

## Q3 2009 Earnings Call

### Company Participants

- Andre Gerdau Johannpeter, Director, President and CEO
- Osvaldo Schirmer, VP and IR Director
- Unidentified Speaker, Company Representative

### Other Participants

- Chago Luthea, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Rodolfo de Angele, Analyst
- Rodrigo Barros, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Good afternoon. Welcome to Gerdau's teleconference where we will present the earnings conference for the Third Quarter of '09. At this moment, all of the participants are linked as listeners, but after the presentation, we will initiate our Q and A.

(Operator Instructions) We would like to say that any statements that can be made during this teleconference related to the business outlook of Gerdau projections, and operational targets, and financial ones are just mere forecasts based on the expectations from the administration in relation to the future of the Company, even though Gerdau believes that its comments can be based on reasonable assumptions. There is no guarantee that future events will not affect this evaluation.

Here we have with us, Mr. Andre Gerdau Johannpeter, Director, President and CEO, and Osvaldo Schirmer, Vice President and Director of IR. I would like to give the floor to Mr. Andre.

#### Andre Gerdau Johannpeter

Thank you very much. Good afternoon. Welcome to our teleconference on the results for the Third Quarter of '09.

As we always do it, we will start with an analysis of our performance in the period, also together with the outlook for the market where we operate. In our discourse the

FINAL

Bloomberg Transcript

performance of the Third Quarter will be evaluated vis-a-vis the performance of the Second Quarter of this year.

Both periods are part of the same economic context, that's why it's easier to compare them. Osvaldo Schirmer, later on, will also give you more details of the information about our financial performance. Right after that, we will be available to answer all of your questions.

For those of you who are following us on the web, we now go to page 2, Highlights. In the Third Quarter, the steel milling production in the world showed signs of gradual recovery in the markets in the world; 317 million tons of crude steel was produced which represents a growth of 11% vis-à-vis the previous quarter.

The highlight was China which is the largest world in terms of steel milling production. They presented an increase of 11% in their output reaching 154 million tons in the Third Quarter which is the equivalent to being the third largest producer in the world -- the largest producer in the world.

In view of this scenario, I am very happy to say that we were very -- our teams are very committed because we were able to reduce costs, working capital. We were able to reduce our debt levels. We had a high level of cash liquidity of BRL5.4 billion in September.

This also reinstates our strategy to adapt the Company to the new world economic reality which is very successful so far.

I would like to just to highlight a few points; cost of sales, we were able to reduce it by 5%, even though we had an increase of 15% in terms of the volume of products sold in the period. That's why our efforts to reduce costs throughout the year are now having a positive impact in the financial performance of the Company.

Now, in terms of SG&A, we were able to reduce those by 14% in the Third Quarter. They went from BRL604 million to BRL520 million. This is a reduction of 84 millions in the quarter.

Working capital reached BRL7.1 billion in September with a reduction of BRL431 million vis-a-vis the month of June.

Net debt, the Third Quarter there was a reduction of 16% going from BRL10.7 billion and in the first nine months of 2009, the reduction was equivalent of 40%.

Now, screen number 3, I have the major highlights for Gerdau. Consolidated production of crude oil[ph] increased 30% reaching 4 million tons. Net sales was BRL6.8 billion which represents a 6% increase vis-à-vis the previous quarter.

FINAL

EBITDA, also known as operating cash generation, more than doubled in the Third Quarter, reaching BRL1.4 billion which is a significant increase of 131%, and the EBITDA margin was 28% against 9% in the immediately previous quarter, which really demonstrate a very good reaction of the results, as a reflection of this management.

EBITDA -- I mean, net income was BRL655 million in this quarter. We have also non-recurring net of income tax in the period which was BRL90 million[ph] in the year-to-date.

Net income of Gerdau was BRL361 million reverting the counting negative result that we had in the Second Quarter of '09. The evolution of those results demonstrates undoubtedly that Metalurgica Gerdau and Gerdau S.A. decided to buy dividends in an attempt to remunerate people if interests over capital which is good news to all of our shareholders.

So this evolution in our results really demonstrate great effort on the part of our teams, because with a lot of agility and flexibility, they were able to adjust our operations to the new world economic reaction -- reality as we have mentioned in the previous quarter.

Today we have a very balanced Company which is absolutely adjusted and eligible to service the world at current levels of consumption of steel in terms of investments in PP&E.

In the quarter at the beginning we had 68% of the investments in Brazil and the year-to-date, we have BRL1.1 billion. But further on, I will also refer to our new investment plan for the next five years.

Screen number 4, we talk about the outlook. In this, I give you a general overview. There were government incentive plans which were -- to try to trigger a recovery. And that, in addition to the recovery of financial market's interests, must ensure the continuity of this demand.

In October, the IMF revisited the growth outlook of the world, going from 2.5% to 3.1%.

Now, looking at the Fourth Quarter of '09, we see that the markets may have a similar behavior when compared to the Third Quarter, even with historical seasonality, because of winter in the western -- in the Northern Hemisphere, and all of the holidays throughout the period.

In terms of the world steel milling industry, and according to the World Steel Association, which also review the consumption of steel milling products in 2009, the projection is to reach 1.1 billion tons. And that represents a reduction of 9% when we compare that with 2000 -- with the previous year.

