

Q4 2013 Earnings Call

Company Participants

- Andre Gerdau Johannpeter, President, CEO
- Andre Pires, VP, Director, IR
- Unidentified Speaker, Unknown

Other Participants

- Carlos de Alba, Analyst
- Fernando Layton, Analyst
- Ivano Westin, Analyst
- Juliana Chu, Analyst
- Leonardo Correa, Analyst
- Marcelo Aguiar, Analyst
- Rafael Oliveda, Analyst
- Renato Antunes, Analyst
- Roy Yackulic, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good afternoon. Welcome to Gerdau's conference call about the results for the Fourth Quarter of 2013. At this time, all participants will be in listen-only mode during the Company's presentation. And at the end, we will initiate our Q&A session. (Operator instructions).

We would like to emphasize that any forward-looking statements that might be made during this conference call related to Gerdau's business outlook, projections. And financial and operating goals are mere assumptions based on management's expectations related to the future of the Company. Even though Gerdau believes that its comments are based on reasonable assumptions, there is no guarantee that future events will not affect this evaluation.

Here today are Mr. Andre Gerdau Johannpeter, Director, President. And CEO of the Company. And Mr. Andre Pires, Vice President and IR Director. With no further ado, I would like to give the floor to Mr. Andre Gerdau Johannpeter. You may proceed, sir.

Andre Gerdau Johannpeter

Thank you. Good afternoon, everyone. Welcome to Gerdau's conference call to talk about Gerdau's results in the last quarter.

As we always do, we will initiate our analysis with the overall landscape for the steel market followed by information on Gerdau's performance in 2013 and the outlook for 2014.

It is important to mention that we will talk about the performance of the year in addition to highlighting the main figures of Q4 2013. Right after my presentation, Andre Pires will elaborate on the financial performance of Gerdau. And after that, we will be available to take your questions.

For those of you following us on the Web, on page two we start with the industry overview. Starting with world steel production, that reached 1.6 billion tonnes in 2013, up by 3.5% vis-a-vis the year before.

Excluding China, the world production was in keeping with that of 2012, amounting to 828 million tonnes. On the other hand, in the Fourth Quarter of 2013, worldwide steel production was up by 6% when compared to the same period of 2012, totaling 421 million tonnes.

In Brazil, 34.2 million tonnes, almost the same volume of the year before. In the Fourth Quarter of 2013, steel production in the country did not evolve when compared to the same period of the previous year, totaling 8.3 million tonnes.

In Latin America not including Brazil, 31.7 million tonnes, almost the same as in 2012. In the Fourth Quarter, production in the region was 8.2 million tonnes. And now, that was 5.1% lower when compared to the same period of the previous year.

Steel production in the United States totaled 87 million tonnes, down by 2% year-on-year. In the Fourth Quarter, however, production increased 4%, totaling 21.7 million tonnes.

If we look at the outlook including estimates by the World Monetary Fund, they point to a global GDP growth of 3.7% in 2014. Therefore, we see global economic activity is expected to grow this year, especially in developed nations, when compared to the year before, which could be translated into an increase in steel consumption.

According to Worldsteel, the growth is estimated to be 3.3% in terms of steel consumption in 2014, reaching as much as 1.52 billion tonnes.

Slide number three, we have Gerdau's big figures, starting with net sales. Net sales were BRL39.9 billion, up by 5% year-on-year. In the Fourth Quarter, net sales increased 14.8% when compared to the same period of 2012, reaching BRL10.3 billion.

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Now, EBITDA was up 14.6% year-on-year, amounting to BRL4.8 billion. In the Fourth Quarter, EBITDA was BRL1.4 billion.

CapEx was BRL2.6 billion in 2013, of which almost 59% was invested in Gerdau's operations in Brazil, particularly due to the startup of the coiled hot-rolled strips rolling mill in the Ouro Branco mill in Minas Gerais and the expansion of the mining business also in Minas Gerais.

Another 20.2% was invested in the specialty steel mill. And this includes Deville, Spain, the United States. And India. 14% was invested in North America. And 6.7% went to other countries in Latin America.

In the Fourth Quarter, the Company invested BRL677.2 million. I would like to recall the total of BRL2.6 billion.

Now slide four. We will talk about the performance in the quarter and the outlook starting with Brazil.

Throughout the year, sales to the domestic market were 5.9 million tonnes, up 10.6% when compared to 2012, including sales of semi-finished slabs and billets and also rolled products. I would like to highlight that the sales of rolled products in the period were lower than that percentage.

Our exports, starting in Brazil, of 1.4 million tonnes, were down by 29.4% due to lower demand coming from the international market and also the overcapacity of steel in the world.

In addition to that, we had the impact of the Brazil costs and the foreign exchange rate variations, both limiting factors of Brazil's competitiveness. During the Fourth Quarter, shipments to the domestic market totaled 1.4 million tonnes, 9.4% higher vis-a-vis the same period the year before. However, exports were 376,000 tonnes, which accounts for a reduction of 27.7%.

In terms of the Brazilian economy, the Focus report estimates that GDP should grow 1.8% in 2014 and steel consumption should be 27.4 million tonnes, up 3.2% when compared to the previous year.

Now, in terms of the main sectors, the outlook is the following. We'll start with the construction. According to DG [ph], the projected GDP should be 2.4% this year, boosted by the continued growth of the figure of total wages, mortgage loans. And the end of the infrastructure work in the country, together with all of the initiatives related to the World Cup and the Olympics.

Therefore, Gerdau continues to participate very actively in the industry, supplying steel to the most important projects in Brazil such as airports, urban mobility projects. And other investments related to the energy sector.

Now speaking about the industry, the industry should grow 1.9% this year. In farming, for the agribusiness, the estimate is GDP growth should be up by 3.3% in 2014.

