Q4 2011 Earnings Call

Company Participants

- Andre Gerdau Johannpeter, President and CEO
- Osvaldo Schirmer, VP and IRO

Other Participants

- Carlos de Alba, Analyst
- Felipe Hirai, Analyst
- Jonathan Brandt, Analyst
- Leonardo Correa, Analyst
- Luis Escobar, Analyst
- Marcos Assumpcao, Analyst
- Raphael Biderman, Analyst
- Renato Antunes, Analyst
- Rodolfo de Angele, Analyst
- Rodrigo Barros, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

(interpreted) Good afternoon. Welcome to Gerdau's Fourth Quarter of 2011 earnings conference call. Right now all participants are connected in listen-only mode during the conference and later on we will have a question-and-answer period. (Operator Instructions)

We would like to stress that forward-looking statements that might be made during this call related to Gerdau's business outlook, projections, financial and operating targets are mere estimates based on the Company's management expectations regarding the future of the Company.

Although, Gerdau believes that its forward-looking statements are based on reasonable assumptions there is no guarantee that future events will not affect this evaluation. Today, with that we have Mr. Andre Gerdau Johannpeter, President and CEO; and Osvaldo Schirmer, Vice President and IRO. Now, I would like to give the floor to Mr. Andre Gerdau Johannpeter. Mr. Johannpeter, you have the floor.

Andre Gerdau Johannpeter

(interpreted) Thank you, very much and good afternoon. Welcome to this conference call of Gerdau's results. First of all, I would like to apologize for the delay of when we sent the material to the market; this was due to some technical problems at CVM's website. And it was only after 10.30 in the morning that the problem was solved and we were able to send the figures to CVM.

As we always do, we will begin our analysis by evaluating the world landscape of the steel market. And right after that we will talk about Gerdau's performance during 2011 in addition to the outlook for the regions where the Company operates.

Right after that, Osvaldo Schirmer will talk about Gerdau's financial performance and after that we will be available to take your questions.

In our presentation, we will talk about Gerdau's results for the Fourth Quarter of 2011, vis-a-vis the same period of 2010. In addition, we will also talk about the consolidated performance of the year.

For those of you who follow us on the web, on page 2, we refer to global crude steel production. And I would like to start by saying that this production was 393 million tonnes in the Fourth Quarter of 2011, which is 3% higher than the same period of 2010 in what concerns global crude steel production. In terms of year to date the world production reached record levels of 1.5 billion tones, which is a 7% increase over the year before.

Excluding China, the world steel production in 2011 was 831.4 million tones, which is 5% higher than 2010, these are the source of Worldsteel Association.

In Brazil, in the Fourth Quarter of 2011, crude steel production grew 4% during the same period of 2010, reaching 8.3 million tones; year-to-date was 35.2 million tonnes which represents an increase of 7% vis-a-vis the year before.

I would like also to highlight that Brazil's production was also influenced by the entrance of the new player in the market in the Brazilian market. The production in the US had an increase of 10% reaching 21.7 million tonnes in the Fourth Quarter of 2011. During the year crude steel production reached 86.2 million tones, which is 7% higher than the year before.

Now, crude steel production in Latin America. And now we are excluding Brazil was 8.9 million tonnes in the Fourth Quarter of 2011, which is 19% higher than the same period of 2010. In 2011, production reached 23.4 million tonnes, which is 16% higher when compared to the year before. The source is Alacero.

Crude steel production in India grew 7% vis-a-vis the Fourth Quarter of 2010, reaching 18.3 million tonnes of crude steel. Year-to-date, the country had an increase of 6% when compared to 2010, reaching 72.2 million tonnes and the source is Worldsteel Association.

I would like on page three to talk about the highlights of Gerdau in 2011. By year end, we reached a historical record in consolidated shipments, which was 10% higher than the year before. That was driven by greater demand for longs in the US and also what we should highlight is the increase in the construction industry.

Consolidated shipments were 4.7 million tonnes in the Fourth Quarter which was 4% higher than the same period of 2010. During the year, Gerdau reached 19.2 million tonnes sold. Crude steel production in the Fourth Quarter of 2011 was 4.7 million tones, which was 8% higher than the same period the year before. During the year, we introduced 19.6 million tonnes.

Now net sales, BRL9.1 billion in the Fourth Quarter, 16% higher compared to the same period the year before. Year-to-date consolidated net sales was BRL35.4 billion.

In terms of operating cash generation or EBITDA that increased 26% vis-a-vis the Fourth Quarter of 2010 reaching BRL1 billion. In the year EBITDA was BRL4.7 billion. Net income was BRL472 million in the Fourth Quarter of 2011 which was 12% vis-a-vis -- higher vis-a-vis the same period of 2010 -- 2011. Net income was BRL2.1 billion.

Dividends, will be paid a total of BRL136.4 million to Gerdau's shareholders BRL0.08 per share and BRL44.7 million to the shareholders of Metalurgica Gerdau S.A., which is the equivalent to BRL0.l1 per share.

Now year-to-date, composition of shareholders of Gerdau S.A was BRL597 million and Metalurgica Gerdau BRL224 million, BRL0.55 per share. In terms of investments in the Fourth Quarter, investments totaled BRL674 million. And the year our CapEx was BRL2 billion.

