

## Q4 2006 Earnings Call

### Company Participants

- Andre Gerdau Johannpeter, President & CEO
- Osvaldo Schirmer, CFO

### Other Participants

- Andrew West, Analyst
- Francisco Schumacher, Analyst
- Marina Rohe, Analyst
- Rodrigo Barros, 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 Fourth 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 future events will not affect their accuracy.

Today, with us we have Mr. Andre Gerdau Johannpeter, President and CEO; Mr. Osvaldo Schirmer, Executive VP, CFO and Director of Investor Relations; and Mr. Jose 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>}

Thank you. Good afternoon, ladies and gentlemen. Welcome to our Fourth Quarter 2006 conference call. We will remind you that this conference call can be followed through the Internet where we make a PowerPoint presentation available. The relevant quarterly reports are already posted on our Website at CVM and the stock exchange. The complete

financials for Metalurgica and Gerdau S.A. will be published on the 28th of this month. And due to the certification process required by SOX, Sarbanes and Oxley, our financials in U.S. GAAP will be available only after March the 30th.

Today, is with us the new CEO and President, Andre Gerdau Johannpeter, who will make comments about the new corporate governance for the Company and will present pointers on the performance of the steel sector along with the strategy and investment plans at Gerdau for the years to come.

Following his presentation, I will comment on Gerdau's Fourth Quarter and variables that have influenced the results in the period. We will finalize with a Q&A session as usual.

Having said that, I hand it over to Andre.

## **Andre Gerdau Johannpeter**

Thank you, Schirmer. Good afternoon, ladies and gentlemen. Thank you, all for joining us in our conference call. As previously informed, last November, we informed our shareholders and the investor community about the new phase of the corporate governance process. This was in order to ensure its development and continuity into the future. The evolution of the corporate governance at Gerdau began in July '02 and has completed in January 1, 2007, with the transfer of the Company's executive leadership to the new generation.

The structure remains basically the same, with the Board of Directors, the Executive Committee and the business operations. As a result of these changes, Jorge Gerdau Johannpeter has left the presidency of the Company and will continue as Chairman of the Board. Frederico Gerdau Johannpeter and Carlos Joao Petry have also left their positions as Senior Vice Presidents and will remain at the board as Vice Presidents. I have taken over the position of President and CEO and Claudio Gerdau Johannpeter took charge as the Chief Operating Officer along with our colleagues from the Executive Committee.

At the Board level, two additional committees were created, the Corporate Governance Committee and the Strategy Committee, in addition to the already Compensation and Succession Committee.

I would like to move on to making comments on steel sector performance in the Fourth Quarter and full year 2006. Fourth quarter has seen the steel sector slightly reduce its pace of growth in order to adapt to the season, mainly the start of the winter in the Northern Hemisphere. Crude steel output did increase, however, by 1.9% compared to Third Quarter. In 2006, output hit another record high in the global with 1.2 billion metric tons. This is an increase of 8.7% over 2005.

China has grown beyond this level and increased output by 4.4% in the Fourth Quarter. But I would like to highlight that for the full year, China has surpassed the 400 million tons mark of production. That means 18.5% increase. Also in the European Union, more known as the EU-15, has also seen considerable output and significant pace of internal demand.

The output for crude steel in these countries grew by 4% in the Fourth Quarter and for full year, 4.9%.

China has been growing in steel output at a higher rate than the rest of the world and this is mainly related to the GDP growth of approximately 10% on average on the last few years. China is also becoming a net steel exporter. For the full year of 2006, China exported 51.7 million metric tons and imported 19.1 million metric tons.

Regarding Brazil, the crude steel output in the Fourth Quarter was 1.9% itself and the full year itself, 2.2%. This was mainly related to a temporary stoppage at the blast furnace on a local player. For the output reached 8.1 million metric tons in the quarter and the full year of 2006, Brazilian output was 30.9 million metric tons.

Regarding steel prices, there was a slight accommodation in international markets in the Fourth Quarter. Long steel, this is a pattern for this time of the year, especially come in the winter relating to construction. Prices fall back a little through the months of November and December due to -- mostly to the season, as I mentioned. The only exception was mainly structural steel, which remained strong through the quarter.

In broad terms, long steel enjoyed a very favorable environment. Demand remains firm and prices have gone up slightly. At year's end, we see November and December slightly down. But the outlook for 2007 is very positive. Already a month into the new year, we can see recovery in international prices influenced by strong demand, increase in scrap prices. And iron ore. Also, the Chinese effect of the surtaxes imposed on export has diminished the volume of exports from China.

We have also seen contracts on iron ore going up 9.5%. On the other hand, coking coal prices are falling, mainly related to new investments in Canada and Australia. Also, on the sea freight, we see an effect of prices going up and this indicates that different regions' continued growth in demand for steel product and other commodities are strong around the world.

In the U.S., we saw two positive indicators in December. Housing sales up 4.8% and durable goods 3.1%, both above expectations. Perspectives for the whole steel sector are positive for 2007. According to IISI, apparent demand for steel products should grow 5.3% worldwide. Spotlight is China and the CIS, both around 10%. South America is another important area, which growth is forecast around 7%. NAFTA countries in Eastern Europe should see stable demand, perhaps retracting a little. Considering this favorable scenario, Gerdau is keeping up with its aggressive investment program.

Investments in the Fourth Quarter of 2006 totaled \$605 million. The total CapEx in 2006 totaled 2 billion and as in the Fourth Quarter, 50% was on acquisitions and 50% for technological updates and capacity expansions. The two main plants that we saw capacity expansions are Acominas and the new mill in Sao Paulo. Regarding the 1 billion spent on acquisitions, I would like to mention, in Europe, with the acquisition of 40% of Sidenor and later in the year, GSB, both special steel producers in Spain.

Also in South America, we have our first acquisition in Peru, with Siderperu on the second half of last year. In North America, we continue to be a player in the steel sector's consolidation through the acquisition of Sheffield Steel and several downstream and fabrication shops.

For the period between 2007 and 2009, our plan calls for approximately \$4 billion in expansions and improvements. 60% of this will be in Brazil, mainly in Ouro Branco mill in Acominas in Minas Gerais, which will take the capacity from 3 to 4.5 million metric tons on the second half of 2007. The other 40% of this \$4 billion will be spent abroad. I would like remind this \$4 billion are all related to technological update and capacity. And not related to acquisitions.

I would like to move and comment on our strategic vision. On page six on the PowerPoint for the ones that are following through the Internet, our vision is to become a global steel company, among the most profitable in the sector. And I would like to highlight the four strategic aspirations we have.

The first one is growth and profitability. That means to find a balance of profitability and growth through the cycles of the steel industry. And the ups and downs of our sector. The second one is to be a market leader. That means be an important supplier to our customers in all the markets we play. And we are an important player.

The third one is a player in all segments. We are strong in long products; we are growing in SBQ, special bar quality. But we also want to grow in flat products. The fourth one is the geographic diversification, growing in the regions we already are a player like South America and North America and Spain in Europe. But also into new regions like Central America, the rest of Europe and mainly in Asia. And I would like to mention China and India as the key objectives.

To finalize, I would like to go over some important 2006 numbers. Our gross revenues reached \$R27.5 billion or 7.2% greater than in 2005. Our net profit reached \$R3.5 billion, 7.6% greater than the previous year. Our crude steel output was 15.6 million metric tons, an increase of 13.9% from the previous year. Our consolidated shipments increased 9.4%, a total of 14.8 million metric tons. I already mentioned in our investments of 2 billion, 1 billion was for acquisitions in Europe, in Peru. And North America. And also the other investment was 1 billion mainly in Acominas and the new mill in Sao Paulo.

Regarding the capital markets, I would like to mention two important recent facts. As of December, Metalurgica and Gerdau S.A. are part of the ISE, which is the Sao Paulo Stock Exchange Business Sustainability Index. And also, this past January, Fitch Ratings upgraded Gerdau's rating to investment grade for local and foreign currency long-term finance.

With that, I would like to finish my part on this conference call. I will now hand the phone to Schirmer. And later on, I will be ready for questions. Thank you very much.

## Osvaldo Schirmer {BIO 1754610 <GO>}

Thank you, Andre. I would like now to -- or better than that, my turn now to comment on Gerdau's performance in the Fourth Quarter and the main facts that impacted the period's result. In order to make the understanding easier, we will analyze our business by region and present our perspectives for each one of them for the year that just began.

In Brazil, shipments in the Fourth Quarter. And I am addressing what is shown to you in slide number seven, Gerdau Performance; Brazil. I was saying that in Brazil, shipments in the Fourth Quarter totaled 1.7 million metric tons and surpassed those of the Third Quarter by 12%. This growth is explained by almost 56% increase in exports, which by the way more than compensated the 8% drop in domestic sales in the period. This reduction reflects the slowdown in the economy activity in Brazil, especially in civil construction, as it is by the way very common this time of the year due to the holidays at the end of the year and festivities.

Sales of the Brazilian operations compared to the Fourth Quarter of 2005 increased by almost 10% and with an increase in 12% in local sales and almost 6% in exports. Domestic sales for the full year increased almost 13% slightly above our expectation, favored by the strong demand in civil construction again. Exports decreased by 18% to allow for the redirecting of these volumes to the domestic market. We always trend -- tend to privilege the domestic market against international market.

The increase in exports in the Fourth Quarter and the reduction in domestic sales changed the product mix of goods sold. This together with the reduction in prices for goods shipped abroad by 5% in U.S. dollars and due to the increase of the steel scrap prices by approximately 10% in the period had an impact on the operating margins in the period. With regards to steel scrap, we estimate that in the First Quarter of '07, we will start to see prices falling back to the same levels of the Third Quarter of '06.

Moving to slide number eight, Gerdau Performance; Brazil, I would say that in the Fourth Quarter, even [ph] better than that, if the Fourth Quarter presented a weaker performance, the year of 2007 not considering the PAC, the so-called Growth Acceleration Program is showing a quite favorable scenario for business in Brazil. We estimate that a growth of 6 to 8% in volumes shipped to the domestic market, influenced by the strong demand in the civil construction and the recovery in the agricultural sector will boost the business.

In civil construction, it is worth mentioning that the decline in interest rates and the strong capitalization of construction companies, many of them really going public in recent times, will mostly -- will most certainly contribute to the investment in residential construction throughout this and the coming years.

As far as the PAC, as announced by the government in January, we can visualize an even more intense warming up of the demand for our product. This should be felt as investments begin to be implemented. The rough estimates indicate that direct

investment in civil construction will reach around 28 billion in '07 and more than 78 billion for the period between '08 and 2010.

On the presentation available at the Website, which most of you may be already watching, we highlight the main points in the program that should benefit the civil construction sector, which by the way will benefit the producers of long steel such as Gerdau. The investment program also emphasizes investments in logistics, highways, railroads. And ports along with energy and infrastructure. This investment should benefit Gerdau direct and indirectly via the reduction of transportation costs and electricity, as well as with the increasing consumption of steel.

On slide number nine, Gerdau Performance in North America. Sales in North America in the Fourth Quarter were 12% below that of the preceding quarter. But in line with the expectations announced by Gerdau Ameristeel on their conference call for the Third Quarter. With regards to the Fourth Quarter of 2005, the volumes shipped remain at the same level reaching 1.5 million metric ton. The last quarter of the year is traditionally weaker, reflecting the seasonality of the period as the result of winter and year-end holiday.

Sales fall in -- and the expenses with natural gas and oil increased as a result of a stronger demand for heating in the region. Nonetheless or better, nonetheless metal spread continues at high levels and even increased a bit. It went from \$390 per short ton shipped in the Third Quarter to more than \$400 per ton in the Fourth Quarter. This increase is due to the stability in prices in the period and to the reduction in scrap charges to \$183 per short ton compared to \$203 per short ton in the Third Quarter.

These factors added to the weaker performance of our joint venture Gallatin Steel, due to a planned downtime, reduced operating margins in the Fourth Quarter of 2006. Increase in sales for the fiscal year reached 5% with gross margin increasing from 15.7% in '05 to more than 18% in '06. EBITDA margin in the same period went from 14.8 to 16.2%, which highlights the good phase we are in and the permanent investments and improvements that the Company has continuously made.

For 2007, the expectation is that demand for rebars, merchants. And structural steel will continue strong, given that investments in infrastructure should remain high. With this scenario, combined with an expectation that steel imports will continue to decline, we believe that metal spread will be kept at the \$400 per ton level. And prices also will remain high as a consequence.

Gerdau performance in South America, slide number ten. In South America, despite that sales declined by 2.7% in the Fourth Quarter when comparing year-over-year, the result is an increase of almost 100%. From a different perspective, it's possible to say that the contribution of the South American business to the total sales of the group, the total consolidated sales of the group went from 5.9% to almost 10% in 2006.

The high electricity and scrap costs in Colombia, in spite of the relative stability of prices of these inputs in other countries have put pressure on operating margins in the Fourth

Quarter. It is worth mentioning that the internal generation of steel scrap in Columbia is not enough to supply the needs of the local consumers, thus making it mandatory to import this input at a higher price from different foreign countries.

For 2007, we expect to see good performance from our South American operation. This expectation is based on the expected GDP growth of these counties due to investments by the public sector in infrastructure and of course in the ability to run the new business recently acquired.

Gerdau performance in Europe, slide number 11. Operations in Europe represented an important increase in the Fourth Quarter compared to that of the end -- sorry, for the Third Quarter. We have to remember that the Third Quarter in Spain is traditionally the time for vacation. In other words, the Third Quarter is a quarter of only two months.

Sales have increased by 29% in the Fourth Quarter, with volumes reaching 69,000 tons. For the full year, Sidenor shipped 681,000 tons, of which 272,000 correspond to our 40% stake in that company. The cost of energy and natural gas increased in the last quarter, as did scrap price. The Company has, however, managed to pass this cost increase down to its final product price.

Margins were affected by scheduled maintenance stoppages and by the seasonality of the period. Demand for specialty steel in 2007 should remain quite strong all over Europe. This is explained mostly due to the continued growth of the automotive sector throughout the world. Our business should present an even better performance after the acquisition of GSB at the end of December, which added 200,000 metric tons of long specialty steel per annum to our Spanish operation.

Slide number 12, Gerdau performance now seen on a consolidated basis. In this chart, you are going to see quarter-by-quarter side-by-side and the full-year 2006 compared to 2005.

Considering all aspects relative to the several regions in which we have operations, the consolidated net revenue reached 5.8 billion in the Fourth Quarter of '06, a decrease of 3.8% compared to the Third Quarter. But almost 18% greater than that of the Fourth Quarter of 2005.

The operations based in Brazil contributed with 41% to net revenues in the Fourth Quarter, whereas the operations abroad did with 59%. For the full-year, net revenue totaled \$23R.5 billion, almost 10% greater than that of '05. If presented in U.S. dollars, the increase reached 20%, going from \$9.1 billion in 2005 to \$11 billion in 2006.

In analyzing the main variations between the third and Fourth Quarter, it is worth mentioning the following lines on the financials.

Selling expenses, increase of 11%. Due to what? Due to the significant increase in exports, which normally generate more expenses with port services fees. And et cetera.

General and administrative expenses, an increase of 8.6%, resulted mostly from expenses with SPI [ph] and COFI [ph] on interest on capital stock paid in the Fourth Quarter. In that quarter, we didn't pay dividend, we paid interest on capital stock.

Financial expenses, good news -- reduction in basically 30% or equivalent to \$97R -- 100 million, basically due to the appreciation of the Real vis-a-vis the U.S. dollar, generating revenues of \$63R million in the Fourth Quarter compared to an expense of 30 million in the Third Quarter.

Financial revenues, substantial increase also, 186% increase or basically \$200R million as a consequence of the increase in cash and cash equivalents and the profits from the investments of that liquidity.

Equity pick up, again, influenced strongly by the exchange variation. The equity pick up was negative in almost \$80R million, result of the appreciation of the Real vis-a-vis the dollar, with the reference currency, in the Fourth Quarter.

Provision for income tax and social contribution, good news again; \$93R million reduction, due to the benefits resulting from fiscal benefits stemming from interest over capital stock paid in the Fourth Quarter and to the corporate reorganization at the Sidenor in Spain.

Net profit for the Fourth Quarter reached \$800R million, almost 10% lower than that of the Third Quarter. But almost 10% higher also than the Fourth Quarter of 2005. Net profit for the full year reached \$3R.5 billion, presenting an increase of almost 8% compared to that of '05. If converted into U.S. dollars, the net profit of 2006 was 18% greater than the net profit of '05.

Gross and EBITDA margin for the Fourth Quarter decreased when compared to those of the Third Quarter, due mostly to the factors already mentioned. Yet, for the full year, these margins remained quite similar to those of 2005.

On page -- on slide 13, you have a chart on indebtedness to tell you the following. The Fourth Quarter saw an increase of almost 7% in our indebtedness as a result of additional B&Es [ph] financially finally released to Gerdau Acominas for the expansion program. The indebtedness profile continues to be quite comfortable. More than 80% of our indebtedness is long-term financing. The average debt maturity is about nine years. Of the total indebtedness on December the 31st, 28% were contracted in Brazilian currency, 47% in foreign currency contracted by companies based in Brazil. And 25% in debt contracted by companies abroad.

Our cash and cash equivalents totaled \$6R billion on December 31st, when net debt was only \$3R.1 billion.

As far as the management of liabilities, we made a very interesting decision to guarantee the Company's liquidity even under market duress. We contracted a senior credit facility



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of \$400US million as a liquidity insurance policy. This credit line was contracted with the exemption of MAC Clauses, which normally could -- or could eventually block access to the funds in situations of market distress. The program is available for three years, with two years to pay back counting from the day of each withdrawal.

An indicator that helps monitor Gerdau's level of indebtedness is the gross debt over EBITDA ratio. On December, this ratio was 1.7 times, certifying its low level of indebtedness. Comparing it to net debt, the operating cash generation as measured by EBITDA would ensure the payment of the entire debt in merely seven months.

On slide 14, you have the Fourth Quarter highlights. Two news to address, Andre has already addressed them. One is the ISE participation, the Sustainability Index and the investment grade granted by Fitch. I could say that with the level of indebtedness just presented the performance of the operations in the past years and favorable perspectives, Fitch rating has upgraded us in January 2007. Gerdau's rating to investment grade for local and foreign corporate credits is really an achievement; we recognize that.

According to Fitch, the rating was granted based on the ease of access to international funding and that the majority of the Company's indebtedness is guaranteed by the Brazilian operating company; this part of the note published by Fitch. The rating reflects the favorable business environment of the Brazilian subsidiaries, as well as the solid financial position made evident by the low leverage and healthy liquidity.

We also would like to highlight that Metalurgica and Gerdau S.A. were selected to be part of the ISE, the Business Sustainability Index, put together by the Brazilian Bovespa. This index reflects in our opinion the best practice in social responsibility to which Gerdau is so strongly committed.

With these comments made, I would like to open the session for questions. And Andre and myself and Werneck will be more than pleased to answer them.

## Questions And Answers

### Operator

(Operator Instructions) Your first question is coming from Marina Rohe of Bear Stearns. Please go ahead.

### Q - Marina Rohe

Hi, I would like to understand a little bit more about the cost side. You did a very great job itemizing them on the press release. But I just want to understand how much came actually from increased scrap cost, how much increase is port costs. And also regarding the domestic price in Brazil, if there was actual decline in prices, or it was just a change in the product mix? Thank you.

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

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You did the job for me already. You pointed out all the respective points. In terms of prices in Brazil, basically, we haven't touched the price level in the last 18 to 19 months, almost two years I would say. What happened the last quarter was a different mix. We had to go back to export levels in a higher level. So this makes the mix less rich and of course, the average price is lower. We did suffer some scrap price increases in the last quarter, which hopefully we are seeing going back to regular numbers in the beginning of this year. So we expect to see a reduction on scrap price. Imports and costs related to imports and exports and fees and all that, I don't have it broken down. But they are part of it. But not -- the main reason is a combination of those three factors that do trigger the reduction and margins that I have addressed.

### **Q - Marina Rohe**

So just in terms of -- I know the breakdown between domestic and exports has changed. But within domestic, was the mix also inferior or was it a -- you said it was not the client price then? Just for the domestic sales, domestic prices.

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

I can't remember of any major changes in the domestic mix. It's the overall between export and domestic that makes the difference. But with what we normally sell in Brazil is the same thing, going to the civil construction, going to the industry and the agriculture sector. In fact the break down, basically --

Go through, just to give you a sense how we have performed in the last quarter, 14% has been sold in formats of flats and billets, 70% in rolled long products. It's was -- it used to be 72% in the Third Quarter. 6% in specialty field, 4.8% in drawn products and other elaborated products and 6% in flat steel. When I say flat steel, it's important to remember that flat steel for us means flat steel that we resell. We buy from producers in Brazil and we resell to our retail arm, which is Comercial Gerdau. And also the production at Gallatin. This flat steel combination between Comercial and Gallatin in the previous quarter was 7% so there was a difference -- change also in the mix.

In Brazil, it concerns basically 48% was shipped to the civil construction sector, 51% to the industry. And basically 1.2% to the agriculture -- to the agriculture sector.

### **Q - Marina Rohe**

That's very helpful. Thank you very much.

### **Operator**

Thank you. Your next question is coming from Andrew West [ph] of Harding Loevner.

### **Q - Andrew West** {BIO 2225723 <GO>}

Hello. I was trying to get some clarification. Your Brazilian growth outlook of 6% to 8%, that's not counting the PAC. And if it's not, can you venture any sort of estimates of how much additional percentage growth that can provide over '07 or following years?

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## A - Andre Gerdau Johannpeter

Well this question is a recurring question. It was addressed in the Portuguese conference call and the press as well, it's difficult for us at this stage to really imagine or to guess how much material are going to be all those spread projects addressed in the package. But if you stop for a second just to think or to analyze each one of them, you are going realize that basically every single one will require utilization of steel. So I will leave with you the guessing game of how much is going to become material. We are counting on 6 to 8% only based on our traditional projection, seasonality of the sector, the level of competition and so. Everything else is going to be a plus. But unfortunately I cannot quantify it right now.

## Q - Andrew West {BIO 2225723 <GO>}

Right. Another question on the South American margins, looks like each quarter the margins have been getting worse. Is this a trend that's likely to continue in '07 or it's stabilized or start to turn around?

## A - Andre Gerdau Johannpeter

That's the penalty of expanding. We just bought the Peru operation, which is an operation under a very severe climate, almost bankrupt. So we do have a lot to improve there. So this again is an important operation, 400,000 ton more or less. So it has affected the market in general. But we trust in our ability to turn around the operation as we have done throughout our recent years, our recent lives, I am talking about last 20 years. So we trust that those margins are going to improve and I also mentioned. And Andre mentioned, trying to picture what's going to happen in the world, the GDP estimation or the GDP growth estimation for the -- for the Latin American countries, that is very positive. So give us some time to fix those operations recently acquired. We will improve it.

## Q - Andrew West {BIO 2225723 <GO>}

All right. Thank you.

## Operator

(Operator Instructions) Your next question is coming from Gerard Gabriel [ph] of Unibanco.

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

Actually, it's Rodrigo Barros speaking. Schirmer, I have two questions. First one, regarding the Gerdau's present trend for the flat steel segment, could you make it more clear, which markets that would be, would it be Brazil, abroad. And what are the Company goals with that?

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

In fact, this comment was made by Andre during his -- as a part of his speech. And I think he is about to answer your question. Hold on.

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## A - Andre Gerdau Johannpeter

Okay. The question is regarding the growth on flat products and mainly what we are looking for is through acquisition. And there is no specific region, the regions we are in, South America and North America. But also could be in new regions like even Europe and Asia. So that's basically the plan or the strategy we have. Does this answer? Hello?

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

Yes. And would that move into the flat steel segment, caused by the fact that your most recent low steel positions were selective or relatively low in size than the previous one. So is it becoming a little bit more difficult to find sizable assets in the long steel segment?

## A - Andre Gerdau Johannpeter

Well by nature, the flat producers are much larger than the mini mills. So an acquisition of a flat normally has at least 1 million tons operation or more. When you go to mini mill or one scrap based furnace, you see from 300, 500 nowadays larger closely to million. So there is a difference. But the most important is to find a good opportunity. It is more larger -- when you go flat, it is a larger investment. But if we find the right opportunity on the right time, we will go ahead. Schirmer would you like to comment too.

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

I would like to add the following. We have been saying, not only today the first time, that in our gross proposition very likely will have to run flats to producing mills as well and the only way to keeping afloat and growing in this market. And Andre was kind of open in saying that we are looking at different alternatives in different geographies. But we have to bear in mind that after or before making an acquisition, we always -- we will have to take into consideration synergies and things that we have done already can influence and contribute to the next one. So the Company is really careful in looking at those alternatives and not simply jumping or going after a target regardless where it is located. The rest and the complex where the complex is already structured today is important for us.

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

Thank you very much, Andre. Thank you very much, Schirmer.

## Operator

Thank you. Our next question is coming from Francisco Schumacher of Raymond James.

## Q - Francisco Schumacher {BIO 17132452 <GO>}

Hi Andre and Osvaldo. Well first I want to thank Andre for taking his time to be in this presentation. And my question is regarding (inaudible) and what is your position regarding the latest news of apparent restriction to participate in the auction?

## A - Andre Gerdau Johannpeter

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Well as you probably have seen, there is no longer restriction to Gerdau's participation in this public bid. We were restricted at the beginning, the local authorities understood that having a presence in Columbia at the level we have would be, we would end up having a true dominant position in the market. We try to prove to the authorities that's not the case. The companies do produce different final products. But after analyzing our request, they granted us the right to participate. But they already announced and we are conscious that if we end up just winning or being the winner in that bid, we should be ready to sell or to, say, to discontinue some of our operations, basically to sell. That's the request. And we are absolutely conscious about that.

**Q - Francisco Schumacher** {BIO 17132452 <GO>}

Yes. And do you like the idea of having to sell part of the business? Do you still find attractive to participate in the auctions?

**A - Andre Gerdau Johannpeter**

It's not a matter of happiness or sadness that is -- the request, the condition. And if you -- and as we said, we are going to be in that place. We are going to be in that bid. So we are prepared to analyze it properly.

**Q - Francisco Schumacher** {BIO 17132452 <GO>}

Okay. Thank you very much.

**A - Andre Gerdau Johannpeter**

They did not indicate it yet which plant or which operation we should divest. So we will factor in all those variables before making the final decision, before cutting the check.

**Q - Francisco Schumacher** {BIO 17132452 <GO>}

Okay and when do you think that these specifications will be communicated?

**A - Andre Gerdau Johannpeter**

Only if we win, we understand.

**Q - Francisco Schumacher** {BIO 17132452 <GO>}

Okay. Thank you very much.

**Operator**

Thank you. This concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr. Schirmer for any closing remarks.

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

Well I'd like to thank you very much for your interest in the Company for following our numbers and our performances. I hope to see you again in the next quarter with again

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good news. And I leave for Andre to say his final words as well on behalf of our teams working here. Thank you very much. Have a good day. Andre is going to say his words.

## A - Andre Gerdau Johannpeter

Thank you, Schirmer. I would like to extend thank you for everybody to being present on today's conference call. Thank you for the questions and we are looking forward for the next conference call to communicate the First Quarter of '07. Thank you very much. Have everybody good day. Bye.

## Operator

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

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