

Q3 2008 Earnings Call

Company Participants

- Andre Gerdau Johannpeter, President and CEO
- Osvaldo Burgos Schirmer, EVP, CFO, and IR Director

Other Participants

- Francisco Schumacher, Analyst
- Luis Albertome, Analyst
- Marcel Brizak, Analyst
- Marcelo Aguiar, Analyst
- Marcos Assumpcao, Analyst
- Raphael Biderman, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen and thank you for standing by. At this time, we would like to welcome everyone to Gerdau's Third Quarter 2008 results conference call.

We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the Company's presentation.

Later we will conduct a question and answer session. (Operator Instructions) We would like to draw your attention to the fact that certain assessments that may be made during this conference call with regard to Gerdau's businesses and its respective projections and operating and financial objectives are mere forward-looking statements based on the expectations of the management on the Company's future.

Although the Company believes that its statements are based on reasonable assumptions, there can be no assurance that future events will not affect their accuracy.

Today with us we have Mr. Andre Gerdau Johannpeter, President and CEO, and Mr. Osvaldo Schirmer, EVP and CFO and Investor Relations Director. I would now like to turn the conference over to Mr. Andre Gerdau Johannpeter. Please go ahead, sir.

Andre Gerdau Johannpeter

Thank you. Good afternoon, everyone. It gives us great pleasure that we welcome you to Gerdau's Third Quarter conference call.

Oswaldo Schirmer, our CFO, is also on this call. After my presentation, he will be going through more details about our financial performance. We'll be answering your questions after we conclude our presentation.

For those following through the Internet, please refer page two on the Power Point presentation, the title is Gerdau Highlights. Our Third Quarter was characterized by a very strong operational performance of our businesses, driven by strong shipment levels and a substantial increase in gross margin.

Despite the turbulence in the financial and capital markets, our balance sheet shows a well capitalized company with a long-term GAAP profile, and strong financial rate.

The good results this year, affected growth on (inaudible) especially in Brazil and the consolidation of new operations. The current world economic environment however requires (inaudible) and caution.

We're reiterating within our Company our constant concern with cost, and we will maintain our effort in terms of turning synergies in our focus on efficiency and operational cost improvements.

I would like to mention the main highlights for this quarter. Our shipments reached 5.1 million tonnes, an increase of 21% over the same period last year. Our revenues were BRL13.9 billion, growth of 61% over the Third Quarter from last year.

Our EBITDA rate was BRL3.8 billion, growth of a 154% compared to the same period last year. Our net income was BRL1.4 billion, 37% higher than the Third Quarter 2007. Our investment in CapEx and acquisitions were \$477 million in the quarter.

It is important to mention that the US dollar appreciated 20% versus the Brazilian reais during the Third Quarter, which has a positive economic impact for the Company. The positive effect goes directly to shareholders' equity, while the impact of foreign exchange variation on our debt is shown in our income statement.

Later on, Schirmer will give you more details about the numbers. When we adjust the Company's net income for the effect -- for net effect, the same would have been in the vicinity of BRL2.1 billion, which is a 129% higher than the same period.

Now I'd like to move to page 3, and comment on the steel markets. In terms of performance, the steel industry in the Third Quarter, production reached 340 million tonnes of steel, a 2.4% growth over the same period last year.

China remained the world's largest producer with a 128 million tonnes and 38% of the global production. After a period of (world) price increases during the major part of 2008, the last portion of the Third Quarter show a reduction of both raw materials and steel products.

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Now I'd like to comment on the outlook, that despite the uncertainty about the effects of inflation of the impact on the world's (real) economy of the crisis in the financial market, we foresee that 2008 will still be a year of overall growth for the steel industry.

Gerdau has always been very focused on the operational efficiency of its different operations, as we understand this is a cyclical business. We believe that this approach delivers growth and profitability during the top of the cycle, and assures returns of our investments and opportunities during the downturns.

Another important point to mention is that the Company has maintained its liquidity and improved its capitalization during the first nine months of the year and is in a very solid financial position.

I will now take you through the performance of each one of our different operations. First I would like to start with review of page 4.

While the economy remained strong during the Third Quarter, good levels of investment and demand, increased availability of credit experienced during a large portion of (procured) allow for good levels of performance for the civil construction and automotive sectors.

The Brazilian long steel segment presents a record growth of 27% year-over-year according to Brazilian Steel Institute, IBS. Reaching 2.9 million tonnes, it shows mainly the premium (inaudible) strong demand of civil construction.

Shipments on the Third Quarter for our Brazilian operations were 1.9 million tonnes, a 30% increase compared to same period of last year. Of those, 1.4 million tonnes were shipped into the Brazilian domestic market, which represents an increase of 33% compared to last year.