Now, we would talk about the outlook for 2012 that's on page 4. Now, looking into the world's the most recent figures for the International Monetary Fund was a growth in global GDP of approximately 3.3% in 2012. In terms of world steel consumption we should experience an increase of 5.4% in terms of world steel. And 70% of this world consumption should come from developing economies where Gerdau has the bulk of its operation.

And Brazil, now according to a report by Focus, the outlook for the Brazilian economy growth is 3.2% in 2012. And in terms of crude steel consumption that should reach 26.7 million tones, which is 7% increase when compared to 2012 according to the institutes of -- Brazil Institute of Steel.

It's important to observe -- to notice that the segment of long steels and flat steels in Brazil, they experienced bitter moments according to Instituto Aco Brasil. From January to December of 2010 sales of longs in the domestic market were 8% -- had an 8% increment, whereas flat steels had a decrease of 0.4%.

Now, the main consuming segment of longs have the following expectations. Downstream, according to figures in the sector, should evolve by 3%. And the construction estimates show that we will experience a 5% growth in 2012, which is higher than what we had in 2011 and the figures come from the Central Bank.

Now all of the construction projects for the World Cup in 2014 in Brazil should be more accelerated in the next year. Gerdau will continue to supply steel for the construction of the soccer stadium and other infrastructure projects like the water transit, railroads, windmills, ports and highways. In 2012, civil construction industry should also experience further boost mainly driven by Minha Casa, Minha Vida government program.

In view of all of these outlooks the Company is fully prepared to meet the demand for steel in the country considering the current capacity and also other investments that have -- are in the pipeline that have been previously announced.

Page 5, I would like to talk about North America. And I am not including specialty steel mills in the US or even those in Mexico. So we are referring to the United States and Canada. The continuous recovery of the economies of the United States and Canada had a positive influence on Gerdau's performance in the region.

In addition to a constant management work focusing in increases in productivity and also cost reduction. Also together with investment in the modernization of the unit, expanded our competitiveness in these countries. The Purchasing Managers Index and the Institute for Supply Management, the main indicator of industrial production in the US, which was 53.1 points in December. And whenever that level is above 50, that means that there has been growth.

In addition, the number of people requesting unemployment insurance benefits had a reduction throughout the year of 2011. The results were a very positive trend for the non residential for the construction industry, which can be verified by an extension of 8% in the investments into that segment in the Fourth Quarter of 2011 when compared to the same period of 2010.

Therefore, for 2012, the recovery expectation for the economies in North America is mainly driven by the continuous recovery in the manufacturing industry and other sectors such as oil and gas, energy and agriculture. The GDP of the United States should grow by 1.8% in 2012 according to the IMF and the estimates from Worldsteel for the U.S. points to 5% growth in crude steel consumption, reaching almost 94 million tonnes.

Now, in Latin America. And we are excluding Brazil, some countries where we operate, they have had a very good economic growth in 2011. I would like to highlight that Argentina had a GDP growth of 8%. Chile had a GDP growth of 6.5% and Peru, 6.2%. The very strong recovery of the civil construction and infrastructure industries should really maintain a very high demand for steel. According to Worldsteel analysis, countries in Latin America should reach crude steel consumption of 41.7 million tonnes in 2012, which is a 5% growth.

Still talking about the outlook on page 6, I would like to talk about specialty steel. And in this chart we will talk about Brazil, the United States, Europe and India. I would like to start with the North American market and the United States, Canada and Mexico where the production of vehicles, passenger and light commercial vehicles posted a 10% increase with 20 million units when compared to the production of 2010.

Well, motivated by this good market performance (technical difficulty) are now going to the US along with the expansion of the national utilization level of automotive components. For 2012, we received some very positive outlook for the commercial vehicle market, both for UVM and heavy commercial vehicles. And that points to a growth of 10% in production in terms of light vehicles. It was estimated that this market should grow by 8%.

Talking about specialty steels in Brazil, the Brazilian automotive industry posted sales of 2.4 million vehicles in 2011, which is very much in line with volumes from 2010 according to figures posted by ANFAVEA. It is estimated that the Brazilian vehicle productions in 2012 should grow by 2%. In view of outlooks for demand growth in the next few years, we see new automobile plants coming into the country, which will certainly have a positive impact in the demand for specialty steels.

Now talking about Europe, according to data from the European Automobile Manufacturers Association, the number of registration for light commercial vehicles, medium and heavy at the EU grew to 1.9 million units, which is 10% higher than 2010. We're then continuing our efforts in the region to reduce cost, improve increased productivity and certainly to diversify in the markets where we operate.

In India, the outlook for the production of vehicles had an increase of 40% in 2012 according to the Society of Indian Automobile Manufacturers.

Now we already talked about the outlook. So now we will turn to investments on page 7. For the next five years, from 2012 to 2016, we plan to invest BRL10.3 billion, of which 70% will be invested in Brazil. Thus what I would like to highlight the introduction of flat steels in Brazil, the expansion of our installed capacity of specialty steels both in Brazil and the US, as well as the domain of the operation for the new rolling mill and sintering in India.