It's worth mentioning that due to resolution of the iron ore project throughout the year 2013, we believe that this operation will become relevant from 2014 onward. In 2013, shipments of iron ore to third parties totaled 1.2 million tonnes, mostly concentrated in the Fourth Quarter of 2013.

Now I'd like to report on North America on slide five, not including Mexico but US and Canada, where we sold 6.1 million tonnes in 2013, down 5.1% vis-a-vis 2012 due to the growing participation of imported goods in the market.

So it's important to mention that internal shipments of steel in the US excluding imports had a decline of 0.3% during the year. However, in the Fourth Quarter of the year, there was a rebound of 8.6% in sales due to the low volume sold in 2012. And that period at the time was impacted by uncertainties related to the tax policy in the United States.

Moreover, the US economy is still moving on towards recovery, which should expand the steel consumption in 2014. The nonresidential construction industry, which is showing signs of recovery according to the US Department of Commerce, investments in this industry amounted to 4.6% increase in 2013.

Now PMI, the main KPI for production in the US, posted the best result in the year in December, reaching 56.5 points. I would just like to remind you that anything above 50 is positive.

But in January, despite the very severe winter that the country is facing now, that KPI reached 51.3 points, which shows a very positive path. And so, the outlook for the US economy in 2014 can be very optimistic.

IMF estimates that the United States should post 2.8% growth of GDP. And with that, steel consumption in the country should also post a growth of 3% or more throughout the year, reaching almost close to 100 million tonnes, mainly influenced by the automotive industry, energy, heavy equipment. And nonresidential construction.

Now speaking about Latin America, shipments in 2013 were at 3.7%, reaching 2.8 million tonnes. This stems from the economic growth experienced in the region. In the Fourth Quarter, shipments totaled 715,000 tonnes, which was up by 10.5% vis-a-vis the same period of 2012.

Most countries in Latin America where the Company operates should also post a GDP growth, especially Peru, up by 5.7% to a plus 4.5%. And Columbia, 4.2% for 2014.

As a consequence, steel consumption in the region should also evolve. There should be an increase of 5.9% when compared to 2013, reaching 44.9 million tonnes.

And with that landscape, I would like just to highlight the construction of our new plant for structural shapes in Mexico through a joint venture, Gerdau Corsa.

Most of the equipment has been already delivered by the vendors. And the civil construction works are underway. The new units should start up in 2015, with an annual installed capacity of 1 million tonnes of steel and 700,000 tonnes of rolled product.

Now going back to Latin America, we see a high level of steel imports in the region. And we are constantly monitoring that aspect.

Slide number six now refers to specialty steel, Brazil, the US, Spain. And India. In this operation, shipments increased by 7.5% in 2013, totaling 2.9 million tonnes.

This good performance was due to the improvement in sales of heavy-duty vehicles in Brazil and also sales in India after its first year of operation. In the Fourth Quarter, this operation boosted its delivery by 17.9% when compared to the same period of the year before, reaching 711,000 tonnes.

In Brazil, the heavy-duty vehicle industry experienced a significant rebound. It was a good rebound after the downturn of 2012. I would just like to remind you that in 2012 we had the enactment of the Euro 5 standard.

In the case of light duty vehicles, despite drops in sales, production was also up substantially as a replacement for imports and the growth of exports. The production of light and heavy-duty vehicles in 2013 was up 10% vis-a-vis 2012, reaching 3.7 million units.

In 2014, increases in IPI and interest rates of financing from the MDF should restrain the growth in the industry. However, the outlook for the heavy-duty vehicle segment is positive because of the performance of Brazilian agribusiness.

Another factor that may play a positive contribution is the Inovar-Auto program that boosts the nationalization of automobile spare parts. In this regard, we estimate that the production of light and heavy-duty vehicles will reach 3.8 million units, up by 1.4%.

In North America, the demand for specialty steels was benefited from the recovery of the sales of light vehicles, compensated in part by a reduction in the production of heavy-duty trucks. In the year, there was an increase of 4.5% in the total production of vehicles, reaching 15.5 million units.

For 2012 (sic), the recovery of the market for heavy-duty trucks and a continuity of growth in the sales of light vehicles should certainly be a positive factor in our sales in general.

In Europe, on the other hand, the main markets for specialty steel experienced a rebound in Q4 2014. Vehicle registration, for instance, was up 6% year-on-year. However, 2013 was

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still a difficult year for both passenger and heavy-duty vehicles. That experienced a decline of 2%.

For 2014, the rebound will be gradual, as the economy in the region improves and inventory levels are resumed.

In India, despite the recovery that began in Q4 of 2013, the main specialty steel markets, light and heavy-duty vehicles, experienced a decline throughout the year due to the lower pace of economic growth, higher interest rates. And the slowdown of the mining activity, affecting the industry of heavy-duty vehicles.

For 2014, again the rebound initiated in the last quarter of 2013 should continue to evolve, supported by the expectation of higher public spending.

On slide seven, I have my final remarks. I would like to start by saying that Gerdau's improved performance in 2013 reflects our efforts of the entire Gerdau team to improve the efficiency of our operations. And also the growth of some markets, despite the fact that this growth was lower than expected.

Improvements on the management side can also be noted though the reduction of almost BRL1 billion in working capital during the year, excluding exchange rate variation, which lead to more liquidity and improvements in the Company's indebtedness KPIs.

Throughout this year, we met important challenges in Brazil, with the full integration of the long steel operations, the startup of the flat steel production, together with the expansion of the mining activity.

It's important to say that the coiled hot-rolled rolling mill is working at full capacity, meeting the clients' expectations. We also grew our worldwide installed capacity of specialty steels with investments in Brazil and in the US, in addition to celebrating our first year of operations in India.

