

## Q1 2006 Earnings Call

### Company Participants

- Mauricio Werneck, Financial Director
- Osvaldo Schirmer, EVP, CFO & IR Director

### Other Participants

- Daniel Altman, Analyst
- Leo Larkin, Analyst
- Paolo Di Sora, Analyst
- Rama Rao, 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 First Quarter 2006 results conference call. We would like to inform you that this event is 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. And instructions to participate will be given at that time. (Operator Instructions)

We would like to draw your attention to the fact that certain assessments that may be made during this conference call, with regards to the Gerdau businesses and its perspectives, projections and operating and financial objectives are mere forward-looking statements, based on the expectations of management on the Company's future. Although the Company believes that its statements are based on reasonable assumptions, there can be no assurance that the future events will not affect their accuracy.

Today with us we have Mr. Osvaldo Schirmer, Executive Vice President and CFO and Director of Investor Relations. And Mr. Mauricio Werneck, Financial Director. I would now like to turn the conference over to Mr. Osvaldo Schirmer. Please go ahead, sir.

#### **Osvaldo Schirmer** {BIO 1754610 <GO>}

Good afternoon, ladies and gentlemen. Welcome to our First Quarter 2006 results conference call. All data presented by the Group is already available at our site, at the CVM and at the Sao Paulo Stock Exchange. We remind you that this conference call may be followed on the Internet along with a PowerPoint presentation.

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Today I'll make this presentation together with Mauricio. And at the end I'll make the introduction and I'll find the measure -- outstanding aspects, the highlights. And at the end I'll come back for the final remarks and the outlook.

The First Quarter has experienced a significant recovery in the Brazilian domestic market. And improved sustainable conditions in other markets. The consolidated gross revenues was BRL6.6b, 12% greater than that on the Fourth Quarter 2005. The consolidated net profit reached BRL832m, 14% greater than that of the last quarter of 2005. Operating profit was BRL1.2b. Net revenues totaled BRL5.6 billion and generated an EBITDA of BRL1.2b. And an EBITDA margin of 21%.

Consolidated shipments totaled 3.7 million metric tons. Where consolidation is concerned, Gerdau continues to grow in North America. And the purchase agreement for the acquisition of Sheffield Steel will increase Gerdau Ameristeel's installed capacity by 600,000 metric tons. And will expand its geographic coverage.

On May 25, Gerdau S.A. will pay a total of BRL199 million in interest on capital or BRL0.30 per share, while Metalurgica Gerdau will pay BRL96.2 million equivalent to BRL0.52 per share.

At this point I will ask Werneck to take over and follow the PowerPoint presentation. At the end I'll come back for the outlook and final remarks. Werneck, please.

## Mauricio Werneck

Thank you, Schirmer. Good afternoon, to all of you. It's a pleasure to be here again talking about Gerdau results. Slide number 2 talks about the steel sector and what happened during the First Quarter of 2006.

The global crude steel output in the First Quarter was 1.2% less than that of the Fourth Quarter of 2005, with an output of 284.5 million tons. China continues to increase its output in spite of the announced government efforts to limit excess capacity. The fact is that China, despite having turned into a net exporter of long steel products, hasn't yet destabilized international prices, given that demand remains strong in the main steel markets.

In Brazil, after a disappointing 2005, the market is starting to recover and pick up steam. The civil construction sector is the great leveraging agent, aided by several other factors such as the provisional measure that reduced taxes, among other things, inflation under control, higher income, more jobs and lower interest rates.

The agro-industrial sector is slowly recovering. It's still affected by bird flu, foot and mouth disease, cost of harvesting, low commodity prices. The industrial sector continues to grow in a sustained manner.

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The reduction of the federal Industrialized Products tax, which is called IPI, was passed down to the sales price accounting for a 5% reduction, with no impact on the contribution margin. Distributors, however, didn't pass the price reduction immediately due to the existence of inventory built in the pre-tax reduction period.

The international market presents a strong demand in North America and in Latin America. And stable demand in Europe. With the recovery in domestic sales, the exported tonnage should remain in line with that of last year. It may decline a little in comparison with the total shipped.

The North American market continues to show a strong demand and very little volatility, something not seen in quite some time. Spreads continue to be wide and may widen even more. The industry has recently announced yet another price increase of \$15 per ton, an indication of an active market. Another evidence of the North American market's strength is that there was no seasonal downturn in this First Quarter.