In terms of the production of iron ore, the target is to be self sufficient at Acominas which is the main consuming unit of those raw materials. In addition to that, we are still continuing the studies for the commercial exploitation of the centers of iron ore in Minas Gerais. In Brazil, we will initiate the production of flat steels in 2012 with a new coiled hot rolled strip rolling mill at Gerdau Acominas in Minas Gerais, the installed capacity would --.

And these coils are being utilized in the civil construction or naval and machinery and equipment industries. Now, to supply to the civil construction market in Brazil, we expanded the installed capacity of commercial profile rolling in 2011 going from 520,000 tonnes to 700,000 tonnes this year.

And in view of the outlook of continuous demand growth, we already initiated schedules to expand our production of structural profiles which are utilized in the civil construction industry or machinery and equipment.

Now in India in terms of investment in 2012, we will initiate operations of our specialty steels and our rolling mill with installed capacity of 300,000 tonnes as well as sintering. In addition to that we will continue the installation of a coke plant and we will also have projects in the area of energy generation.

In the United States, the annual installed capacity of the plant of Midlothian in Texas, the main Gerdau unit in North America, we reached a production capacity of 1.8 million tonnes of steel. In that same unit we will expand the installed capacity of rebars, which will go to 550,000 tonnes a year. Those initiatives will start operations in 2014.

In addition, we will inaugurate a new reheating furnace at Calvert City in Kentucky by the end of 2012. In Guatemala, it's in our pipeline, the operations of the new drawing mill and also in rebar in light commercial profiles rolling mill which will reinforce our service capacity. Our capacity to service the internal market and the markets of neighboring countries.

In terms of the light commercial profile rolling mill this will have an installed capacity of 200,000 capacity.

In Columbia, we have investments to increase the capacity of the rolling mills in the -- of Tocancipa in 2012, in Tuta, in 2012. We will inaugurate this branch and a port terminal. And in addition, by 2012, we will have a port terminal in that country to ship coke and coal. These two are important raw materials, will service the markets of Brazil and Mexico and the United States.

Now on page 8, some of my final remarks. At the end of 2010-2011 we had a very good operating and financial performance. And I would like to highlight our historic record in shipments and a very efficient management of expenses. And so we are -- we find ourselves in a very comfortable position in terms of investment, even in view of the crisis and the slowdown of the economy overall.

We are deeply committed to the economic sustainability, not only economic sustainability but also social and environmental sustainability of our business. Despite all of the existing uncertainties the outlook for the world cold steel market according to the Worldsteel points to a growth in demand in 2012 mainly coming from emerging counties such as China, Brazil and India, which has had very good economic growth.

On the other hand, we are still monitoring the situation in the European countries, where the economies are going through a very strong slowdown phase. We are still very concerned in terms of the deindustrialization process at the steel chain in Latin America. In Brazil, we already feel the impacts of that in the domestic market due to the loss of competitiveness in the country newly generated by the appreciation of real, higher interest rates and a very heavy tax burden.

Deindustrialization also generates social impacts because it inhibits the generation of new jobs. And I would also like to highlight our concern with the tax law between states that benefit imports but have ICMS reductions and this really generate imbalances in the competition scenario.

So our challenge for 2012 is to continue the improvement of the financial results. And therefore, to that end, we are investing more and more to maintain the presence of our customers in addition to seeking process reduction, mainly of the raw materials utilized in our business. Well, that concludes my presentation. Now I give the floor to Schirmer and then I will see you again when we have our q-and-a. Thank you.

Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) Good afternoon. Now, we are going to compare the performance of the Fourth Quarter of 2011 with the Fourth Quarter of 2010 in a consolidated fashion. I would like to start with the consolidated results. And afterwards, I will be explaining the business operations and at the end the -- some remarks about the capital structure.

Screen number 9. Net consolidated sales or consolidated net sales in the Fourth Quarter was BRL9 billion, BRL1.3 billion more than in Q4 2010, a 16% growth in our net sales. And as you can see on the second part of the bridge chart. And this increase in our net sales is due mainly to the higher net sales per tonne sold in all our business operations. The cost of sales increased by BRL1 billion in Q4, you can see the third bar of the chart.

And this represents a 15% increase vis-a-vis Q4, 2010. The higher cost of sales stemmed mainly from the mismatch between the increase in the cost of raw materials and the sales. Participation of SG&A in the net sales dropped from 8% to 7% year-on-year.

Q4 EBITDA reached BRL1 billion representing a 26% increase year-on-year. And with a higher EBITDA margin, 11% this improvement in the margin is explained by the higher increase in our sales per tonne sold in relation to the cost of raw materials. These financial result of Q4 vis-a-vis Q4 2010 was positively impacted by the equity offering in April 2011 and part of the resources obtained with this offering was used for the prepayment of debt. And with the consequent reduction in our interest expenses and the remaining balance remain in our cash. And because of that we had higher financial revenues and we were able to bring down the Company's leverage.

Consolidated net income in Q4 compared to Q4 2010, was 12% higher. In spite of the improved operating result obtained in the last quarter of 2011, we should stress that Q4 2010, had one event that is non-recurrent, which was a reversal of impairment of assets.

And this reversal amounted to BRL336 million, net of taxes which represents BRL208 million and net of this non-recurring event, what we saw was an increase of 122% in our net income on a year-on-year basis.