So we believe that, with all of these initiatives, we will be able to contribute to the Company's results in the next coming years. Despite uncertainties concerned the global economic market, Gerdau has been able to maintain its investment plan in a selective way, focusing on its long term strategy.

In 2014, the Company will invest BRL2.9 billion on its industrial plan covering steel and mining. With all of these initiatives, we believe to be fully capable of emerging even stronger from the current moment faced by the steel industry worldwide, which is being impacted by an overcapacity of steel.

Currently, 26% of the world's steel capacity is idle, which affects the profitability of the industry as a whole. It is also important to mention that in the pre-crisis period, the idle capacity in the world was, on average, 17%.

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With that, I conclude my presentation. And now I'll give the floor to Andre Pires. After his presentation, I will be back with you for our Q&A session. Thank you very much.

Andre Pires {BIO 17698724 <GO>}

Good afternoon, everyone. I'm starting on slide number eight. And I'll start by talking about consolidated results of 4Q 2013. And then will provide details on each business operation. I'll conclude the presentation talking about capital structure.

Net sales were up 14.8% in 4Q 2013 vis-a-vis 4Q 2012. And that was due to different reasons in each BO, among them higher volume and growth of net sales per tonne. And we'll talk more about it in the next slide.

In regards to 2013, there was a 1.6% in net sales. That was due to lower volume sold by all the yields, which is a regular and seasonal behavior of the business.

Shipment costs were up 12.6% because of higher volumes sold and higher cost per tonne sold. But they were lower than the net sales per tonne increase, raising the gross margin from 11.3% in 4Q 2012 to 13.1% in 4Q 2013.

Expenses with SG&A -- sales, general. And administration expenses -- regarding net sales were stable at 6.5% in 4Q 2013 when compared to the same period of the prior year, as well as to 3Q 2013.

That reflects our management efforts in optimizing expenses, especially in a time of cost pressure and real devaluation, which impacts expenses of our international operations when converted to a currency.

EBITDA has reached BRL1.370 billion in 4Q 2013, an increase of 53.8% vis-a-vis the same period of the prior year. The bridge chart to your left shows the major contribution to the EBITDA increase.

That was the growth in net sales. It was higher than the increase of shipment costs. Therefore, the margin went from 9.5% in 4Q 2012 to 13.3% in 4Q 2013.

In regard to 3Q 2013, EBITDA showed a slight drop, which was 3%. But the margin remained stable.

In the fiscal year of 2013, Gerdau's consolidated EBITDA reached BRL4.784 billion, 14.6% growth vis-a-vis the fiscal year of 2012. EBITDA margin went from 11% to 12%.

The highest negative financial result in 4Q 2013 is mainly due to negative net exchange rate variations in liabilities denominated in American dollars both for 4Q 2012 and 3Q 2013.

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As we have said before, the most part of the exchange rate variation is in the Company because we use investment hedge for a good part of financing in dollars. Here it's good to remind you that the net equity of Gerdau has been positively impacted by the exchange rate variation because we have more assets in American dollars. And that is due to our investments abroad.

Even then, the net income for 4Q 2013 when compared to 4Q 2012 has increased. And it was an important increase, reaching BRL492 million.

In regards to 3Q 2013, net income dropped 23.4% due to the lower operating performance caused by seasonality and a higher negative financial result, which was impacted by the exchange rate variation.

In the fiscal year of 2013, net income had reached BRL1.694 billion, an increase of 13.2% compared to the prior year.

Now talking about dividends, based on the Company's profit regarding 4Q 2013 performance, dividends of BRL32.5 million will be paid to shareholders of Metalurgica Gerdau. And that is equivalent to BRL0.08 a share. And BRL119.3 million to shareholders of Gerdau S.A., BRL0.07 a share.

Dividends will be paid on March 17th as recorded at the close of business on March 5th. In 2013, Metalurgica Gerdau and Gerdau S.A. approved respectively BRL150.4 million. And that is equivalent to BRL0.30 per share. And BRL476.7 million, BRL0.28 per share, in dividends and/or interest on equity.

Now turning to slide number nine, I will talk about results and performance of each business operation starting with Brazil. There was in Brazil an increase of 11.1% in net sales due to the increase of 9.4% of shipments of steel products in the domestic market, as well as higher net sales per tonne.

Also, the higher shipment of iron ore in 4Q 2013 vis-a-vis 4Q 2012 abated export net sales, which was steel plus ore, being impacted by the drop in steel products exports.

Brazil here, which accounted for 67.3% of the EBITDA, had an increase of 40.8% in absolute value due to improved gross profit, which in turn was impacted by the net sales higher than sales cost increase. And also because we sold real estate that was recorded in 4Q 2013. And it was around BRL99 million.

Besides, the sale of iron ore to third parties has helped the results. The EBITDA margin therefore developed from 19.6% in the Fourth Quarter of 2012 to 24.8% in the Fourth Quarter of 2013 vis-a-vis 3Q 2013.

The impact of lower volumes sold, there was a drop of 6.3% in the deliveries, was offset by the sale of real estate, as I mentioned. And also because we started selling iron ore to

third parties. Therefore, there was a balance in the absolute EBITDA and the EBITDA margin.

In the fiscal year of 2013, EBITDA of Brazil BO has increased 34.8%. And the margin went from 17% to 21.4%. It's important to mention that along 2014 iron ore activity strongly contributed to Brazil BO's results.

As I have said, in addition an extraction upturn, Mining 2 treatment unit became operational in the year, promoting the delivery of 1.2 million tonnes to third parties in 2013.

Therefore, considering the iron ore business growth and its relevance for 2014, the Company has decided that, from the First Quarter of 2014 on, the iron ore activity will be reported separately as an independent business operation.

Now turning to slide number 10, I will talk about the performance in North America. There was a growth of 8.6% in shipment volumes in 4Q 2013 vis-a-vis 4Q 2012. And that was due mainly to an improvement in the economic landscape in the region, considering the same period of the prior year.