Slide number 3 covers shipments. At Gerdau consolidated shipments for the First Quarter presented an increase of 10%, compared to Fourth Quarter volumes of 3.7 million tons. At this rhythm the annualized tonnage for 2006 could well be around 15 million tons.

Sales at Sidenor, Spain, are consolidated starting this First Quarter with 77,000 tons. In Brazil, consolidated domestic sales increased 15% as a result of the recovery of the domestic market. Exports total 627,000 tons. Shipments in North America increased 11%, up from 1.5 million to 1.7 million tons.

Growth in South America was 1% in the quarter to 335,000 tons, up from 331,000 tons. Sales abroad, added to exports from Brazil, represented 73% of the consolidated volume of the First Quarter of 2006.

Slide number 4 on costs and prices. Overall metallic input costs in the First Quarter remained in line with those of the Fourth Quarter of 2005. Metal scrap prices also remained stable. Pig iron, however, had a small price increase of about 10% at the end of the quarter. This was not enough to affect the cost structure in a significant way.

In North America the availability of scrap is not a concern. But there is some price volatility. Expectations are that prices stay at the \$200-per-ton range, although an increase of \$10 to \$20 per ton could happen in May. Suppliers' contracts for iron ore in the international market are yet to be defined, with no reference prices announced so far. The consensus, however, is to expect increases in the range of 10% to 20%.

For coking coal, on the other hand, there was a price decrease of \$10 to \$20 per ton. We expect that coking coal prices continue to fall due to the increase in supply, as a result of new capacity building in Canada and in Australia.

On margin evolution, slide number 5. Cost of sales remained stable compared to net revenue and gross margin. And gross margin stayed at the same levels as in the Fourth

Quarter of 2005. EBITDA in the quarter reached BRL1.2b, BRL1 billion in the Fourth Quarter of 2005. And the consolidated EBITDA margin remained at 21%. Net profit in the First Quarter reached BRL832.5m, 14% greater than that of the Fourth Quarter, while net margin stayed at 15%.

Slide number 6, a highlight on the recent Sheffield acquisition agreement. Gerdau continues to look for opportunities to consolidate further its sector worldwide. The acquisition of Sheffield Steel is in line with its strategy of taking advantage of opportunities in the markets to expand its geographic coverage.

With the acquisition of Sheffield, Gerdau Ameristeel will have an installed capacity of 8.9 million tons per annum. And a market share of approximately 16% in North America. The solid balance sheet presented today by Gerdau Ameristeel, along with its leveraging power to grow through its own means, is acknowledged by the market and resulted in the strong appreciation of its shares. Additionally, the Company was recently upgraded by Moody's.

Slide number 7 on financials. Net revenue in the First Quarter reached BRL5.6b, 15% more than in the Fourth Quarter last year. This growth is due to the increase in volumes shipped which, in this First Quarter of 2006, was 10% greater than that of the preceding quarter. The Brazilian operations contribute with BRL2.5 billion to net revenues in the quarter, 44% of the total amount.

The North American operations contribute with revenues of BRL2.5b, another 44%, while the units in South America did it with BRL477m, with 9%. And Europe accounted for the remaining 3%, equivalent to BRL199m. Companies abroad and exports from Gerdau Brazil together contribute, with 65% of consolidated net revenues in the First Quarter this year.

SG&A totaled BRL561.7 million in the First Quarter of 2006, 22.8% greater than in the Fourth Quarter of 2005. Cost of sales, in particular, presented the reduction of 12.6% as a result of lower exports, which caused a decline in logistics costs. On the other hand G&A increased by 38.8%, basically due to three factors.

The first one is -- was the increase in the cost of its stock appreciation rights for Gerdau Ameristeel employees, for an amount of BRL55.4m.

The second factor was the consolidation of 40% of Corporacion Sidenor in Spain, with an addition of BRL21.6m.

And the third factor was the increase of BRL16.2m, in the payment of royalties for the use of the Gerdau brand name which was the result of an evaluation of the business segments, conducted by a firm that is a world reference in the evaluation of brands and licensing fees.

The percentage of these expenses in relation to net revenues increased from 9.4% to 10%, Fourth Quarter 2005 versus First Quarter 2006.