On screen number 10, we have the Brazil business operation. In the business segment the volume of sales in Q4 reached 1.8 million tonnes, a drop of 1% year-on-year of which 69%, about 1.2 million tones, went to the domestic market as you can see on the left part of the chart. The strong demand on the part of the civil construction sector allowed us to have a higher level of sales in the domestic market growing by 15% year-on-year.

Housing financing in the Brazilian finance system for this year, for the construction and acquisition of these units for instance, has had a consistent evolution over 2011 growing by 44% from November 2010 to October 2011, compared to the same period between 2009 and 2010. And this is information from the Central Bank of Brazil.

Net sales reached BRL3.2 billion in Q4. As you can see, on the right part of the chart, with a 6% growth year-on-year the higher volume of shipments to the domestic market also improved our net sales. And this business operation especially contributed 35% of the consolidated net sales for the Group for the quarter.

EBITDA for Q4 were BRL479 million, a 25% increase year-on-year with a 50% margin vis-a-vis 13% in Q4 2010. The higher sale for the domestic market. And this exceeded -- this resulted in an improvement in the EBITDA margin and this operation represented 47% of the consolidated EBITDA margin for the period.

On slide number 11, our remarks about the North America business operation, we saw a 10% increase and 142,000 tonnes more comparing Q4 2011 to Q4 2010, as you can see on the left. This growth resulted from the higher levels of demand in this region and mainly demand coming from the industry and from the energy sectors.

Net sales for Q4 amounted to BRL2.8 billion, almost 30% higher than Q4, 2010. The increase in net sales resulted from the higher volume sold, as I said before. And the higher net sales per tonne sold, this businesses operation contributed 31% to the consolidated net sales for the Group for the quarter.

The EBITDA margin increased from 6% in Q4 2010 to 7% in Q4 2011 with an increase in shipments and the consequent dilution of fixed costs.

On slide number 12, we have Latin America. In this region sales reached 649,000 tonnes in Q4, 15% higher than Q4 2010. And the highlight here is Argentina, Columbia and Peru. And this is because of the good demand by the construction sector in these countries. Net sales amounted to BRL1.2 billion in Q4 vis-a-vis BLR863 million in Q4 2010.

And this represents a 35% growth coming from the higher volume sold and of course the better international prices as well which also collaborated. This business operation contributed 13% to the consolidated net sales for the quarter EBITDA in absolute values grew by 127% growing from BRL48 million to BRL109 million in Q4 2011 due to the high level of activities in our operations and also the EBITDA margin growing some 6% in Q4 to 9% in Q4 2011.

Specialty steel, 13. The specialty steel business operation had relatively stable sales due to the higher level that this operation had already reached over the years mainly in the

United States. Net sales grew by 10% reaching BRL1.9 billion mainly due to the higher net sales per tonne. And this business operation contributed 21% to the consolidated net sales for the quarter.

EBITDA reached BRL250 million in Q4 in line with Q4 2010 and the EBITDA margin reached 13% in Q4 2011 vis-a-vis 15% in Q4 2010. The lower margin is due mainly to the increase in the price of raw materials, which were higher than the growth in the net sales per tonne sold.

Screen number 14. A few reminders about the financial situation, indebtedness and liquidity. Net debt as on December 31, 2011 was BRL9.1 billion. And it was in line with the last information that we gave to the market on September 30, 2011. On December 31st, gross debt was made up of 23% in funding in reais, 49% funding in foreign currencies contracted by companies in Brazil and 28% in different currencies contracted by our subsidiaries abroad.

Of the total of our gross debt 13% was short-term and 87%, almost 90% of our debt is long-term. Most of the gross debt, something like 60% comes from the capital markets by means of instruments such as debentures and bonds. The nominal weighted average cost of gross debt on December 31st was 6.2% and 8.1% for the amount denominated in reais, 5.7% plus the exchange rate variation for the total denominated in dollars borrowed from Brazil and 5.8% a year for the part of the debt borrowed by our subsidiaries abroad.

In April 2011, the Company made an equity offering and has generated a net inflow of resources of BRL3.6 billion. Of this amount, BRL2.1 billion were used immediately for the prepayment of loans by the subsidiaries in the -- in North America and the remainder was incorporated to our cash. Considering these events, the indicator of net debt over EBITDA went from 2.4 times to 2 times improving the financial condition of the Company.

As a result of the endeavors in this financial management, the Company already has investment grade by three rating agencies, the ones that are best known in the markets; Fitch Ratings, Moody's. And S&P's. Last December, Moody's also joined the Group and attributed investment grade to Gerdau as well; which means that the market perceives that the market has been improving its financial situation and generation of results.

The debt amortization schedule according to what you can see on the upper right of the slide shows a comfortable situation for the next two years due to the current cash generation and cash equivalent of the Company. And late December, the average term for the payment of the debt was 5.5 years. The cash conversion cycle in December 2011 decreased by four days vis-a-vis September 2011, a consequence of the reduction in our working capital, BRL340 million, due to the lower operational activity in this period and also because of the small growth in the net revenues and net sales.

And I would like to reinforce what Andre said that we will continue with our strategy of seeking consistently a better management of our financial and operating expenses, globally in our operation. And this way we believe that Gerdau will have more and more conditions to occupy outstanding positions in the market where we operate.