The increase in volumes sold, as well as higher net sales per tonne, which was due to the exchange rate variation on the period, provided a 14.5% net sales increase in the period.

Vis-a-vis 3Q 2013, net sales dropped 9.5%. And that was due to lower shipments, around 8.2%, a regular and seasonal event in this period.

North American EBITDA accounted for 9.5% of consolidated EBITDA 4Q 2013. And it went from BRL59 million in 4Q 2012 to BRL139 million in 4Q 2013, especially due to higher shipment volumes.

Then the EBITDA margin has also shown improvement in the period. Vis-a-vis 3Q 2013, there was a growth of 7.8% in EBITDA absolute value and an improvement in the EBITDA margin. That went from 3.10% to 12.5%.

On slide 11, we'll talk about Latin America, Brazil excluded as usual. And shipments were 10.5% higher in 4Q 2013 compared to the same quarter of the prior year. And that was due to favorable demand from some countries in the region, especially Colombia, Peru. And Chile.

Net sales increased 20.1% in the quarter thanks to higher volumes sold as well as greater net sales per tonne.

The EBITDA in 4Q 2013 for Latin America represented 9.3% of the consolidated EBITDA. And it reached BRL136 million, a significant improvement vis-a-vis 4Q 2012.

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That is due to higher volumes sold and therefore a greater dilution of fixed costs. So EBITDA margin has reached 9.2% in the quarter compared to 1.7% in the same period of the prior year.

Vis-a-vis 3Q 2013, both EBITDA and net margin were aligned at a good level after the cost optimizations implemented in the different countries of the business operations.

In the fiscal year of 2013, EBITDA improved 137.8% vis-a-vis the prior fiscal year. And the EBITDA margin went from 3.6% in 2012 to 8% in 2013.

Now let's turn to slide number 12 and talk about specialty steel. There was an increase of 17.9% in shipments in 4Q 2013 vis-a-vis the same quarter of the prior year due to shipments closed in all countries where Gerdau is present, India included.

They have started operating the rolling mill in the beginning of 2013. The highest net sales of 19.3% resulted mainly from greater volumes sold.

EBITDA accounted for 13.9% of the consolidated EBITDA. And it dropped 6% in 4Q 2013, reaching BRL205 million due to the performance of India's operation, with higher costs coming from production process learning curve. EBITDA margin dropped from 12.7% in 4Q 2012 to 10% in 4Q 2013.

Vis-a-vis 3Q 2103, reduction in the EBITDA of 24.9% and in the EBITDA margin was caused by a change in the geographic mix of shipments. With a smaller participation by Brazil and a larger share of Spain and India, each had a lower margin. Besides, also we had the impact of the seasonality, which is a regular one in that activity.

Now slide 13. And I'll talk about capital structure, indebtedness. And liquidity. Gross debt at December 31st of 2013 was BRL16.3 billion, an increase of BRL2 billion vis-a-vis December of 2012.

But the devaluation of the real was responsible for almost all of that difference. If we take away the exchange rate, our gross debt only has an increase of BRL61 million.

The weighted average cost of debt was 6.5% a year, with an average period of amortization of 5.3 years.

The gross debt exposure in foreign currency dropped from 80.3% in December 2012 to 79.5% in December of 2013. And in spite of the real devaluation which was close to 15% vis-a-vis the American dollar in that period. This lower exposure is a result of financial management initiatives taken to minimize the exchange rate risk in a period of real volatility.

The cash increased from December 2012 to December 2013 of BRL1.7 billion happened because there was optimization of working capital in the period and also due to higher

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generation of operating cash flow.

Therefore, the next debt had an increase of BRL313 million. And that was totally offset by the cash flow increase. So there was a reduction in the net debt indicator from 2.8 times to 2.5 times.

And that reduction was the result of the Company's efforts to optimize working capital and improve cash flow generation in the business. Allow me to remind you that, along 2013, Gerdau had its investment grade re-endorsed by the three main rating agencies.

In December 2013, the working capital dropped 4.1% vis-a-vis December of 2012 and in spite of the growth of almost 15% in net sales in the Fourth Quarter of 2013 vis-a-vis 4Q 2012.

And that shows the Company's efforts, as I said, in optimizing its working capital and focusing on its balance sheet and liquidity. As a result, the cash conversion cycle was reduced 16 days vis-a-vis December 2012, closing in 81 days.

It's important to stress that the BRL350 million working capital reduction from December 2012 to December 2013 reflects exchange rate variation mainly over the working capital of companies abroad. Excluding that variation, the cash flow impact of that reduction was BRL935 million. That is almost BRL1 billion.

So from now on, me and Andre will be able to address your questions. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we will now start our Q&A session. (Operator instructions) Thiago Lofiego, Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good afternoon, everyone. I have two questions. The first refers to your 2014 CapEx. You mentioned BRL2.9 billion for this year, which is slightly above what you mentioned more recently. So could you please give me a breakdown of this CapEx? And also, why is it that it's slightly above the BRL2 billion figure that we had assumed before?

The second question refers to the steel market in the United States. Could you please tell me a little bit about the metallic spread and at what level this metal spread is today? And what is the impact of the very severe weather in the US to your figure?

A - Andre Pires {BIO 17698724 <GO>}

Hello, Thiago. Thanks for your question. This is Andre Pires. In terms of CapEx, in fact this is the number that we had in mind and that we expected. And we were talking about it for a while.

If you look at disbursement of CapEx or investments that took place throughout 2013, it was BRL2.6 billion. The expectation for 2014 of BRL2.9 billion contemplates some projects that are already in the pipeline and some others that are yet to be approved.