The net financial result totaled BRL374 million in the First Quarter. Excluding foreign exchange variations over indebtedness in foreign currency, which accounted for BRL243m. And monetary variations, another BRL3m, net financial revenues totaled BRL129 million in the First Quarter.

The First Quarter also accounted for, in the Other Operating Revenues line, for BRL60 million as the result of the final legal decision for Gerdau in a claim against the improper collection of the PIS tax.

Equity pick-up was negative by BRL197m, the result of the appreciation of the real in the quarter. Net profit for the First Quarter reached BRL833m, representing a margin of 15%, the same in the Fourth Quarter of 2005.

Slide number 8 on indebtedness. Out of the main indicators that are used to monitor the Gerdau company's indebtedness, the gross debt/EBITDA ratio was only 1.7 times. With regards to net debt, it can be paid off, in theory, with six months of cash generation. The weighted average life of debt is about nine years. On March 31, cash and cash equivalents total BRL5.5b, of which BRL2.2b, or 39%, were pegged to foreign currencies, mainly the U.S. dollar.

Now I will turn to Schirmer for outlook and closing remarks. Thank you, very much.

### **Osvaldo Schirmer** {BIO 1754610 <GO>}

In general terms the outlook for the Gerdau business is positive. In Brazil there is a strong indication that there is a recovery in economic activity, mainly in the civil construction sector. If the pace of this quarter is maintained, we may recover in good measure the losses of 2005.

With regard to prices there is a trend towards the stability. As far as costs, although energy only accounts for 6% of the total production cost, there is some concern with the prices of electricity. Tariffs have been very high for most of our mills in Brazil. And fiscal charges are even greater than that -- than the actual price of electricity. In short term, however, we do not foresee any material changes to costs in general.

GDP in the U.S. continues to grow at very healthy pace and steel product prices are rising too. As a result, metallic spreads may increase also. The import of rebars from Russia and Turkey is strong. But prices are no longer that low when compared to domestic prices, as they have been in the past. Imports are not having a negative impact on the market due to a strong demand.

We expect that in the next few months there will be a substantial reduction in imports, given that there is a certain stability in domestic prices relative to imports. In Brazil, in spite of the reduction of import duties, the increase in international prices reduces the attractiveness of steel imports.

In short, the overall perspective in international markets for long steel continues to be positive. In markets Gerdau is present, demand has been growing more than supply and inventories continue in balance. Export prices are on the rise and freight costs are stable.

I now open the session for questions.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question is coming from Paolo Di Sora with Banco Itau. Please go ahead.

#### Q - Paolo Di Sora {BIO 3285292 <GO>}

Good afternoon. My first question regarding your sales volume in the First Quarter. Could you split out how much of your volume in the local market is increased by the sales of Villares. And also the exports from Brazil?

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

Villares accounts for roughly 70,000 tons on the quarter. So it's already combined with the Brazilian operations in order to satisfy CVM regulation 371, as opposed to the rest which is consolidated through the Corporacion Sidenor. As you know, we hold 40% of Corporacion Sidenor. And Corporacion Sidenor holds 59% of Villares.

The breakdown in terms of volumes in the First Quarter, we have in Brazil 980,000 tons, exports around 627,000. So the total Brazilian production -- I'm sorry, sales were 1.6 million tons.

#### Q - Paolo Di Sora {BIO 3285292 <GO>}

And inside this number is 70 million tons?

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

70,000, not (inaudible)

#### Q - Paolo Di Sora {BIO 3285292 <GO>}

Yes, 70,000 tons from Villares?

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

More or less, yes.

#### Q - Paolo Di Sora {BIO 3285292 <GO>}

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All right. Okay, thank you. My second question is regarding this royalty payment that was increased this quarter. Could you explain the history of this royalty. And why the (inaudible) is increasing so much this number at this point?

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

This procedure is in place for quite some time, maybe seven or eight years, if I'm not mistake. They were roughly symbolic in the past. Until recently, when we hire we retain an international company, in fact, called Interbrand. It's quite traditional in this particular market of assessing values of companies to undertake a study, in-depth study about the contribution of the Gerdau brand to the sales effort.

And may -- they used all the technicality applicable to this sort of study. And they come up with a value, with a present value properly discounted and so on. So out of that study we, with their coordination, we elected a percentage to be of 0.6%, to be applied to net sales of the Brazilian operations. Not contemplating the sales abroad.