Exports were 487,000 tonnes, 21% higher in the same period. On investment, in our Brazilian operations, the CapEx totaled \$212 million inline with our historical levels.

Looking for the future, in spite of the world's financial situation, we still expect the Brazilian economy to stay stable in the short-term.

The Brazilian Central Bank expect GDP growth for 2008 to be about 5%. Long steel shipments on the domestic market should benefit from recent announcements from the Brazilian government in terms of reassuring that funding is available for civil construction industry and infrastructure projects.

This should compensate the weaker demand in other segment. Also what's mentioned is that the Brazilian banking system has been traditionally conservative on its lending policies and subject to rigorous control and scrutiny by the Brazilian monetary authority, which make us believe that financial crisis should affect us to a lesser degree in Brazil.

Bloomberg Transcript

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Moving to page 5, I'd like to comment on the North American operation, where the Third Quarter were very robust results, due to attractive metal spread levels and the continuation of low-level imports in the North American markets.

Our North America operations show a growth of shipments of 17% compared to Third Quarter 2007. During the past quarter, we have seen some resilience on the nonresidential and especially the infrastructure segments of the civil construction market.

Additionally, we have diversified our business in terms of market exposure to different product lines, (inaudible), rebar industry.

Our focus on our upstream operations are taking us to close to 40% at the scrap source which bring us further improvement on our cost structure. On CapEx, our investment in North America operations were \$47 million inline with historical levels.

The outlook, looking for the future, is that the North America operations are well capitalized and despite the strong cash position have asked us to commit credit lines.

We are monitoring very closely the effects of the financial and liquidity crisis on the steel market. Although there is a normal seasonal reduction in shipments in North America in the First Quarter, it is difficult to provide additional visibility.

We will seek the opportunity for attractive spreads to be maintained, but we expect Fourth Quarter shipments to be less than the Third Quarter.

On page 6, we have the Latin America which excludes Brazil and where our Third Quarter shipments were affected by large levels of imports and higher levels of inventories in the (50s), as well an economic slowdown in the region which has in fact begun at the end of the Second Quarter.

The financial results, on the margins, EBITDA, and net income, was positively impacted by higher cost prices for coke, which had in this quarter a cumulative effect from our recent acquired operations in Colombia.

Investment in CapEx in our Latin America operations were \$45 million. Just like in our other business, we'll keep monitoring the effects of the financial crisis in our operation.

Different countries will be impacted differently as the local governments react to this specifically of their economy. Governments in the region are giving special attention in trying to maintain the level of investment in infrastructure as a way to offset potential (inaudible) on the economic activity.

Our Latin America operations, we also feel the typical seasonal impact of reduced shipment base and systematic inventory reductions during the Fourth Quarter.

Moving to page 7, Specialty Steel, where we have -- the operational results was very positive during the Third Quarter. Shipments were 757,000 tonnes, 51% higher than the Third Quarter '07.

This is the due to the consolidation of MacSteel -- EBITDA -- MacSteel. EBITDA margin was 24% compared to 22% the same period last year. Investment in CapEx in our Specialty Steel operations was \$61 million inline with our historical level.

The automobile industry in Brazil remained very strong with automobile production up by 16% compared to last year. The (inaudible) effect has been a 28% increase in same period.

Despite good Third Quarter results, Europe and the US are currently experiencing reduced demands coming from the automobile industry. Looking for the future, we see the Brazilian domestic automobile market should remain stable throughout the short and midterm with production adjustments to accommodate reduced exports, due to the slower international demand.

The automobile industry in the Europe and the US continue to present reduced levels of demand. Our strategy is to adjust production and inventory levels and optimize the implementation of different plan.

The Company will continue to mitigate the impact of weaker period of the automotive industry in these geographies by diversifying exposure to other markets, such as (heavy truck), energy, infrastructure and heavy machinery equipment segment.

I would like to go to page eight and I would like to conclude this presentation with some remarks about the current market situation.

This was a quarter where our operations delivered a very strong operational and financial performance. On the other hand, the financial crisis that has reached markets all over the world is starting to affect also the real economy.

As the world market starts to show the effects of the crisis we are monitoring very closely the implications in our business. All necessary measures to reduce cost and increase productivity are being implemented in order to maintain our competitive position.

We remain strongly focused on cost efficiency, capture of synergies and dissemination of benchmarking and best practices throughout our operation. We'll continue to adjust production according to demand and we continue to prioritize the supply of our (inaudible) customers.

We remain committed to our investments program, with no cancellation, but we are reassessing priorities and schedules according to the evolution of the market condition.

Thank you for your attention, and I will turn it to Osvaldo Schirmer for his comments on our financial results, and I'll be later available for questions. Thank you.

Osvaldo Burgos Schirmer {BIO 1754610 <GO>}

Thank you, Andre. Good afternoon, everyone. I will start on slide number 9, where we have at the top, which shows balance sheet, on the left side, the bottom left, the EBITDA demonstration, on the right side, margin.