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

Questions And Answers

Operator

(interpreted) (Operator Instructions) Felipe Hirai, Merrill Lynch.

Q - Felipe Hirai {BIO 15071781 <GO>}

(interpreted) I have two questions. The first one has to do with the news about the potential for investments in the mining assets that maybe you could sell 40% of your assets for $2.5 billion and maybe you could talk about the mining project that you have underway. And what is your CapEx and production estimates?

And the second question has to do with the price dynamics. The domestic market in Brazil, well, we've heard that some companies in this sector could be reducing the discounts for some of their clients. So could you confirm that? Has this changed recently because of the appreciation in the exchange rate and also because of the price reduction of steel in some markets in the world?

A - Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) I would like to answer the first question and then Andre will answer the other one. We are according to plan. At the end of the year we ended -- we concluded our study of other projects and we have a business plan, logistics and alternatives, et cetera. And now we are in the market. And Goldman Sachs is helping us in this endeavor and we are now prospecting for a partner to get into this mining business with us.

We are looking for partners and this is the current state of the situation. Regarding more specific data there's nothing that we could disclose right now. And we do not really know how things will conclude, that is to say the projects, et cetera. And it will depend on us finding the right partner, it depends on the economy, it depends on getting the amount that meets our expectations. So we have -- still we have some loose ends and we cannot say anything more complete than that.

A - Andre Gerdau Johannpeter

(interpreted) The second part of your question has to do with the price scenario and the price trend. Well, demand is very heated. You see that we've reduced exports last year because of the high demand in the domestic market. And we don't talk about future prices as you know. There is demand, demand exists. But we have nothing whatsoever planned in terms of starting to practice what you said that is happening in the market. And by that I mean the reduction discount that you referred to. Thank you, very much.

Operator

(interpreted) Rodolfo de Angele, JPMorgan.

Q - Rodolfo de Angele {BIO 1541593 <GO>}

(interpreted) I have two questions. The first is the following. Maybe you could elaborate on the investment process in the rolling mill lines in Acominas and especially at the start up of these operations. And lastly, Andre, we have been discussing this trend of deindustrialization in the chain and the discussions have been going on for quite some time already. So my question is the following. What could we expect from the industry? What kind of response, some talks with the government, is there anything that we could expect in terms of changes or defense?

A - Andre Gerdau Johannpeter

(interpreted) Rodolfo, one of your questions referred to our investment pipeline and the initial operations of our rolling mills. I am afraid that -- I would say that even if we take into account the effect of the heavy rains which may delay our coil hot rolled strip rolling mill which was supposed to start operating in 2012.

But maybe we are merely -- have few delays. So we'll have -- we will start operating our coil hot rolled strip rolling mill by the end of this year. And the other one for heavy plates, the other rolling mill for heavy plates should start operations in 2013 and '14. While in terms of allocated CapEx there are no surprises. Everything is according to schedule.

Now Rodolfo, about the de-industrialization, the main cause of that is lack of competitiveness in the steel chain. And there are several reasons that are behind this. While the first is the exchange rate and the appreciation of real, that's one reason. And the industry is working hard. The exchange rate has to do with the market. So it's hard to tamper with that in our view, even though we are trying to attack exchange rate dumping.

We recognize that China does not allow its currency to float. And then interest rates are very high. And that affects productivity and the Central Bank is signaling to a further reduction in interest rates. And this should help competitiveness. And mainly -- the main point is the overload of taxes in this chain. And that both Aco Brasil and other entities are lobbying with the government trying to seek alternatives to reduce the tax burden so that we can compete on equal footing.

In terms of the tax burden, again. And maybe what really concerns us the most is the tax war, particularly referring to the states that give incentives to ISMS for imports and that really causes imbalances in this competitive landscape. Because we pay the full taxes. And in some states they get imported materials. But this is already being discussed at the Senate. And also the House of Representatives.

Now these are just some of the things that really affect the decision. We are working with the government and we see some very good outlook ahead of us. But some segments are suffering more in this steel chain. They are suffering in terms of finding that competitive niche. Thanks very much.

Operator

Carlos de Alba, Morgan Stanley.

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

I have two questions. First one, if I may, is on the SBQ market, particularly North America. You have benefited from both from volumes. But now if I look at the results, I think that year-on-year the shipments were flattish, slightly down, as well as the margin.

And we are trying to see a lot of companies like Nucor, Steel Dynamics and Republic announcing new investments to increase capacity. So I wonder if you can talk a little bit about the supply demand situations in the SBQ market in North America. What are you seeing there? And what are the prospects? And have we reached the peak in this sector that has really benefited Gerdau?

And the second question is if you can comment about the capacity utilization per region that you have right now. And what do you see if anything by the Fourth Quarter of this year? Thank you, very much. I really appreciate it.

Q - Unidentified Participant

(interpreted) You may proceed.

A - Andre Gerdau Johannpeter

(interpreted) Carlos de Alba has two questions. The first is about new investments. Considering that the other competitors in the market are already making new investments in an anticipation for growth. So he would like to hear our comments about supply and demand in the US.

And the second part of the question is that he would like to have an idea per unit of the Group approved geography, what would be the utilization level.