We understand that the study also contemplates very strongly that the brand, Gerdau, really influences as a trademark, a solid trademark in Brazil and even for exports market. So the companies are charged that amount and there's going to be a charge on that amount, or that percentage (better), on net sales from now on a quarterly basis. So in the past the charges were basically symbolic. The last charge was around BRL600,000.

**Q - Paolo Di Sora** {BIO 3285292 <GO>}

And the company Gerdau Empreendimentos, It's between Metalurgica Gerdau and Gerdau S.A? In other words, the Metalurgica Gerdau cash flow is influenced with this disbursement or not?

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

No. The Company in fact is above Metalurgica Gerdau. It's below the holding -- the other holding companies -- the family holding companies. So GGE is the holding that is contemplated. It was the payment of this royalty and so it's above Metalurgica Gerdau.

**Q - Paolo Di Sora** {BIO 3285292 <GO>}

Okay, thank you.

**Operator**

Thank you. Our next question is coming from Rama Rao with RR Capital Management. Please go ahead.

**Q - Rama Rao** {BIO 16253421 <GO>}

Good morning, gentlemen. As a shareholder and investor I have a few questions. From your announcement I could not compute, what is your EPS per share according to the ADS share in term of the U.S. dollar?

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

Dollar per share we have in reais and have to convert that. Give me a second. We presented that in reais and someone's going to be making a calculation quickly. Do you have another question so someone is converting that into reais?

**Q - Rama Rao** {BIO 16253421 <GO>}

Yes. My number two question is that what is the actual dividend date. And how much is the dividend in terms of the percentage of the U.S. dollar?

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

Okay. The dividends are going to be paid in May 20 -- what is it? In the May -- hold on, just a second. May 16. Okay. So the payments are going to be on May 25, the ex date is May 15.

**Q - Rama Rao** {BIO 16253421 <GO>}

May 15.

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

This is, yes, going to be ex or positions held until May 16.

**Q - Rama Rao** {BIO 16253421 <GO>}

Okay.

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

Metalurgica Gerdau is the same. In terms of value, we have to convert the BRL96.2 million that Metalurgica Gerdau will pay into reais. Do you have the number already, BRL96.2m? And per share is BRL0.52 per share. So --

**Q - Rama Rao** {BIO 16253421 <GO>}

So the EPS is BRL0.52 per share, okay.

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

And give a sense of reais, you have to convert it into dollars. Gerdau S.A. will pay basically, BRL200m, roughly \$100 million and BRL0.30 per share. So in dollars is what, let me see. Gerdau S.A. it is \$0.14 per share.

**Q - Rama Rao** {BIO 16253421 <GO>}

\$0.14 per share, of the U.S. dollar, right?

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

Right.

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**Q - Rama Rao** {BIO 16253421 <GO>}

And if I understand you, you told that your EPS was \$1.52 -- 0.5 to the \$0.52 per EPS share in the U.S. dollar, right?

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

This is the interest on capital but the profitability we have to convert. Please take the net profit which is BRL832 million divided per share. It's 41 -- \$0.47 per share of U.S. dollar.

**Q - Rama Rao** {BIO 16253421 <GO>}

Okay.

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

The profit, the net profit.

**Q - Rama Rao** {BIO 16253421 <GO>}

And this is post the split, right?

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

Post split, yes.

**Q - Rama Rao** {BIO 16253421 <GO>}

Yes, okay.

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

You took the final number post the split, yes? That's correct, yes.

**Q - Rama Rao** {BIO 16253421 <GO>}

Yes. Now, is it possible in the future announcement you can also put the U.S. ADS per share number as a one line item, in your income statement?

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

If you -- to please you, we'll do anything. We'll do it.

**Q - Rama Rao** {BIO 16253421 <GO>}

Thank you. I appreciate that. Otherwise it causes unnecessary confusion.

Now, there are two reports I have. One says that the peak of the price and the demand of your steels will peak some time in the 2006. And other reports are indicating that, no, it is -- it will not peak -- it will peak around 2008. Any viewpoint on this regard, in terms of the demand and the price of the steel, when it is going to peak?

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

Honestly, anyone will be able to pay a fortune to anyone able to state that for sure. Honestly, I don't know. In fact, if you talk to people in the field you'll see we are -- we have gone too far already, in terms of price appreciation and blah, blah, blah. But the fact is the market is strong, demand is strong.