This has been a very strong quarter in terms of financial results, as will be shown during my presentation. Despite the turmoil that we have seen in the financial markets, since Lehman Brothers filed for bankruptcy in mid-September, and the crisis that started since then, our business delivers strong performance and robust margins.

Gerdau has been able to strengthen its balance sheet and improve liquidity, during the first nine months of the year, through solid cash flow generation, and initiatives like our equity offering and accepting the loan market while the conditions were favorable.

I will start going over our results starting with our consolidated financials. Net sales for Third Quarter '08 were BRL12.4 billion, a 62% increase over the same period in '07.

Gross margin went from 25% in '07 to 33% in '08. EBITDA margins also improved with 31% in the Third Quarter '08, compared to 20% the same period last year. The EBITDA for the quarter reached BRL3.8 billion, a growth of 154% over the Third Quarter of '07.

And net income reached BRL1.4 billion this quarter, a 30% -- 37% growth over the same period of '07. On page -- rather on slide number 10, I really have a very challenging task now. I will try to drive you through some different effects given by the treatment of IFRS versus the Brazilian GAAP.

As you probably remember, in '07 the Brazilian authority issued a norm -- a normatization establishing that as of the end of fiscal year 2010, Brazilian public companies should start adopting the IFRS, International Finance Reporting Standard from then on.

In an effort to accelerate the process of migrating towards international standards and higher transparency, Gerdau has decided to go for the early adoption of the IFRS as of the Third Quarter of '07.

The purpose of this explanation -- and I'll drive you through this chart -- is to drive your attention to the different accounting treatment given to the effect of the exchange rate variation by the two systems.

By the way, the Brazilian GAAP is used by most of the Brazilian companies. IFRS defines that the exchange rate variations on the foreign debt, raised by Brazilian operations, goes to the income statement, while the variation on the foreign assets goes directly to shareholders' equity.

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In more detail, specifically for the Third Quarter, as you can see in the chart, Gerdau Brazilian operations have both debt and assets denominated in foreign currency, with assets exceeding the debt by \$1.9 billion, as you can see in the chart, on the liability side you can see it.

The net effect of the devaluation of the real versus other currencies, mainly US dollar, has a net positive economic effect on our shareholders' equity by more than BRL1 billion as shown in the left bottom, left side of the chart, the very bottom you see can see this.

The (inaudible) of assets, \$4.7 billion in assets versus \$2.8 billion in liability is due to -- given the fact that in the quarter we have a 20% -- almost 20% variation as indicated in the chart also, the Company ended up having an economic gain of BRL1 billion despite of the fact that impact on the debt due to asset is duly shown in the P&L.

It's also important to say that this is a merely accounting chart. It will represents no cash disbursement and it has no relation what so ever with the leveraged derivative operation that has been adopted by some companies in the recent past.

Additionally, this is a tax deductible expense and the cumulative effect for the full nine months of '08 is reduced to BRL454 million, basically BRL300 million after tax.

The appreciation of the dollar versus the Brazilian currency in nine months was only 8%, that's the explanation. Now something new, starting at the next quarter we will designate part of our foreign debt as the hedge for the corresponding foreign assets acquired, reducing the effect mentioned above.

In simple words -- trying to be simple in something that's rather complicated, we'll be able, according to the IFRS -- if for instance, we do acquire a new company in a foreign geography, and we have to borrow through Brazil that amount that we may borrow to make the acquisition, that will be linked and directly allocated liability and assets in the same line, which means everything is going to go and everything is going to transit to the net worth, instead of the P&L.

In September, we were able -- and as far as the borrowing (inaudible) to recognize only part of our total liability. I said to you that we have, as indicated in the chart, \$2.8 billion in liabilities or money borrowed from -- in Brazil from abroad.

\$1.5 billion of those \$2.8 billion are already considered here, and from now on, starting next quarter, until the end of the funding -- until the maturity of that funding which goes for 10 years, we have that eliminated from the P&L.

It's a rather complicated explanation, I understand, but it's important that the market knows that part of the foreign debt used to acquire assets outside of Brazil are going to be neutralized in the P&L and going to be totally recognized at the net worth level.

Moving forward, page 11, performances. In Brazil, net sales in the Third Quarter reached BRL4.7 billion, 79% increase when compared to BRL2.6 billion same period last year.

Why is that, 80% of the net sales came from domestic markets and 19% from exports, which shows the strong demand in the domestic market. It's important to point out the raw materials and other cost increases that have been wrestling our cost structure have been fully absorbed through our price realignments along the year.

EBITDA, as is shown on the right side of the chart -- to the left, those slides the left -- EBITDA in the Third Quarter reached BRL1.9 billion, an increase of 205% over the same period last year.