But it's always good to remember that when we translate CapEx into reais, there is the impact of the FX variation. So part of the equipment that we acquire, they come from abroad. They are (inaudible) equipment.

So to invest in an environment where the real currency depreciated, that leads to a higher disbursement of reais. Certainly it depends on the FX variation and the performance of the exchange rate throughout the year. But that's the number, BRL2.9 billion. There haven't been any changes.

Now, concerning the US market, I think that you divided your question into the metal spread and also the severe winter.

Starting with the latter, I mean, winter is indeed affecting the market as a whole. Some operations are, one way or another, affected. I think you are all following what is happening. I think this has been the worst winter ever. And the economic activity is also demonstrating that the industry is being affected.

And in terms of the metal spread, it continues to perform the way that you mentioned before of the situation in the US. And it is relatively low if you compare it to the levels of the experience in 2011 and 2012, in the first half of 2012.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Now, going back to that CapEx issue, you said that 2017 your total CapEx will be BRL8.5 billion. So you believe that we should see a decline in CapEx in the next coming years, or maybe not. Could you please tell me -- give me a breakdown of what mining and steel milling still needs to do in that regard?

A - Andre Pires {BIO 17698724 <GO>}

Okay, Thiago. In fact, we decided to talk about CapEx -- the use of CapEx on an annual basis rather than in a five year term. The main reason is that we are in fact reviewing our investment plan.

And this review is occurring on a very frequent basis, focusing on working capital and also focusing on the economic landscape. So there is more decline in CapEx. But again, we must take into account the FX, the effect of foreign exchange variations.

And now speaking more particularly about mining and steel milling, I would say that if you look at CapEx expanding in 2014, I think more than 50% or 60% will go to Brazil. And in Brazil, mining plays a very important role because we still have our project to expedite production of iron ore.

As you know, we intend to reach a production capacity of 18 million tonnes by the end of 2016. And this will require important investment if we want to reach that goal.

Operator

Ivano Westin, Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Good afternoon, Andre. And thank you for the question. First, I would like to know about operations in Brazil. Can you please elaborate more about your energy self sufficiency level here in Brazil? And that was due the recurring decision of a possible savings program for energy. How do you see the demand for the First Quarter? And what are you going to transfer in terms of price increase in Brazil for the first scenario? That's the first question.

And also, please comment on the specialty steels. What do you expect to see in terms of margin recovery along the year? Thank you.

A - Andre Pires {BIO 17698724 <GO>}

Hello, Ivano. Gerdau speaking. About energy, it is important to let you know a little bit about our structure.

We do have a sub-generation capacity of around 40% of our needs in Brazil in specialty. And also included here specialty steel. That includes our co-generation in Ouro Branco plant and also our two hydroelectric power plants. And the participation that we have in (Foreign Language). So with all that, we have 40% of self-generation.

About pricing, we have hired energy both in the free market as well as in the private market, plus our self-generation. That is enough. And we still have a little bit to spare in regards to the load that we have that is estimated for our use.

And so, in this scenario, we feel very comfortable. And it's important to stress that we do have production units all over Brazil. We have production units in the southeast and the northeast. Therefore, I would say we have a good geographic diversification. And it makes us very comfortable in terms of energy distribution. Now I'll turn to Andre to talk about the Brazil demand. And also specialty steel.

A - Andre Gerdau Johannpeter

Hello, Ivano. This is Andre. About Brazil demand, we are still working along with Osso Brazil in a growing consumption of around 3% to 4%, depending on how the year goes.

That is the outlook that we have in terms of the demand.

We have seen that infrastructure is still here. We do have construction work, not as much as we expected. But those are happening, whether for the World Cup or for transportation and the Olympic structures, energy. And so, there are things happening. But not as fast as we expected.

Residential construction is more or less stable. And the industry depends on the FX variation to go ahead, to go forward.

About the specialty steel, we don't have a specific production emerging. But 2013 was the first year for India and that impact, that India is coming into the operation. So it did have an impact.

We should have an improvement of margins in India. Now it's going to be the second year. The operation should be improved. Europe also, we see some signs of recovery and they tend to improve.

Here in Brazil, we should have something similar, or maybe -- we don't know. The year has started. We have incentives coming out, higher interest. Then maybe the car sales should stabilize. We don't know. It's going to depend on the FX variation and competitiveness.

And in the US, we expect to have that good consumption of light duty vehicles. And also then they should have a recovery of oil and gas energy there. So we should expect some better margins in India and Spain. And I would say that in the US we'll have more similar margins.

Q - Ivano Westin {BIO 17552393 <GO>}

Okay. Andre and Pires, thank you for the answers. I just would like to make sure about one point. About pricing, can we expect anything about a price increase for long steel here in Brazil? And where do you see that price match here?

A - Andre Pires {BIO 17698724 <GO>}

Yes. We are not going to comment on prices. We have hundreds of products, different situations, hundreds of variations. So we cannot comment on prices.

Q - Ivano Westin {BIO 17552393 <GO>}

Can you tell us whether you see a price match in general?

A - Andre Pires {BIO 17698724 <GO>}

No. You are talking about a match?

Q - Ivano Westin {BIO 17552393 <GO>}

Yes, because you have the rebar in the international market and on the local market.

A - Andre Pires {BIO 17698724 <GO>}

Okay. We cannot comment on that. Thank you very much.

Operator

Carlos de Alba, Morgan Stanley.

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

Thank you very much, gentlemen. The first question is also on India. How long more will it take for the operation to be completely ramped up? Based on the press release, you started operations in January and it still had a negative effect in the four quarter results. So I wonder if things are going well there. And when do you expect the operation there to be running at full capacity?

A - Unidentified Speaker

Well the question from Carlos de Alba is about India and our operation in that country and when we believe that the plant will be operating at full capacity.