If you take the U.S. for instance as a reference, you'll see that even the dangerous imports are becoming neutral due to the fact the international prices are catching up almost in level with the local demand. So there is certain stability in the local markets. The spreads, which is the major indicator of this particular industry, which is the difference between the final price and the scrap price, are growing I am talking about \$370, \$380 per ton.

So it's something inconceivable 10 years ago. If you take the reference -- if you take the average in the last 10 years until 2003; 2003, backwards 10 years, was at somewhere between \$160 and \$210. So \$370 was not even conceivable at those days. And apparently the markets continued strong and growing. Honestly, I don't know if the peak is closer or is still far from today.

The fact is the consolidation continues. You can see a lot of potential buyers in line to buy specific assets. Honestly, I don't have an answer.

**Q - Rama Rao** {BIO 16253421 <GO>}

Do you think that the infrastructure demand for this steel in the Asian country, like China and India, are still very strong?

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

Absolutely, include Brazil in that small list.

**Q - Rama Rao** {BIO 16253421 <GO>}

Is that right? Okay. That's very good. Now if I (prorate) this \$0.47 per share earning for this quarter. And if you are maintaining the growth trend, is it a reasonable estimation that the earning per share for this year, 2006, will be around \$2.50 per share?

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

With all the due respect that you deserve, we do not make projections. I don't want to be quoted for that. But all I can tell you that the markets is strong, the operations are in good shape, even improving every day. So very sorry but you have to make your own judgments but it is strong, it's positive.

**Q - Rama Rao** {BIO 16253421 <GO>}

But you people are having an internal goal, an internal budget based on these kind of growth and demand, right?

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

Yes. We do pay our managers based on projections, expectations, budgets, return on capital employed. So we play around those numbers. The only thing that we do not disclose -- we do make projections I mean; public projections, yes.

**Q - Rama Rao** {BIO 16253421 <GO>}

Yes. But for your budget and how many people you're going to hire or what company you're going to acquire, there's a certain guideline that you follow in your company, in the management team. And that you are following in a growth pattern, right?

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

Yes. I think I can say that, yes.

**Q - Rama Rao** {BIO 16253421 <GO>}

Okay. Now, if I analyze a little data, your year-to-year growth. If you analyze your company's growth for the one year, three year, five year, it used to be something around 50%, 40% and 32%. Very significantly it came down in the recent year. This is because the saturation, because the price or because the entry of the new competition in the marketplace?

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

Would you mind repeating the heart of your question? Something came down and I missed what you referred to?

**Q - Rama Rao** {BIO 16253421 <GO>}

If I analyze GGB on a long basis, five year, three year growth and all these things, it was a very superb number, both in terms of your revenue growth and earning growth. Until last year there seemed to be significant drop as if it has dropped down from that cliff. What was the basic reason? Is it that demand has slowed down or the competition has emerged, or execution is not happening?

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

You say GGB now. At the beginning, I understood GDP, Gross Domestic Product. But it's --

**Q - Rama Rao** {BIO 16253421 <GO>}

No, I'm talking about your specific company.

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

GGB. Well, to the recent years we have enjoyed many favorable aspects and negative aspects. If you take the situation of Brazil, for instance, we had enjoyed substantial growth in exports, top prices international market then they came down in the First Quarter. But they were compensated by increasing domestic demand. But the margin somehow suffer

a bit, because the exports are in -- strongly influenced by the strong currency of real against the dollar, plus the low prices international market.

Now they are coming back again, the national prices are going up. You're talking about \$20 to \$30 appreciation on the major products that we export. I'm talking about billets, slab and blooms.

In the U.S. we have faced a strong volatility of the scrap going from \$180 to \$200, over \$200, now it's around \$180. So we are still expecting some volatility. But, in compensation, the industry has been able to improve prices, to push through prices and maintaining and improving the spread. So a lot of that.

In some cases we also acquire new companies. When you acquire a company it does take some time until you turn them around. So we increase overhead until we could clean up the houses and move on. And so forth. It's a collection of factors. But the fact is at the bottom line we have been presenting numbers every year, better than the previous year.

Everybody thought that 2006 -- sorry, 2005 would be unbeatable. Take the numbers of our First Quarter are even better than last year. So it's -- there is no specific question. But there is an amalgamation of factors playing together in this game.

**Q - Rama Rao** {BIO 16253421 <GO>}

But now you begin to feel better again about the whole situation?