What helped reach that, the increase in sales volumes, stock dilution. By the way, sales volumes went up by 30% as compared to the same period last year. Cost of goods sold represented 54% of net sales compared to 64% in the same period, so a substantial reduction in the cost of goods sold.

SG&A accounted for 9.5% of net sales, compared to almost 14% in the previous year. There was a substantial gain also in SG&A. EBITDA margin in Brazil was 41% in the Third Quarter, compared to 24.2% in the Third Quarter of '07. It has been improving in each quarter since the Third Quarter of '07.

The Third Quarter of '08 margin benefited from the price realignments made this year, as well as from the cost dilution already mentioned. Margins also improved with the improved mix between shipments to the domestic markets and to foreign markets.

Slide number 12, performance in North America. You'll see net sales and gross margin on the left, and EBITDA and EBITDA margins on the right. The highlights regarding the financial numbers of our North American operation are related to a record EBITDA, as well as an effective metal spread.

EBITDA in the Third Quarter reached BRL990 million, an increase of 146% compared to previous year, and metal spreads reached \$662 per tonne.

Net sales for North America in the Third Quarter were BRL4.1 billion, an increase of 55% compared to previous year. This number reflected a combination of higher steel prices when compared to same period and also to the Chaparral consolidation, which happened throughout the year as well.

These factors also contributed for the continued increase in gross and EBITDA margin in North America, growing from 17% to 22% and from 15% to 24% respectively. Total shipments out of North American operations were 17% greater than the Third Quarter of '07.

Slide number 13, Latin America. Net sales and gross margins on the left -- upper left, and EBITDA and EBITDA margin on the right side.

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The Third Quarter for our Latin American operations showed good financial result, but unfortunately weaker sales volume. EBITDA in the Third Quarter reached BRL400 million compared to 155 million in the Third Quarter of previous year.

EBITDA margins were 28% compared to 17% last year. These results were positively effected by the inclusion of -- Cleary Holdings Corp., the Colombian coke producer acquired in February which started to be consolidated as of this quarter. However the net sales are approximately of BRL60 million per month. Net sales for Latin America in the Third Quarter were BRL1.4 billion, an increase of 63% compared to previous year.

Overall shipments on both Latin American operations were 11% lower than the Third Quarter of '07. Specialty Steel, slide 15, net sales of our Specialty Steel operations were BRL2.2 billion in the Third Quarter of '08, an increase of 46% compared to the same period last year.

This was due mainly to the (shipment) level that were 51% higher than last year, which also has to do with the acquisition of MacSteel early this year, and also strong demand on our Brazilian specialty steel operation.

EBITDA margins also showed an improvement. It is 24.2% this quarter compared to 21.9% in the previous quarter -- I'm sorry, in the previous quarter of '07. Important page, important slide, number 15, a lot of information in the same page, but I'd like to drive you through.

Small balance sheet on the upper left, debt profile on the bottom left, ratios on the right upper side, and another ratio of debt over capitalization on the bottom right.

As of September the 30th, total net debt was of BRL13 billion, total net debt. Gross debt was BRL19 billion, basically \$9.9 billion. 17% of debt was short-term, and more than 80%, 83% to be specific, was long-term debt, since our average maturity is over seven years.

The debt was composed as follows, 18% local currency, 32% foreign currency, incurred by companies in Brazil, mainly to make acquisitions outside of Brazil. 50% foreign currency incurred by companies abroad.

Cash availabilities plus financial investments totaled BRL5.6 billion as of September, which means basically \$3 billion. 30% -- 35% of debt was in foreign currency incurred by companies abroad, and 65% were invested in reais.

Debt indicators on September the 30th, gross debt over total capitalization 44%. It used to be almost 50% in December '07. Gross debt over EBITDA, 1.9 times, it used to be 2.5 times in December. Net debt over EBITDA, 1.3 times, it used to be 1.7 times in December.

It's important to point out the strength of the Company's balance sheet and capital structure. Total capitalization was of BRL43.3 billion as of September, a 33% increase compared to position in December of '07.

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At the same time, debt over total capitalization was reduced from 49% in '07 to 44% as of September. In September, the average cost of debt was 9.5% per annum, for debt in reais, 6.8% plus exchange rate variation, for the debt in foreign currency incurred by the Brazilian company -- over the companies in Brazil, sorry, and 6% was the debt of the companies abroad.

Slide number 16. The intention here, with this slide is to give you a sense of how strong is the liquidity of the Company, and what sort of credit lines the company have access to.

At the very top, you see that in cash in Brazil, in North America, and in other countries in Latin America, the Company has BRL5.6 billion in cash. We also have access to credit lines, and in two situations we have already a line fully committed by the lenders.