One year after the startup, the capacity of that plant is 300,000 tonnes. And the focus is on specialty steel. And to reach capacity, because it's a specialty steel, it takes a little bit longer. Maybe two or three years would be more realistic.

And they operate differently than a rebar mill or a mill that produces other products. So two to three years would be the expectation in terms of reaching full capacity.

But it certainly depends on the market. This is just based on our experience and our production curve. If there is more demand from the market, that may be different.

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

And if I may, on iron ore, what is your expectation of volumes for 2014?

Then, the last question is on working capital. It has been a key focus of the management team to reduce working capital. Can you do more in 2014 and beyond bring forward, the base of working capital that we saw in the Fourth Quarter? Because the reality is, despite the great results on this and the cash flow generation that took place, net debt to EBITDA remains around 2.5 times, which is not necessarily low. And I just to understand how you see these two things, the working capital and the net debt levels.

A - Andre Pires {BIO 17698724 <GO>}

This is Andre Pires. Your first question refers to iron ore and what is our expectation in terms of iron ore production in 2014. And the second question refers to working capital,

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taking into account the reduction that occurred in 2013. So what is our expectation for 2014 and how we see the net debt over EBITDA performance.

So related to your first question on iron ore, as we said during the presentation, our purpose is that after the first half of 2014, after the results for the Second Quarter we will start talking about numbers for production and deliveries of iron ore.

And for that reason, we will not anticipate anything at the moment. We will give you more details when we report on the results for the First Quarter of 2014.

Now, about working capital, in 2013, as we said, our liquidity agenda was quite strong. And that we understand that repeating the same kind of reduction in working capital is very difficult.

However, we are still putting a lot of effort to operate at a more balanced or fair working capital level. And so, the focus is to work with a cash conversion cycle a bit shorter.

Now, in terms of net debt over EBITDA of 2.5 times, this is an objective that we pursued in the first half of 2013. We were pursuing 2.5 times. But we understand that due to all of that work, we were able to have our investment grade reinstated by the main rating agencies.

This is a comfortable level. And therefore we will start to operate with this level of debt, focusing on 2.5 times. There may be fluctuations upwards and downwards, because it's very hard to have a very good fine-tuning of this number. But we will try to operate with a number around this number, the number that we had at the end of 2013, 2.5 times.

Operator

Renato Antunes, Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

Good afternoon, everyone. Thank you for the opportunity. First is about the United States and the antidumping matter that is being studied there by the American agencies. We have a negative preliminary view. But I would like to know your opinion. Do you have a clear expectation? That could help us about what's going on and what they are investigating there, especially in terms of antidumping.

Regarding Turkey and Mexico. And also Brazil in terms of iron ore, if I'm not mistaken, you already mentioned that you made 1.2 million tonnes of sales. I would like just to confirm. Analyzing some figures, a large part of that was concentrated in the Fourth Quarter, most 700,000 tonnes in the Fourth Quarter. Can you help me understand how much of that is being exported and how much of that is being shipped to the domestic market?

A - Andre Gerdau Johannpeter

Renato, this is Andre. Good afternoon. I will talk about the antidumping and then Pires will talk more about Brazil.

We have talked about our expectations. We are, along with other manufacturers, are participating, contributing with data. And it's very difficult to do any type of forecast.

What we had coming out yesterday was about subsidies. And we still have more to know about antidumping. And we are waiting for more information. And probably that's going to come out only in April. That is as much as I can tell you in that matter of the antidumping in Turkey and Mexico.

A - Andre Pires {BIO 17698724 <GO>}

This is Andre Pires, Renato. And really. And I mentioned in the past, in 2013 deliveries of iron ore for third parties reached 1.2 million tonnes. And a large part of that was in the Fourth Quarter.

We started with that treatment unit 2 in September, if I'm not mistaken, at the end of September, beginning of October. So that helped us to expedite the iron ore treatment and therefore production. Obviously, as you know, an important part of the production of our mines is to support Ouro Branco.

In regards to what is sent to the export market, I can tell you that we have flexibility to export a large part of the production or to meet the demand of the domestic markets. So it's going to depend upon where the demand is. And also it's going to depend on the price equation.

So I would say that we would like to export. But that doesn't mean that we are supporting the demand of the domestic market.

Operator

Rafael Oliveda [ph], Itau BBA.

Q - Rafael Oliveda

Good afternoon, Andre, Pires. My first question refers to the Brazilian market. We have seen imports of rebar and rods. And there is a 20% growth. And now we saw imports -- higher imports of rebar. How do you see that move? That's my first question.

My second question relates to other operating expenses, the line that appears in your statement. You talked about an amount of BRL99 million of property sold. And we will see in the results that -- I would like to know what kind of property you were referring to.

A - Andre Gerdau Johannpeter

Rafael, this is Andre. In fact, we saw some import growth in the past year. But you have to look on a month by month basis, because last month is was almost zero. Maybe there was

a ship that didn't come in. So that number is posted in January.

But we've been monitoring these volumes very closely, taking the necessary actions to compete in the market, because sometimes this comes into some regions and not others. So we are constantly monitoring this scenario, looking at international prices, the economic landscape.

But we do not believe that the volume of imports will increase. Part will be taken in the market. But we are working towards avoiding higher figures.

A - Andre Pires {BIO 17698724 <GO>}

In terms of the other extraordinary revenues or operating expenses, in fact, in the case of the Fourth Quarter of 2013, there was an impact from the sales of real estate, or of property, close to BRL99 million. And this affected EBITDA.

They refer to some sales of the Momentum when we saw the opportunity there to sell the property without necessarily leaving that area. These are sales. But we are still renting the property. There is no plan to use this same mechanism in the next quarter.

This is considered on a case by case basis depending on the opportunity at the moment. But we do not anticipate any further plan to do that in a more structural fashion.