So in 2010 consumption should be 2.1 billion tons, which represents a move of 9% in terms of 2009, and this is almost the same as the volume listed in 2008.

Bloomberg Transcript

The output for Brazil; for the economy in 2010, the outlook is very optimistic. And according to a focus report from the Central Bank, the country should experience 4.8% growth in its GDP. There are other sources that even refer to 5.5% of GDP growth.

There is no doubt that the demand for steel should keep growing, and in civil construction is the major factor. So we -- in the construction sector, we have -- there is the package called My House My Life that should boost sales.

And for July of 2010, we expect to have the approval of about 700,000 new houses. Out of that total, Caixa Economica, Gerdau already has some funds available in the pipeline for 537,000 units.

So in terms of IPI tax breaks, we will -- there will still be stimulus to retail consumers for white line and machinery, and equipment. In the case of the white line they will -- there was a review in the current package until 2010.

In terms of infrastructure and other outlooks, the outlook is very good. In 2010, there should be also investments geared towards to the World Soccer Cup, and the Olympics, also investments for PAC and Pre-salt projects.

Now slide number 5, outlook in the other regions where we are also present. I would like to talk a little bit about North America.

There was a growth of 3.5% of the US GDP in the Third Quarter. And this just puts an end to the technical recession in the US, and we do believe that the outlook for the next quarters should be one of recovery, slow and gradual recovery.

Well we are certainly prepared to take advantage of the market opportunities and at the same time generate more value to our shareholders. In addition, we believe that a significant effect that this will have in the economy, because of the stimulus package of the US government will only make sense after the Second Quarter of 2010.

In our Latin American operations, in the Fourth Quarter we still see a gradual recovery of the economic activities, but for 2010, according to the IMF, there are some good prospects of growth in the GDP, especially in Peru it's 6%, Chile 4%, and Mexico with a 3% growth.

In terms of public investments in the infrastructure in the region, they are still very important. They are also part of a process of economic recovery, and this would also boost the demand for steel.

But we see a significant increase in imported steel coming into the region, which also has an impact in prices. This, in terms of Specialty Steels, that includes the US, Brazil, and Spain.

And I'll start with the North American markets; 2010, we must be careful, but the outlook for 2009 is very positive because we see a recovery in the automotive industry; our position is very competitive and well-adjusted to the reality of demand.

That's why we are ready to face the recovery. We are gaining more and more spaces at the Japanese OEMs in the US, and also we are gaining momentum in the energy, and machinery, and equipment industries.

In terms of Specialty Steels and Brazil, we also have some positive outlooks, considering the reduction of IPI, which will -- which was extended until December.

And according to data presented by EMFACIA[ph] there should be an increase of 6% in the number of vehicle's licensed in 2009 vis-À-vis the previous year end. And carmakers should also take advantage of the benefits of a reduced IPI to reduce their inventory, and then next year, they should still get rid of the stocks at prices which were impacted by the reduction of IPI. So the outlook is positive for 2009.

In terms of Specialty Steels in Spain, we see stability in the markets beginning in the Third Quarter. But the expectation is for a very slow recovery in terms of demand for specialty steels. What we see is that Europe is still affected by the worldwide crisis.

Now, going to our screen number 6, my closing remarks, I would just like to reinstate the fact that we are very -- very closely monitoring the consumption in the world. We are ready to face the recovery of the economy, and the demand for steel in Brazil.

Gerdau revisited its investments in view of the gradual recovery of demand for steel. So in the next five years, from 2010 to 2014, we will invest BRL9.5 billion; 80% of that amount will be invested in Brazil.

I would like to also highlight the heavy plates rolling mill in the unit of Ouro Branco Minas Gerais and that involves an investment of BRL1.750 billion, and the plant will have a capacity to produce 1 million tons of products a year, with a possible capacity for further expansion. The Company should start operating at the end of 2012. And the main focus of this investment, as we have recently stated, is the domestic market, particularly the oil industry, shipbuilding, and heavy machinery and equipment.

Also at the same unit in Ouro Branco, we will expand our structural shape rolling mill, and this should increase the installed capacity of 545,000 tons a year to 700,000 tons the following year. So the structural shape production is mainly geared to construction works for the Olympics, the Soccer World Cup and pre-salt Projects.

As part of the investments, we are just announcing the resuming of our mine at Lopes in Minas Gerais. We should resume operations today, and the annual production should reach 1.5 tons of iron ore.

FINAL

So putting the -- summing up the production of (inaudible) we will reach 2.7 million tons of production of iron ore. And all of the iron ore will be geared towards supplying our internal demand in the mills of Ouro Branco, Barao de Cocais in Divinopolis.

There is another important expansion project in India, and India is a market with a very high potential of growth and this is very important for our expansion strategy. And I would like to mention today that India is the third largest world producer of steel in the first nine months of 2009.

Taking that into account -- and India and China I think are probably the only two countries which were able to increase their production in 2009 vis-a-vis '08.

In our joint venture in India, we intend to have investments of BRL80 million in 2010. This investment, I would like to emphasize, a new rolling mill to produce rebars and specialty Steels, and the installed capacity will be for 300,000 tons a year.

The forecast is that that plant will start operating in 2011. Therefore we believe that despite historical seasonality in the Fourth Quarter, the outlook is good. Now, for 2010, we also see a very positive evolution, especially when compared to 2009, even though some markets had a slower recovery like the US and Spain.

And with that I would like to conclude my part of the presentation. I'll give the floor to Osvaldo Schirmer who will talk about the financial performance of the quarter, and then we'll come back to you for the Q-and-A session.

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

Thank you, Andre. Good afternoon, to all. We are now on slide seven.

In order to facilitate your understanding over the web, I don't think you have access to the slides, but we have two interesting slides that allow us to understand the evolution of our EBITDA, and our end result X number (inaudible) events.

I'll start saying that our sales -- our net sales consolidated in the Third Quarter of '09 was BRL6.8 billion. This meant an increment of BRL407 million over the sales of the Second Quarter of '09 in the first bar.

We see -- on the left-hand corner, we see this increase in the net sales because of the larger volumes sold, particularly because of the negative of foreign exchange rate, and the appreciation of the real during the period, more than 15%.

But cost of sales looking at that same chart on the third column was reduced by BRL297 million in the Third Quarter due to a reduction in the production cost and the reevaluation of our inventories which were adapted to the new scenarios, price scenarios during the first semester.

If I could mention we had an increase in the EBITDA and a reduction in sales, general, and administrative expenses. So as I mentioned, there was an SG&A expense reduction as well as a better result of the Companies evaluated by equity income.

There was also a slight reduction in depreciation in the period. So we're just seeing the EBITDA breakdown in BRL40 million. So the EBITDA was BRL1.4 billion in the Third Quarter of '09. And a absolutely significant growth, it more than doubled the EBITDA the Second Quarter of '09, which was BRL595 million in the lower chart.

And we can see in the evolution of our results from the second to the Third Quarters showing the contribution of each item contributing to the net income in the Third Quarter of '09.

Starting with the negative result of BRL329 million in the Second Quarter of '09, we had -- we see the lower -- in the lower chart, we have the following effect, positive contribution of the EBITDA in the period of BRL780 million, is the difference in EBITDA between the Third Quarter of '09 and the Second Quarter of '09, a positive effect by a reduction in depreciation by BRL40 million, a positive effect by lower recognition of losses due to impairment, BRL937 million.

Those of you who follow us closely know that we had a BRL1 billion adjustment in the Second Quarter and minus BRL143 million, and the negative effect by a lower financial result in the Third Quarter of '09.

So our financial result was positive BRL517 million in the Second Quarter of '09 vis-a-vis BRL23 million -- negative BRL23 million in the Third Quarter of '09.

And income tax was BRL233 million greater than the Third Quarter of '09. Between the variations in these lines, we had a net income amounting to BRL655 million.

And we had a non-recurring event which is shown as BRL90 million, that's the difference between a BRL143 million minus income tax. In other words, if it weren't for this non-recurring event, the net income would have been BRL745 million.

It's kind of difficult to follow when you are on the phone, it's easier when you see the screen, but the structure where we started, where we are, and the elements that affected our profit and our EBITDA evolution lines.

On screen 8, it's easier to follow. We are going to talk about margins evolution in the breakdown of our production costs.

Efforts along the first half of '09 to adjust our cost structure to the new demand allowed us to have a reduction of BRL2.4 billion and obviously helped us achieve these absolutely positive results for the Company in the Third Quarter of '09.

Even with a 30% increase in the production of crude steel, the fixed production cost was reduced by 3% in the Third Quarter of '09 compared to the Second Quarter of '09.

With that the relative participation of these costs compared to the total production cost dropped from 24% to 21%. Like I said, when you can manage in making the cost -- the fixed cost under control, we have more space to maneuver and deal with a decrease in volume.

A great evolution of fixed costs resulting in an increment of sales were fundamental for the evolution of our margins. As you can see on the top right-hand corner chart, the gross margin grew from 12.5% in the Second Quarter of '09 to 22.1% in the Third Quarter. But spectacular was EBITDA margin which more than doubled from 9.3% to 20.2% in the Third Quarter the -- great EBITDA margin growth compared to the gross margin.

This is due to the positive effect in the reduction of SG&A expenses which dropped by 14%, and it's also due to a, better performance of the Company evaluated by equity income.

On slide 9, we are going to focus on Brazil. In the Brazil BO we had a net sales of BRL2.8 billion in the Third Quarter which was 16% greater than that of the Second Quarter, an increase in shipments, 20% increase in shipments as you can see on the top right-hand corner graphic, particularly in the domestic market, was the main responsible factor for this gain.

We -- our exports -- the amounts generated by exports totaled BRL366 million in the quarter representing a 13% increase; 420,000 tons were used -- in international markets were used for exports.

The amounts generated by export totaled BRL366 million in the quarter representing 13% of the net sales of Brazil BO. Brazil BO contributed with 41% of the consolidated net sales. The gross margin was 34.4% in the Third Quarter of '09 vis-a-vis 28.6% in the Second Quarter of '09.

An increase -- the increase in the gross margin was also reflected in the EBITDA margin in the Third Quarter which was 29.9%. With that, the EBITDA generated by Brazil BO in the cumulative totaled BRL830 million compared to BRL571 million in the Second Quarter, representing 60% of our consolidated cash generation of the Group in this quarter.

On slide 10, with -- we do the same exercise for North America. Net sales for North America BO in the Third Quarter reached to BRL2.1 billion, the same levels of the Second Quarter of '09. And that was strongly impacted by the real depreciation since shipments represented a 14% growth.

However, the net sales in dollars presented in the press release of Gerdau AmeriSteel grew 11%. It grew by \$1.1 billion.

FINAL

Bloomberg Transcript



Sales showed a 14% expansion in reaching 1.4 million tons, particularly due to a replenishment of inventory along the steel consuming chain and due to a greater seasonal demand.

In the Third Quarter we always do better. In the period, Gerdau AmeriSteel also enjoyed the export opportunities, shipping a number of products to Central America, Mexico, Caribbean, Middle East and South America. In the first nine months of they year, the level of exports was maintained at levels similar to those of 2008, a trend that should be maintained until the end of this exercise of this year.

The sales increase verified in the period gave us a -- allowed for a greater dilution of fixed costs resulting in the growth of the gross margin, which was 6.3% in the Second Quarter increasing to 13.2% in the Third Quarter.

The increase of this graph is in the Third Quarter and 23% against the stability of prices of products in the same period reaches the maximum spread from \$440 per ton to \$405 per short ton. Still it is a great level in North America. We have contributed with 31% of the consolidated net sales.

The Third Quarter EBITDA was 2.4 times greater than the EBITDA of the Second Quarter, reaching BRL363 million -- pardon me, BRL306 million representing 22% of the consolidated cash generated in the quarter. As a consequence, the EBITDA margin evolved from 5.9% to 14.4% in Gerdau AmeriSteel in North America.

Latin America now; sales within Latin America were 537,000 tons, 6% growth in the Second Quarter of '09, the highlight due to increase in sales in Argentina, Chile, Uruguay, and Mexico. The Colombia market remains impacted by the global economic crisis and is suffering with a number -- with an increased amount of imported products in the country.

This led the Company to do some adjustments in its operations in Colombia to adapt to the new local market reality.

The net sales of America -- of Latin America was BRL778 million in the Third Quarter, slightly lower than the Second Quarter which is due mainly to the real appreciation vis-a-vis the currencies of these countries in the region.

The gross margin however was positive at around 11.2%, influenced by a larger volume of shipment which grew 6% and due to the reevaluation of inventories at market price done during the first half of 2009. Latin America contributed with 11% of the consolidated net sales to the Group.

The Third Quarter EBITDA totaled to BRL40 million inverting the negative results presented in the previous quarters, but that -- the EBITDA margin was positive. It was 5.2% positive in the Third Quarter. Contributing to the EBITDA improvement in the Third Quarter were the operating results, most of them BO companies including those companies evaluated by equity income.

FINAL

Slide 12, Specialty Steels; well, first Specialty Steel BO which include operations in Brazil, USA and Spain. Net sales presented a growth of 3.3% as a result of the increase of 13% in shipments and partially contained by the foreign exchange effect on the sales of operations abroad when converted to reals.

The markets of Brazil and the United States were positively influenced by governmental measures at local levels to promote the sales of vehicles. In Brazil in particular the growth in car sales -- vehicle sales pushed a significant increase in the volumes of vehicle sales in the period improving also the operating margins due to a greater dilution of fixed cost.

In the United States the temporary stimulus by the government to the automotive sector, cash for clunkers reflected positively in our Specialty Steel sales of our units in the country.

However, there's increase in sales in the quarter, so that confirm a trend of reversal of the crisis in that sector in the US. In Europe the traditional collective leave -- holidays in August impacted the volumes sold and the revenue and the sales in the Third Quarter of '09.

However, the operating margins were positive in the period because of the adjustments made in the Second Quarter which impacted the margins and the results in that period. The EBIT in the Third Quarter was a BRL199 million so that's 17.8% margin in the period, an important evolution compared to the data in the Second Quarter presented in the lower right-hand corner chart, as you can see.

On screen 14, a quick summary of our indebtedness. The net debt at September, total BRL10.7 billion, a 15.7% reduction when compared to that of June resulting primarily of the foreign exchange variation and payments made in the period of approximately BRL3.6 billion, which included a prepayment of senior notes of Gerdau AmeriSteel in the end of the month of August, with a redeemed value of about \$412 million.

The net debt to EBITDA ratio was 2.7 times, practically half of what is required by our temporary covenant, which allows a five-time ratio. This was negotiated with the banks. The gross debt was BRL16.1 billion, about BRL9 billion on September 30th, of which 13% was short-term, 87% were long term.

As for the nature of the currencies, 20% were local currency, reals, 37% in foreign currencies contracted by companies in Brazil, and 43% in different currencies contracted by our affiliates abroad. In the Fourth Quarter of '09, we saw estimated debt to payments amounting to BRL633 million and in 2010 we will amortize about BRL2.1 billion.

The average term of the debt on September 30th corresponded to 5.5 years and the average -- the breakdown of the average cost of debt in September was 8.1%, of our debt was in local currency reals, 6.7%, plus foreign exchange variation for the debt expressed in foreign currency assumed by companies in Brazil and 2.5% for debts of companies abroad.

Our working capital was BRL7 billion in September with an additional reduction of BRL430 million compared to the volume of working capital in June of '09.

Our cash on September 30th had totaled BRL5.4 billion of which 59% were for companies in Brazil and invested in local currency, and the balance was invested in different currencies, particularly US dollars.

This cash position of BRL5.4 billion if added to the repo credit facilities give Gerdau a liquidity of about BRL6.5 billion.

In summary, besides putting a great effort to reduce our debt, maintaining an average duration of debt of 5.5 years, we maintained a high level of liquidity and we complete another quarter with a good situation. These are the comments regarding our indebtedness.

With this, I close my part and together with Andre I remain available for questions and answers. Thank you very much.

## Questions And Answers

### Operator

Ladies and gentlemen, we will start now our Q-and-A session. (Operator Instructions)  
Please wait while we collect the questions.

Our first question comes from Mr. Rodolfo de Angele from JPMorgan, would like to ask a question.

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

Good afternoon. My first question is I would like to understand how you were able to drive down costs in SG&A. In my calculations, if we look at the cost per ton, there was a drop in the cost per ton of almost 20%.

And Schirmer, when you talk about fixed and variable costs, could you give us more details on what exactly drove down the costs here? Is this the effect of actions in the US? Is there some effect by Acominas? So I'd like to know about the costs specifically and also the effect on the SG&A expenses.

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

Well there's a little bit of everything here. We had less efficient plants idle. We regrouped production, we made our production more efficient, therefore with more volume produced per unit and that drives down the fixed cost element. We maintained our fixed costs during the first and Second Quarters.

FINAL

Bloomberg Transcript

FINAL

We negotiated everything with everyone. We paid all our debts -- all our suppliers from the smallest to the largest ones, but we negotiated with them. We maintained our CapEx levels, pushing it a little bit forward, but we had strong negotiations in raw material consumables and greater efficiency of the plants.

We also reduced our contingencies of our headcount. We are rehiring again, which is a good sign, in the second half of the year. So it's very difficult to detail what exactly pushed down this improvement. It was a little bit of everything.

And we reduced everything that was theoretically superfluous. This Group has been for years preparing for a 15%, 16%, 17% growth per annum. And this meant that we were always one step ahead preparing people, training people, building the skills, sending people abroad so that they could get more experience abroad because, you see, if you're buying a new plant, you can't assume that you are going to simply expect somebody to run that plant.

You have to give them more experience and we were able to do a little bit of everything to drive down our costs overall speaking.

That's why the SG&A expenses dropped, general costs were maintained, the fixed costs were maintained. So --

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

I guess that the point of my question is do you think that these costs are sustainable? It's not just a one-time reduction? It is not as a one-off effect?

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

No, no, this is a sustainable effect.

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

Thank you very much. My second question, Schirmer, is I'd like to know if you can explain more the CapEx. You have a guidance for 2010 all the way to 2014.

The CapEx increased considerably compared to the previous period which was from 2009 to 2013. Could you tell us besides the heavy plates rolling mill, is there any other major item that we should learn about? Where is the rest of the money going?

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

Angele, let me tell you a little bit about the CapEx. We increased our CapEx, which was BRL6.3 billion to BRL9.5 billion. This is related to the new outlook of pickup in the demand, and 80% of that is in Brazil. You talked about the heavy plates.

And we also have to improve in order to ramp[ph] our capacity to produce structural profiles or shapes. We expect a lot of things to improve meshes, et cetera. In Brazil, these

Bloomberg Transcript

are some of the investments. This is an extensive program. We are considering also ore in our current mines.

So apart from these that I mentioned, well there are more things coming up, but always focusing on adding value to what we already manufacture.

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

Thank you.

**Operator**

Mr. Chago Luthea from Merrill Lynch, I would like to ask a question.

**Q - Chago Luthea**

Good afternoon, to all. My first question is regarding the US margins. I would like to understand from you how sustainable do you believe these margins are at 14% given that we see some weaker prices and the metal spread is theoretically being reduced in the Third Quarter? So what do you expect? Do you except these margins in the US to be sustainable?

**A - Unidentified Speaker**

Margins -- since we're working strongly to reduce costs, we can always -- there's always room for adjusting the margins, but not that much. We depend on two things, prices and the cost of consumables.

You could perceive certain volatility in the new adjusted spreads. But above 400, we are still with very healthy spreads.

And we can't on a slow but gradual recovery of the economy which is going to bring us volume; and when we have volume, you can dilute the fixed costs. When you have more volume, we can put pressure on the scrap, and we can replenish our inventory.

So we have chosen the gradual recovery of the US. People are talking a lot about the funds to be -- go away into infrastructure projects.

They haven't started yet, but we believe that in the midterm they will have an effect on the economy. And there's also our internal effort. We are relentless in our efforts but we want to maintain our margins or even improve them and that will rely on volume.

**Q - Chago Luthea**

And to add to my question, regarding the US, what end -- in what end of the markets do you see more positive consistency in the demand? And in what sectors do you believe that the demand remains weak?

## A - Unidentified Speaker

Well after that destocking phase, when everyone was trying to sell off the stocks we see now a gradual replenishment of the chain.

We have new products being seen on the shelves, but what we don't see so clearly but we expect to encounter on infrastructure projects -- I believe that this is the sector that's still a little bit dormant. But the chain is active, and the stocks are being replenished.

## Operator

Mr. Rodrigo Barros from Deutsche Bank would like to ask a question.

## Q - Rodrigo Barros {BIO 5851294 <GO>}

Good afternoon, to all. Before anything congratulations on the results, both on the operational side with a strong cash generation, as well as with the net reduction in six months, though the concern was to renegotiate and now we see very comfortable indebtedness levels.

I have two questions. First, if possible, Schirmer could you comment in the current month, what was the capacity in the main segments of the Company along steels Acominas, Specialty Steels, and North America?

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

Well we tried to avoid giving you detailed numbers by operation, but anymore globalized average for the Group; we are close to a 65%-70% level roughly speaking.

Obviously, some sectors are below that. If we look at the Specialty Steels sector in Europe, it's below that -- strongly below that, in Brazil strongly about that level.

In North America, it's doing -- they're doing better than in the first and Second Quarters. Gerdau AmeriSteel colleagues are talking about a 55%-60%. Enough, so that -- it's a patchwork, you see we don't disclose it by operation. But for the whole Group, roughly, we have 65% to 70%.

## Q - Rodrigo Barros {BIO 5851294 <GO>}

Perfect, thank you. And my second question is the assets of ore and coal. Regarding ore, is there any possibility -- do you consider in the Company any way to monetize ore assets, given that people have been commenting on Gerdau reserves of iron ore, which is mainly used for Gerdau's own consumption?

And the second question is can you comment on the plans for the Cleary Holding in Colombia? You haven't talked about this operation of yours for a while now.

## A - Andre Gerdau Johannpeter

FINAL

Okay, this is Andre. Well regarding ore, with the reactivation of Varzea do Lopes and Miguel Bournier mine, we're going to reach 2.7 million tons next year, which is about 50% of our own consumption.

Our goal is to reach 80% of our own consumption supplied for the Minas Gerais plants, Ouro Branco, Divinopolis and (inaudible). And we are analyzing the expansion of that in the future. This is our strategy today for our ore reserves, and that is to really have 80% -- I think 80%.

Now, talking about monetization, at this moment, that's not a priority. This is not what we are seeking, but perhaps in the future we are going to consider it. But again, our goal with the Minas Gerais reserves is to be able to supply 80% of our own consumption.

Now on plants. As for Colombia, where we have our coke operation, well it was impacted. Of course, the coke consumption dropped, but it's picking up again.

The markets are picking up consumption, and we continue with our coal mining and producing coke, and exporting particularly to the US and Europe, little bit to Asia. This is a business that still is in a learning curve for us. It's relatively new in Gerdau.

So we don't have a very defined strategy to follow, in that regard. The focus is to have a profitable business in the area of coke production.

#### **Q - Rodrigo Barros** {BIO 5851294 <GO>}

If I may, I would like to ask one more question. I remember I visited Belarus a while ago, about a year ago. Slightly before the crisis, you were talking about expanding the Specialty Steels unit in Brazil. Is there any possibility that you will reconsider this plan in the short term?

#### **A - Andre Gerdau Johannpeter**

No, not with our current capacity. In our Specialty Steel units in Brazil we are able to well supply the automotive industry, even with the expected growth, but still have a installed capacity. So we don't have any plans right now to expand or invest in that area.

#### **Q - Rodrigo Barros** {BIO 5851294 <GO>}

Thank you very much, and again, congratulations on such good results.

#### **Operator**

Mr. Marcos Assumpcao from Itau Corretora would like to ask you a question.

#### **Q - Marcos Assumpcao** {BIO 7474402 <GO>}

Good afternoon, congratulations for your results. The first question is about your operations in Brazil. If you look at the average price, there was a drop of 4% in this quarter

Bloomberg Transcript

vis-À-vis the Second Quarter.

I would like to understand how much of that is the effect of the mix, because in the output we see that the crude steel output had an increase in the finished steel. And how much of that 4% drop has to do with consolidation?

I think that the effect was more related to the mix. Can you tell me a little bit about the price evolution from now on, and the demand for 2010, and what do you expect for Brazil?

### **A - Unidentified Speaker**

I would say that it's a little bit of everything, but there is an important component that has to do with discounts, or concessions.

We also had a reduction of almost 15% in the Second Quarter of this year, as we mentioned during the conference, that was not replaced. There was a price drop throughout the period in terms of net sales per ton throughout the period; and you are correct, 5% or 6% of a lower net sales in the Third Quarter.

### **Q - Marcos Assumpcao** {BIO 7474402 <GO>}

Now, in terms of demand, do you have any outlook for demand in your strategy for 2010?

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

By definition, we never give any guidance. You just read the papers every day, and you look at the figures posted and how bullish the market is vis-À-vis, Brazil.

We may anticipate a very heated quarter and this situation may go on until the end of the year. And with the outlook for Brazilian growth to be about 4% or 5.5%, a strong growth of our GDP, in terms of steel demand, so we are very optimistic that next year things will just be, like I said, with no special guidance.

In North America we are counting on this incentive package things that have been promised but have not been materialized yet because we haven't seen any specific projects. But one way or another, they are beginning to have some reflections on the economy, especially in volumes geared towards infrastructure.

In Latin America, as we just talked about, there are some very positive outlooks in terms of growth in the countries in Latin America.

Europe, this is the region where we're a bit more concerned. We just have an operation of specialty steels in Spain, so this will heavily depend on the automotive industry and not very much on the civil construction, because there's no civil construction in Spain for us, we supply to the automotive industry.

FINAL

Bloomberg Transcript



In Brazil, the automotive industry is doing quite well. So more specific guidance, maybe you should look at the comments I made about demand.

**Q - Marcos Assumpcao** {BIO 7474402 <GO>}

So thank you, Schirmer. This quarter you said that you will pay dividends again, and you will start having some organic growth. One of the other pillars of the Company has always been looking at M&A growth. Can I say that you are also taking another look at that?

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

Our M&A is on collective leave. It's on collective holiday leave. There are some interesting things; almost every day we are visited by a bank with a good opportunity.

But the bank is very much focused on improving whatever we can, in terms of improving the existing operations, optimizing costs, optimizing the -- whatever's in the pipeline. But we are not looking at any other further acquisition in the short run at least.

**Q - Marcos Assumpcao** {BIO 7474402 <GO>}

So thank you, Schirmer, very much.

**Operator**

Mr. Leonardo Correa from Barclays would like to pose a question.

**Q - Leonardo Correa** {BIO 16441222 <GO>}

Good afternoon, and thank you for this call. My first question refers to cost trends in Brazil, and the possible impact in your profitability.

We've heard you talk about scrap price increases in Brazil more towards the Fourth Quarter. And in 2010, we expect increases in prices of iron ore and coke should have an impact in the Acominas operations.

And in terms of margins and cost pressure, what have you seen more recently in terms of scrap pricing in Brazil, and whether you think that we could work with similar margins for the operation in Brazil, next year or whether you expect something higher or maybe lower? So I would like to know what is your view about that.

**A - Unidentified Speaker**

There is no doubt that we are counting on a certain pressure, in terms of raw materials that luckily, Acominas, as of today, they began once again operating in the mining sector, and which will ensure a great part of our consumer needs, particularly they will be operating in Ouro Branco Minas Gerais, correct?

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

The market -- the Brazilian market does not communicate too much with the international market, I think. So there will be an adjustment process.

We will not stop. We will continue our internal process of total surveillance, a total look at costs. There are some variables that are not up to us, like exchange rate or inflation that is out of our control, but whatever we can control we will keep a close eye on it.

But to answer your question, yes, we are considering a certain pressure on prices and costs in Brazil.

**Q - Leonardo Correa** {BIO 16441222 <GO>}

Thank you, Schirmer, very much. Just to confirm, this increase in scrap price, is it something that has been anticipated? Can you comment on scrap prices, please?

You probably saw and heard in the news that there has been a pressure on scrap prices in Brazil in the last few months, thank you.

And about my second question about demand, incremental demand that could come from the Olympic Games and the soccer games, I know that demand is up into the future, but do you have any estimates in terms of incentive programs, like My House and My Life that you've referred to? And you said that this could probably add about a million tons of incremental demand in a few years.

Do you have any calculation, even if it's still very preliminary, about what would be the impact of the World Soccer Cup, and then later on the Olympic Games?

**A - Andre Gerdau Johannpeter**

Well we don't have a figure. It's too soon to tell. We are still doing the math, ABR, and the Institute Aco Brazil, we are trying to conduct some studies. And also with the government -- we are working with the government and all the other associations, (inaudible) and others in an attempt to arrive at a figure.

But it's just too soon to arrive at a figure, and/or to make any projections. My House My Life, it was easier because we made the calculation based on the open sale of houses, how much steel they were going to use.

But when it comes to major construction works, for the World Soccer Cup and the Olympic Games, we do not have anything at least to date.

**Q - Leonardo Correa** {BIO 16441222 <GO>}

Andre, thank you very much, and a very quick question. In terms of Acominas mix, could you just elaborate more, talking about the amount of material that is being exported? Could you just give me an idea of how much is being exported? Can we work with the old number, like 60% of your production goes to exports?

FINAL

Bloomberg Transcript

## A - Andre Gerdau Johannpeter

Yes, 60% -- around 60%, that is a good figure, 60% is a good figure for Acominas.

## Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you very much.

## Operator

Mr. Hafal Webber[ph] from (inaudible) would like to ask a question.

## Q - Unidentified Participant

Good afternoon, Andre and Schirmer, congratulations on excellent results. I have two questions.

One has to do with SG&A expenses. You talked a little bit about that, but I would like you to give us more details in terms of what -- which ones of these expenses could be considered as recurring?

If we can see in the next quarters an expense over revenue ratio in the same levels. And my second question has to do with imports, your statement regarding imports, particularly you mentioned in your Latin American operations.

Does Gerdau see this as a structural movement of the industry because of an over-demand or is this just a circumstance in perhaps next year there will be a decrease in the pressure on your Latin American operations?

## A - Andre Gerdau Johannpeter

Let me start with your second question on imports in Latin America. Some of the markets where we are active, particularly in the Pacific Coast have more trade with Asia. These markets are more impacted by the imports.

With the global crisis, we have an over-capacity on demand to -- we had more exports and new ventures in new countries to give us more trade. This is a concern not only in steel, but in all steel products coming from China, and we're monitoring that.

We're paying attention. We have to work internally to improve our costs in order to compete with imported products in any of the markets where we operate. In a nutshell, we continue to monitor, we continue to have imports and that ends up in I think some of the markets where we operate, and some markets are more strongly impacted.

As for the second question, Schirmer will comment.

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

You want to know SG&A expenses, what is recurring, what can be considered under control? With SG&A of 7%, 7.5%, I believe that this is a reasonable number for the rest of the year.

### **Q - Unidentified Participant**

Thank you.

### **Operator**

Mr. Louise Rudolpho[ph] from FB & Partners[ph] would like to ask a question.

### **Q - Unidentified Participant**

Good afternoon. The first question would be related to the BRL9.5 million CapEx. How much are you planning to invest alongside these?

### **A - Unidentified Speaker**

Well it's hard to give you a number by year, but roughly speaking we get five years and we divide the investments estimated. We have for example, an investment and have declared BRL1.750 billion, which is a heavier investment and will cause such an unbalance, and we'll be concentrating more in the beginning of the five-year period. But then after that the outlays of cash tend to be more gradual over the rest -- the remaining four years.

Okay, so there's an initial great investment and then the rest will be spread out over four years. Yes, roughly speaking, yes.

### **Q - Unidentified Participant**

As for the US market, you have talked a lot about gradual replenishment an infrastructure projects. Do you consider a recovery of the real estate market in the US?

### **A - Unidentified Speaker**

Well we see slight signs in the real estate market. There are some signs of recovery in used houses or resale, but we are waiting for the stimulus package.

This money takes time to get to the real estate projects and we believe that in 2010 we could have more infrastructure works which is one of the main needs in the US and Canada. Now, as for the real estate business, we still have a stock of houses in the US.

Our exposure is a lot lower in the residential market. In the non-residential market we still have some inventories, some office and commercial building stocks.

### **Q - Unidentified Participant**

Mr. Rodrigo Barros from Deutsche Bank would like to ask a question.

## Q - Rodrigo Barros {BIO 5851294 <GO>}

Thank you. Once again, in terms of the investment -- investment of the -- from the Company, there is a strong indication that because of the recovery of the economy you will have a much stronger demand over the next few years.

How long do you need to develop a new mill or maybe to put -- to extend your production of long steel to Acominas because if it's for the next two years, don't you think you should you should make a decision by 2010 about investing in longs in Brazil?

## A - Unidentified Speaker

We still have enough capacity to face the next two years of demand. So when we draw a five-year plan -- and then you also refer to the construction of a new mini-mill and that takes between two to three years, so we have to plan accordingly. But for the moment these investments are taking into account our installed capacity and we still have some spare capacity.

Brazil has enough steel, we still have choices. We still have big reserves of steel for longs in other areas. We have also resources from Acominas. Acominas already has a good furnace capacity, and we have enough capacity to supply whatever is needed in terms of longs.

So along the lines of this plan we just have to monitor it. We do have plans for growth, but I have no details, and I would not like to give you any information about it because we don't have information and we may have plates, structural shapes, and these are the two most important areas, and another one for longs may come.

And part of the investments it's important to emphasize has to do with adding value to rebars, curtain banded meshes[ph], columns[ph], this is a material that we deliver almost ready to the construction industry.

## Q - Rodrigo Barros {BIO 5851294 <GO>}

Now, I just want to confirm my understanding about demand. If you look at the demand in the more stable years, you have a difference here vis-à-vis the Third Quarter. Is it possible given the fact that we are going through a phase of economic recovery and looking at growing products is it possible to make a comparison between the fourth and Third Quarters?

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

In fact we are not really following historical standards. In some instances, we should be strong and sometimes the situation is not so strong. We are now going out of a crisis, and we are experimenting on -- in certain -- breath of relief.

So the last quarter will still be heated and strong and as I said before, I imagine Brazil growing 4.5% and 5%, and if that happens, we probably can say that the figures that we

experienced last quarter and this quarter may be repeated next year. But it's very difficult to say.

**Q - Rodrigo Barros** {BIO 5851294 <GO>}

Thank you.

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

So now we would like to conclude our Q-and-A session. I would like to give the floor to Mr. Andre Gerdau Johannpeter for his final remarks.

**A - Andre Gerdau Johannpeter**

On my behalf and on behalf of Schirmer I would like to thank you all for participating in this call. I hope that we answered all your questions, and I hope to see you again in the next quarter.

Thank you very much. Likewise, thank you all very much for expressing interest in our earnings call. I know that you may have some pending questions, so our investor relations team will take down your questions and we'll answer them shortly.

And in February we will announce the final results for 2009. I wish you all a very good day.

**Operator**

This teleconference is now over. I would like to thank you all for coming, and have a nice afternoon.

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