We have additional BRL2.5 billion as you can see. We have a similar credit facility in a North American revolver line for those amounts. And at the very bottom, you see at least four indications of money that we have access, but it's going to be a few cases of best efforts.

You can have access to money coming from exchange advances, from the export financing. We also have relationship with different banks in Latin America that may entitle to BRL1.8 billion and other sources.

So on a best efforts basis, additional BRL3.3 billion. So in total, using its own cash, plus the committed lines, plus best efforts Gerdau, as we speak, may have access to BRL11.6 billion, roughly almost \$6 billion.

In terms of liquidity, in terms (inaudible) liquidity is this cash merchandise we consider the Company to be in a comfortable position.

A few words to our investors waiting for dividends, dividends for the Third Quarter. Payments will take place as of November the 26th. And so this date will be the record at close of business on November 13th, and it will become ex-dividend on November the 17th.

Metalurgica Gerdau will pay BRL105.7 million, which means, which translate BRL0.26 cents per share. And Gerdau will pay BRL255.7 million or BRL0.18 cents per share.

It should be pointed out that such dividends are calculated, and they also will be based on the Company's net income adjusted for the international accounting standards, known as IFRS.

With that said, I join Andre, and offer our position here to answer your questions. Please go ahead with your questions.

Questions And Answers

Operator

Thank you, the floor is now open for questions. (Operator Instructions) Our first question comes from Mr. (Marcel Brizak) from (Etol Securities).

Q - Marcel Brizak

Hi. Good afternoon gentlemen. and congratulations on the results. Just to clarify again if I have really understand you correctly, your revenues in Latin America were impacted by the consolidation of Cleary Holdings, and as a result it's BRL60 million amounts to roughly BRL180 million in other parts of the Latin America revenues were not related to you, is that correct?

A - Andre Gerdau Johannpeter

You are paying attention to my words -- sorry, I was on the mute. You're absolutely correct, means that you're really paying attention, good.

Q - Marcel Brizak

Okay. Thanks, (inaudible) be good. In the future, I guess, it would be more useful for us if you could separate debt and other revenue lines, things like that.

The other question just in relation to blast furnace versus the Latin American furnaces, we saw the decline in spread prices in US to be dramatic, just trying to get a sense if (inaudible) US is just production or loss, and (inaudible) of getting production, but just your feeling (inaudible) the integrated producers are getting more production than the (large stock clearances) (inaudible) adjusting output? Thank you.

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

Well in terms of -- good afternoon. Well the -- normally, the scrap producers have more flexibility because you have smaller heaps and you can relate to scrap that you pay as materials, but then scrap normally falls more closely to the price of the finished product.

So it's more relates, and this covers an advantage at this moment because the scrap has dropped as much as price is always falling in the world market. But the integrated operations depends more on long-term contracts on iron-ore and coal. We fortunately have some of iron-ore sustained -- by our own production. But with coal, we have some contracts, and this gives some disadvantage compared to scrap. But the cost comparison at this point on both operations are similar and for the future, it's hard to tell which one will be more competitive.

Q - Marcel Brizak

Okay. Thank you very much.

Operator

Excuse me. Our next question comes from Mr. Marcelo Aguiar from Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Hi, gentlemen. And congratulation (inaudible) operating results for sure. Two questions for you. The first one is related to the -- when we look to the Brazilian business, it's definitely very sky-high margin, 41%.

Then if we look to the price, we find that domestic prices in Brazil is almost like 100% above the export price for rebar at the point -- at this moment. So can you elaborate a little bit what is the outlook for domestic long steel prices in Brazil in the next, let's say, three to six months in the light of this year's spreads?

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

Well Marcelo, first of all, technically you're not supposed to compare directly international prices with local prices, because the rest of the world by the way is waiting and what's going to happen. Brazil, thank God, is still moving on, and even the orders are still coming. So it's tough to anticipate big strong changes in the local scenario in the very short run, as you said, three months or two months.

We still have our two quarters quite full, so it's tough. International prices, you're absolutely right, the prices really have shrunked, but if you see the export departments of major steel companies in the world, you'll see that there is no movement. So the real indication of when the prices is high is, let's say, it is possible.

So the outlook, as I said, in Brazil, it may continue as it is, and in North America, you'll see that that has reduced, but the spreads are being maintained so far. But more than that, it's difficult to say and Andre like to add something to my answer.

A - Andre Gerdau Johannpeter

Hi, Marcelo. Just on the comparison of price, you have to be careful when you compare the world prices because in Brazil you have to consider we had a lot of service, that the product which is (inaudible) them, the quality, the size of the bundles, the service of delivery, that's a lot of difference that you'll see. So you cannot compare imports (inaudible) to a service-oriented delivery like we do.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. Thank you. Second question related to your blast furnace operations in Brazil, if I'm not mistaken, you had almost close to 50%, 40, 40-plus of your production comes from blast furnace, from Acominas (inaudible).