Operator

Roy Yackulic, BofA.

Q - Roy Yackulic {BIO 4201939 <GO>}

Thank you. Again about the land sale, I see on the cash flow statement that you realized BRL237 million from sale of PP&E. I assume that's the land sale. And I'm confused. Are you saying BRL99 million, or is it \$99 million? And was that the impact on EBITDA, the BRL237 million, or what was the impact on EBITDA? And I'm also curious how much of the EBITDA in 2013 came from iron ore sold.

A - Unidentified Speaker

The last question was about the impact of the real estate sale in the EBITDA, how much was that, if it was 99 million reais or dollars. And the second question is about the EBITDA impact in 2013 on the iron ore sale.

So addressing the first question, really the impact on the EBITDA of the Fourth Quarter of 2013, it was BRL98.6 million, not dollars. Those had a positive impact, the sale value of that real estate and the cost that we had on the balance sheet of those properties. That brought a result of BRL98.6 million with an impact in the EBITDA.

About the iron ore, the sale, as I have mentioned before, we are going to start disclosing separately that activity from the First Quarter of 2014 on. Right now we tell more about the

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impact in terms of volumes, in terms of third party sales. And in terms of productivity, comparing it to prior periods.

So I would like to ask you for a little bit more patient, to wait a little, because when we start disclosing that information in an independent way, all that information will be available to you.

Operator

Leonardo Correa, HSBC.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon. My first question relates to the competitive scenario. So I would just like to hear from you your idea about the new entrants, CSN and CMEC, starting as of April. Then, as mentioned previously, the level of imports still bothers a little bit, because there is a lot of material entering the country. So I would like to hear our opinion on how you intend to proceed in terms of your commercial strategy, given the scenario of new entrants with a different kind of imported goods coming into the country.

And the second question refers to a previous subject that was raised during the call. Certainly, there are still a lot of uncertainties in terms of the scenario concerning rationing and drops in demand. Could you please tell me a little bit more about measures that could be taken by the Company, or maybe you could increase the level of exports, considering a future exchange rate depreciation?

Therefore, I would like to hear from you what would you do in case of a scenario similar to what we had in 2001 and 2002. So what is your Plan B in case of a scenario like that?

A - Andre Gerdau Johannpeter

Hi, Leonardo. This is Andre. Now, in terms of the competitive scenario with new entrants. And you mentioned CSN and CMEC. They are about to come. We do not know exactly when. But they should come in throughout this year.

And about imported goods, I already talked about that. We are monitoring that very closely. It goes up and down depending on the month. So we continue to monitor that on a frequent basis.

In the south part of the country, Sao Paulo and Rio, this is a good market. So this does not affect our whole market before we will focus more on the southeast market.

But I think what is important to highlight is our entire commercial strategy. With several mills, we are present in several areas with all of our added value and operations which are all over the country. And also the distribution from (Foreign Language).

In addition to distribution image in the present, I mean, I know that there are new entrants coming in. But we are strong enough and we have a longstanding tradition. The market continues to grow and there will be more competition in the market. But that's part of the market. But we trust our strength, our team. And our commercial strategy, which is very strong and differentiated in Brazil.

A - Andre Pires {BIO 17698724 <GO>}

Leonard, Andre Pires. In terms of energy, it's hard to tell what the expectations are, because nothing has been outlined yet. But if we borrow the example from 2001 when there was some rationing, what I said before, the fact we are present in different regions of the country, in our view we find ourselves in a much more comfortable situation.

In 2001, there was, yes, rationing. It was mostly concentrated in the southeast part of the country. And as a consequence, we had the opportunity to sell to other markets.

So it's also worth mentioning the fact that we have operations in other parts of the world and in Latin America as well. This is very, very important because we find ourselves in a very good position.

There is no particular Plan B. We are very alert. But we cannot envision any possible landscape at the moment.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you, Pires. But just to add, what about exports? Because in the past, we've heard a lot about what will be the ideal exchange rate so that you would be neutral in terms of domestic market and export. I know that this will vary per company. But if we think in terms of 2.40, 2.50, could you think about exporting more to offset a moment of lower demand in the domestic market?

A - Andre Pires {BIO 17698724 <GO>}

Well Leonardo, I think it greatly depends on prices on the international market and the entire situation of that international market. Well there is a variation of the exchange rate. But you must also consider variations in the international market. So it's hard to tell what would be the ideal exchange rate. But what will be the ideal international landscape.

Well even with an exchange of 2.40, exports have not been used as an interesting alternative. To that end, our export level has declined in the Fourth Quarter due to a very weak landscape abroad. So just looking at the variation of the exchange rate, that's not enough alone.

Operator

Marcelo Aguiar, Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

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Good afternoon. Thank you for this opportunity. Andre Pires, can you comment? You talked about metal spread, comparing 2011 to 2012. Can you talk about the metal spread in American operation in the First Quarter compared to what you have seen in the Fourth Quarter?

And my second question is about the operations that you have of ramp up. How much do you expect in terms of production in Ouro Blanco in India itself so that we can have an idea what is the potential growth of volume in tonnes?

And my last question, if you can please tell me a little bit about cost, especially about coal, energy. And how have you started the year. And what is the perspective that you have in the short and medium terms?

A - Andre Pires {BIO 17698724 <GO>}

Hello, Marcelo. This is Pires. Let me tell you a little bit more about metal spreads. We still see a challenging scenario for metal spread in the US. As I said before, obviously we are operating at a lower margin vis-a-vis 2011, the first half of 2012.

About the Fourth Quarter, I would say that it's flat. It's stable vis-a-vis Fourth Quarter of 2013.

You also probably have seen that, in spite of a very strong winter in the US, the scrap that, under these conditions it would raise the price due to logistics, the problem is those have fallen. They are dropping, contrary to expectations. And that is due especially to export to Turkey.