Well, I will start answering the first part of your question related to supply and demand in the US. In fact, what happened was that there was a very significant change in the US market because it became a lot more competitive offering. Basic inputs like electricity and gas. And also due to the fact that there was a depreciation of the US dollar. So the level of competitiveness of the industry has been resumed. In our particular case, our operations can already be exporting units in the US because of this new landscape.

Now we are constantly alert and in tune with market moves. And we are reinforcing some of our really new areas particularly in terms of specialty steels where we experience very consistent and growing demand on the part of the industry.

And indirectly too, on the part of the automobile industry, which makes us increase our reheating furnace capacity and rolling mills as well. And somehow we are also considering a gradual and consistent recovery of the US economy. And that really reinstates our expectation to increase volumes. And once we increase volumes, we in turn reduce costs, dilute costs, our fixed costs. And this helps us to increase margins.

Now referring to the utilization level in general, the Group is operating and we do not have a very consistent figure for all the units. But we are operating at around 50% of our capacity. But it varies, in the US, it's around 70%, which is the focus of your question.

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

(interpreted) Thank you.

Operator

(interpreted) Renato Antunes, Flow Brokerage House.

Q - Renato Antunes {BIO 17439917 <GO>}

(interpreted) The first one has to do with the land in Itaguai. Maybe you could update us about the evolution of the project and the talks with the other partners. And the construction of your own terminal and about the situation overall.

The second question has to do with the cost of scrap in Brazil. Maybe you could say something about the cost of strips. How do you see -- of stocks -- how do you see that over 2012?

A - Andre Gerdau Johannpeter

(interpreted) This is Andre, Renato. About the port project, just to remind you, we have our own project in Itaguai. And the studies have already been completed and they are being analyzed now. And we also have that joint project, how to operate the port with CSN and Petrobras. And that already has started there.

So together with these two projects we are looking for the best location and also the timing for the phasing in of the project. So this is the update that I can give, which is a logistics option that we have, also for our mining project, which we still have our own port near Cosigua and Itaguai. So there are two different situations, one, of our own port and the other one with the two partners both in the same region.

The second part of the question has to do with the price of scrap. We have a year-on-year comparison in dollars; it would be from 5% to 6% in the United States and year-on-year in Brazil around 4% in reais, quarter-over-quarter 13%. And the short term trend is the trend of stability. And from then on I really couldn't answer your question.

Operator

(interpreted) Raphael Biderman, Bradesco.

Q - Raphael Biderman {BIO 1529743 <GO>}

(interpreted) My first question is a follow on, on the logistics question. If you could share with us something about railways. You are going to use MRS but they have, one more to the east or to the west, is the terminals are one to the east and to the west. And would that have any bearing on your operations? Would you have to build some extension to Cosigua or is everything interlinked. And also about Sepetiba and the excess traffic in Sepetiba and whether you would have to extend the channel, do you have a date, a startup date? Maybe you could update us on this project overall.

A - Andre Gerdau Johannpeter

(interpreted) Raphael, this is Andrea. Good afternoon. All your questions are part of our project and our business plan. Therefore, there are different alternatives and this is part of the project that we will be discussing when we talk about prospective partners. So these are not data that we could disclose today because they may vary and they are not final. So this is not really the time to talk about that yet.

MRS, of course, is the railway that is right next to the mines. And that goes to Itaguai practically and to Cosigua. So because of that it is a possibility, we have already mentioned this in the past and it continues to be a possibility to transport the ore to the port. If the port is really in that region. And of course we have other logistics alternatives that we are contemplating. Thank you, very much.

Q - Raphael Biderman {BIO 1529743 <GO>}

(interpreted) Thank you.

Operator

Jonathan Brandt, HSBC.

Q - Jonathan Brandt {BIO 5506998 <GO>}

I want to get a better understanding of the metal spreads in the US. My understanding is scrap prices in the US have been, or are weakening partially due to the warmer weather that they are having. So I am wondering if market expansion in the US is strictly related to increasing volumes and diluting fixed costs or is there room for metal spread expansion as well. That's my first question.

My second question relates to the five new projects that you have in Brazil. I am wondering how the return on investments has changed from when you first decided to do the projects to where the projects stand today, do they still earn a return above your cost of capital, are you still happy with these projects? Thank you.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) There are two questions. The first one has to do with the price of scrap metal spreads and what the Company believes would be the trend and also about the projects in Brazil, capital investments and this latter part will be answered by Andre. Regarding the metal spread, the equation, well, I have already mentioned that in the previous answer. And because of this equation the industry was able to work and keep spreads around $440-$450 per tonne for long steel.

And we believe that the industry was able to keep this spread working in both ends. And in our case in particular, we were able to achieve gains by means of cost reductions, internal cost for the Company. And at the same time we continue to do more of the same that is to say increasing the purchase of captive spread as much as possible and whenever we can save some dollars per tonne this is what we do in terms of price of scrap. But not daring to make huge acquisitions at high ticket in the scrap market. And because of that we have been able to increase our captive scrap supply base. Andre will answer the other question.

A - Andre Gerdau Johannpeter

(interpreted) Jon would like to know if the investments that we started and that are underway and that are scheduled, they are already in operation and if the level of returns will continue to be the same or whether there has been a change because of market situations. The answer is the following; in general yes, the investments that we have programmed and that are in the pipeline already are already meeting our return expectations.