And I'm curious what's happening with the billets market. What -- how you're building. Now, the demand for billets is very low. Prices globally, as you just said, is very low, and we know that you cannot reduce much in the blast furnace without stopping it.

So I would like to understand how you're dealing with this. Maybe going to be in three months, maybe going to be in six, like most of the demand for billets globally and a very low price?

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

You're right. And we're managing the situation with the blast furnace, but fortunate (inaudible) is not only billet, but he has structurals, wire lot and flat. And also we're going to have a new flat cost coming in February-March which will add another line of production.

So Acominas has some flexibility to take different routes of production, which is helping very much and (technical difficulty) this moment. But you're right, the billet export market - it's limping, it's weak, and it has a major slowdown basically.

But Acominas has some ways of minimizing this. For how long, we don't know. I mean, it all depends on the market demand on the future.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Then just to see if I'm right here, the number that I have is the blast furnace capacity of 4.5 million in Acominas, and the rolling capacity you have there is a little bit above a million. Is that correct?

A - Andre Gerdau Johannpeter

It's well under.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. Okay. Thank you.

Operator

Excuse me. Our next question comes from Mr. Marcos Assumpcao from Merrill Lynch.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Hi good afternoon, gentlemen. congratulations for this quarter results. First question is regarding demand in Brazil.

Right from the front, if you have read a visibility on domestic demand for long steel in Brazil or its (carbonate), we already saw the -- such two companies downgrading their expectations for demand in Brazil for '09.

I would like to see if for long steel, we too have them at the same pace. Also if you could give us a guidance for what are your expectations regarding ultimate introduction, growth or decline in Brazilians (carbonate)? Thank you.

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

I'll take the long part of your question and Andre may present that on the special. You asked for -- you were asking for an outlook for '09 for long steel. I mentioned in my last

intervention that if you have a book order quite healthy for the year, which means let's see and wait what's going on.

For the next year, you honestly don't know. Better wait for the quarter, we may have a better view of how much the real economy affect that the rest of the world is suffering will do with our real economy here.

And at the same time, since we are very much exposed to civil construction in the country, there are many talks and many announcements. The government is really paying attention to that segment of the economy, that money will be available.

We have been hearing that (inaudible) financing is, there was the other day a 10 billion also dedicated to this sector. Maybe we will see some sort of reaction.

Instead of panic, we may see some of the continuation of many processes. And the bidding process also maybe continued. So it's (hard) to say, but for the short run I would say, in Brazil the demand is still in good shape. For the next year, we have to wait a little more to be more specific. On Specialty Steel, Andre would like to make some comments.

A - Andre Gerdau Johannpeter

What we have seen in automotive sector for this last quarter, there are some adjustment on production, which has been affected by export market.

Also some adjustment on inventories of car and production where we see some reduction of production in the next two months or so. But for the next year, on the output produced, our forecasting that the market should be similar to what we've seen in 2008 and they seem pretty optimistic from their numbers, based on the selling for next year. So that's the forecast we have from our customers today.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay, second question regarding scrap prices in Brazil, so are they actually starting to follow the international trend in terms of prices?

A - Andre Gerdau Johannpeter

Yes. They are.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

And can you give us just the status of how much scrap controlled here in Brazil? Like in the US (inaudible) scrap fall -- dropped almost 80%, from \$900 going to \$180 -- \$150. How much that could impact in Brazil?

A - Andre Gerdau Johannpeter

Yes. In relation to the international market or the US, the prices where very lower comparing, so there will be some reduction, maybe not to the extent you mentioned in

the US, but we will see some reduction. I don't have distinctive numbers to give you at this point.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Just a follow up question regarding the US operation. In this week, the latest number for capacity utilization in the US, we saw a very low number of 67% capacity utilization. Can you give us a sense if GNA is operating at what levels, at these levels or below these levels?

A - Andre Gerdau Johannpeter

The number reflects more the flat produces in North America. The longs to market is not as much affected. And the -- I don't have the final number here and later we'll have a conference call from our colleagues from North America. But we have been operating around 85 to 90, but there will be some drop. I don't have a number that I can give you -- specific.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Thank you very much.

A - Andre Gerdau Johannpeter

Thank you.

Operator

Thank you. Our next question comes from Mr. Raphael Biderman from (South Brazil). Go ahead Mr. Biderman.

Q - Raphael Biderman {BIO 1529743 <GO>}

Hi, congratulations as well. My first question is if you could talk a little about outlook -- should quote -- elaborate on how we shall look for the west operations. There was a drop of 17% on sales quarter from quarter if I (inaudible) there should be further drop for the Fourth Quarter.