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

I'm feeling what?

**Q - Rama Rao** {BIO 16253421 <GO>}

You are feeling better. You are very confident that things are moving in the right --

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

Absolutely.

**Q - Rama Rao** {BIO 16253421 <GO>}

Very good gentlemen. Gentlemen, it was a good quarter. It was a pleasure to be your shareholder. Keep up the good work. Thank you.

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

Thank you.

**Operator**

Thank you. Our next question is coming from Leo Larkin with Standard & Poor's. Please go ahead.

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

Hello?

**Operator**

Mr. Larkin, your line is live, please proceed with your question. We'll move on to the following question coming from Daniel Altman with Bear Stearns. Please go ahead.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Thanks. It's going to be hard to top the last questioner. I'll try to have a few less.

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

Nothing is difficult for you.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay, just three things. First of all the royalty. So am I understanding this correctly that really the royalty is for the Gerdau family? So this is going to get passed from the operating companies directly up to the family?

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

Well, the holding companies at the end of the day belong to the family, to the controlling group. You are correct.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay. And they don't see a corporate governance issue in terms of taking money out of the Company for themselves?

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

Well, this thing was completely or totally debated here. We consulted external consultants. We hired this international company which has done the same sort of study to other companies, with defined control. I have a substantial list of names here. They also have done the same for corporation. And the corporations do charge for the name of the brand.

The Company here and the controlling group really understand the Gerdau name, coincidentally is the family name. But is really a flag for this group -- has been contributing to the sales effort in Brazil. And even in the export market. So they understood, consulting different sources, that there is no conflict of interest and there is no governance. It is not a governance issue.

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**Q - Daniel Altman** {BIO 1855515 <GO>}

In the examples are there any U.S. companies that we could look at?

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

Yes, let me see, I have a list here. Colgate-Palmolive, Heineken, British Petroleum; not American but companies that I can give you the names; Shell, Brinks. (DBDO) which in honesty (inaudible) as (I know). And if you go further trying to identify companies where, at the end of the day, you have families controlling it, you can find Tata Group, you can find Concha y Toro in Chile. You can -- Six of the rental vehicle company in Germany. You can have Cemex in Mexico. You have Blue Circle and other names.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay, all right. The second question is in terms of -- again this is a repeat from last quarter. But the U.S. GAAP financial statement seem to have dropped off here. And I was wondering is this a --

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

It's going to be one week late only, because the accounting director is confirming in the room. He is committed to disclose that in a week.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay. When do you think you can get back to simultaneous U.S. GAAP reporting?

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

This case was due to the recent acquisition. We understand to keep the same track you used to have on the past, together with the quarter results.

**Q - Daniel Altman** {BIO 1855515 <GO>}

So maybe by next quarter you'll get back?

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

Yes, I believe so.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay. And then the third question is on Bolivia. Do you think this is going to have any impact on the steel companies in Brazil, yourselves or any of your major customers? Any potential gas disruptions from Bolivia?

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

This is a recurring question today for obvious reasons. I perhaps can answer your question saying the following. From our input matrix, the energy inputs account for 26% of our total

cost. Gas accounts for 2.5%. This number more or less gives you a reference how important or less important is gas. We do use gas, of course, for the reheating process.

We have been getting from Petrobras publicly and privately information that we are not going to suffer any shortage in supply. Prices apparently are going to be maintained, very likely they will have a chance to improve but not in the short run apparently. Yes, some clients that depend on gas as well. There's some sectors in Brazil that are strongly dependent on gas, such as the ceramic people but they are not directly -- direct clients of us -- of ours.

So, well, in essence we are not foreseeing major problems but this was an important issue, it's a political issue. It brings some disturbance in the front but not as in terms of supply, not in terms of relevance in our cost matrix.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay, thanks very much.

**Operator**

Thank you. Our next question is coming from Paolo Di Sora with Itau. Please go ahead.

**Q - Paolo Di Sora** {BIO 3285292 <GO>}

Hi, excuse me, I have another question dealing with more direct cost. The price of long steel in Brazil, let's say rebars, are similar to the price of cold rolled prices, because of the appreciation of the real and then local steel prices. The long steel price will remain stable. And this product is to be half of the price of a cold rolled product, let's say, in the past. How does the -- this; the difference on price catching up in the future?

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

Long products or cold drawn?

**Q - Paolo Di Sora** {BIO 3285292 <GO>}

Yes.

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

Cold flat, yes, flat. So on flat drawn products, cold drawn products and long steel. Curiously they have not been behaving in terms of correlation directly. We have times where the effects of price increases or price decreases on the flat did not take place at the same time in long and so on. But they have been narrowing.

The consolidation in the market has helped to have more discipline in that. I'm talking about global, I'm not talking -- necessarily talking about Brazil. But in global terms, the narrowing of this gap has to do very much with the consolidation and discipline in the

market. And if you allow me to say that there is still some consolidation to take place, they can perhaps get even narrower.

**Q - Paolo Di Sora** {BIO 3285292 <GO>}

Okay. And regarding your export price for the Second Quarter and the Third Quarter, if you have already sold something in the Third Quarter. How should we see your average export price from Brazil behaving, going forward?

**A - Mauricio Werneck**

I think you can play with a number between 5% and 10% increase, based on what our front line people are saying to us and they are witnesses of what is going on in international markets.

**Q - Paolo Di Sora** {BIO 3285292 <GO>}

This already for the Second Quarter?

**A - Mauricio Werneck**

Starting at the end -- starting at the Second Quarter, yes.

**Q - Paolo Di Sora** {BIO 3285292 <GO>}

Yes. And the last question is do you have a sense of how much of your EBITDA is coming from your Brazilian local operation, excluding exports?

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

No, we don't -- we put all together, exports and local business together to see the local EBITDA. We have the local EBITDA for Brazil but not broken down in local -- broken down in local market. And Brazil EBITDA, for instance, is -- in the First Quarter, BRL300 -- BRL646m. And North America BR300 million -- I am talking about reais millions there. America's -- North America BRL382m, South America BRL100 million but not -- is not calculated -- broken down in local market and export market.

**Q - Paolo Di Sora** {BIO 3285292 <GO>}

Okay, thank you.

**Operator**

Thank you. Our next question is coming from Leo Larkin with Standard & Poor's. Please go ahead.

**Q - Leo Larkin** {BIO 1756825 <GO>}

Yes. Good afternoon. Could you just review with us CapEx and DD&A for this year. And also for 2007 if it's available? And also I would echo what the other earlier caller mentioned about having the GAAP, the earnings and balance sheet in U.S. GAAP



simultaneously. Also the U.S. GAAP for 2005's Fourth Quarter is still unavailable unless I somehow missed it.

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

If I understood, the questions are, first, the U.S. GAAP this quarter unfortunately is lagging behind a week due to internal problems -- is going to be solved. And the intention is to maintain the whole procedure of disclosing both every quarter, from next quarter on.

The North American results are going to be disclosed today. And they have been presented to the press earlier this morning.

And talking about investments, the 2006/05, the three-year program, it is calling for U.S.\$3.8b, saying that 2006 will account for \$1.7b, 2007 will account for \$1.4b. And 2008 \$0.7b. If you break this down into new capacity and regular CapEx for maintenance, you would have \$2 billion for new capacity and \$1.8 billion for maintenance. Out of this \$1.8b, Brazil will account for 7 -- sorry, \$674m, North America will account for roughly \$977m, South America \$130 million and the recent new start Europe, for \$35m.

**Q - Paolo Di Sora** {BIO 3285292 <GO>}

Okay. And DD&A for 2006?

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

\$450. \$450 for the year.

**Q - Paolo Di Sora** {BIO 3285292 <GO>}

Okay. And a preliminary estimate, if there is one, for 2007?

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

Sorry?

**Q - Paolo Di Sora** {BIO 3285292 <GO>}

Would you have a preliminary estimate for depreciation in 2007?

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

On 2007?

**Q - Paolo Di Sora** {BIO 3285292 <GO>}

Yes. Just a --

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

I think it's on the safe side, maintain the same number.

**Q - Paolo Di Sora** {BIO 3285292 <GO>}

Okay, thank you.

**Operator**

Thank you. There appear to be no further questions at this time. I would like to turn the floor back over to Mr. Schirmer for his closing remarks.

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

Well, assuming I understand there is no more questions, I would like to thank you again for your interest and participation in our Q&A today. And I hope to see you around next quarter with good results again. Thank you, very much. Have a good day.

**Operator**

Thank you. This does conclude today's presentation. You may disconnect your line at this time and have a nice day.

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