Jon asked whether the cover of cost of capital. But we are higher than the cost of capital and this analysis has to be carried out in the long run as well because you have to wait for the maturation, et cetera. And the whole process takes about five years. And it depends on when in time you analyze. So depending on the moment in the cycle you have a higher figure or lower figure that because of that we also carry out an analysis taking into account if the margins fall or if the volumes fall, how much that would impact. So in general yes, the answer yes, the projects are according to the returns that we estimated.

Operator

(interpreted) Rodrigo Barros, Deutsche Bank.

Q - Rodrigo Barros {BIO 5851294 <GO>}

(interpreted) Congratulations for your iron ore project, which will give you a big competitive advantage in the market. But I would like to ask questions about other things. In terms of the coiled hot rolled strips rolling mill that should start operation by the end of the year, maybe you have a lot of room to place that volume within Gerdau's own network. I would just like to confirm the statement and whether it makes sense.

And my second question refers to the fact that some agents believe that you should have a reduction in terms of the incentives, maybe in the First Quarter or the beginning of the Second Quarter, I would just like to hear your opinion about it.

A - Andre Gerdau Johannpeter

(interpreted) Good afternoon, Rodrigo, this is Andre. In terms of coiled, hard rolled strips rolling mill, the focus will be the domestic market but part of the production will be exported and within the domestic market. One distribution alternative is our commercial network, which is contemplated with that possibility but we will not just sell through that network we will sell also through other distributors who are our customers; this is in our plan.

Well, the rolling mill that will start operations by year end, we will have to go through a start-up phase until it reaches full capacity, the market is growing in Brazil and therefore we believe that we will be able to sell it through distributors or end users in our own network.

Now, referring to reductions of taxes, ICMS for imported goods there is a discussion at the Senate level and we hope that that would be voted by the end of the year. There is no firm date but the important thing is that it is already there and it is there to be debated. And we believe that the government will continue on this discussion and (inaudible) very reluctant. But the important thing is that the project is there and we believe that that reduction should be voted sometime soon, in terms of having the same "ICMS" throughout the country. There should be a reduction of this tax because at the moment there are a lot of imbalances. And this causes problems in the entire steel chain.

Q - Rodrigo Barros {BIO 5851294 <GO>}

(interpreted) Thank you, very much.

Operator

(interpreted) Leonardo Correa, Barclays Capital.

Q - Leonardo Correa {BIO 16441222 <GO>}

(interpreted) I have one question, Andre. Maybe you could elaborate on the possible government measures to protect and increase competitiveness of our domestic energy. We see some gossips referring to tariffs in terms of steel exports. I would like to hear your opinion and whether you think that is feasible to -- this increase in tariffs.

A - Andre Gerdau Johannpeter

(interpreted) Leonardo, I had previously mentioned all the factors that affect competitiveness, exchange rate, interest rate. And that tax (technical difficulty). And all of these things if -- if things are implemented. This will certainly help -- help us to be more competitive if we can reduce cost of energy, interest rate. I mean, there are many different opportunities and we will do everything possible to improve our competitiveness.

Now talking about tariffs, things are a bit more complicated outside the (inaudible) area. And I don't know how the government will act because there is also involved intra bloc discussions and it's a more complex issue. So in that regard I cannot tell you much. But once again there are many opportunities in terms of the tax burden and other issues where we could increase our competitiveness and (inaudible) the tax law.

Thank you, very much.

Operator

(interpreted) Marcos Assumpcao, Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

(interpreted) The first question is about the growing demands for long steel in Brazil. I don't know whether you have already talked about that because I have just joined the call. So could you tell us about your estimate how much you expect for 2012 without these investments made by the government in infrastructure. And do you believe Gerdau will go in line with the market?

The second question has to do with imports. What's your expectation for the import of long steel in 2012? How much do you expect this will drop in the volume of imports in 2012. And the premium as well; what about the premium vis-a-vis the product in Brazil?

A - Andre Gerdau Johannpeter

(interpreted) Now, I find it very strange to -- your absence very strange. But now I know you are here, okay.

The forecast of the Central Bank is a 5% growth, which is the construction in 2012. And this doesn't mean this will be our figure. But it will be around that or a little bit higher than that. The import of steel, we are imagining a scenario of maintenance or even reduction in the level of imports that was lower than 10% in 2011.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

(interpreted) And what about the premium right now -- more specifically what kind of premium? The international product, the imported product, well, to Brazil how do you compare the price between the two steels, for instance, wire rods from Turkey, rebars from Turkey.

A - Andre Gerdau Johannpeter

(interpreted) That would depend on the dollar at the -- it varies from by product, it varies by mix, it varies by port, by ICM. So the comparison is very difficult. So I really couldn't be more precise than that about rebars or any other product.

Operator

(interpreted) Luis Escobar.

Q - Luis Escobar {BIO 20971923 <GO>}

(interpreted) I have three questions. Schirmer talked about a non recurring event that -- that I really didn't understand it. Could you elaborate on that Schirmer? And the second question has to do with margins. We see that the average price. And I'd like to know ballpark figure or something like that. Total sales -- now total sales divided by tonne. And this dropped in the last 10 quarters. And it dropped about 10% or 15%.