I'd like to know how -- what are you feeling now from the clients, the US and if -- or what kind of a build you have going forward and if you know what would be the bottom of trade in terms of products and in terms of steel price? If you can see, like scrap prices going back to the levels of the '90s and rebar (inaudible) going back to the levels of the '90s, or even going back to the levels of '98 when there was a big crash of price? If you could elaborate a little more there?

Another doubt is regarding closures in the US, are you guys shutting few shops in the US based on this crisis? And how are you seeing the situation? Hello?

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

Yes, okay. I understand the first part of your question was related to the reduction of volumes (inaudible) Third Quarter on top of Second Quarter.

We do have two major valuations in this particular quarter, third over second, and basically it was in Latin America which went down 12% as Andre anticipated.

The Latin American demand was weakening even before the crisis and throughout the second half of the year, the North American volume also reduced a bit, around 16% or so. So this basically explains the 7% that you mentioned on a consolidated basis, where as at the same time Brazil went up 3.6%, almost 9% in the domestic market. So it was a real mix.

In terms of guidance for the ninth year, even though movements -- anticipated movements in the current crisis and so on, you're asking us about are you going to go back to the early stage of pricing of steel.

Honestly, I don't know. We have been seeing the whole industry -- used to say a few months back -- I don't know how valid is these statements are how much are those statements now valid -- that the market was not supposed to go as deep as it used to be in the past. We have to wait and see.

But long steel not necessarily follow the same trend and not have a direct correlation with spreads. We are experiencing more impact on flat and then long at this very point in time.

So it's early to say where is going to be the bottom, and when this bottoms will be reached for the future. US, may be one quarter of less than a quarter, to speak more fluently, about next year. Andre would like to complement, yes.

A - Andre Gerdau Johannpeter

Yes, you had a second question on the stand about the shutting operation in the US, correct?

Q - Raphael Biderman {BIO 1529743 <GO>}

Yes, exactly.

A - Andre Gerdau Johannpeter

Yes. But at this point we have no plans of shutting the US or any other foreign operation. What we will do is adapt the volume of production to the market demand and we also have other option that -- measures we are doing like to anticipating maintenance, doing maintenance that was postponed during the market this year, some vacation, avoiding working on weekends, avoid work on peak hours where energy is more expensive. So we still have a lot of things we can do to adapt to this moment where we're seeing weaker demand and then we will match production to customer demand.

FINAL

Q - Raphael Biderman {BIO 1529743 <GO>}

No shortage of steel shop in the US or any particular --?

A - Andre Gerdau Johannpeter

No, my comment before --

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

We have all the operations in the US.

Q - Raphael Biderman {BIO 1529743 <GO>}

Okay. Thank you. Thanks for your views.

Operator

Our next question comes from Mr. Francisco Schumacher from Raymond James.

Q - Francisco Schumacher {BIO 17132452 <GO>}

Hi, Andre and Osvaldo. Congratulations on great results. I have a couple of questions.

One is, which are the main projects that are already ongoing that is not reasonable for you to stop and what is the capacity of them?

Another question is what was the EBITDA accounted for the coke and coal operation in Colombia which you have accounted everything on this quarter?

And the last question is, from your consolidated expenses how much is it fixed and you want in a manual dollar basis or just percentage in the quarter as you prefer?

A - Andre Gerdau Johannpeter

Hi, this is Andre. I will start covering the CapEx projects. We announced a plan of \$6.4 billion for the period from 2008 to 2010, and we still maintain this plan and what we do is that we are revising the priorities in the starting of some of these projects because of the crisis and we will follow and we will start them as demand pickup or as demand grows.

So it will be related to demand. But we maintain our CapEx plan. So far in 2008 we invest \$1 billion and the rest of the amount is still on the plan, and as I mentioned, under revision at this point. On the coke operation I was not clear your question, sorry.

Q - Francisco Schumacher {BIO 17132452 <GO>}

With no significant construction going on right now, should this have to continue?

A - Andre Gerdau Johannpeter

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Well the projects that are going and we start construction we will keep with one step more developed and those are to be continued.

Q - Francisco Schumacher {BIO 17132452 <GO>}

The market -- what capacities more or less -- the ones that are already --

A - Andre Gerdau Johannpeter

I don't have the specific number. We've spent so far \$1 billion out of the 6.4.

Q - Francisco Schumacher {BIO 17132452 <GO>}

Okay.

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

Schumacher, Schirmer speaking now. Would you mind repeating two the other parts, the coke question and the -- I think it was dollar.

Q - Francisco Schumacher {BIO 17132452 <GO>}

Yes, yes.

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

Could you please repeat?

Q - Francisco Schumacher {BIO 17132452 <GO>}

If the Latin America increased significantly and you mentioned that's one of the explanations, the result of the coke and coal operations in Colombia, which you consolidated this quarter.

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

Right.

Q - Francisco Schumacher {BIO 17132452 <GO>}

I would like to have a better detail of how much was that exactly?