So in a scenario where we are having a drop in the scrap, you know the American market is difficult to recover the margin. But we are still looking at macro data and also about investment expectations in the nonresidential sector. And we still see an improvement in the American landscape.

We have seen that investment growth in nonresidential was 4.6%. And if we consider the average of estimates for 2014, that nonresidential sector has a forecast of 5.8% for 2014 and for 2015 8%. So we expect that it's going to improve. This is a short term scenario and should change for the future. Now I'll turn the floor to Andre to talk about cost and ramp up.

A - Andre Gerdau Johannpeter

Good afternoon, Marcelo. About the ramp up, I always talk about it in round numbers, because it is the expectation of what we are going to get.

In Ouro Blanco, we expect to have around 40% to 50% of use of the rolling mill. In India, in terms of steel, we are at 60% to 70%, because India's operation was already working in the billet and steel production. And what's new there is the rolling mill. And we expect to

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reach 40% on that one as well because we have a learning curve there, considering it's a specialty steel.

And since that has recently started, just in December, we don't have an outlook yet, because it's only operating for two months. So it's harder to give you a forecast. There are more or less the figures between -- in the Ouro Blanco and India rolling mills.

About cost, let me talk also about where you talked about coal. And the coal cost is stable, dropping in the world very similar to iron ore, something that we haven't seen in a long time. Coal was even higher. Iron ore also dropped a little bit and it's back to \$120.00, more or less. So we expect some stability there.

For scrap, we did have a decrease in the beginning of the year. There was demand but, also due to the strong winter in the US, it could impact some. But what we have seen in January and February was a drop in the scrap in the market.

About energy, in Brazil we are not impacted. We have agreements for the whole year and for the next year for most of our plants. So I wouldn't say we will be impacted.

And in the US, winter has been affecting the cost. We see that gas in the US is over \$5.00, almost \$6.00. And it was always very close to \$3.00 and \$4.00. So there are variations. It depends upon the commodities and the region. So I just gave you a general overview of what we have. Is that okay?

Q - Marcelo Aguiar {BIO 3721791 <GO>}

It's great. Thank you very much.

Operator

Fernando Layton [ph] from (inaudible).

Q - Fernando Layton

Good afternoon. And thank you for this call. I have two questions. The first is on the scrap market in the US. And I would like to refer to that market. Obviously, when you took over the US unit, I think the landscape was very different from the current one.

And we see that the EBITDA margin is significantly higher in the Brazilian market. Even when the unit is recent, like in the case of India, the numbers are still much different when compared to Brazilian numbers.

So your entry in the market of flat steel, which in my view I believe has a tighter EBITDA when compared to long steel, what is Gerdau's strategy to that end? The averages of EBITDA in new markets, do you think that they tend to shrink? Thank you.

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A - Unidentified Speaker

Okay. About scrap in North America, we use our Gerdau business system. This is the way we work in terms of scrap processing to look for cost efficiencies.

And this has worked quite well in North American, in some regions better than others. But this is the model that we use there, which is similar to the operation way of acting in other areas, not only for scrap. But this gives gains. And this is the strategy used in Brazil that was replicated in North America.

About EBITDA, I think you were referring to flat steel when you were talking about the margins. We have now a coiled hot-rolled strip rolling mill. And we will not be so influential because it's a very vast market. But we also understand that profitability is also linked to the fact that we used to sell flat. But once you turn those into coiled hot-rolled strips, we have some advantages.

In terms of flat steel, the margins are within our expectations to pay for the investment that was done in coiled hot-rolled strips. We have our own distribution. But we are selling to other clients in the market.

And we understand therefore that we will be able to get the returns within our expectations and within the figures estimated for coiled hot-rolled strips. So we still need some time in order to do a better evaluation.

Operator

Juliana Chu, Votorantim Corretora.

Q - Juliana Chu {BIO 1551904 <GO>}

Good afternoon. Thank you for the call. I have two questions, first about North America and United States. How is the capacity in the year? And considering that 2013, your fiscal year, you knew that -- you turned to several efforts in North American operations, what do you expect in terms of profitability? Can we expect something higher for 2014, something more similar to 2012?

And also, about coiled hot-rolled strips, do you have an expectation of volume sales for domestic and export markets for 2014? Thank you.

A - Andre Pires {BIO 17698724 <GO>}

Hello, Juliana. This is Andre Pires. About North America, we are operating now at a capacity of 63%. That is the figure that we have now, that is working now.

As you said, 2013 was a difficult year in terms of profitability. And we are working strongly. And we do believe, considering what we have seen in the macroeconomic KPIs, that in 2014 we should have better profitability, that is a better EBITDA margin, than in 2013.

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But it's difficult to have a very clear estimate, because we are just in the beginning of the year. It's just started. With this strong winter, it was unexpected. But we think it's going to be better. And I'll turn to Andre for your second question.

A - Andre Gerdau Johannpeter

About the yield, I'll turn to a figure that we just mentioned. We have a yield of 40% to 50% of the capacity of the coiled hot-rolled strips rolling mill for 2014. Then, sales will depend on what we are going to do in terms of the line, which gauges we are going to use on the line. We are already working on rolling products.

So we can't give you more data on that, on production. 40% to 50% up is capacity for this year.

Operator

So we conclude now our session of questions and answers. I would like to turn the floor to Mr. Andre Gerdau Johannpeter and Mr. Andre Pires for their final remarks.

A - Unidentified Speaker

Thank you, all for your participation and your interest in our conference call. And if you have any questions, our IR team is available to address any further details.

And I would like to invite you to our call on the First Quarter of 2014. It's going to be on May 7th. Thank you very much. And all have a good day.

Operator

The conference call from Gerdau is concluded. Thank you, all for participating. Have a good afternoon.

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