On the other hand, the margin dropped much more -- the percentage of the margin decreased much more in the last 10 quarters. And we always hear from you that it has to do with the dollar, the import dollar that impacts your prices. But the cost of the raw materials appear here. And the average price didn't drop so much.

Will Gerdau start to import more raw materials and more imports? And the second question -- the first question has to do with the expansion that you are carrying out in Brazil, the Cosigua and the Pindamonhangaba expansions, where you are increasing the tonnes that will be produced. And on the cost reduction side, which is a key issue -- the reduction of your industrial cost. Will these two projects bring about a relevant benefit really? So these are the three questions.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) I would talk about the non-recurrent event and then Andre will be talking about the increase in imports and the mills in Pinda. The non-recurrent event was the internal reversal of the impairment of assets. And this was done last year and the activities came back on board. And because of that we were able to reverse 300 and some million reais and 200 gross and 200 and some mix.

If this had not occurred in the last quarter of 2010, then it's to see this benefit in favor of the bottom line in our balance sheet. Net income this year in the Fourth Quarter compared to the Fourth Quarter of 2010 this year would have been 120 something % more. This was my remark. And now Andre will be talking about the investment, the rolling mill, et cetera.

A - Andre Gerdau Johannpeter

(interpreted) In your second question that refers to net sales and margins and you also mentioned 10 quarters, we do not have the figures for the last 10 quarters so that we could tell you exactly what is happening. But what we have is a comparison between the Fourth Quarter of this year vis-a-vis the Fourth Quarter of last year, where there was an improvement in the results both gross margin and EBITDA, both gross margin from 12% to 13%, EBITDA from 10% to 11%.

If you compared year on year, we see a reduction on the gross margin from 18% to 13%. And EBITDA along the same lines. And that's when we see that sales have increased. But costs have also increased more and that's why the margins have shrunk. Maybe we have compensations on the side of volume but year on year in fact we experience a reduction in margins.

When we refer to the imports of inputs our import of scrap is acquired in Brazil, also iron ore but they also import coal, as you said that has -- that suffers the impact of exchange rate because we do not have coal in Brazil. But because of logistics and proximity we always go there to buy inputs closer to where we operate. And that is why we prefer to buy scrap nearby because of logistics and freight. Therefore, we do not have a lot of imports of inputs. We have imports of other products that are not manufactured or produced in Brazil. And in that case, we can import (inaudible) some other things.

And your second question, that refers to the rolling mill in Cosigua. This will improve costs. Usually, we only invest because we are acquiring more modern and more efficient equipment. And this will certainly improve our production costs. And these two major investments will bring about improvements in cost efficiencies and other improvement in production and this will allow us to grow our capacity because the market in Cosigua is growing. And in Pindamonhangaba, the steel market is also growing.

So these two investments have the purpose of increasing the (inaudible) in this market and also to improve our cost efficiency and production. And I hope I have answered your question.

Q - Luis Escobar {BIO 20971923 <GO>}

(interpreted) Yes, you fully answered my question. Thank you, very much.

Operator

(interpreted) Renato Antunes, Flow Corretora.

Q - Renato Antunes {BIO 17439917 <GO>}

(interpreted) It's a very quick question about Metalurgica Gerdau. You recently renewed your sales option that BNDS had against Metalurgica. But looking at the terms, you say that in addition to the CDI correction and the strike you will also have to pay 30% of the appreciation of the shares that Metalurgica would have to pay. Is that statement correct or if that will happen only with the maturity of the option that was renewed?

A - Andre Gerdau Johannpeter

(interpreted) It is a little bit difficult to understand your question, says Mr. Gerdau. But I think you are talking about the option. This placed on a maturity that would be happening now. And also we derive benefits from the dividends that the stock (inaudible) was introduced in order to give the holder of the option the possibility to take -- step into an appreciation of the stock. And this would be up to 30%.

So your interpretation is correct and which was important for the Company because it introduced something that we didn't have that was the benefit of the dividend paid by amortizing the financial obligation. Thank you, very much.

Q - Renato Antunes {BIO 17439917 <GO>}

(interpreted) Thank you, very much.

Operator

(interpreted) Now we would like to close the question-and-answer session. We would like to give the floor back to Mr. Osvaldo Schirmer and to Mr. Andre Gerdau Johannpeter for their closing remarks.

A - Osvaldo Schirmer {BIO 1754610 <GO>}

(interpreted) We would like to thank you very much for participating in the call it was a great pleasure for the Company to have the opportunity of explaining our figures and our projects and Andre will take the floor now.

A - Andre Gerdau Johannpeter

(interpreted) Thank you, very much for participating in our call. Thank you for the questions. And of course our team will remain at your disposal. If you have any further doubts.

We would like to apologize for the fact that we were not able to send you the material beforehand and last night I knew that many of you were waiting for that. But it was not under our control; it was a problem at -- because of the CVM website. And I would like to invite you all to come on May 3rd when we would be announcing the results of the First Quarter of 2012. Thank you, very much and have a very good day.

Operator

(interpreted) Gerdau's conference call is closed. We thank you very much for participating and wish you a very good afternoon.