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

Basically the whole growth in Latin America in this particular quarter --

A - Andre Gerdau Johannpeter

Yes.

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

-- and EBITDA was due to the coking coal operation because it moved from -- it was from some BRL375 million to almost -- sorry, BRL289 million to almost BRL400 million in the second to the third.

And this was basically due to the following fact. We made that transaction, we had seen that transaction long time ago but we were still waiting for the authorities to give us a equivalent to (inaudible) in Brazil give us permission to really materialize the acquisition results.

From now on, it's going to be represented in another more (inaudible) mid-quarter and we gave you a sense in the invoices from the (CLR60) (inaudible) every month.

This is basically indicates -- and then someone also asked would you please demonstrate or show the result of that operation which is not related to steel, in a separate way we will be considering that to see what we can do. And as far as the third question was related to dollar, I think, and would you mind repeating it?

Q - Francisco Schumacher {BIO 17132452 <GO>}

The consolidated cost of the operation?

A - Andre Gerdau Johannpeter

That's a big question.

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

Which of the coking coal or the whole operation?

Q - Francisco Schumacher {BIO 17132452 <GO>}

No, no of the consolidated.

A - Andre Gerdau Johannpeter

No, no we (thought of that).

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

Basically we don't have the -- specifically of what it cost and the overall cost of the Company, but it's a minor portion because really working with spread, working with (inaudible) finances, really the bulk goes to variable cost.

Q - Francisco Schumacher {BIO 17132452 <GO>}

Perhaps.

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

It's a caution number; I would say that wrong.

FINAL

Q - Francisco Schumacher {BIO 17132452 <GO>}

And do you have a precise --?

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

About 35% to 30%, sorry. Sorry, Schumacher, you were saying something? You were saying something?

Q - Francisco Schumacher {BIO 17132452 <GO>}

The default is 30% of 60?

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

Right. The bulk is really variable.

Q - Francisco Schumacher {BIO 17132452 <GO>}

Okay. Thank you very much.

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

Okay. You're welcome.

Operator

Excuse me. Our next question comes from Mr. (Luis Albertome) from Fortis Investments.

Q - Luis Albertome

Hi. Good afternoon. Congratulations on the results. Not so much on timing, but that's okay. I have some questions. You've mentioned about acquisitions and Gerdau has been really active on these points in the industry, and now it seems that a lot of opportunities can appear in the near future, in the near term. What's your view about the acquisition environment, opportunities of an acquisition in US and other markets?

A - Andre Gerdau Johannpeter

Well this is an environment that requires a lot caution and attention so we are -- although there might be some opportunities, this is a hard time to make any move.

We've been following markets, and we've been following any movements from competitors or companies, but again this is a lot of uncertainty for the future, so it's very hard to predict anything.

Q - Luis Albertome

Okay. And another question on the operating side mainly in Brazil. If you could comment on your view about operating margins for the Fourth Quarter, considering that you're

going to have higher domestic prices, and may be lower scrap prices, but also lower export prices?

So I don't know if you expect even higher margins comparing to the Third Quarter or the impact on the cost side and the exports should make the margins (really null)?

A - Andre Gerdau Johannpeter

For sure, I'm not expecting higher margins, but since as I said the book order is still good, I think the (inaudible) of the Third Quarter margins for a while would be a valid assumption.

Q - Luis Albertome

Okay. And one last question, about the Third Quarter sales in the US, what level of sales can you expect comparing to the Third Quarter sales volume?

A - Andre Gerdau Johannpeter

You're going to hear my colleague from GNA speaking maybe in half-an-hour so, and they will say the same, I will say it to you now.

We do have to monitor the market. We have basically no strong reference to make an statement or give guidance for the third -- for the Fourth Quarter, for lack of knowledge really, not for trying to, say dissipate (inaudible) from a question.

We are -- of course you are expecting reductions on volumes and maintenance of spread, but honestly what -- to what volume exactly, I wouldn't dare to exercise any forecast.

Q - Luis Albertome

Okay. Thank you.

Operator

Thank you. Ladies and gentlemen. this concludes today's question and answer session. At this time, I would like to turn the floor back to Mr. Andre Gerdau Johannpeter and Mr. Osvaldo Schirmer for any closing remarks.

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

Well thank you very much for your attention and for your interest, and we are happy that you received well the results, that you're able to place on the Third Quarter and last year, for the rest of the year, and from the following year. Now Andre would like to complement.

A - Andre Gerdau Johannpeter

Yes. Thank you everybody for the questions and the interest in our conference call and if you have further questions, doubts, you can contact our team in Investor Relations and

looking forward to see you all on the conference call in February for the whole year. Thank you very much. Have a great day.

Operator

Thank you. This concludes today's presentation. Thanks very much for your participation and have a good afternoon.

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