the question-and-answer session. And we would like to give the floor back to Mr. Gerdau for his closing remarks.

A - André Bier Gerdau Johannpeter

Thank you very much. Thank you for participating, for your interest, for your questions. In case you still have doubts, our Investor Relations area is available to you. And I count on

you on August 12 for our announcement of the results of the quarter.

Operator

Gerdau's conference call is closed. We thank you for your participation, and wish you all a very good afternoon.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript