

GERDAU S.A.  
Form 20-F  
June 02, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2010**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-14878

**GERDAU S.A.**

(Exact name of Registrant as specified in its charter)

**N/A**

(Translation of Registrant's name into English)

**Federative Republic of Brazil**

(Jurisdiction of incorporation or organization)

**Av. Farrapos 1811**

**Porto Alegre, Rio Grande do Sul - Brazil CEP 90220-005**

Edgar Filing: GERDAU S.A. - Form 20-F

(Address of principal executive offices) (Zip code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange in which registered
Preferred Shares, no par value per share, each represented by American Depositary Shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

---

Edgar Filing: GERDAU S.A. - Form 20-F

Table of Contents

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

The total number of issued shares of each class of stock of GERDAU S.A. as of December 31, 2010 was:

505,600,573 Common Shares, no par value per share  
1,011,201,145 Preferred Shares, no par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Edgar Filing: GERDAU S.A. - Form 20-F

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued  
by the International Accounting Standards Board

Other

If  Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

---

Table of Contents

**TABLE OF CONTENTS**

	<b>Page</b>
<u>INTRODUCTION</u>	4
<u>PART I</u>	6
<u>ITEM 1.</u>	<u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>
<u>ITEM 2.</u>	<u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>
<u>ITEM 3.</u>	<u>KEY INFORMATION</u>
<u>ITEM 4.</u>	<u>COMPANY INFORMATION</u>
<u>ITEM 4A.</u>	<u>UNRESOLVED SEC STAFF COMMENTS</u>
<u>ITEM 5.</u>	<u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>
<u>ITEM 6.</u>	<u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>
<u>ITEM 7.</u>	<u>MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS</u>
<u>ITEM 8.</u>	<u>FINANCIAL INFORMATION</u>
<u>ITEM 9.</u>	<u>THE OFFER AND LISTING</u>
<u>ITEM 10.</u>	<u>ADDITIONAL INFORMATION</u>
<u>ITEM 11.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK</u>
<u>ITEM 12.</u>	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>
<u>PART II</u>	110
<u>ITEM 13.</u>	<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>
<u>ITEM 14.</u>	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>
<u>ITEM 15.</u>	<u>CONTROLS AND PROCEDURES</u>
<u>ITEM 16.</u>	<u>[RESERVED]</u>
<u>ITEM 16A.</u>	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u>
<u>ITEM 16B.</u>	<u>CODE OF ETHICS</u>
<u>ITEM 16C.</u>	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>
<u>ITEM 16D.</u>	<u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>
<u>ITEM 16E.</u>	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>
<u>ITEM 16F.</u>	<u>CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>
<u>ITEM 16G.</u>	<u>CORPORATE GOVERNANCE</u>
<u>PART III</u>	117
<u>ITEM 17.</u>	<u>FINANCIAL STATEMENTS</u>
<u>ITEM 18.</u>	<u>FINANCIAL STATEMENTS</u>
<u>ITEM 19.</u>	<u>FINANCIAL STATEMENTS AND EXHIBITS</u>

Table of Contents

**INTRODUCTION**

Unless otherwise indicated, all references herein to:

(i) the Company, Gerdau, we or us are references to Gerdau S.A., a corporation organized under the laws of the Federative Republic of Brazil (Brazil) and its consolidated subsidiaries;

(ii) Açominas are references to Aço Minas Gerais S.A. Açominas prior to November 2003 whose business was to operate the Ouro Branco steel mill. In November 2003 the company underwent a corporate reorganization, receiving all of Gerdau's Brazilian operating assets and liabilities and being renamed Gerdau Açominas S.A.;

(iii) Gerdau Açominas are references to Gerdau Açominas S.A. after November 2003 and to Açominas before such date. In July 2005, certain assets and liabilities of Gerdau Açominas were spun-off to four other newly created entities: Gerdau Aços Longos, Gerdau Aços Especiais, Gerdau Comercial de Aços and Gerdau América do Sul Participações. As a result of such spin-off, as from July 2005, the activities of Gerdau Açominas only comprise the operation of the Açominas steel mill;

(iv) Chaparral Steel or to Chaparral are references to Chaparral Steel Company, a corporation organized under the laws of the State of Delaware, and its consolidated subsidiaries;

(v) Preferred Shares and Common Shares refer to the Company's authorized and outstanding preferred stock and common stock, designated as *ações preferenciais* and *ações ordinárias*, respectively, all without par value. All references herein to the *real*, *reais* or R\$ are to the Brazilian *real*, the official currency of Brazil. All references to (i) U.S. dollars, dollars, U.S.\$ or \$ are to the official currency of the United States, (ii) Canadian dollars or Cdn\$ are to the official currency of Canada, (iii) Euro or are to the official currency of Europe, (iv) billions are to thousands of millions, (v) km are to kilometers, and (vi) tonnes are to metric tones;

(vi) Installed capacity means the annual projected capacity for a particular facility (excluding the portion that is not attributable to our participation in a facility owned by a jointly controlled entity), calculated based upon operations for 24 hours each day of a year and deducting scheduled downtime for regular maintenance;

(vii) Tonne means a metric tonne, which is equal to 1,000 kilograms or 2,204.62 pounds;

(viii) Consolidated shipments means the combined volumes shipped from all our operations in Brazil, Latin America, North America and Europe, excluding our jointly-controlled entities and associate companies;

## Edgar Filing: GERDAU S.A. - Form 20-F

(ix) worldsteel means World Steel Association, IABr means Brazilian Steel Institute (Instituto Aço Brasil) and AISI means American Iron and Steel Institute;

(x) CPI means consumer price index, CDI means Interbanking Deposit Rates (Certificados de Depósito Interfinanceiro), IGP-M means Consumer Prices Index (Índice Geral de Preços do Mercado), measured by FGV (Fundação Getulio Vargas), LIBOR means London Interbank Offered Rate, GDP means Gross Domestic Product;

(xi) Brazil BO means Brazil Business Operation, North America BO means North America Business Operation, Latin America BO means Latina America Business Operation, Specialty Steel BO means Specialty Steel Business Operation.

The Company has prepared the consolidated financial statements included herein in accordance with International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB). The investments in Gallatin Steel Co. ( Gallatin ), Bradley Steel Processor and MRM Guide Rail, all in North America, of which Gerdau Ameristeel holds 50% of the total capital, the investments in Armacero Industrial y Comercial Limitada, in Chile, in which the Company holds a 50% stake, the investments in the holding company Multisteel Business Holdings Corp., in which the Company holds a 49% stake, which holds 99.13% of the capital stock of Industrias Nacionales, C. por A. (INCA), in Dominican Republic, the investments in the holding company Corsa Controladora, S.A. de C.V., in which the Company holds a 49% stake, which holds the capital stock of Aceros Corsa S.A. de C.V., in Mexico, the investments in the holding company Corporacion Centroamericana del Acero S.A., in which the Company holds a 30% stake, which holds the capital stock of Aceros de Guatemala S.A., in Guatemala, the investments in Gerdau Corsa S.A.P.I. de C.V., in Mexico, in which the Company holds a 50% stake, the investments in Kalyani Gerdau Steel Ltd., in India, in which the Company holds a 73.22% stake, and the investment in Dona Francisca Energética S.A, in Brazil, in which the Company holds a 51.82% stake, are accounted for using the equity method.

Unless otherwise indicated, all information in this Annual Report is stated for December 31, 2010. Subsequent developments are discussed in Item 8.B - Financial Information - Significant Changes.

Table of Contents

**CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS**

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. These statements relate to our future prospects, developments and business strategies.

Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as expects, anticipates, intends, plans, believes, estimates and similar expressions are forward-looking statements. Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to us.

It is possible that our future performance may differ materially from our current assessments due to a number of factors, including the following:

- general economic, political and business conditions in our markets, both in Brazil and abroad, including demand and prices for steel products;
- interest rate fluctuations, inflation and exchange rate movements of the *real* in relation to the U.S. dollar and other currencies in which we sell a significant portion of our products or in which our assets and liabilities are denominated;
- our ability to obtain financing on satisfactory terms;
- prices and availability of raw materials;
- changes in international trade;
- changes in laws and regulations;
- electric energy shortages and government responses to them;



## Edgar Filing: GERDAU S.A. - Form 20-F

- the performance of the Brazilian and the global steel industries and markets;
- global, national and regional competition in the steel market;
- protectionist measures imposed by steel-importing countries; and
- other factors identified or discussed under Risk Factors.

Our forward-looking statements are not guarantees of future performance, and actual results or developments may differ materially from the expectations expressed in the forward-looking statements. As for the forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainty of estimates, forecasts and projections. Because of these uncertainties, potential investors should not rely on these forward-looking statements.

We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

Table of Contents

**PART II**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable, as the Company is filing this Form 20-F as an annual report.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable, as the Company is filing this Form 20-F as an annual report.

**ITEM 3. KEY INFORMATION**

**A. SELECTED FINANCIAL DATA**

In 2008, the Company changed its financial basis of reporting for purposes of filing financial statements with the SEC from United States Generally Accepted Accounting Principles (U.S. GAAP) to International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB), beginning with the financial statements as of and for the year ended December 31, 2008. The first financial statements of the Company prepared following IFRS as issued by the IASB were those as of and for the year ended December 31, 2007, with first time adoption date of January 1, 2006, which were filed with the local securities regulator in Brazil and made publicly available. The selected financial information for the Company included in the following tables should be read in conjunction with, and is qualified in its entirety by, the IFRS financial statements of the Company and Operating and Financial Review and Prospects appearing elsewhere in this Annual Report.

The consolidated financial data of the Company as of and for each years ended on December 31, 2010, 2009, 2008, 2007 and 2006 are derived from the financial statements prepared in accordance with IFRS and presented in Brazilian Reais.

IFRS Summary Financial and Operating Data

Table of Contents

	(Expressed in thousands of Brazilian Reais - R\$ except quantity of shares and amounts per share)				
	2010	2009	2008	2007	2006
<b>NET SALES</b>	31,393,209	26,540,050	41,907,845	30,613,528	25,883,911
Cost of sales	(25,873,476)	(22,305,550)	(31,228,035)	(23,326,075)	(19,039,266)
<b>GROSS PROFIT</b>	5,519,733	4,234,500	10,679,810	7,287,453	6,844,645
Selling expenses	(551,547)	(429,612)	(479,551)	(426,765)	(557,045)
General and administrative expenses	(1,805,914)	(1,714,494)	(2,284,857)	(1,884,405)	(1,784,865)
Impairment of assets reversion	336,346	(1,072,190)			
Restructuring costs		(150,707)			
Other operating income	207,320	190,157	205,676	110,721	255,194
Other operating expenses	(100,840)	(101,810)	(116,064)	(282,679)	(291,357)
Equity in earnings (losses) of unconsolidated companies, net	39,454	(108,957)	122,808	118,399	243,550
<b>INCOME BEFORE FINANCIAL INCOME (EXPENSES) AND TAXES</b>	3,644,552	846,887	8,127,822	4,922,724	4,710,122
Financial income	295,563	436,236	484,046	810,137	939,484
Financial expenses	(1,097,633)	(1,286,368)	(1,620,782)	(1,202,027)	(903,292)
Exchange variations, net	104,364	1,060,883	(1,035,576)	723,289	329,633
Gain and losses on derivatives, net	12,392	(26,178)	(62,396)	1,170	74,467
<b>INCOME BEFORE TAXES</b>	2,959,238	1,031,460	5,893,114	5,255,293	5,150,414
Income and social contribution taxes					
Current	(642,306)	(303,272)	(1,423,660)	(872,315)	(906,297)
Deferred	140,447	276,320	475,444	(80,012)	17,361
<b>NET INCOME</b>	2,457,379	1,004,508	4,944,898	4,302,966	4,261,478
<b>ATTRIBUTABLE TO:</b>					
Owners of the parent	2,142,488	1,121,966	3,940,505	3,549,881	3,546,934
No-controlling interests	314,891	(117,458)	1,004,393	753,085	714,544
	2,457,379	1,004,508	4,944,898	4,302,966	4,261,478
Basic earnings per share (1) in R\$					
Common	1.50	0.79	2.83	2.68	2.67
Preferred	1.50	0.79	2.83	2.68	2.67
Diluted earnings per share (1) in R\$					
Common	1.50	0.79	2.75	2.66	2.66
Preferred	1.50	0.79	2.75	2.66	2.66
Cash dividends declared per share (1) in R\$					
Common	0.44	0.25	0.79	0.63	0.67
Preferred	0.44	0.25	0.79	0.63	0.67
Weighted average Common Shares outstanding during the year	494,888,956	494,888,956	485,403,980	463,214,016	463,214,016(2)
Weighted average Preferred Shares outstanding during the year	930,434,530	925,676,955	905,257,476	861,908,769	864,477,790(2)
Number of Common Shares outstanding at year end	505,600,573	496,586,494	496,586,494	463,214,016	463,214,016(3)
Number of Preferred Shares outstanding at year end	1,011,201,145	934,793,732	934,793,732	871,972,082	871,972,082(3)

(1) Per share information has been retroactively restated for 2007 and 2006 to reflect the effect of: (a) the stock bonus of one share for every share held approved in April 2008. Earnings per share has been computed on weighted average share outstanding during each year.

(2) The information on the numbers of shares presented above relate to the weighted average, and the years of 2007 and 2006 were retroactively restated to reflect changes in numbers of shares due to the transactions described in (1) above.

Edgar Filing: GERDAU S.A. - Form 20-F

(3) The information on the numbers of shares presented above, relates to the end of year for the years of 2007 and 2006 was retroactively restated to reflect changes in numbers of shares due to the transactions described in (1) above.

	2010	2009	On December 31, 2008 (in thousands of R\$)	2007	2006
<b>Balance sheet selected information</b>					
Cash and cash equivalents	1,061,034	2,091,944	2,026,609	2,026,096	1,070,524
Short-term investments (1)	1,115,461	2,677,714	3,386,637	3,113,277	5,308,765
Current assets	12,945,944	14,164,686	20,775,540	15,312,973	15,083,956
Current liabilities	5,021,900	4,818,521	8,475,437	6,587,148	6,191,420
Net working capital (2)	7,924,044	9,346,165	12,300,103	8,725,825	8,892,536
Property, plant and equipment, net	16,171,560	16,731,101	20,054,747	15,827,944	13,373,543
Net assets (3)	20,147,615	22,004,793	25,043,578	16,723,208	14,188,216
Total assets	42,891,260	44,583,316	59,050,514	41,553,912	31,596,256
Short-term debt (including Current Portion of Long-Term Debt )	1,577,968	1,356,781	3,788,085	2,500,985	2,274,523
Long-term debt, less current portion	12,360,056	12,563,155	18,595,002	12,461,128	6,671,456
Debentures - short term	115,069		145,034	38,125	2,932
Debentures - long term	616,902	600,979	705,715	903,151	929,024
Equity	20,147,615	22,004,793	25,043,578	16,723,208	14,188,216
Capital stock	15,651,352	14,184,805	14,184,805	7,810,453	7,810,453

(1) Include trading and available for sale.

(2) Total current assets less total current liabilities.

(3) Total assets less total current liabilities and less total non current liabilities.

Table of Contents**Exchange rates between the United States Dollar and Brazilian Reais**

The following table presents the exchange rates, according to the Brazilian Central Bank, for the periods indicated between the United States dollar and the Brazilian *reais* which is the currency in which we prepare our financial statements included in this Annual Report on Form 20-F.

**Exchange rates from U.S. dollars to Brazilian reais**

Period	Period-end	Average	High	Low
May-2011	1.5799	1.6135	1.6339	1.5747
April-2011	1.5733	1.5865	1.6194	1.5654
March-2011	1.6287	1.6591	1.6757	1.6287
February-2011	1.6612	1.6680	1.6776	1.6612
January-2011	1.6734	1.6749	1.6912	1.6510
December-2010	1.6662	1.6934	1.7117	1.6662
November-2010	1.7161	1.7133	1.7336	1.6801
2010	1.6662	1.7593	1.8811	1.6554
2009	1.7412	1.9935	2.4218	1.7024
2008	2.3370	1.8375	2.5004	1.5593
2007	1.7713	1.9483	2.1556	1.7325
2006	2.1380	2.1771	2.3711	2.0586

**Dividends**

The Company's total authorized capital stock is composed of common and preferred shares. As of April 30, 2011, the Company had 573,627,483 common shares and 1,146,031,245 non-voting preferred shares outstanding.

The following table details dividends and interest on equity paid to holders of common and preferred stock since 2006. The figures are expressed in Brazilian *reais* and converted into U.S. dollars on the date of the resolution approving the dividend. Dividend per share figures have been retroactively adjusted for all periods to reflect: (a) the stock dividend of one share for every two shares held (approved in March 2006), and (b) the stock dividend of one share for every share held (April 2008).

Dividend per share information has been computed by dividing dividends and interest on equity by the number of shares outstanding, which excludes treasury stock. The table below presents the quarterly dividends payment, except where stated otherwise:

Period	Date of Resolution	R\$ per Share Common or Preferred Stock	\$ per Share Common or Preferred Stock
1st Quarter 2006 (1)	05/03/2006	0.1500	0.0724

Edgar Filing: GERDAU S.A. - Form 20-F

2nd Quarter 2006	08/02/2006	0.1750	0.0802
3rd Quarter 2006 (1)	11/07/2006	0.1750	0.0820
4th Quarter 2006	02/07/2007	0.1750	0.0839
1st Quarter 2007 (1)	05/03/2007	0.1700	0.0840
2nd Quarter 2007	08/08/2007	0.1450	0.0769
3rd Quarter 2007 (1)	11/07/2007	0.1700	0.0977
4th Quarter 2007	02/13/2008	0.1450	0.0831
1st Quarter 2008 (1)	05/12/2008	0.2050	0.1224
2nd Quarter 2008	08/06/2008	0.3600	0.2281
3rd Quarter 2008	11/05/2008	0.1800	0.0849
4th Quarter 2008	02/19/2009	0.0400	0.0172
3rd Quarter 2009 (1)	11/05/2009	0.0750	0.0435
4th Quarter 2009 (1)	12/23/2009	0.1800	0.1013
1st Quarter 2010 (1)	05/06/2010	0.1200	0.0654
2st Quarter 2010	08/05/2010	0.1400	0.0798
3st Quarter 2010 (1)	11/05/2010	0.1200	0.0714
4st Quarter 2010	03/03/2011	0.0600	0.0363

Table of Contents

---

(1) Payment of interest on equity.

Note: the Company did not advance dividends in the 1st and 2nd quarter of 2009.

Brazilian Law 9,249 of December 1995 provides that a company may, at its sole discretion, pay interest on equity in addition to or instead of dividends (See Item 8 Financial Information - Interest on Equity). A Brazilian corporation is entitled to pay its shareholders interest on equity up to the limit based on the application of the TJLP rate (Long-Term Interest Rate) to its shareholders' equity or 50% of the net income in the fiscal year, whichever is lower. This payment is considered part of the mandatory dividend required by Brazilian Corporation Law for each fiscal year. The payment of interest on equity described herein is subject to a 15% withholding tax. See Item 10. Additional Information - Taxation.

In the fourth quarter of 2008, Gerdau launched the Dividend Reinvestment Plan (DRIP), which is a program that allows the holders of Gerdau ADRs to reinvest dividends to purchase additional ADRs in the Company, with no issuance of new shares. In January 2009, Gerdau provided its shareholders a similar program in Brazil that allows the reinvestment of dividends in additional shares, with no issuance of new shares.

**B. CAPITALIZATION AND INDEBTEDNESS**

Not required, as the Company is filing this Form 20-F as an annual report.

**C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not required, as the Company is filing this Form 20-F as an annual report.

**D. RISK FACTORS**

**Global Risks**

*Global crises and subsequent economic slowdowns like those that occurred during 2008 and 2009 may adversely affect global steel demand. As a result, the Company's financial condition and results of operations may be adversely affected.*

Historically, the steel industry has been highly cyclical and deeply impacted by economic conditions in general, such as world production capacity and fluctuations in steel imports/exports and the respective import duties. After a steady period of growth between 2004 and 2008, the

## Edgar Filing: GERDAU S.A. - Form 20-F

marked drop in demand resulting from the global economic crisis of 2008-2009 once again demonstrated the vulnerability of the steel market to volatility of international steel mines and raw materials. That crisis was caused by the dramatic increase of high risk real estate financing defaults and foreclosures in the United States, with serious consequences for bank and financial markets throughout the world. Developed markets, such as North America and Europe, experienced a strong recession due to the collapse of real estate financings and the shortage of global credit. As a result, the demand for steel products suffered a decline in 2009, but since 2010 has been showing gradual recovery, principally in the developing economies. The economic downturn and the unprecedented turbulence seen in the global economy had a negative impact on consuming markets, affecting the business environment with respect to the following:

- Decrease in international steel prices;
- Slump in international steel trading volumes;
- Crisis in automotive industry and infrastructure sectors; and
- Lack of liquidity, mainly in the U.S. economy.



Table of Contents

If the Company is not able to remain competitive in these shifting markets, our profitability, margins and income may be negatively affected. Although the demand for steel products in 2010 and 2011 has been showing gradual improvements on a monthly basis, no assurance can be given that these improvements will continue through 2011. A decline in this trend could result in a decrease in Gerdau shipments and revenues.

*Developments and the perception of risks in other countries, especially in the United States and emerging market countries, may adversely affect the market prices of our preferred shares and ADSs.*

The market for securities issued by Brazilian companies is influenced, to varying degrees, by economic and market conditions in the United States and emerging market countries, especially other Latin American countries. Although economic conditions are different in each country, the reaction of investors to economic developments in one country may cause the capital markets in other countries to fluctuate. Developments or adverse economic conditions in other emerging market countries have at times resulted in significant outflows of funds from, and declines in the amount of foreign currency invested in Brazil.

The Brazilian economy is also affected by international economic and market conditions, especially economic and market conditions in the United States. Share prices on the BM&FBOVESPA, for example, have historically been sensitive to fluctuations in United States interest rates as well as movements of the major United States stocks indexes.

Economic developments in other countries and securities markets could adversely affect the market prices of our preferred shares or the ADSs, could make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all, and could also have a material adverse effect on our operations and prospects.

**Risks Relating to Brazil**

*Brazil's political and economic conditions and the Brazilian government's economic and other policies may negatively affect demand for the Company's products as well as its net sales and overall financial performance.*

The Brazilian economy has been characterized by frequent and occasionally extensive intervention by the Brazilian government. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of the country's economy. The Brazilian government's actions to control inflation and implement other policies have involved hikes in interest rates, wage and price controls, devaluation of the currency, freezing of bank accounts, capital controls and restrictions on imports.

The Company's operating results and financial condition may be adversely affected by the following factors and the government responses to them:

- exchange rate controls and fluctuations;
- interest rates;
- inflation;
- tax policies;
- energy shortages;
- liquidity of domestic and foreign capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will change policies or regulations affecting these or other factors may contribute to economic uncertainty in Brazil and to heightened volatility in Brazilian securities markets and securities issued abroad by Brazilian issuers. These and other developments in Brazil's economy and government policies may adversely affect the Company and its business.

***Inflation and government actions to combat inflation may contribute significantly to economic uncertainty in Brazil and could adversely affect the Company's business.***

Brazil has experienced high inflation in the past. Since the implementation of the Real Plan in 1994, the annual rate of inflation has decreased significantly, as measured by the National Broad Consumer Price Index (Índice Nacional de Preços ao Consumidor Amplo, or IPCA). Inflation measured by the IPCA index was 3.1% in 2006, 4.5% in 2007,

Table of Contents

5.9% in 2008, 4.3% in 2009 and 5.9% in 2010. If Brazil were to experience high levels of inflation once again, the country's rate of economic growth could slow, which would lead to lower demand for the Company's products in Brazil. Inflation is also likely to increase some costs and expenses which the Company may not be able to pass on to its customers and, as a result, may reduce its profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, which could lead the cost of servicing the Company's debt denominated in Brazilian reais to increase. Inflation may also hinder its access to capital markets, which could adversely affect its ability to refinance debt. Inflationary pressures may also lead to the imposition of additional government policies to combat inflation that could adversely affect its business.

*Variations in the foreign exchange rates between the U.S. dollar and the currencies of countries in which the Company operates may increase the cost of servicing its debt denominated in foreign currency and adversely affect its overall financial performance.*

The Company's operating results are affected by fluctuations in the foreign exchange rates between the Brazilian real, the currency in which the Company prepares its financial statements, and the currencies of the countries in which it operates.

For example, the North America Business Operation reports its results in U.S. dollars. Therefore, fluctuations in the exchange rate between the U.S. dollar and the Brazilian real could affect its operating results. The same occurs with all other businesses located outside Brazil with respect to the exchange rate between the local currency of the respective subsidiary and the Brazilian real.

The Brazilian real depreciated against the U.S. dollar by 31.9% in 2008. On December 31, 2009, the U.S. dollar/Brazilian real exchange rate was \$1.00 per R\$ 1.74, resulting in appreciation of 25.5% when compared to December 31, 2008. At the end of 2010 the Brazilian real had appreciated 4.3% against the U.S. dollar.

Depreciation in the Brazilian real in relation to the U.S. dollar could also result in additional inflationary pressures in Brazil, by generally increasing the price of imported products and services and requiring recessionary government policies to curb demand. In addition, depreciation in the Brazilian real could weaken investor confidence in Brazil.

The Company held debt denominated in foreign currency, mainly U.S. dollars, in an aggregate amount of R\$ 11.3 billion at December 31, 2010, representing 77.3% of its gross indebtedness on a consolidated basis. On December 31, 2010, the Company held R\$ 868 million in cash equivalents and short-term investments denominated in currencies different from Brazilian real. Significant depreciation in the Brazilian real in relation to the U.S. dollar or other currencies could reduce the Company's ability to service its obligations denominated in foreign currencies, particularly since a significant part of its net sales revenue is denominated in Brazilian reais.

Export revenue and margins are also affected by fluctuations in the exchange rate of the U.S. dollar and other local currencies of the countries where the Company produces in relation to the Brazilian real. The Company's production costs are denominated in local currency but its export sales are generally denominated in U.S. dollars. Revenues generated by exports denominated in U.S. dollars are reduced when they are translated into Brazilian real in periods during which the Brazilian currency appreciates in relation to the U.S. dollar.

**Risks Relating to Gerdau and the Steel Industry**

*An increase in China's steelmaking capacity or a slowdown in China's steel consumption could have a material adverse effect on domestic and global steel pricing and could result in increased steel imports into the markets in which we operate.*

A significant factor in the worldwide strengthening of steel pricing over the past several years has been the significant growth in steel consumption in China, which at times has outpaced that country's manufacturing capacity to produce enough steel to satisfy its own needs. At times this has resulted in China being a net importer of steel products, as well as a net importer of raw materials and supplies required in the steel manufacturing process. A reduction in China's economic growth rate with a resulting reduction of steel consumption, coupled with China's expansion of steel-making capacity, could have the effect of a substantial weakening of both domestic and global steel demand and steel pricing. Moreover, many Asian and European steel producers that had previously shipped their output to China may ship their steel products to other markets in the world, which could cause a material erosion of margins through a reduction in pricing.

Table of Contents

***Demand for steel is cyclical and a reduction in prevailing world prices for steel could adversely affect the Company's operating results.***

The steel industry is highly cyclical. Consequently, the Company is exposed to substantial swings in the demand for steel products, which in turn causes volatility in the prices of most of its products and eventually causing write downs on its inventories. In addition, the demand for steel products, and hence the financial condition and operating results of companies in the steel industry, including the Company itself, are generally affected by macroeconomic changes in the world economy and in the domestic economies of steel-producing countries, including general trends in the steel, construction and automotive industries. Since 2003, demand for steel products from developing countries (particularly China), the strong euro compared to U.S. dollar and world economic growth have contributed to a historically high level of prices for the Company's steel products. However, these relatively high prices may not last, especially due to expansion in world installed capacity or a new level of demand. In the second half of 2008, and especially in the beginning of 2009, the U.S. and European economies showed strong signs of slow down, in turn affecting many other countries. Since the end of 2009 and throughout 2010 the world steel demand and prices have been improving if compared to the situation mentioned above and the Company believes that this trend will continue throughout 2011. A material decrease in demand for steel or exports by countries not able to consume their production, as happened in 2008, could have a significant adverse effect on the Company's operations and prospects.

***Higher steel scrap prices or a reduction in supply could adversely affect production costs and operating margins.***

The main metal input for the Company's mini-mills, which mills accounted for 74.6% of total crude steel output in 2010 (in volume), is steel scrap. Although international steel scrap prices are determined essentially by scrap prices in the U.S. local market, because the United States is the main scrap exporter, scrap prices in the Brazilian market are set by domestic supply and demand. The price of steel scrap in Brazil varies from region to region and reflects demand and transportation costs. Should scrap prices increase significantly without a corresponding increase in finished steel sale prices, the Company's profits and margins could be adversely affected. An increase in steel scrap prices or a shortage in the supply of scrap to its units would affect production costs and potentially reduce operating margins and revenues.

***Increases in iron ore and coal prices or reductions in market supply could adversely affect the Company's operations.***

When the prices of the raw materials, particularly iron ore and coking coal, increase, and the Company needs to produce steel in its integrated facilities, the production costs in its integrated facilities also increase. The Company uses iron ore to produce liquid pig iron at its Açominas mill, and at its Gerdau Barão de Cocais and Gerdau Divinópolis units in the state of Minas Gerais, as well as Sider-Peru, in Peru. Iron ore is also used to produce sponge iron at the Gerdau Usiba unit in the state of Bahia.

The Açominas mill is the Company's largest mill in Brazil, and its main metal input for the production of steel is iron ore. In 2010, this unit represented 49.4% of the total crude steel output (in volume) of Gerdau's Brazilian operations. A shortage of iron ore in the domestic market may adversely affect the steel producing capacity of its Brazilian units, and an increase in iron ore prices could reduce profit margins.

The Company has iron ore mines in the state of Minas Gerais, Brazil. To reduce the exposure to iron ore price volatility, we are investing in the expansion of the productive capacity of these mines, which we expect to meet 100% of the iron ore requirements of the Açominas mill by 2012.

## Edgar Filing: GERDAU S.A. - Form 20-F

All of the Company's coking coal requirements for its Brazilian units are imported due to the low quality of Brazilian coal. Coking coal is the main energy input at the Açominas mill and is used at the coking facility. Although this mill is not dependent on coke supplies, a contraction in the supply of coking coal could adversely affect the integrated operations at this site, since the Açominas mill requires coking coal to produce coke in its coking facility. The coking coal used in Açominas mill is imported from Canada, the United States, Australia and from Colombia. A shortage of coking coal in the international market would adversely affect the steel producing capacity of the Açominas mill, and an increase in prices could reduce profit margins. The Company does not have long-term supply contracts for certain raw materials it uses.

*The Company may not successfully integrate its businesses, management, operations or products, or achieve any of the benefits anticipated from future acquisitions.*

Over the years, the Company has expanded its presence mainly through acquisitions in the North American and Latin American markets. The integration of the business and opportunities stemming from entities recently acquired and those that may be acquired by the Company in the future may involve risks. The Company may not successfully integrate acquired businesses, managements, operations, products and services with its current operations. The diversion of management's attention from its existing businesses, as well as problems that can arise in connection with the integration of the new operations may have an impact on revenue and operating results. The integration of acquisitions

Table of Contents

may result in additional expenses that could reduce profitability. The Company may not succeed in addressing these risks or any other problems encountered in connection with past and future acquisitions.

All these acquisitions generated a large amount of goodwill, which is stated in the Company's balance sheet. The Company evaluates the recoverability of this goodwill on investments annually and uses accepted market practices, including discounted cash flow for business segments which have goodwill. A downturn in the steel market could negatively impact expectations for future earnings, leading to the need to recognize an expense in its statement of income regarding the impairment in goodwill.

*The Company's operations are energy-intensive, and energy shortages or higher energy prices could have an adverse affect.*

Steel production is an energy-intensive process, especially in melt shops with electric arc furnaces. Electricity represents a significant cost component at these units, as also does natural gas, although to a lesser extent. Electricity cannot be replaced at the Company's mills and power rationing or shortages, like those that occurred in Brazil in 2001, could adversely affect production at those units.

Natural gas is used in the reheating furnaces at the Company's rolling mills. In the case of shortages in the supply of natural gas, the Company could in some instances change to fuel oil or LPG as an energy source. However, these measures could increase its production costs and consequently reduce its operating margins.

*Restrictive measures on trade in steel products may affect the Company's business by increasing the price of its products or reducing its ability to export.*

The Company is a steel producer that supplies both the domestic market in Brazil and a number of international markets. The Company's exports face competition from other steel producers, as well as restrictions imposed by importing countries in the form of quotas, ad valorem taxes, tariffs or increases in import duties, any of which could increase the costs of products and make them less competitive or prevent the Company from selling in these markets. There are no assurances that importing countries will not impose quotas, ad valorem taxes, tariffs or increase import duties.

*Less expensive imports from other countries into Brazil may adversely affect the Company's operating results.*

Steel imports in Brazil caused downward pressure on steel prices in 2010, adversely affecting sales and profit margins, especially in the fourth quarter. Competition from foreign steel producers is a threat and may grow due to an increase in foreign installed steel capacity, depreciation of the U.S. dollar and a reduction of domestic steel demand in other markets, with these factors leading to higher levels of steel imports into Brazil at lower prices. Any change in the factors mentioned above, as well as in duties or protectionist measures could result in a higher level of imports into Brazil, resulting in pressures on the domestic prices that could adversely impact our business. In the beginning of 2011, as a result of higher international prices, the domestic price premium compared to the international price was reduced, avoiding thereby the importation of long steel products and permitting a recovery in the domestic market prices which had been pressured by increased raw material costs. If the level of less expensive imports to Brazil increases, resulting pricing pressures may adversely affect the Company's results.

*Less expensive imports from other countries into North America and Latin America may adversely affect the Company's operating results.*

Steel imports in North America and Latin America have forced a reduction in steel prices in the last several years, adversely affecting sales and profit margins. The competition of foreign steel producers is strong and may increase due to the increase in their installed capacity, the depreciation of the U.S. dollar and the reduced domestic demand for steel in other markets, with those factors leading to higher levels of steel imports into North and Latin America at lower prices. In the past, the United States government adopted temporary protectionist measures to control the import of steel by means of quotas and tariffs. Some Latin American countries have adopted similar measures. These protectionist measures may not be adopted and, despite efforts to regulate trade, imports at unfair prices may be able to enter into the North American and Latin American markets, resulting in pricing pressures that may adversely affect the Company's results.

*New Entrants into the Brazilian market can affect the Company's competitiveness.*

Since 2009, the intention of installing new steel production capacity in Brazil has been announced by a number of players in the industry. If effected, these installations could result in a possible loss of market share, reduction of prices and shortage of raw materials with the resulting increase in their prices.



Table of Contents

***Costs related to complying with environmental regulations may increase if requirements become more stringent, which may adversely affect the Company's operating results.***

The Company's industrial plants are required to comply with a number of federal, state and municipal environmental laws and regulations with respect to the environment and the operation of mills in every country in which the Company operates. These regulations include environmental licensing procedures, the control of air emissions, waste water discharges and solid and hazardous waste handling and disposal. Failure to comply with these laws and regulations may result in civil and administrative penalties, criminal sanctions or closure orders, and in various circumstances requires the cleanup of the contamination. If existing laws or future legislation become more stringent, expenditure on fixed assets and the costs of compliance may rise, adversely affecting the Company's financial condition. Furthermore, the Company may be subject to additional expenditures and costs associated with environmental compliance as a result of future acquisitions.

***Laws and regulations intended to reduce greenhouse gases and other air emissions may be enacted in the future and could have a material adverse effect on the Company's results of operations, cash flows and financial condition.***

One of the possible effects of the expansion of CO<sub>2</sub> emission requirements is an increase in costs, mainly resulting from demand for renewable energy and implementation of new technology throughout the productive chain. However, we also estimate an increase in demand for products that result in lower emissions and a tendency within the steel sector towards demand for products made through processes that reduce greenhouse gas emissions. It is within this scenario that Brazil Business Operations received the Falcão Bauer ecological seal for civil construction products. This certification guarantees that the Company follows sustainable environmental factors in the production of its steel products. Moreover, Gerdau has invested funds to increase solid biofuel consumption as a source of energy in the production of pig-iron. At the same time, the Company has increased its efforts to control and manage CO<sub>2</sub> inventories, which include the use of a number of different technologies.

Published in December 2010, Decree 7,390/2010 laid out regulations for the National Policy on Climate Change, seeking to establish sector plans to mitigate and adapt to climate change in the steel sector, in order to consolidate a low carbon consumption economy. These sector plans will be prepared by December 15, 2011 by sector companies in partnership with the government and will include goals for the reduction of emissions in 2020, including gradual measures at three-year intervals, which may demand a material investment by the Company.

The Company expects operations overseas to be affected by future federal, state and provincial laws related to climate change, seeking to deal with the question of greenhouse gas emissions (GHG) and other atmospheric emissions. The provincial governments of Canada, for example, are in the process of implementing legislative measures in the near future, some of which have already become effective. Most likely, one of the effects of this increase in legal requirements will be an upturn in energy costs. Some state governments in the United States, including the governments of California and a growing coalition of states in the West, Northeast and Mid-Atlantic regions, are also taking active measures to reduce GHG emissions, while the United States' federal government is also making moves towards the same form of legislation. Particularly, several pieces of federal legislation limiting greenhouse gas emissions have been presented to the US Congress, some of which could become laws in the future. The American Environmental Protection Agency (EPA) has issued a report stating that current and projected atmospheric concentrations of certain GHGs are a threat to the health and well-being of the public, which could be used as a basis for future action by the Agency. The Canadian government is also closely monitoring events in the United States and has indicated that it intends to work with the U.S. in future initiatives to reduce GHGs and increase the generation of renewable energy. As the details of this legislative platform remain undefined in both the U.S. and Canada, the result could have a negative impact on the Company's operations, cash flow and financial situation.

***Layoffs in our labor force have generated severance costs, and such layoffs could reoccur.***

A substantial number of our employees are represented by labor unions and are covered by collective bargaining or other labor agreements, which are subject to periodic negotiation. Strikes or work stoppages have occurred in the past and could reoccur in connection with negotiations of new labor agreements or during other periods for other reasons, including the risk of layoffs during a downcycle that could generate severance costs. Moreover, we could be adversely affected by labor disruptions involving unrelated parties that may provide us with goods or services. Strikes and other labor disruptions at any of our operations could adversely affect the operation of facilities and the timing of completion and the cost of our capital projects.

*Unexpected equipment failures may lead to production curtailments or shutdowns.*

The Company operates several steel plants in different sites. Nevertheless, interruptions in the production capabilities at the Company's principal sites would increase production costs and reduce sales and earnings for the affected period. In addition to periodic equipment failures, the Company's facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions or violent weather conditions. The Company's

Table of Contents

manufacturing processes are dependent upon critical pieces of steelmaking equipment, such as its electric arc furnaces, continuous casters, gas-fired reheat furnaces, rolling mills and electrical equipment, including high-output transformers, and this equipment may, on occasion, incur downtime as a result of unanticipated failures. The Company has experienced and may in the future experience material plant shutdowns or periods of reduced production as a result of such equipment failures. Unexpected interruptions in production capabilities would adversely affect the Company's productivity and results of operations. Moreover, any interruption in production capability may require the Company to make additions to fixed assets to remedy the problem, which would reduce the amount of cash available for operations. The Company's insurance may not cover the losses. In addition, long-term business disruption could harm the Company's reputation and result in a loss of customers, which could materially adversely affect the business, results of operations, cash flows and financial condition.

***The Company may be unable to reduce its financial leverage, which could increase its cost of capital, in turn adversely affecting its financial condition or operating results.***

In 2007, the international rating agencies Fitch Ratings and Standard & Poor's classified the Company's credit risk as investment grade, which gave the Company access to financing at lower borrowing rates. Due to its acquisitions in recent years, its total debt/EBITDA ratio reached the maximum normally accepted by the agencies for an investment grade rating. In the first half of 2009, Standard & Poor's put Gerdau on a CreditWatch Negative listing reflecting its views of the Company's weakening cash flow and credit metrics in the currently challenging market environment. Considering that the market conditions have been improving since the low point of December 2008 and January 2009, Standard & Poor's believed that the Company would have the ability to strengthen its credit metrics in the second half of 2009 reiterating its investment grade. The gradual recovery in the Company's operational cash generation and the efforts to reduce its levels of indebtedness in 2010, helped the Company to maintain its credit rating. If the Company is unable to maintain its operating and financial results, it may lose its investment grade rating, which could increase its cost of capital and consequently adversely affect its financial condition and operating results.

***The Company's level of indebtedness could adversely affect its ability to raise additional capital to fund operations, limit the ability to react to changes in the economy or the industry and prevent it from meeting its obligations under its debt agreements.***

The Company's degree of leverage could have important consequences, including the following:

- it may limit the ability to obtain additional financing for working capital, additions to fixed assets, product development, debt service requirements, acquisitions and general corporate or other purposes;
  
- it may limit the ability to declare dividends on its shares and ADSs;
  
- a portion of the cash flows from operations must be dedicated to the payment of interest on existing indebtedness and is not available for other purposes, including operations, additions to fixed assets and future business opportunities;

## Edgar Filing: GERDAU S.A. - Form 20-F

- increase in the interest rates on certain of the Company's borrowings, including borrowings under its term loan facility and senior secured credit facility, are at variable rates of interest and are subject to increases in interest rates;
- it may limit the ability to adjust to changing market conditions and place the Company at a competitive disadvantage compared to its competitors that have less debt;
- the Company may be vulnerable in a downturn in general economic conditions; and
- the Company may be required to adjust the level of funds available for additions to fixed assets.

Pursuant to the financial agreements, the penalty for non-compliance with such financial covenants can be a declaration of default by the creditors of the relevant loans.

Furthermore, there were R\$10.6 billion of the Company's total indebtedness as of December 31, 2010 that are subject to cross-default provisions, with threshold amounts varying from US\$10 million to US\$100 million, depending on the agreement. Thus, there is a risk that an event of default in one single debt agreement can potentially trigger events of default in other debt agreements.

Under the terms of its existing indebtedness, the Company is permitted to incur additional debt in certain circumstances; doing so could increase the risks described above.

Table of Contents

*Our mineral resource estimates are based on internal studies only and may materially differ from mineral quantities that we may be able to actually extract.*

Our mining resources are estimated quantities of ore and minerals based on internal studies and have not been certified by any outside consultant. There are numerous uncertainties inherent in estimating quantities of resources, including many factors beyond our control. Reserve engineering involves estimating deposits of minerals that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. In addition, estimates of different engineers may vary. As a result, no assurance can be given that the amount of measured, indicated and inferred mining resources will be extracted or that that they can be extracted at commercially viable rates.

*The interests of our controlling shareholder may conflict with the interests of our non-controlling shareholders.*

Subject to the provisions of our By-Laws, our controlling shareholder has powers to:

- elect a majority of our directors and nominate executive officers, establish our administrative policy and exercise full control of our management;
- sell or otherwise transfer their shares in our Company; and
- approve any action requiring the approval of shareholders representing a majority of our outstanding capital stock, including corporate reorganization, acquisition and sale of assets, and payment of any future dividends.

There is the risk of our controlling shareholder deciding to perform transactions which, in their judgment, will increase the value of their investments in us, even if such transactions come into conflict with the interests of our minority shareholders.

**ITEM 4. COMPANY INFORMATION**

**A. HISTORY AND DEVELOPMENT OF THE COMPANY**

Gerda S.A. is a Brazilian corporation (*Sociedade Anônima*) that was incorporated on November 20, 1961 under the laws of Brazil. Its main registered office is located at Av. Farrapos, 1811, Porto Alegre, Rio Grande do Sul, Brazil, and the telephone number is +55 (51) 3323 2000.

## History

The current Company is the product of a number of corporate acquisitions, mergers and other transactions dating back to 1901. The Company began operating in 1901 as the Pontas de Paris nail factory controlled by the Gerdau family based in Porto Alegre, who is still the Company's indirect controlling shareholder. In 1969, Pontas de Paris was renamed Metalúrgica Gerdau S.A., which today is the holding company controlled by the Gerdau family through intermediate holding companies that in turn controls what is today Gerdau S.A.

From 1901 to 1969, the Pontas de Paris nail factory grew and expanded its business into a variety of other steel and steel-related products and services. At the end of World War II, the Company acquired Siderúrgica Riograndense S.A., a steel producer also located in Porto Alegre, in an effort to broaden its activities and provide it with greater access to raw materials. In February 1948, the Company initiated its steel operations, which foreshadowed the successful mini-mill model of producing steel in electric arc furnaces using steel scrap as the main raw material. At that time the Company adopted a regional sales strategy to ensure more competitive operating costs. In 1957, the Company installed a second unit in the state of Rio Grande do Sul in the city of Sapucaia do Sul, and in 1962, steady growth in the production of nails led to the construction of a larger and more advanced factory in Passo Fundo, also in Rio Grande do Sul.

In 1967, the Company expanded into the Brazilian state of São Paulo, purchasing Fábrica de Arames São Judas Tadeu, a producer of nails and wires, which was later renamed Comercial Gerdau and ultimately became the Company's Brazilian distribution channel for steel products. In June 1969, the Company expanded into the Northeast of Brazil, producing long steel at Siderúrgica Açonorte in the state of Pernambuco. In December 1971, the Company acquired control of Siderúrgica Guairá, a long steel producer in the state of Paraná in Brazil's South Region. The Company also established a new company, Seiva S.A. Florestas e Indústrias, to produce lumber on a sustainable basis for the furniture, pulp and steel industries. In 1979, the Company acquired control of the Cosigua mill in Rio de Janeiro, which currently

Table of Contents

operates the largest mini-mill in Latin America. Since then, the Company has expanded throughout Brazil with a series of acquisitions and new operations, and today owns 15 steel units in Brazil.

In 1980, the Company began to expand internationally with the acquisition of Gerdau Laisa S.A., the only long steel producer in Uruguay, followed in 1989 by the purchase of the Canadian company Gerdau Ameristeel Cambridge, a producer of common long rolled steel products located in Cambridge, Ontario. In 1992, the Company acquired control of Gerdau AZA S.A., a producer of crude steel and long rolled products in Chile. Over time, the Company increased its international presence by acquiring a non-controlling interest in a rolling mill in Argentina, a controlling interest in Diaco S.A. in Colombia, and, most notably, additional interests in North America through the acquisition of Gerdau Ameristeel MRM Special Sections, a producer of special sections such as elevator guide rails and super light beams, and the former Ameristeel Corp., a producer of common long rolled products. In October 2002, through a series of transactions, the Company merged its North American steel production assets with those of the Canadian company Co-Steel, a producer of long steel, to create Gerdau Ameristeel, which is currently the second largest long steel producer in North America based on steel production volume. Gerdau Ameristeel itself has a number of operations throughout Canada and the United States, including its 50% jointly controlled entity interest in Gallatin Steel, a manufacturer of flat steel, and also operates 18 steel units, 49 fabrication shops and 12 downstream operations.

In September 2005, Gerdau acquired 35.98% of the stock issued by Sipar Aceros S.A., a long steel rolling mill with a total installed capacity of 260,000 tonnes of rolled steel, located in the Province of Santa Fé, Argentina. This interest, added to the 38.46% already owned by Gerdau represents 74.44% of the capital stock of Sipar Aceros S.A. At the end of the third quarter of 2005, Gerdau concluded the acquisition of a 57.1% interest in Diaco S.A., the largest rebar manufacturer in Colombia. In January 2008, the Company purchased an additional interest of 40.2%, for \$107.2 million (R\$ 188.7 million on the acquisition date).

In January 2006, through its subsidiary Gerdau Hungria Holdings Limited Liability Company, Gerdau acquired 40% of the capital stock of Corporación Sidenor S.A. for \$219.2 million (R\$ 493.2 million), the largest long specialty steel producer, forged parts manufacturer and foundry in Spain, and one of the major producers of forged parts using the stamping process in that country. In December 2008, Gerdau Hungria Holding Limited Liability Company acquired for \$288.0 million (R\$ 674.0 million) from LuxFin Participation S.L., its 20% interest in Corporación Sidenor. With this acquisition, Gerdau became the majority shareholder (60%) in Corporación Sidenor. In December 2006, Gerdau announced that its Spanish subsidiary Corporación Sidenor, S.A., had completed the acquisition of all outstanding shares issued by GSB Acero, S.A., a subsidiary of CIE Automotiva for \$143.0 million (R\$ 313.8 million)..

In March 2006, the assets of two industrial units were acquired in the United States. The first was Callaway Building Products in Knoxville, Tennessee, a supplier of fabricated rebars to the construction industry. The second was Fargo Iron and Metal Company located in Fargo, North Dakota, a storage and scrap processing facility and service provider to manufacturers and construction companies.

In June 2006, Gerdau acquired for \$103.0 million (R\$ 224.5 million) Sheffield Steel Corporation in Sand Springs, Oklahoma in the USA. Sheffield is a mini-mill producer of common long steel, namely concrete reinforcement bars and merchant bars. It has one melt shop and one rolling mill in Sand Springs, Oklahoma one rolling mill in Joliet, Illinois and three downstream units in Kansas City and Sand Springs.

In the same month, Gerdau S.A. won the bid for 50% plus one share of the capital stock of Empresa Siderúrgica Del Perú S.A.A. (Siderperú) located in the city of Chimbote in Peru for \$60.6 million (R\$ 134.9 million). In November 2006, Gerdau also won the bid for 324,327,847 shares issued by Siderperú, which represented 32.84% of the total capital stock for \$40.5 million, totaling \$101.1 million (R\$ 219.8 million). This acquisition added to the interest already acquired earlier in the year, for an interest of 83.27% of the capital stock of Siderperú. Siderperú operates a blast furnace, a direct reduction unit, with a total installed capacity of 400,000 tonnes of pig iron, a melt shop with two electric arc

furnaces, two LD converters and three rolling mills.

In November 2006, the Company completed the acquisition of a 55% controlling interest in Pacific Coast Steel ( PCS ), for \$104.0 million (R\$ 227.4 million). The company operates rebar fabrication plants in San Diego, San Bernardino, Fairfield, and Napa, California. Additionally, in April, 2008 Gerdau increased its stake in PCS to 84% paying \$82.0 million (R\$ 138.4 million). The acquisition of PCS expanded the Company's operations to the West Coast of the United States and also added rebar placing capability.

In March 2007, Gerdau acquired Siderúrgica Tultitlán, a mini mill located in the Mexico City metropolitan area that produces rebar and profiles with installed capacity of 500,000 tonnes of crude steel and 340,000 tonnes of rolled steel. The price paid for the acquisition was \$259.0 million (R\$ 536.0 million).



Table of Contents

In May 2007, Gerdau acquired an interest of 30.45% in Multisteel Business Holdings Corp., a holding of Industrias Nacionales, C. por A. ( INCA ), a company located in Santo Domingo, Dominican Republic. INCA is a producer of rolled products, with annual capacity of approximately 300,000 tonnes of rolled steel. This partnership allowed the Company to access the Caribbean market. The total cost of the acquisition was \$42.9 million (R\$ 82.0 million). In July 2007, the Company acquired an additional interest of 18.55% in Multisteel Business Holdings Corp., bringing its total interest in the Company to 49%. The total cost of this second acquisition was \$72.0 million (R\$ 135.2 million).

In June 2007, Gerdau acquired 100% of the capital stock of Siderúrgica Zuliana C.A., a Venezuelan company operating a steel mill in the city of Ojeda, Venezuela. The total cost of the acquisition was \$92.5 million (R\$ 176.2 million).

In the same month, Gerdau and the Kalyani Group from India initiated an agreement to establish a jointly controlled entity for an investment in Tadipatri, India. The jointly controlled entity included an interest of 45% in Kalyani Gerdau Steel Ltd., a producer of steel with two LD converters, one continuous casting unit and facilities for the production of pig iron. The agreement provides for shared control of the jointly controlled entity, and the purchase price was \$73.0 million (R\$ 127.3 million). In May 2008, Gerdau announced the conclusion of this acquisition.

In September 2007, Gerdau Ameristeel concluded the acquisition of Chaparral Steel Company, increasing the Company's portfolio of products and including a comprehensive line of structural steel products. Chaparral operates two mills, one located in Midlothian, Texas, with a total installed capacity of 1.5 million tonnes of crude steel and 1.4 million tonnes of rolled steel and the other located in Petersburg, Virginia, with a total installed capacity of 1.0 million tonnes of crude steel and 1.0 million tonnes of rolled steel. The total cost of the acquisition was \$4.2 billion (R\$ 7.8 billion), plus the assumption of certain liabilities.

In October 2007, Gerdau Ameristeel acquired 100% of Enco Materials Inc., a leading company in the market of commercial materials headquartered in Nashville, Tennessee. Enco Materials Inc. has eight units located in Arkansas, Tennessee and Georgia. The purchase price for this acquisition was \$46 million (R\$ 84.9 million) in cash, plus the assumption of certain liabilities of the acquired company.

In the same month, Gerdau executed a letter of intent for the acquisition of an interest of 49% in the capital stock of the holding company Corsa Controladora, S.A. de C.V., headquartered in Mexico City, Mexico. The holding company owns 100% of the capital stock of Aceros Corsa, S.A. de C.V. and its distributors. Aceros Corsa, located in the city of Tlalnepantla in the Mexico City metropolitan area, is a mini-mill responsible for the production of long steel (light commercial profiles). The acquisition price was \$110.7 million (R\$ 186.3 million). In February, 2008, the Company announced conclusion of this acquisition.

In November 2007, Gerdau entered into a binding agreement for the acquisition of the steel company MacSteel from Quanex Corporation. MacSteel is the second largest producer of Special Bar Quality (SBQ) in the United States and operates three mini-mills located in Jackson, Michigan; Monroe, Michigan; and Fort Smith, Arkansas. The Company also operates six downstream operations in the states of Michigan (two), Ohio, Indiana (two) and Wisconsin. MacSteel has annual installed capacity of 1.2 million tonnes of crude steel and 1.1 million tonnes of rolled products. The agreement did not include the Building Products business of Quanex, which is an operation not related to the steel market. The purchase price for this acquisition was \$1.5 billion (R\$ 2.4 billion) in addition to the assumption of their debts and some liabilities. Gerdau concluded the acquisition in April, 2008.

## Edgar Filing: GERDAU S.A. - Form 20-F

In January 2008, Gerdau acquired an additional interest of 40.2% in the capital of Diaco S.A. for \$107.2 million (R\$ 188.7 million on the date of the acquisition), increasing its interest to 98.7% of the capital stock, a figure that also takes into consideration the dilution of a non-controlling interests, which explains the higher percentage in comparison with the percentages of the two major acquisitions made.

In April 2008, Gerdau entered into a strategic partnership with Corporación Centroamericana del Acero S.A., assuming a 30.0% interest in the capital of this company. The Company owns assets in Guatemala and Honduras as well as distribution centers in El Salvador, Nicaragua and Belize. The price of the acquisition was \$180 million (R\$ 303.7 million).

In June, 2008, the parent company Metalúrgica Gerdau S.A. acquired a 28.88% stake of voting and total capital in Aços Villares S.A. from BNDESPAR for R\$ 1.3 billion. As a payment, Metalúrgica Gerdau S.A. issued debentures to be exchanged for Gerdau S.A.'s preferred shares. In December, 2009 the Company's stake in Aços Villares S.A. owned through its subsidiary Corporación Sidenor S.A. was transferred to direct control of Gerdau S.A., for US\$ 218 million (R\$ 384 million), which then owned a total 58.5% stake in Aços Villares S.A. In December 30, 2010, Gerdau S.A. and Aços Villares S.A. shareholders approved the merger by Gerdau S.A. of Aços Villares S.A.

Table of Contents

Also in 2008, Gerdau invested in the verticalization of its businesses. In July, it acquired a 50.9% stake in the capital of Cleary Holdings Corp, which controls a metallurgical coke producer and coking coal reserves in Colombia for \$ 73.0 million (R\$ 119.3 million).

In December 2008, Gerdau Hungria Holding Limited Liability Company acquired Lux Fin Participation S.L. for \$288.0 million (R\$ 674.0 million), which indirectly holds a 20% interest in Corporación Sidenor. As a result of this acquisition, Gerdau became the majority shareholder (60%) of Corporación Sidenor.

On August 12, 2010, Gerdau S.A. concluded the acquisition of the remaining interest of 49.1% in the total capital of Cleary Holdings Corp. for US\$57 million. Cleary Holdings Corp. has annual metallurgical coke production capacity of 1.0 million tonnes and estimated coking coal reserves of 20 million tonnes. Its total production is currently allocated to the export market. This acquisition was consistent with the strategy of guaranteeing the supply of coking coal or metallurgical coke for steel production at Gerdau's integrated plants.

On August 30, 2010, Gerdau S.A. concluded the acquisition of all outstanding common shares issued by Gerdau Ameristeel that it did not yet hold either directly or indirectly, for \$11.00 per share in cash, corresponding to a total of \$1.6 billion (R\$ 2.8 billion). With the acquisition, Gerdau Ameristeel was delisted from the New York and Toronto stock exchanges.

On October 21, 2010, Gerdau S.A. concluded, through its wholly-owned subsidiary Gerdau Ameristeel, the acquisition of Tamco, a company based in the state of California. TAMCO is a mini-mill that produces rebars and is one of the largest producers on the West Coast of the United States, with annual capacity of approximately 500,000 tonnes. The acquisition price was approximately US\$ 166.4 million (R\$ 283.1 million).

On December 30, 2010, the shareholders of Gerdau S.A. and Aços Villares S.A. approved the merger of Aços Villares S.A. with Gerdau S.A. The transaction was carried out through a share exchange, whereby the shareholders of Aços Villares S.A. received one share in Gerdau S.A. for each lot of twenty-four shares held. The new shares were credited on February 10, 2011. As a result of the transaction, Aços Villares S.A. was delisted from the Brazilian stock exchange. Following the issue of new shares under the merger, the capital stock of Gerdau S.A. is now represented by 505,600,573 common shares and 1,011,201,145 preferred shares.

**B. BUSINESS OVERVIEW**

**Steel Industry**

The world steel industry is composed of hundreds of steel producing installations and is divided into two major categories based on the production method utilized: integrated steel mills and non-integrated steel mills, sometimes referred to as mini-mills. Integrated steel mills normally produce steel from iron oxide, which is extracted from iron ore melted in blast furnaces, and refine the iron into steel, mainly through the use of basic oxygen furnaces or, more rarely, electric arc furnaces. Non-integrated steel mills produce steel by melting in electric arc furnaces scrap steel, which occasionally is complemented by other metals such as direct-reduced iron or hot-compressed iron. According to World Steel Association, in 2010, 28.7% of the total crude steel production in the world was through mini-mill process and the remaining 71.3% was through the integrated process.

**Crude Steel Production by Process in 2010**

Country	Crude Steel Production (in million tonnes)	Production by Process (%)	
		Mini-mill	Integrated
<b>World</b>	<b>1,395</b>	<b>28.7%</b>	<b>71.3%</b>
China	627	9.8%	90.2%
Japan	110	21.8%	78.2%
U.S.A.	81	61.3%	38.7%
Russia	67	26.9%	73.1%
India	67	59.8%	40.2%
S. Korea	58	41.6%	58.4%
Germany	44	30.2%	69.8%
Ukraine	33	4.5%	95.5%
Brazil	33	23.8%	76.2%

Source: worldsteel/monthly statistics

Table of Contents

Over the past 15 years, according to World Steel Association, total annual crude steel production has grown from 750 million tonnes in 1996 to 1,395 million tonnes in 2010, for an average annual increase of 4.2%, with a large part of this growth occurring after 2000.

The main factor responsible for the increase in the demand for steel products has been China. Since 1993, China has become the world's largest steel market and currently consumes as much as the United States and Europe combined.

Over the past year, total annual crude steel production increased by 14.3% from 1,219.7 million tonnes in 2009 to 1,394.9 million tonnes in 2010, triggered mainly by steel production recovery in nearly all the major steel producing countries and regions including the EU, North America, South America and Oceania.

**Crude Steel Production (in million tonnes)**

Source: worldsteel/monthly statistics

China is still undergoing a period of strong industrialization, launching numerous infrastructure projects and developing an important manufacturing base, which has contributed to increased Chinese output. China's crude steel production in 2010 reached 626.8 million tonnes, an increase of 10.1% on 2009. This was a record annual crude steel production figure for a single country. China's share of world steel production continued to grow, producing in 2010 44.9% of world total crude steel.

**Crude Steel Production by Country in 2010 (million tonnes)**

Source: worldsteel/monthly statistics

Asia produced 881.4 million tonnes of crude steel in 2010, an increase of 12.4% compared to 2009, its share of world steel production amounted to 63.2% in 2010. Japan produced 109.6 million tonnes in 2010, an increase of 25.2%

Table of Contents

on 2009. India's crude steel production was 66.8 million tonnes in 2010, a 6.4% increase compared with 2009. South Korea showed an increase of 20.3%, producing 58.5 million tonnes in 2010.

The EU-27 where all major steel producing countries including Germany, Italy and France showed an increase of 24.6% compared to 2009, producing 172.9 million tonnes of crude steel in 2010.

In 2010, crude steel production in North America was 111.8 million tonnes, a substantial increase of 35.7% compared with 2009. The United States produced 80.6 million tonnes of crude steel, 38.5% higher than 2009.

The CIS showed a crude steel production increase of 10.7% in 2010. Russia produced 66.8 million tonnes of crude steel, an expansion of 11.4%, while Ukraine recorded an increase of 11.8% with year-end figures of 33.4 million tonnes.

***The Brazilian Steel Industry***

Since 1940, steel has been of vital importance to Brazil's economy. For approximately 50 years, the Brazilian government held a monopoly in the production of flat steel products via the state-owned company Siderurgia Brasileira S.A. (SIDEBRÁS). But the Brazilian government did not hold a monopoly in the non-flat steel industry, traditionally composed mainly of small private companies. The principal integrated producers of flat steel products operated as semi-independent companies under the control of SIDEBRÁS. During the 1970s, the government invested heavily to give Brazil a steel industry capable of fueling the country's industrialization process. After a decade of practically no investments in this industry, the government selected steel as the first industry to be sold in the privatization process that began in 1991.

In 2010, Brazil maintained its position as the world's 9th largest producer of crude steel, with a production of 32.8 million tonnes, a 2.4% share of the world market and 75.4% of the total steel production in Latin America during that year.

Total sales of Brazilian steel products were 29.5 million tonnes in 2010, 25.0 million tonnes in 2009 and 31.0 million tonnes in 2008, exceeding domestic demand of 26.6 million tonnes in 2010, 18.7 million tonnes in 2009 and 24.0 million tonnes in 2008. In 2010, total steel sales in the domestic market increased 26.2% compared to 2009, from 16.3 million tonnes to 20.6 million tonnes.

The breakdown of total sales of Brazilian steel products in 2010 was 62.3% or 18.4 million tonnes of flat steel products, formed by domestic sales of 11.7 million tonnes and exports of 6.7 million tonnes. The other 37.7% or 11.1 million tonnes represented sales of long steel products, which were formed by domestic sales of 8.9 million tonnes and exports of 2.2 million tonnes.

**Breakdown of Total Sales of Brazilian Steel Products (million tonnes)**

(\*) Preliminary figures

Source: IABr - Instituto Aço Brasil



Table of Contents

*Domestic demand* - Historically, the Brazilian steel industry has been affected by significant variations in domestic steel demand. Although per capita domestic consumption varies in accordance with Gross Domestic Product (GDP), variations in steel consumption tend to be more accentuated than changes in the level of economic growth. In 2010, Brazilian GDP increased by 7.5%, decreased by 0.6% in 2009 and grew 5.2% in 2008. Per capita crude steel consumption in Brazil increased from 102 kilos in 2005 to 129 kilos in 2010, which is still considered low compared to the levels in developed countries.

*Exports and imports* Over the past 20 years, the Brazilian steel industry has been characterized by a structural need for exports. The Brazilian steel market has undergone periods of excess capacity, cyclical demand and intense competition in recent years. Demand for finished steel products, based on apparent domestic consumption, has lagged total supply (total production plus imports).

In 2010, Brazilian steel exports totaled 8.9 million tonnes, representing 30.1% of total sales (domestic sales plus exports) or \$5.8 billion in export revenue. Brazil has performed an important role in the world export market, principally as an exporter of semi-finished products (slabs, blooms and billets) for industrial use or for re-rolling into finished products. Brazilian exports of semi-finished products totaled 5.3 million tonnes in 2010, 4.7 million tonnes in 2009 and 5.7 million tonnes in 2008, representing 59.1%, 54.0% and 61.7% of Brazil's total exports of steel products, respectively.

*Production and Apparent Demand for Steel Products (million tonnes)*

Source: worldsteel/Short Range Outlook

*Production and Apparent Demand for Long Steel (million tonnes)*

Source: worldsteel/Short Range Outlook

Brazil used to be a small importer of steel products. Considering the reduction in the international steel prices during 2010, the appreciation of the *Brazilian real* against the U.S. dollar and the decrease in demand for steel products in developed countries, the Brazilian levels of imports increased from 2.3 million tonnes in 2009 to 5.9 million tones in 2010 (excluding the imports made by the steel mills to avoid double counting), representing 22.0% of apparent domestic consumption. In 2010, Brazil recorded a positive balance in steel transactions of US\$ 663 million.

Table of Contents

*Raw materials* - One of Brazil's major competitive advantages is the low cost of its raw materials. Brazil has an abundance of high quality iron ore. Various integrated producers are located in the state of Minas Gerais, where some of the world's biggest iron ore mines are located. The cost of iron ore in Brazil is approximately one-fifth of the cost in China and one-third of the cost in United States.

In Brazil, most of the scrap metal utilized by the steel mills comes from the state of São Paulo. Its suppliers deliver scrap metal derived from obsolete products directly to the steel mills. The Brazilian steel industry's dependence on scrap metal is minimal, due to the high percentage of total steel production coming from integrated producers.

Brazil is a net producer of pig iron. Most of Brazil's pig iron is produced in the state of Minas Gerais by several small producers. In Brazil, the price of pig iron is related to the cost of charcoal, an important input and the most volatile component in pig iron's production cost. When the price of charcoal is high, coking coal can be used as a substitute and, although more expensive, it produces more pig iron. Practically all the coking coal is imported because domestic supplies are considered low quality.

*North American Steel Industry*

The global steel industry is highly cyclical and competitive due to the large number of steel producers, the dependence upon cyclical end markets and the high volatility of raw material and energy prices. The North American steel industry is currently facing a variety of challenges, including volatile pricing, high fixed costs, low priced imports and the diminution of the effect of U.S. tariffs. The future success of North American steel producers is dependent upon numerous factors, including general economic conditions, levels and prices of steel imports and the strength of the U.S. dollar.

*Crude Steel Production by North American Countries (million tonnes)*

Source: worldsteel/monthly statistics

Beginning in mid-2000 and continuing through 2002, the North American steel industry experienced a severe downward cycle due to excess global production capacity, high import levels at low prices, including prices that were below the combined costs of production and shipping, and weak general economic conditions. These forces resulted in lower domestic steel prices and significant domestic capacity closures. Prices for many steel products reached 10-year lows in late 2001. As a result of these conditions, over 20 U.S. steel companies sought protection under Chapter 11 of the United States Bankruptcy Code since the beginning of 2000.

In response to these conditions, in March 2002, Former President Bush imposed a series of tariffs and quotas on certain imported steel products under Section 201 of the Trade Act of 1974. These measures were intended to give the domestic steel industry an opportunity to strengthen its competitive position through restructuring and consolidation. On November 10, 2003, the World Trade Organization ( WTO ) Appellate Body issued a ruling that upheld an initial WTO panel ruling that declared the Section 201 tariffs on steel imports to be in violation of WTO rules concerning safeguard measures. On December 4, 2003, Former President Bush signed a proclamation terminating the steel safeguard tariffs, and announced that the tariffs had achieved their purpose and changed economic circumstances indicated it was time to terminate them. International trade negotiations, such as the ongoing Organization for Economic Cooperation and Development steel subsidy agreement negotiations and the WTO Doha Round negotiations, may affect future international trade rules with respect to trade in steel products.

The North American steel industry has experienced a significant amount of consolidation in the last decade. Bankrupt steel companies, once overburdened with underfunded pension, healthcare and other legacy costs, are being relieved of obligations and purchased by other steel producers. This consolidation, including the purchases of the assets of LTV Corporation, Bethlehem Steel Corporation, Trico Steel Co. LLC and National Steel Corporation, has created a lower operating cost structure for the resulting entities and a less fragmented industry. In the bar sector in 2002, the combination of Gerdau North America and Co-Steel in October 2002 and Nucor Corporation's acquisition of

Table of Contents

Birmingham Steel Corporation in February 2002 significantly consolidated the market. The Company's acquisition of the North Star Steel assets from Cargill in November 2004, Sheffield Steel Corporation in 2006 and Chaparral Steel Company in September 2007, have further contributed to this consolidation trend. Since the beginning of 2007, Tata Iron and Steel Co. Ltd. acquired Corus Group PLC, SSAB Svenskt Staal AB acquired Ipsco Inc., Essar Global Ltd. acquired Algoma Steel Inc., United States Steel Corporation acquired Stelco Inc., and ArcelorMittal Inc. acquired Bayou Steel Corporation. The Company believes continued consolidation in the North American steel industry will occur over the next several years, resulting in the creation of larger steel companies, the reduction of operating cost structures and further rationalization among steel producers.

The creation of larger and more efficient steel producers resulting from consolidation in the steel industry has strongly contributed to maintenance of profitability in the long term. As a result, the remaining steel producers have become better positioned to tailor production capacity to market demand and have benefited from scale efficiencies. Such factors have improved steel producers' ability to reduce costs, negotiate raw material contracts and better respond to the cyclical nature of the steel industry. In addition, the increase in domestic competition from imports observed in early 2000 has diminished, primarily in response to higher steel prices globally, higher transportation costs resulting from fuel price increases and a weaker U.S. dollar.

The steel industry demonstrated strong performance through the middle of 2008, resulting from the increased global demand for steel related products and a continuing consolidation trend among steel producers. Additionally, through the same time period, the domestic U.S. market experienced a rebound in non-residential construction mainly driven by industrial and infrastructure projects (including highway, energy-related construction and water treatment plants), warehouse space, schools, hospitals and a strong retail market. Beginning in the fall of 2008, the steel industry began feeling the negative effects of the severe economic downturn brought on by the credit crisis. The economic downturn continued through 2009 and has resulted in a significant reduction in the production and shipment of steel products in North America, as well as reduced exports of steel products from the United States to other parts of the world. During 2010, the economy in North America had shown signs of upturn, contributing to a gradual recovery in the steel industry, with an important improvement in the automotive sector.

**Company Profile**

According to the Brazilian Steel Institute (IABr - Instituto Aço Brasil), Gerdau is Brazil's largest producer of long rolled steel. Gerdau holds significant market share in the steel industries of almost all countries where it operates and has been classified by World Steel Association as the world's 13th largest steel producer based on its consolidated crude steel production in 2009.

Gerdau operates steel mills that produce steel by direct iron-ore reduction (DRI) in blast furnaces and in electric arc furnaces (EAF). In Brazil it operates four integrated steel mills, including its largest mill, Açominas mill, an integrated steel mill located in the state of Minas Gerais. The Company currently has a total of 60 steel producing units globally, including jointly controlled entities and associate companies. The jointly controlled entity include a unit located in the United States for the production of flat rolled steel and another unit in India. The associate companies are Aceros Corsa in Mexico; Corporación Centroamericana del Acero in Guatemala; and INCA in the Dominican Republic.

As of December 31, 2010, total consolidated installed capacity, excluding the Company's investments in jointly controlled entities and associate companies, was approximately 26 million tonnes of crude steel and 21 million tonnes of rolled steel products. In the same period, the Company had total consolidated assets of R\$ 42,9 billion, consolidated net sales of R\$ 31,4 billion, total consolidated net income (including non-controlling interests) of R\$ 2,5 billion and shareholders' equity (including non-controlling interests) of R\$ 20,1 billion.

## Edgar Filing: GERDAU S.A. - Form 20-F

Gerdau offers a wide array of steel products, which are manufactured according to an extensive variety of customer specifications. Its product mix includes crude steel (slabs, blooms and billets) sold to rolling mills, finished products for the construction industry such as rods and structural bars, finished products for industry such as commercial rolled steel bars and machine wire and products for farming and agriculture such as poles, smooth wire and barbed wire. Gerdau also produces specialty steel products utilizing advanced technology and normally with a certain degree of customization for the manufacture of tools and machinery, chains, locks and springs, mainly for the automotive and mechanical industries.

A significant and increasing portion of Gerdau's steel production assets is located outside Brazil, particularly in the United States and Canada, as well as in Latin America and Europe. The Company began its expansion into North America in 1989, when consolidation in the global steel market effectively began. The Company currently operates 19 steel production units in the United States and Canada through its principal entity, Gerdau Ameristeel, and believes that it is one of the market leaders in North America in terms of production of some long steel products, such as rods, commercial rolled steel bars, extruded products and beams.

Table of Contents

The Company's operating strategy is based on the acquisition or construction of steel mills located close to its customers and sources of the raw materials required for steel production, such as scrap metal, pig iron and iron ore. For this reason, most of its production has historically been geared toward supplying the local markets in which it has production operations. However, the Company also exports an important portion of its production mainly to Asia and South America.

Through its subsidiaries and affiliates, the Company also engages in other activities related to the production and sale of steel products, including reforestation; electric power generation projects; coking coal, iron ore and pig iron production; as well as fab shops and downstream operations.

**Business Cyclicity and Seasonality**

The steel industry is highly cyclical worldwide. Consequently, the Company is exposed to substantial swings in the demand for steel products which in turn causes volatility in the prices of most of its products. In addition, since the Brazilian steel industry produces substantially more steel than the domestic economy is able to consume, the sector is dependent on export markets. The demand for steel products and hence the financial condition and operating results of companies in the steel industry, including the Company itself, are generally affected by macroeconomic fluctuations in the world economy and the domestic economies of steel-producing countries, including general trends in the manufacturing, construction and automotive sectors. Since 2003, demand for steel products from developing countries (particularly China) and overall world economic growth have contributed to historically high levels in the prices of the Company's steel products. However, these relatively high prices may not last, especially due to expansion in world installed capacity or a new level of demand. In the second half of 2008, and especially in the beginning of 2009, the U.S. and European economies showed strong signs of slow down, in turn affecting many other countries. Since the end of 2009 and throughout 2010 the world steel demand and prices have been improving if compared to the situation mentioned above and the Company believes that this trend will continue throughout 2011. A material decrease in demand for steel or exports by countries not able to consume their production, as happened in 2008, could have a significant adverse effect on the Company's operations and prospects.

In the Company's Brazilian and Latin American operations, shipments in the second and third quarters of the year tend to be stronger than in the first and fourth quarters, given the reduction in construction activity. In the Company's North American operations, demand is influenced by winter conditions, when consumption of electricity and other energy sources (i.e., natural gas) for heating increases and may be exacerbated by adverse weather conditions, contributing to increased costs and decreased construction activity, and in turn leading to lower sales. In the Company's Specialty Steel Operations, particularly in Spain, the third quarter is traditionally marked by collective vacations that reduce operations in the quarter to only two months.

**Operations**

The Company sells its products to a diversified list of customers for use in the construction, manufacturing and agricultural industries. Sales by the Company's Brazilian operations include both domestic and export sales. Most of the sales by the Company's business operations in North and Latin America (except Brazil) are aimed at their respective local markets.

## Edgar Filing: GERDAU S.A. - Form 20-F

In 2009, the Company's Board of Directors approved the proposal of the Gerdau Executive Committee (the chief operating decision maker) related to the new governance of the Company, which established a new business segmentation, as follows:

- Brazil (Brazil Business Operation) includes Brazil's operations, except specialty steel;
- North America (North America Business Operation) includes all North American operations, except Mexico and specialty steel;
- Latin America (Latin America Business Operation) includes all Latin American operations, except for Brazil;
- Specialty Steel (Specialty Steel Business Operation) includes the specialty steel operations in Brazil, Spain and the United States.

Açominas and Long Steel Brazil, previously treated as separate segments, are now reported as a single operating segment since most of their operational support areas are integrated. This means in practical effect that Long Steel Brazil sells part of the Açominas products to the domestic and export markets. In the same way, Açominas's purchasing department is responsible for buying all of Long Steel Brazil's iron ore needs. Furthermore, numerous other services are shared by them, including Human Resources, Information Technology, Accounting, Domestic and Export Sales, Tax and Financial departments. These are examples of the extent of integration of these operations and why the Company decided to change its governance and aggregate the information the chief operating decision maker uses to manage the business. The chief operating decision maker is no longer monitoring individual information about Açominas



Table of Contents

and Long Steel Brazil, but rather information concerning a unified operating segment styled Operation Brazil. For comparison, information of December 31, 2008 and 2007 was modified with respect to the information originally reported in order to consider the same criteria established by the new business segmentation established by the Gerdau Executive Committee.

The following tables present the Company's consolidated shipments in tonnage and net sales by Business Operation for the periods indicated:

Shipments\*

Gerdau S.A. Consolidated Shipments by Business Operations (**)	Year ended December 31,		
	2010	2009	2008
(1,000 tonnes)			
<b>TOTAL</b>	<b>17,363</b>	<b>13,987</b>	<b>19,118</b>
Brazil	6,646	5,175	6,578
North America	5,742	4,935	7,641
Latin America	2,211	2,015	2,232
Specialty Steel	2,764	1,862	2,667

(\*) The information includes intercompany eliminations inside each business operation.

(\*\*) The information does not include data from jointly controlled entities and associate companies.

Net Sales

Gerdau S.A. Consolidated Net Sales by Business Operations (*)	Year ended December 31,		
	2010	2009	2008
(R\$ million)			
<b>TOTAL</b>	<b>31,393</b>	<b>26,540</b>	<b>41,908</b>
Brazil	13,013	10,596	15,475
North America	8,836	8,293	15,018
Latin America	3,487	3,137	4,473
Specialty Steel	6,611	4,777	7,984
Intercompany Eliminations	(554)	(264)	(1,042)

(\*) The information does not include data from jointly controlled entities and associate companies.

***Brazil Business Operation***

## Edgar Filing: GERDAU S.A. - Form 20-F

Brazil Business Operation minimizes delays by delivering its products directly to customers through outsourced companies under Gerdau's supervision. Sales trends in both the domestic and export markets are forecast monthly based on historical data for the three preceding months. Brazil Business Operation uses a proprietary information system to stay up-to-date on market developments so that it can respond swiftly to fluctuations in demand. Gerdau considers its flexibility in shifting between markets (Brazilian and export markets) and its ability to monitor and optimize inventory levels for most of its products in accordance with changing demand as key factors to its success.

In the Brazil Business Operation, sales volume in 2010 increased by 28.4% from 2009. Domestic sales volume grew by 29.2%, influenced by better market conditions and recovery in demand. The manufacturing industry played an important role in the recovery in demand, fueled by the 21% growth in capital goods production in 2010, according to the Brazilian Institute of Geography and Statistics (IBGE). In the Brazilian market, demand remains robust in the construction industry, as confirmed by the growth of 11.6% in Construction GDP forecast for 2010, according to Sinduscon, an industry trade union.

In 2010, approximately 20.7% of the production sold in Brazil before intercompany eliminations was distributed through Comercial Gerdau, the Company's largest distribution channel, with 76 stores throughout Brazil, 40 fabricated reinforcing steel facilities (Prontofer) and four flat steel service centers, serving more than 122,000 customers in the year. Another important distribution channel is the network of more than 26,000 points of sales to which Gerdau sells its products, giving it comprehensive national coverage. Sales through its distribution network and to final industrial and construction consumers are made by Company employees and authorized sales representatives working on commission. This Business Operation has annual crude steel installed capacity of 9.1 million tonnes and 5.3 million tonnes of finished steel products.

Table of Contents

***North America Business Operation***

The Company operates in North America through Gerdau Ameristeel. The North America Business Operation has annual manufacturing capacity of 9.2 million tonnes of finished steel products. It has a vertically integrated network of 19 steel units and one jointly controlled entity for the operation of a mini-mill, 23 scrap recycling facilities, 12 downstream operations (including three jointly controlled entities) and 46 fab shops. Gerdau Ameristeel primarily serves customers in the eastern regions of the United States and Canada. North America Business Operation's products are generally sold to steel service centers and steel fabricators or directly to original equipment manufacturers for use in a variety of industries, including construction, automotive, mining, cellular and electrical transmission, metal construction fabrication and equipment fabrication. Most of the raw material feed stock for the mini-mill operations is recycled steel scrap.

This Business Operation operates mills and downstream. The mills manufactures and markets a wide range of steel products, including steel reinforcement bars (rebar), merchant bars, structural shapes, beams, special sections and coiled wire rod. The mills also produces rebar, merchant bars, rod and special bar quality products used by the downstream and transfers these products at an arm's length market price to the downstream. The downstream comprises secondary value-added steel businesses and consists of fabrication of rebars, railroad spikes, cold drawn products, super light beam processing, elevator guide rails, grinding balls, wire mesh and wire drawing.

The downstream strategy is to have production facilities located in close proximity to customers' job sites so that quick delivery is provided to meet their reinforcing steel needs and construction schedules.

In general, sales of mill finished products to U.S. customers are centrally managed by the Tampa sales office while sales to Canadian customers are managed by the Whitby sales office. There is also a sales office in Selkirk, Manitoba for managing sales of special sections and one in Texas for managing sales of structural products. Metallurgical service representatives at the mills provide technical support to the sales group. Sales of the cold drawn and super light beam products are managed by sales representatives located at their respective facilities. Fabricated rebar and elevator guide rails are generally sold through a bidding process in which employees at the Company's facilities work closely with customers to tailor product requirements, shipping schedules and prices.

At the North America Business Operation, despite the sharp drop-off in sales in 2009, a gradual recovery in demand was observed, as indicated by the 16.4% increase in sales volume in 2010 from 2009. The manufacturing industry was the main driver of the recovery in shipments. The Institute for Supply Management (ISM), the main indicator of industrial production in North America, reached 58.5 in December 2010, with a reading above 50 indicating growth. The infrastructure and non-residential segments continued to present weak and stable demand.

The North America Business Operation accounted for 33.1% of overall Gerdau shipments, reaching 5.7 million tonnes. The Company's Canadian operations sell a significant portion of their production in the United States.

***Latin America Business Operation***

## Edgar Filing: GERDAU S.A. - Form 20-F

The Latin America Business Operation comprises 16 steel units (including jointly controlled entities and associate companies), 34 retail facilities, 17 fab shops (including jointly controlled entities and associate companies) and 10 scrap processing facilities (including associate companies) located in 9 countries. The entire operation is focused on the respective domestic markets of each country, operating mini-mills facilities with annual manufacturing capacity of 3.1 million tonnes of finished steel products. The Latin American operation accounted for 12.7% of overall Gerdau shipments, representing 2.2 million tonnes of finished products in 2010, a 9.7% increase compared with 2009. In general, all the countries in this business operation had an increase in its shipments in 2010 when compared to 2009. The main representative countries in the Latin America Business Operation are Chile, Mexico, Colombia and Peru. Gerdau also operates in the markets of Uruguay, Argentina, Dominican Republic, Venezuela and Guatemala.

*Chile* - AZA was acquired in 1992, and has installed capacity of 490,000 tonnes of crude steel and 470,000 tonnes of rolled steel. Since the end of 2000, Gerdau AZA had a business unit known as AZAonLine, which services customers in Chile through the Internet. This was the first e-commerce initiative in the steel sector in Chile. Customers can track their orders on the Internet, together with product inventories and credit and payment status. They can also access their purchase records as well as generate quality certificates and place orders. Gerdau AZA sells its products to more than 150 clients, which are both distributors and end-users.

*Colombia* - Diaco was acquired in September 2005, which the Company believes to have a market share of 30.7% of the Colombian steel market. The Company believes to be the largest producer of steel and rebar in Colombia, selling its products through distributors and clients (end-users) in civil construction, industry and others. Colombian units have annual installed capacity of 560,000 tonnes of crude steel and 700,000 tonnes of rolled products.

*Peru* - Siderperú was acquired in June of 2006 and is one of the main steel companies in Peru, with more than 50 years of experience in this business. The company sells its products to approximately 210 clients in the construction,

Table of Contents

manufacturing and mining sectors and has more than 160 distributors. Siderperú has annual installed capacity of 650,000 tonnes of crude steel and 960,000 tonnes of rolled products.

*Mexico* - Located in the Mexico City metropolitan area, Sidertul produces rebars and structural shapes, with its products primarily used in the domestic market. The Company sells its products to clients and distributors from the construction and manufacturing sectors. Sidertul sells products to around 200 clients and has annual installed capacity of 500,000 tonnes of crude steel and 340,000 tonnes of rolled products.

***Specialty Steel Business Operation***

The Specialty Steel Business Operation is composed of the operations in Brazil (Charqueadas, Pindamonhangaba, Mogi das Cruzes and Sorocaba), in the United States (MacSteel) and Spain (Corporación Sidenor). This operation, in partnership with its customers, produces engineering steel (SBQ), tool steel, stainless steel, rolling mill rolls, large forged and casted engineering pieces. In order to meet the continuous need for innovation, this operation is constantly developing new products, such as micro-alloyed steel for high-power and low-emissions diesel engines, clean steel for application in bearings, and steel with improved machining characteristics that allows higher machining speeds and lower tooling replacement, among others.

The Specialty Steel Business Operations recorded an increase of 48.4% in sales volume in 2010 from the prior year, with various different impacts felt in each country. The increase is mainly due to the economic recovery in the regions where we operate. The sales volume increase was stronger in the United States and Brazil and in more moderate rate in the Spain.

In Brazil, Gerdau specialty steel operations are located in Rio Grande do Sul (Charqueadas) and in São Paulo (Pindamonhangaba, Mogi das Cruzes and Sorocaba). The specialty steel units in Brazil have a combined annual capacity of 1.4 million tonnes of crude steel and 1.4 million tonnes of rolled products, which is sold in the domestic and export markets. The operation in Brazil has more than 400 customers located mainly in Brazil.

Gerdau maintains a presence in Europe through Corporación Sidenor, which sells specialty steel to the entire continent. Sidenor has more than 450 clients located mainly in Spain, France, Germany and Italy. Sidenor has an annual installed capacity of 1.2 million tonnes of crude steel and 1.2 million tonnes of rolled products. Sidenor also has four downstream operations located in Spain.

Gerdau maintains a presence in North America through MacSteel, the largest SBQ (Special Bar Quality) supplier in the United States. MacSteel operates three mini-mills, located in Jackson, Michigan; Monroe, Michigan; and Fort Smith, Arkansas. The Company also operates six downstream operations. MacSteel has an annual installed capacity of 1.2 million tonnes of crude steel and 1.1 million tonnes of rolled products. MacSteel has more than 240 customers located mainly in the United States, Canada and Mexico.

There are commercial and operational synergies among these units in this business operation through centralized marketing and production strategies.

*Exports*

In the middle of 2009 an international trade area was created to be responsible for trading all Gerdau's business operations exports (commercial quality products) and imports (finished products from third parties). This area is responsible for selling products directly to final overseas users and indirectly through trading companies. Sales are negotiated worldwide (i) primarily through CIF (Cost, Insurance and Freight) and (ii) guaranteed at sight through letters of credit issued by customers through prime European and U.S. banks. Great part of the exports is negotiated intercompany and some units are both importers and exporters, which allow us to have a great synergy in terms of logistic, production and product line. Brazil Business Operation has always been the most relevant operation in terms of exports.

Brazil Business Operation had been exporting a large part of its production since 2003, but due to the stronger domestic market since 2007, a portion of sales has been reallocated from exports to the domestic market. In 2010, exports accounted for 29.0% of the Brazil Business Operation sales, approximately the same as in 2009. Brazil Business Operation exports generated R\$2,018.4 million in revenue in 2010 totaling 1.9 million tones (excluding shipments to subsidiaries), an increase of 26.5% from 2009. The export strategy has allowed Gerdau to develop a client base that is more evenly distributed throughout the world, with exports going mainly to Asia, South America and North America.

The following table presents the Company's consolidated exports by destination for the periods indicated:

Table of Contents

Gerdau S.A. Consolidated Exports by Destination	Year ended December 31,		
	2010	2009	2008
<b>Total including shipments to subsidiaries (1,000 tonnes)</b>	<b>3,022</b>	<b>1,858</b>	<b>2,315</b>
Africa	3%	19%	5%
Central America	9%	2%	4%
North America	22%	7%	7%
South America	25%	19%	23%
Asia	36%	40%	54%
Europe	5%	13%	6%
Oceania	0%	0%	1%

The North America Business Operation exported around 489,000 tonnes, accounting for 8.5% of the total sales in this operation. Latin America Business Operation exported about 90,000 tonnes, accounting for 4.1% of the total sales of this operation.

**Production Process**

In Brazil, the Company has a decentralized production process, using both mini-mills and integrated facilities. In general, the Company has used the mini-mill model to produce steel products outside of Brazil.

***Non-Integrated Process (Mini-Mills)***

The Company operates 49 mini-mills worldwide (excluding jointly controlled entities and associate companies). Mini-mills are equipped primarily with electric arc furnaces that can melt steel scrap and produce the steel product at the required specifications. After loading the furnace with a preset mixture of raw material (i.e., steel scrap, pig iron and sponge iron), electric power is applied in accordance with a computer controlled melting profile. The Company's mini-mill production process generally consists of the following steps: obtaining raw material, melting, casting, rolling and drawing. The basic difference between this process and the integrated mill production process described below is in the first processing phase, i.e., the steelmaking process. Mini-mills are smaller plants than integrated facilities and the Company believes they provide certain advantages over integrated mills, including:

- lower capital costs,
- lower operational risks due to the low concentration of capital and installed capacity in a single production plant,
- proximity of production facilities to raw-material sources,

- proximity to local markets and easier adjustment of production levels, and
- more effective managerial structure due to the relative simplicity of the production process.

### *Integrated Process*

The Company operates 5 integrated mills, of which 4 are located in Brazil and 1 in Peru. The Açominas mill is the largest integrated facility the Company operates. Although it produces steel using a blast furnace, this mill has some of the advantages of a mini-mill since it is located very close to its main suppliers and the ports from which the Company exports most of its production.

The Company's steelmaking process in integrated facilities consists of four basic processes: raw material preparation, pig-iron production, steel production and production of crude steel (billets, blooms and slabs). In the primary stage of iron making, sinter (a mixture of iron ore and limestone), coke and other raw materials are consumed in the blast furnace to produce pig iron. Coke acts as both a fuel and a reducing agent in this process. The Company's blast furnaces have installed capacity of 5.9 million tonnes of liquid pig iron per year.

The pig iron produced by the blast furnace is transported by rail to the desulphurization unit to reduce the sulfur content in the steel. After the desulphurization process, the low-sulfur pig-iron is transformed into steel through LD-type oxygen converters. The LD steelmaking process utilizes molten pig iron to produce steel by blowing oxygen over the metallic charge inside the converters. The process does not require any external source of energy, which is fully supplied by the chemical reactions that occur between the oxygen and the molten pig iron impurities. The LD steelmaking process is presently the most widely used in the world.



Table of Contents

Some mills further refine the LD converters' output with ladle furnaces. Liquid steel is then poured into ingot molds and allowed to solidify into ingots. The molds are stripped away and the ingots are transported by rail to the soaking pits, where they are heated to a uniform rolling temperature. The heated ingots are rolled in the primary rolling mill to produce slabs and blooms, some of which are rolled in the secondary rolling mills to produce blooms and billets. At this point in the process, the Company either sells a portion of the product to other manufacturers where the rolling process must take place in order to produce steel ready for final use, or the Company performs the rolling process itself, transforming the product into heavy structural shapes or wire rods.

**Production Inputs**

Gerdau's production processes are based mainly on the mini-mill concept, with mills equipped with electric arc furnaces that can melt ferrous scrap and produce steel products at the required specifications. The main raw material used at these mills is ferrous scrap, which at some plants is blended with pig iron. The component proportions of this mixture may change in accordance with prices and availability in order to optimize raw material costs. Iron, iron ore (used in blast furnaces and in one Direct Reduction Iron - DRI plant) and ferroalloys are also important.

Although international ferrous scrap prices are determined by the U.S. domestic market (since the United States is the largest scrap exporter), the price of ferrous scrap in Brazil varies from region to region and is influenced by demand and transportation costs. Gerdau is the largest consumer of ferrous scrap in Brazil.

**Brazil and Specialty Steel Business Operations** - The Company's Brazilian mills use scrap and pig iron purchased from local suppliers. Due to the nature of the raw materials used in its processes, Gerdau has medium and long-term supply contracts with scrap generators and short-term contracts with some suppliers for its mini-mills in Brazil, acquiring scrap as necessary for the mills' needs. Scrap for the Brazilian Operation is priced in Brazilian reais, thus input prices are not directly affected by currency fluctuations.

In the Açominas mill the main raw materials of this unit include: (i) coal imported from Canada, Australia and the United States, anthracite from Vietnam and the Ukraine and coke petroleum purchased from Petrobras; (ii) ferroalloys, of which 90.0% is purchased in the domestic market; and (iii) iron ore, which is partially produced from its own mines and partially supplied by large, medium, and small sized mining companies, most of them strategically located close to the plant. These three items accounted for about 40.0% of the total production costs of Açominas mill in 2010. Due to its size, the Açominas mill utilizes long-term contracts to guarantee raw material supplies.

**North America Business Operation** - The main metallic input used by the Company's mills in the United States is ferrous scrap. When ferrous scrap prices exceed acceptable levels, as occurred in 2004, the mills seek to modify input sources accordingly. Gerdau Ameristeel has consistently obtained adequate supplies of raw materials and is not dependent on a smaller number of suppliers.

**Latin America Business Operation** - The main metallic input used by the Company's mills in Latin America is ferrous scrap. The Latin American Operation is exposed to market fluctuations, varying its prices according to each local market.

***Ferrous Scrap***

There are two broad categories of ferrous scrap: (i) obsolete scrap which is steel from various sources, ranging from tin cans to car bodies and white goods; and (ii) industrial scrap, which is essentially factory steel bushelings and flashings, steel turnings and even scrap generated by the Company's production processes themselves. In Brazil the use of scrap in electric arc furnaces varies between obsolete scrap and industrial scrap. The Specialty Steel plants use mainly industrial scrap.

In 2010 Gerdau utilized more than 10 million tonnes of scrap, accounting for significant gains through increasingly competitive operating costs.

Brazil and Specialty Business Operations - The price of scrap in Brazil varies by region, depending upon local supply and demand, and transportation costs. The Southeast region is the most industrialized in the country, generating the highest volume of scrap. Due to the high concentration of players in this region, the competition is more intense.

The Company also has five shredders, including a mega-shredder at Gerdau Cosigua in Rio de Janeiro capable of processing shredded scrap in volumes that exceed 200 car bodies per hour.

At Corporación Sidenor, prompt (industrial) scrap is the main type of raw material used in the Spanish operation.

Table of Contents

North America Business Operation - Ferrous scrap is the primary raw material to this Business Operation. It is a commodity whose availability varies in accordance with the level of economic activity, seasonality, export levels, and price fluctuations. Nine of Gerdau Ameristeel's mini-mills have on-site dedicated scrap processing facilities, including shredder operations that supply a significant portion of their scrap requirements. Given the fact that not all of the scrap it consumes is sourced from its own scrap yards, it buys residual requirements in the market either directly or through dealers that source and prepare scrap.

All of production facilities in North America are mini-mills, in which operating results are closely linked to the cost of ferrous scrap and scrap substitutes, the primary input of mini-mills. Ferrous scrap prices are relatively higher during winter months due to the impact of weather on collecting and supplying efforts. Approximately half of all steel products in North America are currently made in electric arc furnaces using ferrous scrap. Prices for ferrous scrap are subject to market forces largely beyond the Company's control, which include demand from U.S. and international steel producers, freight costs and speculation.

Latin America Business Operation - The price of scrap in the Latin America varies in accordance with demand, transportation costs and region. The Latin America Business Operation has the most volatile scrap prices in comparison to the other Gerdau's operations because it consolidates prices from seven countries.

***Pig Iron and Sponge Iron***

Brazil Business Operation - Brazil is an exporter of pig iron. Most Brazilian pig iron is produced in the state of Minas Gerais by a large number of small producers. Pig iron is a natural substitute for scrap, and in Brazil it is an important component of the metal mix used to make steel in the mills. In Brazil, the price of pig iron is related to internal and external demand and to the cost of charcoal, the most volatile cost item in pig iron production.

The Company produces sponge iron at its industrial plant in the state of Bahia (Gerdau Usiba), whose entire production is used internally to manufacture steel products.

The Company does not have any Brazilian contracts for the supply of pig iron, negotiating amounts and delivery conditions directly with suppliers. The price of pig iron may fluctuate in line with its international market price, given that a large portion of production in Brazil is exported.

North America Business Operation - Scrap availability is a major factor in Gerdau Ameristeel's operations. Direct reduced iron, hot briquetted iron and pig iron can substitute a limited portion of the ferrous scrap used in electric arc furnace steel production. Gerdau Ameristeel does not utilize significant quantities of scrap substitutes in its mini-mills except for pig iron used for its chemical properties at the Beaumont facility, and to produce some special sections.

***Iron Ore***

Iron ore is the main input to produce steel at Gerdau's plants in Ouro Branco, Barão de Cocais, Contagem, Divinópolis, and Sete Lagoas located in Minas Gerais State, southeastern of Brazil.

Iron ore is purchased on its natural form as iron ore fines (pellet feed and sinter feed), as lump ore or agglomerated as pellets.

Iron ore fines are agglomerated in the sinter plant and then loaded into the blast furnace, which produces pig iron, which is refined and turned into steel. Lump ore and pellets are directly loaded into the blast furnace to increase productivity. To produce 1,0 ton of pig iron it is required about 1,28 ton of sinter, the product of agglomeration of sinter feed and pellet feed, and 0,32 ton of lump ore and pellets.

Iron ore consumption in the mills on Minas Gerais State accounted about 7,5 million tons in 2010, partially supplied by mining companies adjacent to the steel plants and partially supplied by Gerdau's mines.

#### *Other Inputs*

In addition to scrap, pig iron, sponge iron and iron ore, Gerdau's operations use other inputs to produce steel such as ferroalloys, electrodes, furnace refracting materials, oxygen, nitrogen and other industrial gases and limestone, albeit in smaller amounts. All of these inputs are readily available in Brazil. Additional inputs associated with the production of pig iron are charcoal, which is used in blast furnace mills, and natural gas, which is used at the DRI unit.

Açominas mill's important raw materials and inputs also include coking coal. Coal is used in the production of coke, the main reduction agent for sinter, iron ore and pellets in the blast furnace. Pulverized Coal Injection (PCI) is also used to reduce coke consumption, increase productivity and consequently the cost of pig iron. At the steel works, ferroalloys are used to make steels with special characteristics. Oxygen, nitrogen and argon are also used in some

Table of Contents

processes and supplied by an on-site company. The gas resulting from the production of coke, pig iron and steel, once cleaned, is used as fuel for several processes and for generating electricity to power the plant.

Gerdau has a metallurgical coke producer and coking coal reserves in Colombia. This producer has annual coke production capacity of 1.0 million tones and estimated coking coal reserves of 20 million tones.

The North American operations also use additional inputs. Various domestic and foreign companies supply other important raw materials or operating supplies required for the business, including refractory materials, ferroalloys and carbon electrodes that are readily available in the open market. Gerdau Ameristeel has obtained adequate quantities of these raw materials and supplies at competitive market prices. The Company is not dependent on any one supplier as a source for any particular material and believes there are adequate alternative suppliers available in the marketplace if the need to replace an existing one arises.

***Energy Requirements***

Steel production is a process that consumes large amounts of electricity, especially in electric arc mills. Electricity represents an important cost in the production process, along with natural gas, which is used in furnaces to re-heat billets in rolled steel production.

Dona Francisca Energética S.A. (DFESA) operates a hydroelectric power plant with nominal capacity of 125 MW located in Agudo, Rio Grande do Sul state (Brazil). Its corporate purpose is to operate, maintain and maximize use of the energy potential of the Dona Francisca Hydroelectric Plant. DFESA participates in a consortium (Consórcio Dona Francisca) with the state power utility Companhia Estadual de Energia Elétrica (CEEE). The shareholders of DFESA are Gerdau S.A. (51.8%), COPEL Participações S.A (23.0%), Celesc (23.0%), and Desenvix (2.2%).

Caçu and Barra dos Coqueiros hydroelectric power plants, located in the state of Goiás (Brazil), with total installed capacity of 155MW and started its operations in 2010, with all power made available to the units located in Brazil's Southeast.

Gerdau also holds the concession to operate the São João - Cachoeirinha Hydroelectric Plant Complex located in Paraná state. The complex will have total installed capacity of 105 MW. The start of construction is currently awaiting the granting of the environmental licenses.

The terms of the aforementioned generation concession agreements are for 35 years as of the signature of the agreement. As such: UHE Dona Francisca expires in 2033 and UHEs Caçu and Barra dos Coqueiros and UHEs São João - Cachoeirinha expire in 2037.

The Company is currently analyzing power generation alternatives in all countries where it operates.

## Edgar Filing: GERDAU S.A. - Form 20-F

In Brazil, the Company's units hold long-term contracts with electricity suppliers and do not depend on a single contract. Energy is currently supplied to the Company's industrial units under two types of contracts:

- Contracts in the Regulated Contractual Environment in which the Company is a Captive Consumer are used at the following units: Riograndense, Aços Especiais Piratini, Guaíba, Usiba, Açonorte and Sorocaba. These involve state-owned companies or holders of government concessions. In these contracts, prices are defined by the National Electric Power Agency (ANEEL).
- Contracts in the Free Market Environment in which Gerdau is a Free Consumer are used at the following units: Araçariçuama, Cosigua, Cearense, Açominas, Divinópolis, Barão de Cocais, Pindamonhangaba and Mogi das Cruzes. These units have power purchase agreements contracted directly with power generation companies and/or energy traders, with prices defined and adjusted according to rules predetermined by the parties. The transmission and distribution rates are regulated by ANEEL and revised annually. Açominas mill generates approximately 70.0% of its energy needs internally, using gases generated by the steelmaking process. This keeps its exposure to the energy market significantly lower than in the case of mini-mills.

The supply of natural gas to all Brazilian units is regulated and performed under long-term contracts. The Barão de Cocais and Divinópolis units do not have access to natural gas supplies.

In Spain the company is currently negotiating a new power contract starting July 2010 through December 2011. Its natural gas contract also lasts until December 2011.

In North America, there are two types of energy markets: regulated and deregulated. In the regulated market, agreements are established with local electric power concession holders and the rates are determined for each region. In the deregulated market, the price of power can change every 5 minutes (spot price) to reflect the actual cost of electricity.

Table of Contents

generation. Although the deregulation of both the natural gas and wholesale electricity markets may create opportunities to reduce costs as a result of market competition, the prices of both these forms of energy have recently become more volatile and may remain so.

In Chile, Colombia and Uruguay, both electricity and natural gas are purchased under long-term agreements. In Colombia, the electricity and natural gas agreements were renewed in 2009. In Chile, Gerdau AZA renegotiated its electric power agreement in 2014. Gerdau AZA negotiated a new natural gas supply agreement from the second half of 2009 based on imports of liquefied natural gas (LNG) that started last year with lower prices than alternative fuels. Currently the contract was extended to the end of 2011.

In Peru electricity is purchased under a long-term agreement. The plant has no access to natural gas supply due to its location, and a project to transport natural gas from the south is currently under study.

Argentina utilizes natural gas (LPG as a substitute) and Uruguay also uses natural gas (Fuel Oil as substitute). In 2008, Gerdau Sipar signed a contract with Petrobrás to supply the new plant's power requirements up to May 2010. In view of the postponement of this project, this contract was reviewed and its expiration was postponed until 2022. The Natural gas supply contract expires in May 2011 and is already renegotiated.

A new power purchase agreement in the Dominican Republic was closed in 2009 with a 5-year term. Beginning in 2011, the unit will receive LNG (liquefied natural gas) thru ships and trucks.

In Mexico, the regional power utility (Luz y Fuerza del Centro) was liquidated by the government and its operations were replaced by the state company CFE (Compañía Federal de Electricidad), with no impact to the supply.

**Products**

The Company supplies its customers with a wide range of products from five major product lines:

***Crude Steel (Billets, Blooms and Slabs)***

Crude steel products (billets, blooms and slabs) have relatively low added value compared to other steel products. Billets are bars from square sections of long steel that serve as inputs for the production of wire rod, rebars and merchant bars. They are the main product of the Açominas mill. Blooms are used to manufacture products such as springs, forged parts, heavy structural shapes and seamless tubes. Slabs are used in the steel industry for the rolling of a broad range of flat rolled products. Slabs are mainly used to produce hot and cold rolled coils, heavy slabs and profiles.

Crude steel products may be produced using either the continuous casting or conventional process. In the conventional process, liquid steel is poured into ingot moulds for rolling. The hot ingots are sent to the primary rolling mill to be heated in soaking pits and then are rolled to produce crude steel products (billets, blooms and slabs). Although this conventional process is not widely used in Brazil, it is still employed at the Company's Açominas mill. The use of a conventional casting system may represent a competitive advantage since the Company believes it is one of the only companies manufacturing billets and blooms in Brazil, leading the Company to have captive customers for these products in Brazil and also outside the country.

#### ***Common Long Rolled Products***

Common long rolled products represent a major portion of the Company's production. The Company's main long rolled products include rebars, merchant bars and profiles, which are used mainly by the construction and manufacturing industries.

#### ***Drawn Products***

Drawn products include barbed and barbless fence wire, galvanized wire, fences, concrete reinforcing wire mesh, nails and clamps. These products are not exported and are usually sold to the manufacturing, construction and agricultural industries.

#### ***Specialty Steel Products***

Specialty or high-alloy steel requires advanced manufacturing processes and normally includes some degree of customization. The Company produces specialty and stainless steel used in tools and machinery, chains, fasteners, railroad spikes and special coil steel at its Aços Villares and Piratini units in Brazil, at Corporación Sidor units in Spain and at the MacSteel units in the United States.



Table of Contents

In the United States, Gerdau Ameristeel produces special sections such as grader blades, smelter bars, light rails, super light I-beams, elevator guide rails and other products that are made on demand for the Company's clients, which are mainly manufacturers.

It also supplies steel to its customers through its jointly controlled entity Kalyani Gerdau Steel Inc. located in India. It is a jointly controlled entity with the Kalyani Group in India in which Gerdau has a 73.2% stake in the jointly controlled entity.

***Flat Products***

The Company's Açominas mill produces slabs, which are rolled into flat products such as hot and cold steel coils, heavy plates and profiles. In addition, the Company's distribution subsidiary, Comercial Gerdau, resells flat steel products manufactured by other Brazilian steel producers, adding further value through additional processing at its four flat steel service centers.

Gerdau Ameristeel also supplies flat steel to its customers through its jointly controlled entity Gallatin located in Kentucky. Gallatin is a jointly controlled entity with ArcelorMittal, Canada, a leading flat steel producer, and has nominal installed capacity of 1.4 million tonnes of flat steel per year. Both partners in jointly controlled entity have a 50.0% stake.

**Technology and Quality Management**

All Gerdau mills have excellent quality management supported by a wide array of quality control tools. Product development projects are headed by specialists who use quality tools such as Six Sigma, a set of statistical procedures for improving the assessment of process variables, as well as Quality Function Deployment, a methodology through which technicians can identify the full range of customer requirements.

Given this level of quality management, 45 mills are ISO 9001 or ISO TS 16949 certified. In general, production, technical services and quality teams are responsible for developing new products to meet customer and market needs.

The Company uses a quality management system developed in house that applies tests for product design, manufacturing processes and final-product specifications. A specially trained team and modern technologies also exist to assure the Company's high standards of quality. The Company's technical specialists make planned visits, some may be randomly selected and some are scheduled visits, to its customers to check on the quality of the products delivered by the Company in order to guarantee the final user satisfaction for products purchased indirectly.

Knowledge Management System is used to share information among all steel mills seeking performance improvements and leverage of process knowledge supported by Communities of Practice and technical specialists.

## Edgar Filing: GERDAU S.A. - Form 20-F

Due to the specialized nature of its business, the Company's specialty steel mills are constantly investing in technological upgrading and in research and development. These mills are active in the automotive segment and maintain a technology department responsible for new products and the optimization of existing processes.

International machinery manufacturers and steel technology companies supply most of the sophisticated production equipment the Company uses. These suppliers generally sign technology transfer agreements with the purchaser and provide extensive technical support and staff training for the installation and commissioning of the equipment. The Company has technology transfer agreements with Nippon Steel, Sumitomo Steel, Thyssen, Daido Steel and BSW.

As is common with mini-mill steelmakers, the Company usually acquires technology in the market rather than developing new technology through intensive research and development, since steelmaking technology is readily available for purchase.

The Company is not dependent on patents or licenses or new manufacturing processes that are material to its business. See item Information on the Extent of the Company's Dependence for further details.

### **Sales Terms and Credit Policy**

The Company's Brazilian sales are usually made on a 21/28-day settlement CIF (Cost, Insurance and Freight) basis. Comercial Gerdau, the retail arm of Gerdau in Brazil, sells on a 29-day settlement basis, mainly CIF. Brazilian customers are subject to a credit approval process. The concession of credit limits is controlled by a corporate-level system (SAP R/3) that can be accessed by all sales channels. The credit and collection department is responsible for evaluating, determining and monitoring credit in accordance with the credit limit policy. This policy provides for the

Table of Contents

active participation of staff from the various sales channels. At Comercial Gerdau, in particular, the criteria for retail sales also include practices such as the use of credit card services. Açominas mill exports are guaranteed via letters of credit and/or pre-payment before the product is shipped. Exports to Gerdau's subsidiaries may be sold on credit at market interest rates.

Gerdau Ameristeel's credit terms to customers are generally based on customary market conditions and practices. Gerdau Ameristeel's business is seasonal, with orders in the second and third quarters tending to be stronger than those in the first and fourth quarters, primarily due to weather-related slowdowns in the construction industry.

Spain specialty steel operation has a Risk Committee that is responsible for analyzing customer credit.

USA specialty steel operations and Brazil specialty steel operations have their own credit departments for customer's credit analyses.

As a result of these policies, the Company's provision for doubtful accounts has been at low levels. On December 31, 2010, provision for doubtful accounts was 2.09% based on gross account receivables as per Note 6. On December 31, 2009 this provision was 3.1% of gross account receivables, an exception level due to the international economic crisis during 2009. Gerdau has improved its credit approval controls and enhanced the reliability of its sales process through the use of risk indicators and internal controls.

**Logistics**

Transportation costs are an important component of most steel mill businesses and represent a significant factor in maintaining competitive prices in the export market. The majority of the Company's mills are strategically located in various different geographic regions. The Company believes that the proximity of its mills to raw material sources and important consumer markets gives it a competitive advantage in serving customers and obtaining raw materials at competitive costs. This represents an important competitive advantage in inbound and outbound logistics.

To reduce logistic costs, Gerdau also uses different types of transportation modes (road, rail and sea) to receive raw materials and deliver products to its customers or ports of destination. Accordingly, the Company has developed long-term relationships with logistic companies specialized in delivering raw materials and steel products.

In 1996 Gerdau acquired an interest in MRS Logística, one of the most important rail companies in Brazil, which operates connecting the states of São Paulo, Rio de Janeiro and Minas Gerais, which are Brazil's main economic centers, and also reaches the main ports of the country in this region. These shares provide secure and efficient use of this mode to transport raw materials (scrap and pig iron) as well as final products. In North America, the Company owns a large number of rail cars for the same purpose.

Gerdau uses around 15 ports to deliver products from the entire Brazilian coastline. The majority of exports are shipped from Praia Mole Private Steel Terminal in Vitoria, Espírito Santo. Furthermore, this is Brazil's most efficient and productive seaport for handling steel products, with more than 20 years of expertise in this business.

Gerdau also owns specialized terminals in iron ore deliveries that supply its steel units in the state of Bahia and in Peru. Additionally, Gerdau is currently in progress with a project and construction of a new export terminal for coal in Colombia.

## **Competition**

The steel market is divided into manufacturers of long steel products, flat steel products and specialty steel.

The Company operates in the long steel market, which is the most important market for Gerdau, by supplying to the following customer segments: (i) construction, to which it supplies rebars, merchant bars, nails and meshes; (ii) manufacturing, to which it supplies products for machinery, agricultural equipment, tools and other industrial products; and (iii) other markets, to which it supplies wires and posts for agricultural installations and reforestation projects. In North America, the Company also supplies customers with special sections, including elevator guide rails and super light beams. The Company also provides its customers with higher value-added products at rebar fabrication facilities.

The Company operates in the flat steel market through its Açominas mill that produces slabs, which are used to roll flat products such as hot and cold rolled steel coils, heavy plates and profiles. In addition, the Company's distribution subsidiary, Comercial Gerdau, resells flat steel products manufactured by other Brazilian steel producers, adding further value through additional processing at its four flat steel service centers. Gerdau Ameristeel also supplies flat steel to its customers through its jointly controlled entity Gallatin. Gallatin is a jointly controlled entity with ArcelorMittal, a leading flat steel producer, and has nominal installed capacity of 1.4 million tonnes of flat steel per year.

Table of Contents

The Company produces specialty and stainless steel used in tools and machinery, chains, fasteners, railroad spikes, special coil steel, grader blades, smelter bars, light rails, super light I-beams, elevator guide rails and other products that are made on demand for the Company's customers at its specialty steel units in Brazil, United States, Spain and through its jointly controlled company in India.

**Competitive Position Brazil**

The Brazilian steel market is very competitive. In the year ended December 31, 2010, the Company was the largest Brazilian long steel producer and the second largest crude steel producer, according to the Brazilian Steel Institute (IABr - Instituto Aço Brasil). Meanwhile, ArcelorMittal Brasil was the second largest long steel producer and the first largest crude steel producer in Brazil during 2010.

The table below presents the Company's main competitors and market share in Brazil's crude steel market:

Brazilian crude steel producers (%)	Fiscal year ending December 31,		
	2010	2009	2008
ArcelorMittal Brasil (1)	30.7	34.4	31.0
Gerdau (2)	24.8	23.4	25.8
Usiminas (3)	22.2	21.3	23.8
CSN	14.9	16.5	14.8
Others	7.4	4.4	4.6
Total	100.0	100.0	100.0

Source: IABr - Instituto Aço Brasil

(1) Arcelor S.A. controls CST, Belgo and Acesita

(2) Includes Aços Villares

(3) Usiminas and Cosipa are part of the Usiminas Group

World common long rolled steel demand is met principally by steel mini-mills and, to a much lesser extent, by integrated steel producers. In the Brazilian market, no single company competes against the Company across its entire product range. Throughout 2010, the Company faced some competition from long steel products imports, mainly coming from Turkey. The Company believes that the diversification of its products, the solution developed by its fabshops units and the decentralization of its business provide a competitive edge over its major competitors.

In the domestic market, Gerdau is almost an exclusive supplier of blooms and billets to well-defined and loyal customers that have been purchasing from it regularly for over 15 years. Intense competition exists between the Company and Arcelor Mittal in the slab and wire rod markets.

**Competitive Position Outside Brazil**

## Edgar Filing: GERDAU S.A. - Form 20-F

In the international market, the Company, in its export markets, faces strong competition in the commercial quality products line from Eastern Europe (CIS). The main competitors in the high quality products segment are Europeans and, to a lesser extent, the Japanese. The Company is a strong player due to its vast experience and the high quality of its services and products. Gerdau has a highly diversified list of traditional customers located all over the world.

Outside Brazil, notably in North America, the Company's subsidiary Gerdau Ameristeel has increased its market share through acquisitions. Gerdau Ameristeel is the second largest mini-mill steel producer in North America and has progressively increased its share in the North American market, with annual nominal capacity of 10.4 million tonnes of crude steel and 10.7 million tonnes of rolled products.

Gerdau Ameristeel's geographic market encompasses primarily the United States and Canada. Gerdau Ameristeel faces substantial competition in the sale of each of its products from numerous competitors in its markets. Rebar, merchant bars and structural shapes are commodity steel products for which pricing is the primary competitive factor. Due to the high cost of freight relative to the value of steel products, competition from non-regional producers is somewhat limited. Proximity of product inventories to customers, combined with competitive freight costs and low-cost manufacturing processes, are key to maintaining margins on rebar and merchant bar products. Rebar deliveries are generally concentrated within a 350-mile radius of the mini-mills and merchant bar deliveries are generally concentrated within a 500-mile radius. Some products produced by the Selkirk, Midlothian, Jacksonville, Jackson, Cartersville and Petersburg mini-mills are shipped greater distances, including overseas. Except in unusual circumstances, the customer's delivery expenses are limited to freight charges from the nearest competitive mill, and the supplier absorbs any incremental freight charges.

Table of Contents

The Company's principal competitors include Commercial Metals Company, Nucor Corporation, Steel Dynamics Inc., and ArcelorMittal Inc. Gallatin Steel competes with numerous other integrated and mini-mill steel producers.

Despite the commodity characteristics of the rebar, merchant bar and structural markets, Gerdau Ameristeel believes it distinguishes itself from many of its competitors due to the Company's large product range, product quality, consistent delivery performance, capacity to service large orders and ability to fill most orders quickly from inventory. The Company believes it produces one of the largest ranges of bar products and shapes. The Company's product diversity is an important competitive advantage in a market where many customers are looking to fulfill their requirements from a few key suppliers.

In Latin America, each country has a specific competitive position that depends on conditions in their respective markets. Most compete domestically and face significant competition from imports. More than 80% of shipments from Gerdau's Latin American Operation originate from Chile, Peru, Colombia and Mexico. In Chile, the main barriers faced by Gerdau AZA sales are freight and transportation costs and the availability of imports. The Company estimates the share of the domestic long steel market held by Gerdau AZA at about 30% and their products are oriented to satisfy the constructions, mechanic, agriculture and mining market. It also believes that Diaco has a 31% stake in the Colombian steel market and that Siderperú has market share of approximately 36% in the long products segment in Peru.

Spain specialty steel operation holds approximately 10% of the specialty steel market in the European Union; USA specialty steel operation has roughly 20% share in the SBQ market; and in Brazil, Gerdau's specialty steel units are combined the biggest player in that market.

**Insurance**

The Company maintains insurance coverage in amounts that it believes suitable to cover the main risks of its operating activities. The Company has hired insurance for its Açominas mill against operating losses, which covers amounts up to approximately \$4.3 billion (R\$ 7,4 billion as of April 30, 2010), including material damage to installations (\$3.3 billion) and losses of gross revenues (\$997 million), such as halts in production due to business interruptions caused by accidents for a period up to twelve months. The Company's current insurance policy relating to the Açominas mill remains effective until April 30, 2011. The Company's mini-mills are covered against operational losses under its policy.

**Trade Investigations and Government Protectionism**

Over the past several years, exports of steel products from various companies and countries, including Brazil, have been subject to antidumping, countervailing duties and other trade-related investigations in importing countries. Most of these investigations resulted in duties limiting the investigated companies' ability to access such import markets. Until now, however, these investigations have not had a significant impact on the Company's export volumes.

**Mine Operating License**

In Brazil, the Company's mining operations are subject to government concessions, and its mining activities are subject to the limitations imposed by Brazil's Federal Constitution and Mining Code and the laws, rules and regulations enacted pertaining to mining activities. Under the concession contracts, the Company was granted permission to commercially operate the mines located at Miguel Burnier, Várzea do Lopes, Dom Bosco and Gongo Soco in the state of Minas Gerais Brazil, for as long as the reserves last. Brazil's Mining Code and Federal Constitution impose on companies that conduct mining activities, such as us, requirements concerning, among other things, the manner in which mineral deposits are used, worker health and safety, environmental protection and restoration, the prevention of pollution and the health and safety of the local communities where the mines are located.

In Colombia there are some mining operations, these concessions are ruled by the government and it is ruled by regulations contained in the Mining Code (Law 685 of 2001 and Law 1382 of 2010). Under the concession rights given to the Company, exploration and exploitation projects of coking coal can be developed. The mines are located at Tausa, Cundinamarca; Cucunubá, Cundinamarca; Samacá and Ráquira, Boyacá; and Cúcuta, north of Santander. The period of the concessions is 30 years and it can be extended for more 30 years. The environmental requirements are also part of the rules that have to be fulfilled in order to develop the projects. Furthermore, there are other important matters such as security of the personnel and the payment of royalties.

#### **Information on the Extent of the Company's Dependence**

In the case of a power outage, there are no alternative supply options available at most Gerdau mills due to the high volume and tension required for the operation of these plants. Some Gerdau small plants may choose, as an



Table of Contents

alternative, to use generators to compensate for the energy shortage. Moreover, the Açominas mill generates 70% of its power needs internally using gases generated in the steel-making process.

In case of a lack of natural gas, the equipment could be adjusted to use diesel and LPG.

The distribution of electric power and natural gas is a regulated monopoly in most countries, which leads the distributor to be the only supplier in each geographic region. In some countries, regulations allow for a choice of electrical power or natural gas commodity supplier, allowing Gerdau to diversify its supply agreement portfolio.

**Material Effects of Government Regulation**

In addition to the government regulations that apply to its industry in general, the Company is not subject to any specific regulations that materially and adversely affect its business.

**C. ORGANIZATIONAL STRUCTURE**

The Company's operational structure (including its main operating subsidiaries engaged in steel production) was as follows on December 31, 2010:

The table below shows the main consolidated companies and the investments controlled directly or indirectly by Gerdau on December 31, 2010, 2009 and 2008:

Table of Contents

Consolidated company	Country	Total capital (*)		Equity Interests		Voting capital	
		2010	2009	2008	2010	2009	2008
Gerdau GTL Spain S.L.	Spain	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Internacional Empreendimentos Ltda. - Grupo Gerdau	Brazil	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Steel North America Inc.	Canada	100.00	66.32	66.32	100.00	66.32	66.32
Gerdau Ameristeel Corporation and subsidiaries (1)	USA/Canada	100.00	66.32	66.37	100.00	66.32	66.37
Gerdau Açominas S.A. and subsidiary (2)	Brazil	93.98	93.98	93.30	93.99	93.98	93.31
Gerdau Aços Longos S.A.	Brazil	93.96	93.96	93.30	93.97	93.97	93.31
Maco Holdings Ltda. (3)	Brazil		100.00			100.00	
Gerdau Steel Inc.	Canada	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Holdings Inc. and subsidiaries (4)	USA	100.00	100.00	100.00	100.00	100.00	100.00
Paraopeba - Fixed-income investment fund (5)	Brazil	75.88	95.20	94.15	75.88	95.20	94.15
Corporación Sidenor S.A. and subsidiaries (6)	Spain	60.00	60.00	60.00	60.00	60.00	60.00
Gerdau América Latina Participações S.A.	Brazil	94.22	94.22	89.35	94.22	94.22	89.35
Axol S.A.	Uruguay	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Chile Inversiones Ltda. and subsidiaries (7)	Chile	99.99	100.00	99.00	99.99	100.00	99.00
Gerdau Aços Especiais S.A.	Brazil	94.35	94.35	93.30	94.36	94.35	93.31
Gerdau Hungria Holdings Limited Liability Company and subsidiaries (8)	Hungary	98.84	98.75	98.75	98.84	98.75	98.75
Gerdau Comercial de Aços S.A.	Brazil	95.58	95.58	93.30	95.59	95.59	93.31
Aramac S.A.	Uruguay	100.00	100.00	100.00	100.00	100.00	100.00
GTL Equity Investments Corp.	British Virgin Islands	100.00	100.00	100.00	100.00	100.00	100.00
Empresa Siderúrgica del Perú S.A.A. - Siderperú	Peru	86.66	86.66	83.28	86.66	86.66	83.28
Diaco S.A. and subsidiarie (9)	Colombia	99.36	99.34	98.73	99.36	99.34	98.73
Gerdau GTL México, S.A. de C.V. and subsidiaries (10)	Mexico	100.00	100.00	100.00	100.00	100.00	100.00
Seiva S.A. - Florestas e Indústrias	Brazil	97.06	97.06	97.06	99.73	99.73	99.73
Itaguaí Com. Imp. e Exp. Ltda.	Brazil	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Laisa S.A.	Uruguay	100.00	100.00	99.90	100.00	100.00	99.90
Sipar Gerdau Inversiones S.A. and subsidiaries (11)	Argentina	92.75	92.75	92.75	92.75	92.75	92.75
Siderúrgica del Pacífico S.A.	Colombia	98.32	98.29	98.24	98.32	98.29	98.24
Cleary Holdings Corp.	Colombia	100.00	50.90	50.90	100.00	50.90	50.90
Sizuca - Siderúrgica Zuliana, C.A.	Venezuela	100.00	100.00	100.00	100.00	100.00	100.00
GTL Financial Corp. (13)	Netherlands		100.00	100.00		100.00	100.00
GTL Trade Finance Inc.	British Virgin Islands	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Trade Inc.	British Virgin Islands	100.00			100.00		
Gerdau Trade II Inc.	Cayman Island	100.00			100.00		
Aços Villares S.A. (12)	Brazil		58.50	58.44		58.50	58.44

(\*) The equity interests reported represents the ownership percentage directly and indirectly held by the investor in the subsidiary.

(1) Subsidiaries: Gerdau Ameristeel US Inc., GNA Partners, Pacific Coast Steel Inc, Gerdau Ameristeel Perth Amboy Inc., Sheffield Steel Corporation, Gerdau Ameristeel Sayreville Inc., TAMCO Steel, Chaparral Steel Company.

## Edgar Filing: GERDAU S.A. - Form 20-F

- (2) Subsidiary: Gerdau Açominas Overseas Ltd..
- (3) The Subsidiary Maco Holdings Ltda. is now reported as associated, according to the note 3.3
- (4) Subsidiaries: Gerdau US Financing Inc. and Gerdau MacSteel Inc..
- (5) Fixed-income investment fund managed by JP Morgan.
- (6) Subsidiaries: Sidenor Industrial S.L., Sidenor y Cia, Sociedad Colectiva, Sidenor I+D S.A., Forjanor S.L., Corporación Sidenor S.A. y Cia, Sidenor Calibrados S.L..
- (7) Subsidiaries: Aza Participaciones S.A., Industrias del Acero Internacional S.A., Gerdau Aza S.A., Distribuidora Matco S.A., Aceros Cox Comercial S.A., Salomon Sack S.A., Matco Instalaciones Ltda e Trefilados Bonati S.A., Cerney Holdings Ltd., Indac Colômbia S.A..
- (8) Subsidiaries: LuxFin Participation S.L. and Bogey Holding Company Spain S.L..
- (9) Subsidiaries: Ferrer Ind. Corporation and Laminados Andinos S.A..
- (10) Subsidiaries: Siderúrgica Tultitlán, S.A.de C.V., Sidertul S.A. de C.V., Arrendadora Valle de México, S.A. de C.V. e GTL Servicios Administrativos México, S.A. de C.V..
- (11) Subsidiaries: Sipar Aceros S.A. and Siderco S.A..
- (12) The Subsidiary Aços Villares S.A. was incorporated by Gerdau S.A., according to the note 3.5.d,
- (13) The Subsidiary GTL Financial Corp. was closed in the year of 2010.

The Company's investments in Gallatin, Bradley Steel Processor and MRM Guide Rail in North America, in which Gerdau Ameristeel holds a 50% stake in the total capital, the investments in Armacero Industrial y Comercial Limitada in Chile, in which the Company owns a 50% stake, the investments in Industrias Nacionales (INCA) in the Dominican Republic through Multisteel Business Holdings, in which Gerdau has a 49% stake, the investments in Corporación Centroamericana del Acero S.A. in the Guatemala, in which Gerdau has a 30% stake, the investment in Corsa Controladora, S.A. de C.V. in Mexico, in which Gerdau has a 49% stake, the investment in Kalyani Gerdau Steel Ltd., in which Gerdau has a stake of approximately 73% and the investment in Dona Francisca Energética S.A, in Brazil, in which the Company holds a 52% stake are accounted in the Company's financial statements using the equity method (for further information see Note 3 Consolidated Financial Statements).

The operating companies that are fully consolidated or accounted according to the equity method in the financial statements of Gerdau S.A. are described below:

Table of Contents

*Gerdau Aços Longos S.A.* - This company produces common long steel and has 10 mills distributed throughout Brazil and annual installed capacity of 4.6 million tonnes of crude steel.

*Gerdau Comercial de Aços S.A.* - This company sells general steel products and has 76 steel distribution centers located throughout Brazil.

*Gerdau Açominas S.A.* - Açominas owns the mill located in the state of Minas Gerais, Brazil. The Açominas mill is Gerdau's largest unit, with annual installed capacity of 4.5 million tonnes of crude steel, accounting for 49.4% of Gerdau's crude steel output in the Brazil Business Operation.

*Gerdau Ameristeel Corporation* - Gerdau Ameristeel has nominal annual capacity of 10.5 million tonnes of crude steel and 9.7 million tonnes of rolled products. The Company is one of the largest producers of long steel in North America. Gerdau Ameristeel subsidiaries are Gerdau USA Inc., Gerdau Ameristeel US Inc., Gerdau Ameristeel Perth Amboy Inc., Sheffield Steel Corporation, Gerdau Ameristeel, Sayreville Inc., Pacific Coast Steel, Chaparral Steel Company, and Tamco. Gerdau Ameristeel also has a 50% interest in the jointly controlled entity Gallatin in the United States.

*Gerdau Aços Especiais S.A.* - This company is headquartered in Charqueadas in the Brazilian state of Rio Grande do Sul and has consolidated annual installed capacity of 430,000 tonnes of crude steel.

*Corporación Sidenor S.A.* - Sidenor, with operations in Spain, produces specialty steel and has annual capacity of 1.2 million tonnes. As a result of the option to purchase an additional 40% interest described at note 16.f. to the consolidated financial statements, the Company recognizes 100% as its interest in Corporación Sidenor, instead of the 60% described in the table above.

*Gerdau MacSteel Holdings Inc.* - MacSteel is one of the largest producers of specialty steel (Special Bar Quality - SBQ) in the United States. It operates three mini-mills located in Jackson, Michigan; Monroe, Michigan; and Fort Smith, Arkansas. The Company also has six downstream operations and annual installed capacity of 1.2 million tonnes of crude steel and 1.1 million tonnes of rolled steel.

*Gerdau Laisa S.A.* - In 1980, the Company acquired the Laisa mini-mill in Uruguay. Gerdau Laisa is the one of largest long steel producers in Uruguay and has annual installed capacity of 100,000 tonnes of crude steel and 80,000 tonnes of rolled products.

*Gerdau Chile Inversiones Ltda.* - The latter company has two units in Chile with combined annual production capacity of 490,000 tonnes of crude steel and 470,000 tonnes of rolled steel. Gerdau AZA also sells its products through Aceros Cox.

## Edgar Filing: GERDAU S.A. - Form 20-F

*Sipar Gerdau Inversiones S.A.* - Sipar, through its operational subsidiary Sipar Aceros S.A., entered the Argentinean market in December 1997 and has annual installed capacity of 260,000 tonnes of rolled products.

*Diaco S.A.* - Diaco is one of the largest producers of steel and rebar in Colombia and has annual installed capacity of 560,000 tonnes of crude steel and 700,000 tonnes of rolled products.

*Empresa Siderúrgica del Perú S.A.A.* - Acquired in 2006, Siderperú is a long and flat steel producer with annual installed capacity of 650,000 tonnes of crude steel and 960,000 tonnes of rolled steel. Siderperú operates one blast furnace, a direct reduction unit and a melt shop with two electric arc furnaces (EAF), two LD converters and six rolling mills.

*Gerdau GTL México, S.A. de C.V.* - The latter company is a long steel producer located in the metropolitan area of Mexico City with annual installed capacity of 500,000 tonnes of crude steel and 430,000 tonnes of rolled products.

*Sizuca - Siderúrgica Zuliana, C. A.* - In June 2007, Gerdau acquired Sizuca - Siderúrgica Zuliana located in Ciudad Ojeda, Venezuela. Sizuca owns a mini-mill that produces concrete reinforcement bars. Sizuca has annual installed capacity of 300,000 tonnes of crude steel and 200,000 tonnes of rolled products.

*Corsa Controladora, S.A. de C.V.* - In 2008, the Company acquired a 49% stake in Corsa Controladora, S.A. de C.V. (Mexico). Corsa Controladora owns 100% of the capital of Aceros Corsa, S.A. de C.V. and its distributors. Located in the metropolitan area of Mexico City, Corsa is a mini-mill that produces long steel (light merchant bars) and has annual installed capacity of 160,000 tonnes of crude steel and 250,000 tonnes of rolled products.

*Multisteel Business Holdings* - In 2007, the Company signed a strategic alliance with the shareholders of Multisteel Business Holdings Corp., a holding company headquartered in Santo Domingo, Dominican Republic. The Company has a 49% stake in the capital stock of the holding company Multisteel Business Holdings Corp., which holds 99% of the capital stock of Industrias Nacionales (INCA), a long steel rolling mill company with annual shipments of almost 300,000 tonnes of steel products.

*Corporación Centroamericana del Acero S.A.* - Strategic partnership entered into with Corporación Centroamericana del

Table of Contents

Acero S.A., assuming a 30.0% stake in the capital of this company, which has installed capacity of 430,000 tonnes of crude steel and 570,000 tonnes of rolled steel. The Company owns assets in Guatemala and Honduras as well as distribution centers in El Salvador, Nicaragua and Belize.

*Kalyani Gerdau Steel Ltd.* - Jointly controlled entity with the Kalyani Group for the operation of a steel mill in Tadipatri, located in the southern part of Andhra Pradesh state in India. Gerdau and the Kalyani Group have a joint control over this entity and Gerdau has approximately 73.2% in the Company's capital stock. The Kalyani Group has veto powers established by the jointly controlled entity agreement which establishes joint control even in this case of Gerdau having an interest over 50%. The crude steel capacity of this unit is approximately 250,000 tonnes.

*Seiva S.A. - Florestas e Indústrias* - A reforestation company created in 1971, Seiva has pinus and eucalyptus forests used by the pulp and paper industries.

*Cleary Holdings Corp.* - Cleary Holdings Corp controls a metallurgical coke producer and coking coal reserves in Colombia. The Company has coking coal reserves of 20 million tonnes and annual coke production capacity of 1.0 million tonnes.

**D. PROPERTY, PLANT AND EQUIPMENT**

**Facilities**

Gerdau's principal properties are for the production of steel, rolled products and drawn products. The following is a list of the locations, capacities and types of installation, as well as the types of products manufactured at December 31, 2010:

PLANTS	COUNTRY	INSTALLED CAPACITY (1,000 tonnes)			EQUIPMENT	PRODUCTS
		PIG IRON/ SPONGE IRON	CRUDE STEEL	ROLLED PRODUCTS		
<b>BRAZIL OPERATION</b>		<b>5,490</b>	<b>9,100</b>	<b>5,320</b>		
Açonorte	Brazil				EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	Rebar, merchant bars, wire rod, drawn products, nails
Agua Funda	Brazil		260	240	Rolling Mill	Rebar, merchant bars
Barão de Cocais	Brazil				Integrated/blast furnace, LD converter and rolling mill	Rebar, merchant bars
Cearense	Brazil	330	330	200	EAF mini-mill, rolling mill	Rebar, merchant bars
Cosígua	Brazil		200	160	EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	Rebar, merchant bars, wire rod, drawn products, nails
Divinópolis	Brazil		930	1,350	Integrated/blast furnace, EOF converter and rolling mill	Rebar, merchant bars
		430	580	520		

Edgar Filing: GERDAU S.A. - Form 20-F

Guaíra	Brazil		540	170	EAF mini-mill, rolling mill	Billet, rebar, merchant bars
Riograndense	Brazil				EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	Rebar, merchant bars, wire rod, drawn products, nails
			450	500		
Usiba	Brazil				Integrated with DRI, EAF mini-mill, rolling mill, drawing mill	Rebar, merchant bars, wire rod, drawn products
			490	400		
São Paulo	Brazil		820	610	EAF mini-mill, rolling mill	Billets, rebars
Contagem	Brazil	240			Blast furnace	Pig iron
Sete Lagoas	Brazil	130			Blast furnace	Pig iron
Açominas	Brazil				Integrated with blast furnace	Billets, blooms, slabs, wire rod, heavy structural shapes
		4,360	4,500	1,070		
<b>NORTH AMERICAN OPERATION</b>			<b>9,860</b>	<b>9,220</b>		
Beaumont	USA		590	730	EAF mini-mill, rolling mill	Quality rod products
Calverty City	USA				Rolling Mill	Merchant bars, medium structural channel and beams
				300		
Cambridge	Canada				EAF mini-mill, rolling mill	Rebar, merchant bars, special bar quality (SBQ)
			330	290		
Cartersville	USA				EAF mini-mill, rolling mill	Merchant bars, structural shapes, beams
			840	580		
Charlotte	USA		370	330	EAF mini-mill, rolling mill	Rebar, merchant bars



Table of Contents

Jackson	USA	610	540	EAF mini-mill, rolling mill	Rebar, merchant bars
Jacksonville	USA	730	620	EAF mini-mill, rolling mill	Rebar, wire rod
Joliet	USA			Rolling mill	Merchant bars, medium structural channel and beams
Knoxville	USA	520	470	EAF mini-mill, rolling mill	Rebar
Manitoba - MRM	Canada	430	360	EAF mini-mill, rolling mill	Special sections, merchant bars, rebar
Perth Amboy	USA			Rolling mill	Merchant bars, medium structural channel and beams
Sand Springs	USA			EAF mini-mill, rolling mill	Merchant bar, rebar, railway products
Sayreville	USA	730	600	EAF mini-mill, rolling mill	Rebar
St. Paul	USA			EAF mini-mill, rolling mill	Rebar, merchant bars, special bar quality round bars
Whitby	Canada	520	420	EAF mini-mill, rolling mill	Structural shapes, rebar, merchant bars
Wilton	USA	900	730	EAF mini-mill, rolling mill	Rebar, merchant bars
Midlothian	USA	320	320	EAF mini-mill, rolling mill	Rebar, merchant bars
Petersburg	USA	1,500	1,400	EAF mini-mill, rolling mill	Rebar, merchant bars
Tamco	USA	1,000	1,000	EAF mini-mill, rolling mill	Rebar, merchant bars
Tamco	USA	470	460	EAF mini-mill, rolling mill	Rebar
<b>LATIN AMERICAN OPERATION</b>		<b>400</b>	<b>2,590</b>	<b>3,030</b>	
AZA	Chile			EAF mini-mill, rolling mill	Rebar, merchant bars, wire rod, nails, wire and mesh.
Laisa	Uruguay	490	470	EAF mini-mill, rolling mill	Rebar, merchant bars
Diaco	Colombia	100	80	EAF mini-mill, rolling mill	Rebar, merchant bars, special bar quality (SBQ)
Sipar	Argentina	550	650	Rolling mill	Rebar, merchant bars
Siderperú	Peru		240	Blast Furnace, EAF mini-mill, rolling mill	Rebar, merchant bars, slabs
Sizuca	Venezuela	400	650	960	EAF mini-mill
Sidertul	Mexico	300	200	430	EAF mini-mill, rolling mill
<b>SPECIALTY STEEL OPERATION</b>		<b>3,760</b>	<b>3,690</b>		
Pindamonhangaba, Mogi das Cruzes E Sorocaba	Brazil			EAF mini-mill, rolling mill	Flat bar, special profiles, wires, wire rod, finished and rolled bar, rolling mill rolls.
Piratini	Brazil	1,000	910	EAF mini-mill, rolling mill	Finished and rolled bar, wire rod, forged bar.
Corporación Sidenor	Spain	430	470	EAF mini-mill, rolling mill	Finished and rolled bar, and forged pieces and rolling mill rolls.
MacSteel	USA	980	1,070	EAF mini-mill, rolling mill	Finished and rolled bar.
<b>GERDAU TOTAL</b>		<b>5,890</b>	<b>25,310</b>	<b>21,260</b>	

While electric arc furnace (EAF) mills produce crude steel from raw materials such as steel scrap or pig iron, a mill with a blast furnace or direct reduction iron (DRI) produces pig iron or sponge iron for use in the production of crude steel, with iron ore and natural gas being the main raw materials.

**Mining Assets**

Although the Company is primarily focused on the steel business, it owns four mineral assets in order to have its own sources of minerals by acquiring land and mining rights. These mines are located in Miguel Burnier, Várzea do Lopes, Dom Bosco and Gongo Soco near the Açominas mill in the state of Minas Gerais, Brazil. The location of these mines in the Minas Gerais iron belt and in the vicinity of the Açominas mill

should contribute to the long term competitiveness of this unit.

### **Investment Programs**

In fiscal year 2010, capital expenditure on fixed assets was R\$ 1,288.7 million. Of this total, 69.3% was allocated to Brazil Business Operation units and the remaining 30.7% was allocated to the other businesses operations. The Company invested R\$ 3,192.1 million (net of cash) in acquisitions during 2010.

*Brazil Business Operation* a total of R\$ 893.7 million was invested in this operation for capital expenditure. The major part of this investment was for the installation of heavy plates and hot-rolled coil rolling mills at the Açominas mill.

Table of Contents

*North America Business Operation* this business operation spent R\$ 3,178.3 million on capital projects and acquisitions in 2010. On August 30, 2010, Gerdau S.A. concluded the acquisition of all outstanding common shares issued by Gerdau Ameristeel that it did not yet hold either directly or indirectly, paying a total of R\$ 2,808.9 million. The Company also paid approximately R\$ 283.1 million for the acquisition of Tamco, a company based in the state of California, US.

*Latin America Business Operation* in 2010, the Latin American units spent R\$ 310.9 million, from which R\$ 209.8 million were capital expenditure on fixed assets for the substitution of an electric arc furnace in Peru. In the same period the Company acquired an additional stake of 49.1% in Cleary Holdings Corp. for R\$ 101.1 million.

*Specialty Steel Business Operation* the specialty steel units spent R\$ 97.9 million in 2010, for capital expenditure on fixed assets equally distributed throughout the countries which compose this business operation.

The investments in fixed assets planned for the period from 2011 to 2015 are estimated at R\$ 10.8 billion, and include both strategic and maintenance investments (see table below).

<b>Investment Plan Main Projects</b>	<b>Location</b>	<b>Additional rolling capacity (1,000 tonnes)</b>	<b>Start-up</b>
<b>Brazil Business Operation</b>			
Expansion of the structural profile rolling mill at Açominas mill-MG	Brazil	160	2011
Flat steel rolling mill (heavy plates and coiled hot-rolled strips) at Açominas mill-MG	Brazil	1,900	2012
Expansion of mining capacity to 7 million tonnes	Brazil		2012
Wire rod and rebar rolling mill in Cosigua mill-RJ(1)	Brazil	600	2012
Fabrication units and ready-to-use steel product units	Brazil		2012
<b>North America Business Operation</b>			
Reheating furnace at Calvert City	USA		2012
<b>Latin America Business Operation</b>			
Port facilities (for coal and coke shipments)	Colombia		2012
<b>Specialty Steel Business Operation</b>			
New continuous slab casting with capacity expansion at the melt shop	USA	200	2012
Specialty steel and rebar rolling mill, sintering and energy generation(2)	India	300	2012
Specialty steel rolling mill	Brazil	500	2012

(1) In order to supply this rolling mill Gerdau will resume its melt shop with 600,000 tonnes crude steel capacity located in Santa Cruz Rio de Janeiro.

(2) Capacity is not included in consolidated figures, since it is a shared controlled company.

Additionally the Company has the following planned investments:

## Edgar Filing: GERDAU S.A. - Form 20-F

- Brazil: In the phase 2 will have an additional 500,000 tonnes rolling capacity in Santa Cruz-RJ
- Peru: Melt shop modernization and improvement of port logistic, as well the technological improvement on environmental protection at this unit
- United States: dedusting system at Tamco melt shop.

### **Environmental Issues**

Gerdau S.A believes it is currently in compliance with government environmental regulations. The Company believes that there are no environmental issues that could affect the use of its fixed assets.

In 2010, Gerdau S.A. invested R\$ 137.7 million in the improvement of its eco-efficiency practices and in technologies for the protection of the air, water and soil.

### ***Environmental Regulation***

In all of the countries in which the Company operates, it is subject to federal, state and municipal environmental laws and regulations governing air emissions, wastewater discharges and solid and hazardous waste handling and disposal. Its manufacturing facilities have been operating under the applicable environmental rules. The respective permits and licenses require the satisfaction of various performance standards, which are monitored by regulatory authorities. The Company employs a staff of experts to manage all phases of its environmental programs and uses outside experts where needed. The Company works to assure that its operations maintain compliance in all material respects with the applicable environmental laws, regulations, permits and licenses currently in effect. When Gerdau acquires new plants, it conducts an assessment of potential environmental issues and prepares a work plan in compliance with the local authorities.

The steel production process generates air and water emissions, as well as solid wastes, which may pose environmental hazards. The principal potential hazardous waste generated by current and past operations is electric arc

Table of Contents

furnace dust, a byproduct from the production of steel in electric arc furnaces. Gerdau installs baghouse filter systems in all facilities where it produces steel, which assures high levels of efficiency in terms of dust filtration and retention. The costs with collecting and disposing of electric arc furnace dust are expensed as operating costs when incurred. Environmental legislation and regulations at both the federal and state levels concerning electric arc furnace dust in any jurisdiction is subject to potential changes, which could increase the cost of compliance. The Company believes the electric arc furnace dust generated by its current production processes is being collected, handled and disposed of in a manner that in all material respects meets all current federal, state and local environmental regulations.

In most countries, both federal and state governments have the power to enact environmental protection laws and issue regulations under such laws. In addition to those rules, the Company is also subject to municipal environmental laws and regulations. Under such laws, individuals or legal entities whose conduct or activities cause harm to the environment are usually subject to criminal and administrative sanctions, as well as any costs to repair the actual damages resulting from such harm. Individuals or legal entities that commit environmental crimes usually are subject to penalties and sanctions that for individuals range from fines to imprisonment, and for legal entities include suspending or interrupting operations and prohibiting entering into any contracts with government agencies. Government environmental protection agencies usually may also impose administrative sanctions on individuals and entities that fail to comply with environmental laws and regulations that include:

- fines;
  
- partial or total suspension of operations;
  
- obligations to provide compensation for recovery works and environmental projects;
  
- forfeiture of or restrictions on tax incentives and benefits;
  
- closing of establishments or enterprises; and
  
- forfeiture or suspension of participation in credit lines with official credit agencies.

In 2006, the subsidiaries in Brazil evaluated seven of their operational sites regarding potential environmental impacts caused by past operations. The Company concluded that its past operations may have caused environmental damage, mainly due to the use and disposal of hazardous substances, and that it may be required in the future by authorities to remedy these environmental damages. Based on assumptions of the extent of the potential damage caused and on the time of the remedial process, the Company has made estimates to determine the amounts involved in data collection, analysis and determination of the actual environmental impact in the areas potentially impacted by its operations. These estimates amount to R\$ 20.9 million and were recorded under Environmental Liabilities. Those amounts may vary in the future, depending on the development of research and the conclusion of the environmental impact studies. In December 31, 2010 the updated present value of the total remaining amount of Brazilian Environment Liabilities was estimated at R\$ 20.9 million. Some of these areas have already been recovered and some areas are still being evaluated.

Gerdau Ameristeel and Macsteel estimated clean-up costs based on a review of the anticipated remedial activities to be undertaken at each of its known contaminated sites. Although the ultimate costs associated with such remedies are not precisely known, the Company has estimated the present value of the total remaining costs as of December 31, 2010 at approximately R\$ 49.7 million, with these costs recorded as a liability in its financial statements in Note 21 – Environmental Liabilities.

Gerdau has industrial facilities holding ISO 14001 certification in many countries, of which 16 units are in Brazil; 1 in Chile; 2 in Colombia; 1 in Uruguay, 1 in Argentina; 19 in North America and 5 in Spain.

***Brazilian Environmental Legislation***

The Company's activities are subject to wide-sweeping Brazilian environmental legislation at the federal, state and municipal levels that govern, among other aspects, the dumping of effluents, atmospheric emissions and the handling and final disposal of dangerous waste, as well as the obligation to obtain operating licenses for the installation and operation of potentially polluting activities.

Brazilian environmental legislation provides for the imposition of criminal and administrative penalties on natural persons and legal entities that commit environmental crimes or infractions, as well as for the obligation to repair the environmental damage caused. Although the Company has never suffered any environmental penalties that could have a relevant impact on its business, potential environmental crimes or infractions could subject the Company to penalties that include:

Table of Contents

- fines that at the administrative level could reach as high as R\$50 million, depending on the violator's economic capacity and past record, as well as the severity of the facts and prior history, with the amounts potentially doubled or tripled in the case of repeat offenders;
- suspension of or interference in the activities of the respective enterprise; and
- loss of benefits, such as the suspension of government financing and the inability to qualify for public bidding processes and tax breaks.

In addition, strict liability is applicable to environmental crimes for both natural persons and legal entities. Environmental legislation also provides for disregarding the legal status of a company's controlling shareholder whenever such status represents an impediment to receiving restitution for environmental damages.

In the civil sphere, environmental damage results in joint and several liability as well as strict liability. This means that the obligation to repair the environmental damage may affect all those directly or indirectly involved, regardless of any proof of who is to blame. As a result, the hiring of third parties to intervene in its operations to perform such services as final disposal of solid waste does not exempt the Company from liability for any environmental damage that may occur.

***North American Environmental Legislation***

The Company is required to comply with a complex and evolving body of Environmental, Health and Safety Laws (EHS Laws) concerning, among other things, air emissions, discharges to soil, surface water and groundwater, noise control, the generation, handling, storage, transportation and disposal of toxic and hazardous substances and waste, the clean-up of contamination, indoor air quality and worker health and safety. These EHS Laws vary by location and can fall within federal, provincial, state or municipal jurisdictions.

Most EHS Laws are of general application but result in significant obligations in practice for the steel sector. For example, the Company is required to comply with a variety of EHS Laws that restrict emissions of air pollutants, such as lead, particulate matter and mercury. Because the Company's manufacturing facilities emit significant quantities of air emissions, compliance with these laws does require the Company to make investments in pollution control equipment and to report to the relevant government authority if any air emissions limits are exceeded. The government authorities typically monitor compliance with these limits and use a variety of tools to enforce them, including administrative orders to control, prevent or stop a certain activity; administrative penalties for violating certain EHS Laws; and regulatory prosecutions, which can result in significant fines and (in rare cases) imprisonment. The Company is also required to comply with a similar regime with respect to its wastewater. EHS Laws restrict the type and amount of pollutants that Company facilities can discharge into receiving bodies of waters, such as rivers, lakes and oceans, and into municipal sanitary and storm sewers. Government authorities can enforce these restrictions using the same variety of tools noted above. The Company has installed pollution control equipment at its manufacturing facilities to address these emissions and discharge limits, and has an environmental management system in place designed to reduce the risk of non-compliance.

*Environmental Permits*

According to Brazilian environmental legislation, the proper functioning of activities considered effectively or potentially polluting or that in some way could cause environmental damage requires environmental licenses. This procedure is necessary for both the activity's initial installation and operating phases as well as for its expansion phases, and these licenses must be renewed periodically.

The Brazilian Institute for the Environment and Renewable Resources (IBAMA) has jurisdiction to issue licenses for projects with national or regional environmental impacts. In all other cases, the state environmental agencies have jurisdiction and, in the case of local impact, the municipal agencies have jurisdiction.

Environmental licensing of activities with significant environmental impacts is subject to a Prior Environmental Impact Study and respective Environmental Impact Report (EIA/RIMA), as well as the implementation of measures to mitigate and compensate for the environmental impact of the project. In the case of compensatory measures, the environmental legislation imposes on the project's owner the obligation to set aside funds equivalent to at most 0.5% of the total estimated cost of installing the project to implement and maintain conservation units.

The environmental licensing process includes the issuance of three licenses: Pre-License (LP), Installation License (LI) and Operational License (LO). These licenses are issued in accordance with each phase of project implementation, and maintaining their validity requires compliance with the requirements established by the environmental licensing agency. The failure to obtain an environmental license, regardless of whether or not the activity is actually harming the environment, is considered an environmental crime and an administrative infraction, subjecting the violator to, for example, administrative fines, which at the federal level could be as much as R\$10 million (subject to



Table of Contents

being doubled or tripled in the case of repeat violations), and the suspension of operations. The Operational License (LO) must be renewed periodically.

The Company's operations currently comply with all legal requirements related to environmental licenses. However, any delay or refusal on the part of environmental licensing agencies to issue or renew these licenses, as well as any difficulty on its part to meet the requirements established by these environmental agencies during the course of the environmental licensing process, could jeopardize or even impair the installation, operation and expansion of new and current projects.

*Areas of permanent forest preservation and legal reserves*

Some of the Company's activities, mainly those involving reforestation related to the production of the firewood used in its industrial units, are subject to the Brazilian Forestry Code.

The Brazilian Forestry Code determines that certain areas, because of their importance for preserving the environment and water resources, be considered permanent preservation areas (APP). These include areas adjacent to rivers or natural or artificial reservoirs, and hilltops and hillside properties with an incline steeper than 45°. Suppression of the vegetation in these areas may only occur in cases of public need or social interest, provided previous authorization is obtained from the appropriate environmental agencies.

In addition, the Brazilian Forestry Code requires rural property owners to restore and preserve from 20% to 80% of areas containing native forests, depending on the region where the property is located. On properties where the extent of native forest does not meet the minimum percentage of legal forest reserves, Executive Order 2166-67/2001 mandates the gradual reforestation of at least one-tenth of the area necessary to complete the legal percentage of forest reserve every three years until the percentage required for that location is achieved.

Executive Order 2166-67/2001 also establishes alternative methods for restoring legal forest reserve areas, which may be adopted successively or cumulatively. These alternative methods constitute compensatory measures, such as: the adoption of a condominium system consisting of more than one property; compensation using another area situated within the same microbasin or hydrographic basin in the state; the leasing of an area under the public forest system with right-of-way; or the acquisition of interests in forest reserve areas created specifically for this purpose.

**ITEM 4A. UNRESOLVED SEC STAFF COMMENTS**

The Company has no unresolved comments from the staff of the U.S. Securities and Exchange Commission with respect to its periodic reports under the Securities Exchange Act.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**A. OPERATING RESULTS**

The following discussion of the Company's financial condition and operating results should be read in conjunction with the Company's audited consolidated financial statements as of December 31, 2010, 2009 and 2008 included in this Annual Report that have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by International Accounting Standard Board (IASB) as well as with the information presented under "Presentation of Financial and Other Information" and "Selected Financial and Other Information of Gerdau".

The following discussion contains forward-looking statements that are based on management's current expectations, estimates and projections and that involve risks and uncertainties. The Company's actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those described in the sections "Forward-Looking Statements" and "Risk Factors".

The primary factors affecting the Company's operating results include:

- Economic and political conditions in the countries in which Gerdau operates, specially Brazil and U.S.;
- The fluctuations in the exchange rate between the Brazilian *real* and the U.S. dollar;
- The cyclical nature of supply and demand for steel products both inside and outside of Brazil, including the prices for steel products;
- The Company's level of exports; and

Table of Contents

- The Company's production costs.

**Brazilian Economic Conditions**

The Company's results and financial position depend largely on the situation of the Brazilian economy, notably economic growth and its impact on steel demand, financing costs, the availability of financing and the exchange rates between Brazilian and foreign currencies.

Since 2003, the Brazilian economy has become more stable, with significant improvement in the main indicators. The continuity of the macroeconomic policies focused on tax matters, the inflation-targeting system, the adoption of a floating foreign exchange rate, the increase in foreign investment and compliance with international financial agreements, including the full repayment of debt with the International Monetary Fund, contributed to the improved economic conditions in Brazil.

In 2008, Brazilian GDP grew by 5.1% to \$1.6 trillion, with a trade surplus of \$25 billion. Inflation, as measured by the IPCA index, was 5.9%, while the average CDI rate in the year was 12.4%. The U.S. dollar/Brazilian *real* foreign exchange rate on December 31, 2008 was R\$2.34/\$1.00.

In 2009, Brazilian GDP slightly fell by 0.6% remaining at \$1.6 trillion, with a trade surplus of \$25 billion. Inflation, as measured by the IPCA index, stood at 4.3%. The average CDI rate in the year was 9.9%. The Brazilian *real* appreciated by 25.5% against the U.S. dollar, ending the year at R\$1.74 to \$1.00.

In 2010, Brazilian GDP grew by 7.5% to \$2.1 trillion, with a trade surplus of \$20 billion. Inflation, as measured by the IPCA index, was 5.9%. The average CDI rate in the year was 9.7%. On December 31, 2010, the U.S. dollar/Brazilian *real* foreign exchange rate was R\$1.67/\$1.00.

Inflation affects Gerdaul's financial performance by increasing operating expenses denominated in Brazilian *reais*. A significant portion of its costs of sales and services rendered, however, are linked to the U.S. dollar and are not substantially affected by the Brazilian inflation rate.

Moreover, a significant portion of the Company's debt denominated in Brazilian *reais* is subject to interest at the CDI and TJLP rates, which are affected for many factors including inflation in Brazil. Another portion of the Company's debt, denominated in Brazilian *reais*, is indexed to general-inflation indexes, generally the IGP-M index. Therefore, higher inflation may result in increases in the Company's financial expenses and debt service obligations.

The interest rates that the Company pays depend on a variety of factors such as; movements on the interest rates, which can be driven by inflation; ratings given by the credit rating agencies that assess the Company; as well as the Company's debt securities that are traded in the secondary market, as bonds. The Company's debt obligations with floating interest rates, exposes the Company to market risks from changes in

## Edgar Filing: GERDAU S.A. - Form 20-F

the CDI rate, IGP-M index and LIBOR. To reduce its exposure to interest rate risk, the Company seeks from time to time to enter into hedging arrangements to mitigate fluctuations in these rates, such as LIBOR.

The table below presents GDP growth, inflation, interest rates and the foreign exchange rate between the U.S. dollar and the Brazilian *real* for the periods shown.

	2010	2009	2008
Actual GDP growth	7.5%	(0.6)%	5.1%
Inflation (IGP-M) (1)	11.3%	(1.7)%	9.8%
Inflation (IPCA) (2)	5.9%	4.3%	5.9%
CDI rate (3)	9.7%	9.9%	12.4%
6-month LIBOR	6.4%	0.4%	1.8%
Depreciation (appreciation) in the Brazilian <i>real</i> against the U.S. dollar	(4.3)%	(25.5)%	31.9%
Foreign exchange rate at end of period    \$1.00	R\$ 1.6662	R\$ 1.7412	R\$ 2.3370
Average foreign exchange rate    \$1.00 (4)	R\$ 1.7593	R\$ 1.9935	R\$ 1.8375

---

Sources: Getúlio Vargas Foundation, Central Bank of Brazil and Bloomberg

- (1) Inflation as measured by the General Market Price index (IGP-M) published by the Getúlio Vargas Foundation (FGV).
- (2) Inflation as measured by the Broad Consumer Price Index (IPCA) measured by Brazilian Institute of Geography and Statistics (IBGE).
- (3) The CDI rate is equivalent to the average fixed rate of interbank deposits recorded during the day in Brazil (annualized monthly cumulative figure at end of period).
- (4) Average of the foreign exchange rates, according to the Brazilian Central Bank, on the last day of each month in the period indicated.

Table of Contents**U.S. Economic Conditions**

In view of the size of the Company's operations in the United States, U.S. economic conditions have a significant effect on the Company's results, particularly with regard to U.S. economic growth and the related effects on steel demand, financing costs and the availability of credit.

In the United States, Real GDP began to fall in the third quarter of 2008 (down 2.7% annualized) before falling at a 5.4% annual rate in the fourth quarter of 2008 as uncertainty and tight credit conditions led companies to preserve cash, leading to a drawdown in inventories throughout the supply chain. Inventory reduction continued on a much wider scale in the first quarter of 2009, accounting for about one-half of the estimated 6.4% drop in annualized Real GDP. The second quarter of 2009 saw demand begin to stabilize, with Real GDP falling at a 0.7% pace as domestic demand and inventories bottomed out. Supported by the Cash for Clunkers program, which drove a sharp rise in auto sales, and first-time homebuyer incentives, which supported improved housing starts, Real GDP in the United States grew by 5.7% in the fourth quarter of 2009, as re-stocking of inventories outweighed the continued negative impact of rising unemployment on consumption. In 2010, the United States economy kept showing a gradual recovery, with an increase in the demand for steel products. The improvement in the automotive sector and in the manufacturing industry were the drivers of the recovery in demand. The Institute for Supply Management (ISM), the main indicator of industrial production in North America, reached 58.5 in December 2010, with a reading above 50 indicating growth. The infrastructure and non-residential segments continued to present weak and stable demand.

In 2008, U.S. Real GDP was 0.0% (\$14.4 trillion Nominal GDP), with a trade deficit of \$668.9 billion, according to the IMF (International Monetary Fund). Inflation in 2008 measured by the CPI was 3.8%. The average Fed Funds rate was 1.9%.

In 2009, according to IMF (International Monetary Fund) the U.S. Real GDP decreased by 2.6% (\$14.1 trillion Nominal GDP), with a trade deficit of \$378.4 billion. Deflation, as measured by the CPI, was 0.3%. The average Fed Funds rate (the interest rate established by the U.S. Federal Reserve) was 0.2%.

In 2010, U.S. Real GDP grew by 2.6% (\$14.6 trillion Nominal GDP), with a trade deficit of \$466.5 billion, according to the International Monetary Fund (IMF). Inflation in 2010 measured by the CPI was 1.4%. The average Fed Funds rate was 0.2%.

The table below presents actual U.S. Real GDP growth, inflation and interest rates for the periods indicated.

	2010	2009	2008	
Actual Real GDP growth (1)	2.6%	(2.6)%	0.0%	
Inflation (CPI) (2)	1.4%	(0.3)%	3.8%	
Fed Funds (3)	0.2%	0.2%	1.9%	

Sources: International Monetary Fund and Federal Reserve Statistical Release

(1) Real GDP growth (annual percent change) published by the International Monetary Fund (IMF).

(2) Consumer price index, average of consumer prices (annual percent change) published by the International Monetary Fund (IMF). The CPI is a survey of consumer prices for all urban consumers.

(3) Fed Funds corresponds to the interest rate set by the U.S. Federal Reserve.

### **Impact of Inflation and Fluctuations in Exchange Rates**

Gerdau's results and its financial position are largely dependent on the state of the Brazilian economy, notably (i) economic growth and its impact on steel demand, (ii) financing costs and the availability of financing, and (iii) the rates of exchange between the Brazilian *real* and foreign currencies.

For many years, Brazil experienced high inflation rates that progressively eroded the purchasing power of the vast majority of the population. During periods of high inflation, effective salaries and wages tend to fall because the frequency and size of salary and wage adjustments for inflation usually do not offset the actual rate of inflation. Since the introduction of the Brazilian *real* in July 1994, the inflation rate in Brazil has decreased dramatically. Following the implementation of the Real Plan, Brazilian GDP has accelerated, growing by 1.3% in 2001 and 2.7% in 2002, contracting by 1.1% in 2003, and growing by 5.7% in 2004, 3.2% in 2005, 4.0% in 2006, 6.1% in 2007, 5.1% in 2008 and decreasing 0.6% in 2009 and growing by 7.5% in 2010.

In a positive economic environment, the Brazilian *real* appreciated against the U.S. dollar throughout 2010, leading to significant improvement in Brazil country risk and a gradual reduction in interest rates.

A portion of Gerdau's trade accounts receivable, trade accounts payable and debt is denominated in currencies other than the respective functional currencies of each subsidiary. The functional currency of the Brazilian operating subsidiaries is the Brazilian *real*. Brazilian subsidiaries have some of their assets and liabilities denominated in foreign currencies, mainly the U.S. dollar.

Table of Contents

The foreign exchange effect on translation of foreign subsidiaries is recorded directly in shareholders equity. Foreign exchange gains and losses on transactions, including the exchange gains and losses on some non-*real* denominated debt of the subsidiaries in Brazil are recognized in the statement of income. However, foreign exchange gains and losses designated as the hedged instrument of investment in foreign subsidiaries is also recognized directly in shareholders equity. The operations of Gerdau in Brazil have both liabilities and assets denominated in foreign currency, with the amount of assets exceeds the amount of liabilities. The effect of the valuation of the Brazilian *real* versus other currencies (mainly the U.S. dollar) has a net positive effect in our shareholders equity.

**The cyclical nature of supply and demand for steel products including the prices of steel products**

The prices of steel products are generally sensitive to changes in world and local demand, which in turn are affected by economic conditions in the world and in the specific country. The prices of steel products are also linked to available installed capacity. Most of the Company's long rolled steel products, including rebars, merchant bars and common wire rods, are classified as commodities. However, a significant portion of the Company's long rolled products, such as specialty steel, wire products and drawn products, are not considered commodities due to differences in shape, chemical composition, quality and specifications, with all of these factors affecting prices. Accordingly, there is no uniform pricing for these products.

Over the last ten years, annual world crude steel production volume has varied from between approximately 850 million tonnes and 1.400 million tonnes. According to the worldsteel, world crude steel production in 2010 was 1,395 million tonnes, 14.3% higher than in 2009, a reflection of the recovery in the world economy increasing the demand for steel products. China continued to increase its crude steel production by 10.1% in 2010, mainly due to massive public spending on infrastructure projects. According to worldsteel, world demand for finished steel products increased by 55.5% between 2002 and 2010, for an average annual growth rate of 5.0%.

International steel prices increased around 84.7% over the last five years (2006-2010), due to stronger demand from China, which has led steelmakers to invest in new projects to expand installed capacity. On the other hand international steel prices have experienced ups and downs throughout the period from the fourth quarter of 2007 and through the fourth quarter of 2009, when the average price per tonne of CIS export billet at Black Sea/Baltic Sea was \$540 in the fourth quarter of 2007, skyrocketing to \$1,174 in June 2008, slumping to \$310 in March 2009 and reaching \$415 at the end of 2009. This swing in the steel price was mainly caused by the turmoil in the world economy and the surplus supply of steel products in a scenario of lower demand in the period. During 2010 the prices recovered, increasing by 45.8% when compared to 2009, reaching \$605 in the end of the year.

The average price per tonne of the CIS export billet at the Black Sea/Baltic Sea is used as a reference for the international price, and it is possible to see its evolution in the chart below:

***Average Price of CIS Export Billet at Black Sea/Baltic Sea (\$ per Tonne)***

Source: Metal Bulletin and Bloomberg

*Export levels* - during periods of lower domestic demand for the Company's products, the Company actively pursues export opportunities for its excess production in order to maintain capacity utilization rates and shipments. During periods of higher domestic demand for its products, export sales volumes may decline as the Company focuses on satisfying domestic demand. In the past three years, we exported products from Brazil to customers in other continents with whom we have long-established commercial relations. In 2010, exports were 26.5% higher when compared to 2009, reaching 1.9 million tonnes, which represented 30% of all sales by our Brazilian units, the same percentage as in 2009.



Table of Contents

Export revenue totaled \$1.2 billion in the year (excluding revenue from shipments to subsidiaries and affiliated companies).

*Production costs* - raw materials account for the highest percentage of the Company's production costs. Metallic inputs, that includes scrap, pig iron, iron ore, coke and metallic alloys, represented in 2010 approximately 51.5% of production costs, while Energy and Reducing Agents, that represents cost with coal, electricity, oxygen, natural gas and fuel oil, accounted for 14.6%. Personnel totaled 14.7% of production costs and Specific Materials that includes refractories, electrodes, rolling cylinders, rollers, guides, carburants and lime sum 8.0% of total production costs. The chart below presents the costs breakdown:

***Production Costs Breakdown in 2010***

**Significant events affecting financial performance during 2010**

*Recovery from international crisis* - In fiscal year 2010, Gerdau's results reflected the measures implemented over the course of 2009 to optimize the Company's operational and financial areas and were achieved despite the many challenges that emerged in the period, especially those related to raw material costs and the slow economic growth in developed markets. Since the beginning of 2010, the steel market has been showing continued improvement, in different levels depending on the region, mainly supported by strong growth in most developing economies. This improvement in demand and steel market conditions as a whole is in line with global economic activity. These factors were the main drivers for the better operational results of the Company in 2010 compared to 2009.

*Exchange rate* - The Company's financial result is affected by fluctuations in the foreign exchange rate between the Brazilian real and the currencies of the countries in which it operates. In 2009, Gerdau's financial result included a gain from the appreciation of the Brazilian *real*

against the U.S. dollar in the period (+25.5%) on the translation of foreign-denominated asset balances (export receivables) and liability balances (primarily dollar-denominated debt contracted by Brazilian companies) in the amount of R\$ 1,060.9 million. In 2010, the lower foreign exchange variation between the US dollar and the *real* in the period (an appreciation of the real against US dollar of 4.3%), resulting in the amount of R\$ 104.4 million, was the main factor responsible for the negative financial result in the period, which compares with the positive financial result recorded last year.

*Reversal (Impairment) of Assets and Restructuring Costs* Gerdau reports its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) established by the International Accounting Standard Board (IASB). These accounting standards determine that the Company's assets must undergo impairment tests based on revisions of the prospects for cash generation and the future earnings from the Company's operations. In 2009, the Company recognized an impairment of assets in the amount of R\$1.2 billion, which was mainly generated by downward revisions in expectations for operating results in the North America and Specialty Steel business operations. In 2010, due to the more favorable market conditions observed at the Specialty Steel Business Operations, especially in the United States, the impairment testing of assets identified net gains of R\$ 336 million in the period (R\$ 289 million net of income tax).

### **Operating Results**

The following presentation of the Company's operating results for the years ended December 31, 2010, 2009 and 2008 is based on the Company's consolidated financial statements prepared in accordance with International

Table of Contents

Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB) included in this Annual Report. References to increases or decreases in any year or period are made in relation to the corresponding prior year or period, except where stated otherwise.

The table below presents information for various income statements items and expressed as a percentage of net sales for each of the respective years:

	2010		For the year ended December 31, 2009		2008	
	R\$ million	% net sales	R\$ million	% net sales	R\$ million	% net sales
Net sales	31,393	100.0%	26,540	100.0%	41,908	100.0%
Cost of Sales	(25,873)	(82.4)%	(22,305)	(84.0)%	(31,228)	(74.5)%
Gross profit	5,520	17.6%	4,235	16.0%	10,680	25.5%
Operating expenses:						
Selling and marketing expenses	(552)	(1.8)%	(429)	(1.6)%	(480)	(1.1)%
General and administrative expenses	(1,806)	(5.8)%	(1,714)	(6.5)%	(2,285)	(5.5)%
Reversal (Impairment) of assets	336	1.1%	(1,072)	(4.0)%		
Restructuring costs			(151)	(0.6)%		
Other operating income	207	0.7%	190	0.7%	206	0.5%
Other operating expenses	(101)	(0.3)%	(102)	(0.4)%	(116)	(0.3)%
Equity in earnings of unconsolidated companies	39	0.1%	(109)	(0.4)%	123	0.3%
Income Before Financial Income (Expenses) and Taxes	3,645	11.6%	847	3.2%	8,128	19.4%
Financial revenues	296	0.9%	436	1.6%	484	1.2%
Financial expenses	(1,098)	(3.5)%	(1,286)	(4.8)%	(1,621)	(3.9)%
Exchange variations	104	0.3%	1,061	4.0%	(1,036)	(2.4)%
Gains and losses on derivatives, net	12	(0.0)%	(26)	(0.1)%	(62)	(0.1)%
Income taxes	(502)	(1.6)%	(27)	(0.1)%	(948)	(2.3)%
Net income	2,457	7.8%	1,005	3.8%	4,945	11.8%

**Year Ended December 31, 2010 Compared with Year Ended December 31, 2009***Net Sales*

Net Sales by Business Operations(*) (R\$ million)	Year ended	Year ended	Variation
	December 31, 2010	December 31, 2009	Year ended December 31, 2010/ Year ended December 31, 2009
Brazil	13,013	10,596	22.8%
North America	8,836	8,294	6.5%
Latin America	3,487	3,137	11.2%
Specialty Steel	6,611	4,777	38.4%

Edgar Filing: GERDAU S.A. - Form 20-F

Intercompany Eliminations	(554)	(264)	109.8%
<b>Total</b>	<b>31,393</b>	<b>26,540</b>	<b>18.3%</b>

---

(\*) The information above does not include data from jointly controlled entities and associate companies.

In 2010, consolidated net sales increased in relation to 2009 (see table above), driven by the increased shipments (+24%), despite the lower net sales per tonne sold ( - 4.7%). In 2010, consolidated shipments grew in all business operations, especially in those operations with greater exposure to the Brazilian market and to the auto industry.

In absolute figures, the Brazil Business Operation was the highlight of net sales growth in 2010, supported by the increased shipments (+28.4%), especially in the Brazilian market (+29.2%). This growth in shipments compensated the reduction of 6. 1% in net sales per tonne, from R\$ 1,997 in 2009 to R\$ 1,875, driven by price discounts granted to customers in the domestic market during the fourth quarter of 2010. At the Brazil Business Operation, the manufacturing industry played an important role in the recovery in demand, fueled by the 21% growth in capital goods production in 2010, according to the Brazilian Institute of Geography and Statistics (IBGE). In the Brazilian market, demand remains robust in the construction industry, as confirmed by the growth of 11.6% in Construction GDP forecast for 2010, according to Sinduscon, an industry trade union.

Table of Contents

The Specialty Steel Business Operation also posted significant growth in net sales, led by the shipments growth (+ 48.4%) at its operations in Brazil (+ 45.2%) and the United States (+64.0%). This growth in shipments compensated the reduction of 6.8% in net sales per tonne, from R\$ 2,566 in 2009 to R\$ 2,392 in 2010, mainly in Brazil and Spain. In the Specialty Steel Business Operation, the highlights in shipments were the operations in Brazil and the United States, which benefitted from the strong recovery in the auto industry, with vehicle production growing 14% in Brazil and 36% in the United States.

The North America Business Operation posted growth in net sales, led by the shipments growth of 16.4% partially offset by the reduction of 8.4% in the net sales per tonne, from R\$ 1,681 in 2009 to R\$ 1,539 in 2010 due to the devaluation of the US dollar against the real in the period. At the North America Business Operation, the manufacturing industry was also the main driver of the recovery in shipments. The Institute for Supply Management (ISM), the main indicator of industrial production in North America, reached 58.5 in December 2010, with a reading above 50 indicating growth. The infrastructure and non-residential segments continued to present weak and stable demand.

The Latin America Business Operation posted similar performance, with growth in net sales, led mainly by the shipments growth of 9.7%, especially in its operations in Argentina and Mexico, countries in which GDP growth was estimated at 9% and 5%, respectively. Net sales per tonne slightly increased from R\$ 1,557 in 2009 to R\$ 1,577 in 2010.

*Cost of Sales and Gross Profit*

Net sales, Cost of Sales and Gross Profit(*)		Year ended		Variaton
		2010	December 31, 2009	Year ended December 31, 2010/ December 31, 2009
Brazil	Net sales (R\$million)	13,013	10,596	22.8%
	Cost of Sales (R\$million)	(10,179)	(7,516)	35.4%
	Gross Profit (R\$million)	2,834	3,080	8.0%
	<i>Gross margin (%)</i>	<i>21.8%</i>	<i>29.1%</i>	
North America	Net sales (R\$million)	8,836	8,294	6.5%
	Cost of Sales (R\$million)	(7,998)	(7,703)	3.8%
	Gross Profit (R\$million)	838	591	41.8%
	<i>Gross margin (%)</i>	<i>9.5%</i>	<i>7.1%</i>	
Latin America	Net sales (R\$million)	3,487	3,137	11.2%
	Cost of Sales (R\$million)	(3,021)	(3,070)	1.6%
	Gross Profit (R\$million)	466	67	595.5%
	<i>Gross margin (%)</i>	<i>13.4%</i>	<i>2.1%</i>	
Specialty Steel	Net sales (R\$million)	6,611	4,777	38.4%
	Cost of Sales (R\$million)	(5,312)	(4,384)	21.2%
	Gross Profit (R\$million)	1,299	393	230.5%
	<i>Gross margin (%)</i>	<i>19.6%</i>	<i>8.2%</i>	
Intercompany Eliminations	Net sales (R\$million)	(554)	(264)	109.8%
	Cost of Sales (R\$million)	637	368	73.6%
	Gross Profit (R\$million)	83	1034	19.4%
<b>Total</b>	<b>Net sales (R\$million)</b>	<b>31,393</b>	<b>26,540</b>	<b>18.3%</b>
	<b>Cost of Sales (R\$million)</b>	<b>(25,873)</b>	<b>(22,305)</b>	<b>16.0%</b>
	<b>Gross Profit (R\$million)</b>	<b>5,520</b>	<b>4,235</b>	<b>30.4%</b>
	<b><i>Gross margin (%)</i></b>	<b><i>17.6%</i></b>	<b><i>16.0%</i></b>	

---

(\*) The information above does not include data from jointly controlled entities and associate companies.

On a consolidated basis, the increase in cost of sales in 2010 from 2009 (see table above) is explained by the increase in shipments in the period and the higher raw material prices. However, the increase in cost of sales was lower than the increase in net sales due to the higher dilution of fixed costs, which led to gross margin expansion, especially in the Specialty Steel and Latin America Business Operation.

At the Specialty Steel Business Operation, as mentioned above, the increase in cost of sales was lower than the increase in net sales due to the higher dilution of fixed costs, a consequence of increased shipments (+48.4%). This can be evidenced by the reduction of 18.4% in cost of sales per tonnes compared to a decrease of 6.8% in net sales per tonne during the compared period. This performance led to a significant increase in gross profit and margin.

The North America Business Operation presented the same performance, but in a lesser extent. The increase in cost of sales was lower than the increase in net sales due to the higher dilution of fixed costs, a consequence of increased shipments (+16.4%), which can be evidenced by the reduction of 10.8% in cost of sales per tonne compared to a decrease of 8.4% in net sales per tonne during the compared period. This performance led to an increase in gross profit and margin.

At the Latin America Business Operation, the reduction in cost of sales compared to an increase in net sales due to the higher dilution of fixed costs allowed the growth in gross profit and margin.

Table of Contents

At the Brazil Business Operation, despite the dilution of fixed costs due to the increased shipments in 2010, the mismatch between the increases in raw material prices and the pass-through to steel prices led to a reduction in gross profit and gross margin compression in relation to 2009.

*Selling, General and Administrative Expenses*

Operating Expenses(*) (R\$ million)			Variation
	2010	2009	Year ended December 31, 2010/ Year ended December 31, 2009
Selling expenses	552	430	28.4%
General and administrative expenses	1,806	1,714	5.4%
<b>Total</b>	<b>2,358</b>	<b>2,144</b>	<b>10.0%</b>
Net sales	31,393	26,540	18.3%
<b>% of net sales</b>	<b>7.5%</b>	<b>8.1%</b>	

(\*) The information above does not include data from jointly controlled entities and associate companies.

Despite the increase in selling, general and administrative expenses in 2010 compared to 2009, due to better operational activity level in the period, these expenses represented 7.5% and 8.1% of net revenues, respectively.

*Reversal (Impairment) of Assets and Restructuring Costs*

Reversal (impairment) of assets and restructuring costs by Business Operation (R\$ million)	2010		2009			
	Specialty Steel	Total	North America	Latin America	Specialty Steel	Total
Fixed assets	120	120	(166)	(136)	(218)	(520)
Goodwill					(202)	(202)
Intangible	216	216			(304)	(304)
Investments valued by equity income					(46)	(46)
<b>Reversal impairment of assets</b>	<b>336</b>	<b>336</b>	<b>(166)</b>	<b>(136)</b>	<b>(770)</b>	<b>(1,072)</b>
<b>Restructuring Costs</b>			<b>(49)</b>		<b>(102)</b>	<b>(151)</b>
<b>Total</b>	<b>336</b>	<b>336</b>	<b>(215)</b>	<b>(136)</b>	<b>(872)</b>	<b>(1,223)</b>

*Note:* for additional information, please see Note 28 of the Consolidated Financial Statements herein.

In accordance with the International Financial Reporting Standards (IFRS) established by the International Accounting Standard Board (IASB), Gerdaus assets undergo impairment testing based on revisions of the prospects for cash generation and the future earnings from the Company's operations.

In 2009, the Company recognized an impairment of assets in the amount of R\$1.1 billion and restructuring costs of R\$151 million which was mainly generated by downward revisions in expectations for operating results in the North America and Specialty Steel business operations.

In 2010, due to the more favorable market conditions observed at the Specialty Steel Business Operations, especially in the United States, the impairment testing of assets identified net gains of R\$ 336 million in the period (R\$ 289 million net of income tax), composed of the following effects: in the United States, there was a reversal of losses due to the impairment of intangible assets in the amount of R\$ 216 million, and of fixed assets in the amount of R\$ 188 million; in Spain, the lack of prospects for a recovery in these operations led to loss due to impairment of fixed assets at one of its units in the amount of R\$ 68 million.

***Equity in Earnings of Unconsolidated Companies***

Associate companies and jointly controlled entities, which results are calculated using the equity method, recorded shipments of 1.1 million tonnes of steel in 2010 (based on their respective equity interests), which was 20% more than in 2009, resulting in net sales of R\$ 1.4 billion. Based on these companies' results, equity income was a gain of R\$ 39 million in 2010, versus a loss of R\$ 109 million in 2009.

***Income before Financial Income (Expenses) and Taxes***

Income before Financial Income (Expenses) and Taxes increased from R\$ 846.9 million in the year ended December 31, 2009 to R\$3,644.6 million in 2010. This difference is due to an improvement in the Company's shipments, better results of Equity in earnings of unconsolidated companies in the year ended December 31, 2010 and negative impact of the impairment test recognized in 2009.



Table of Contents***Financial Income, Financial Expenses, Exchange Variations, net and Gains and Losses in Derivatives, net***

<b>Financial Income, Financial Expenses, Exchange Variations, net and Gain and Losses on derivatives, net(*)</b> (R\$ million)	<b>2010</b>	<b>2009</b>	<b>Variation Year ended December 31, 2010/ Year ended December 31, 2009</b>
Financial income	296	436	32.1%
Financial expenses	(1,098)	(1,286)	14.6%
Exchange variation, net	104	1,061	90.2%
Gains and Losses on derivatives, net	13	(26)	
<b>Total</b>	<b>(685)</b>	<b>185</b>	

(\*) The information above does not include data from jointly controlled entities and associate companies.

The lower foreign exchange variation between the US dollar and the *real* in the period (an appreciation of the real against US dollar of 4.3% in 2010, versus 25.5% in 2009) was the main factor responsible for the negative financial result in the period, which compares with the positive financial result recorded last year. This effect results from the translation into Brazilian *real* of the asset balances (export receivables) and liability balances (especially dollar-denominated debt contracted by Brazilian companies) at the end of each fiscal year.

Of the total foreign-currency debt of US\$ 3.5 billion contracted by companies in Brazil as of December 31, 2010, US\$ 2.7 billion was related to the acquisitions of companies abroad, for which foreign exchange variation was recorded directly on the equity (net investment hedge in relation to some investments). For the remaining US\$ 0.8 billion, the foreign exchange gains or losses are recorded on the income statement.

***Income and Social Contribution Taxes***

Income and Social Contribution Taxes increased from a negative amount of R\$27.0 million in the year ended December 31, 2009 to a positive amount of R\$501.9 million in the corresponding period of 2010, mainly due to more favorable results in 2010.

***Net Income***

In fiscal year 2010, consolidated net income increased by 144.5% when compared to 2009, from R\$ 1,004.5 million to R\$ 2,457.4 million, mainly due to the better operating results and the partial reversal of the negative impact of the asset impairment recorded in 2009, as explained above.

At the Brazil Business Operation net income was R\$ 1,184.6 million in 2010, 48.8 % lower than in 2009, mainly due to the weaker operational result and the lower foreign exchange variation between the US dollar and the *real* in the period (an appreciation of the real against US dollar of

## Edgar Filing: GERDAU S.A. - Form 20-F

4.3% in 2010 (R\$ 130.0, versus 25.5% in 2009 (R\$ 1,236.7) in the translation into Brazilian *real* of the asset balances (export receivables) and liability balances (especially dollar-denominated debt contracted by Brazilian companies) at the end of each fiscal year.

In 2010 the North America Business Operation had a net income of R\$ 147.6 million compared to a net loss of R\$ 236.1 million in 2009, a consequence of better operational results in 2010 and the recognition of impairment of assets of R\$ 214.4 million in 2009.

In 2010 the Latin America Business Operation had a net income of R\$ 225.6 million compared to a net loss of R\$ 324.5 million in 2009, a consequence of better operational results in 2010 and the recognition of impairment of assets of R\$ 136.5 million.

In 2010 the Specialty Steel Business Operation had a net income of R\$ 886.1 million compared to a net loss of R\$ 613.5 million in 2009, a consequence of better operational results and the recognition of a reversal of impairment of assets in the amount of R\$ 336.3 in 2010 against an impairment of assets of R\$ 872.0 million in 2009.

Table of Contents**Year Ended December 31, 2009 Compared with Year Ended December 31, 2008***Net Sales*

Net Sales by Business Operations(*) (R\$ million)	Year ended December 31, 2009	Year ended December 31, 2008	Variation Year ended December 31, 2009/ Year ended December 31, 2008
Brazil	10,596	15,475	-31.5%
North America	8,294	15,018	-44.8%
Latin America(1)	3,137	4,473	-29.9%
Specialty Steel	4,777	7,984	-40.2%
Intercompany Eliminations	(264)	(1,042)	-74.7%
<b>Total</b>	<b>26,540</b>	<b>41,908</b>	<b>-36.7%</b>

(\*) The information above does not include data from jointly controlled entities and associate companies.

In 2009, consolidated net sales decreased from 2008 (see table above). This reduction was primarily due to the 26.8% decrease in sales volume and the appreciation in the Brazilian real against the U.S. dollar in the period (8.9%), which impacted mainly the business operations which have units abroad, when translated into Brazilian real. In the same period net sales per tonne dropped 13.4%, from R\$ 2,192.1/tonne to R\$ 1,897.5/tonne mainly because the steel shipments and average steel selling price were lower in all segments, reflecting the reduction in demand due to the global economic crisis.

Sales volume in 2009 was 14.0 million tonnes, down 26.8% from the previous year. Over the course of 2009, the Company observed recovery in its main markets, especially in the Brazil and Specialty Steel Business Operations. Consolidated sales volume were 19.9% higher in the fourth quarter than in the first quarter of the same year. In the same comparison period, the Specialty Steel Business Operation recorded a 42.4% increase in sales volume and the Brazil Business Operation registered a 28.9% increase.

Brazil Business Operation recorded net sales 31.5% lower in 2009 than in 2008, resulting from decreases of 21.3% in sales volume and 13.0% in net revenue per tonne sold. Domestic sales volume recorded a sharper decline in the same period of 24.6%, influenced by the poor performance in the first half of the year. Domestic demand recovered gradually over the course of the year, as demonstrated by the increase of 51.3% in sales volume in the fourth quarter from the first quarter. The recovery basically reflects the demand from the construction sector, which was driven by the resumption of construction for projects launched before the onset of the crisis and the accelerated construction of new projects launched in 2009. The manufacturing industry also showed signs of recovery in 2009, fueled by recovery in demand for heavy vehicles and agricultural machinery, which benefited from the government stimulus measures. Domestic prices in 2009 maintained at the same levels of 2008 and export prices reduced by 48.6% (due to lower international steel prices, reflecting the reduction in demand due to the global economic crisis).

## Edgar Filing: GERDAU S.A. - Form 20-F

In the North America Business Operation, which was the operation most impacted by the crisis, net sales in 2009 decreased by 44.8% driven by the reduction of 35.4% in sales volume and of 14.5% in net revenue per tonne. Shipments reduced primarily due to the global liquidity crisis, which led to rapid deterioration in world economic conditions, significantly depressing demand for the Company's products. Despite the sharp drop-off in sales in 2009 from 2008, a slow and gradual recovery in demand was observed, as indicated by the 11.7% increase in sales volume in the fourth quarter from the first quarter of 2009. Even with the government incentives announced, the associated impacts were not reflected in steel demand in 2009. Total net sales per tonne decreased 14.5% in 2009 compared to 2008 following the reductions in scrap prices.

Latin America Business Operation net sales decreased 29.9%, mainly due to a 22.3% reduction in net sales per tonne. At the Latin America Business Operation, which was the business operation least affected by the crisis in terms of sales volume, sales volume fell by only 9.7% from the previous year. At Mexico and Peru operations, sales volume remained virtually stable in 2009 in relation to 2008, while the Colombia and Chile operations registered lower sales in the same comparison period. This operation is composed of countries that are net steel importers with high correlation to the international market. The credit crisis affected steel prices during 2009, which led to a reduction of 22.3% in net sales per tonne comparing to 2008.

In the Specialty Steel Business Operation, net sales decreased by 40.2%. This Business Operation recorded a decline of 30.2% in sales volume in 2009 from the prior year, with various different impacts felt in each country. Spain was the country most affected (where the automotive sector was significantly impacted by the credit crisis), followed by Brazil. In the United States, specialty steel sales remained stable, but since the operations were acquired in May 2008, the comparison base is different. Total net sales per tonne in this business operation fell 14.3% in 2009 comparing to 2008.

Table of Contents*Cost of Sales and Gross Profit*

Net sales, Cost of Sales and Gross Profit (*)	Year ended December 31,		Variaton Year ended	
	2009	2008	December 31, 2010/ Year ended December 31, 2009	
Brazil	Net sales (R\$million)	10,596	15,475	-31.5%
	Cost of Sales (R\$million)	(7,516)	(9,745)	-22.9%
	Gross Profit (R\$million)	3,080	5,730	-46.2%
	<i>Gross margin (%)</i>	<i>29.1%</i>	<i>37.0%</i>	
North America	Net sales (R\$million)	8,294	15,018	-44.8%
	Cost of Sales (R\$million)	(7,703)	(12,608)	-38.9%
	Gross Profit (R\$million)	591	2,410	-75.5%
	<i>Gross margin (%)</i>	<i>7.1%</i>	<i>16.0%</i>	
Latin America	Net sales (R\$million)	3,137	4,473	-29.9%
	Cost of Sales (R\$million)	(3,070)	(3,525)	-12.9%
	Gross Profit (R\$million)	67	948	-92.9%
	<i>Gross margin (%)</i>	<i>2.1%</i>	<i>21.2%</i>	
Specialty Steel	Net sales (R\$million)	4,777	7,984	-40.2%
	Cost of Sales (R\$million)	(4,384)	(6,497)	-32.5%
	Gross Profit (R\$million)	393	1,487	-73.6%
	<i>Gross margin (%)</i>	<i>8.2%</i>	<i>18.6%</i>	
Intercompany Eliminations	Net sales (R\$million)	(264)	(1,042)	-74.7%
	Cost of Sales (R\$million)	367	1,147	-68.0%
	Gross Profit (R\$million)	103	105	-1.9%
<b>Total</b>	<b>Net sales (R\$million)</b>	<b>26,540</b>	<b>41,908</b>	<b>-36.7%</b>
	<b>Cost of Sales (R\$million)</b>	<b>(22,306)</b>	<b>(31,228)</b>	<b>-28.6%</b>
	<b>Gross Profit (R\$million)</b>	<b>4,234</b>	<b>10,680</b>	<b>-60.4%</b>
	<b><i>Gross margin (%)</i></b>	<b><i>16.0%</i></b>	<b><i>25.5%</i></b>	

(\*) The information above does not include data from shared controlled and associated companies.

Cost of sales reduced 28.6% in 2009 compared to 2008, reflecting the lower sales volume in the period, the lower raw material prices and the Company's efforts made over the course of 2009 to cut costs. This effort can be observed in fixed costs as a percentage of total production costs, which decreased from 25.6% in the first quarter of 2009 to 21.6% in the fourth quarter. Given the sharper drop in net revenue than in cost of sales, gross profit in 2009 reduced 60.4% from 2008 and gross margin decreased from 25.5% in 2008 to 16.0% in 2009.

At the Brazil Business Operation, the decrease in the net sales per tonne was not accompanied to the same extent by costs, mainly during the first half of 2009, when the steel mills were operating at low levels of capacity utilization. Considering this, gross margin in Brazil contracted from 37.0% in 2008 to 29.1% in 2009.

At the North America Business Operation, the decrease in cost of sales was lower than the decrease in net sales due to the lower dilution of fixed costs, a consequence of decreased shipments (-35.4%). Considering that, North America Business Operation recorded a gross margin of 7.1%, lower than 16.0% recorded in 2008.

## Edgar Filing: GERDAU S.A. - Form 20-F

At the Latin America Business Operation gross margin fell from 21.2% in 2008 to 2.1% in 2009, due to the lower prices in the period, which reflected the high exposure to imported products, and the lower dilution of fixed costs, a consequence of decreased shipments (-9.7%).

In the Specialty Steel Business Operation, gross margin decreased from 18.6% in 2008 to 8.2% in 2009, explained primarily by the reduction in sales volume (-30.2%), with lower dilution of fixed costs per tonne sold.

### *Selling, General and Administrative Expenses*

Operating Expenses(*) (R\$ million)	2009	2008	Variation Year ended December 31, 2009/ Year ended December 31, 2008
Selling expenses	430	480	-10.4%
General and administrative expenses	1,714	2,285	-25.0%
<b>Total</b>	<b>2,144</b>	<b>2,765</b>	<b>-22.4%</b>
Net sales	26,540	41,908	-36.7%
<b>% of net sales</b>	<b>8.1%</b>	<b>6.6%</b>	

---

(\*) The information above does not include data from jointly controlled entities and associate companies.

Table of Contents

Selling, general and administrative expenses decreased by 22.4% or R\$ 620.3 million, in 2009 from 2008 mainly due to the Company's effort to reduce costs and expenses during the year. These expenses in the period corresponded to 8.1% of net revenue, up from 6.6% in 2008. This increase was primarily due to the lower dilution of the fixed costs embedded in these accounts, given the sharp reduction in net revenue in 2009.

***Impairment of Assets and Restructuring Costs***

Gerdaul reports its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) established by the International Accounting Standard Board (IASB). These accounting standards determine that the Company's assets must undergo impairment tests based on revisions of the prospects for cash generation and the future earnings from the Company's operations.

During 2009, the Company monitored indicators of asset deterioration and whenever necessary applied impairment tests, which are based on projections for the global economic scenario, which indicated deterioration in steel assets worldwide.

The tests adopt the discounted cash flow methodology, for which important assumptions are made for discount rates, growth rates, perpetuity, working capital, investment plans and projected cash flow that could substantially influence the Company results.

In 2009, the Company recognized an impairment of assets in the amount of R\$1.1 billion and restructuring costs of R\$151 million which was mainly generated by downward revisions in expectations for operating results in the North America and Specialty Steel business operations. These losses were classified as follows:

Impairment of assets and restructuring costs by Business Operation (R\$ million)	2009			
	North America	Latin America	Specialty Steel	Total
Fixed assets	(166)	(136)	(218)	(520)
Goodwill			(202)	(202)
Intangible			(304)	(304)
Investments valued by equity income			(46)	(46)
<b>Impairment of assets</b>	<b>(166)</b>	<b>(136)</b>	<b>(770)</b>	<b>(1,072)</b>
<b>Restructuring Costs</b>	<b>(49)</b>		<b>(102)</b>	<b>(151)</b>
<b>Total</b>	<b>(215)</b>	<b>(136)</b>	<b>(872)</b>	<b>(1,223)</b>

**Note:** for additional information, please see Note 28 of the Consolidated Financial Statements herein.

The Company produces different steel products for different sectors of the economy, such as industrial, civil construction and agribusiness sectors. The Company also operates its business in different geographic areas, such as North America, Latin America and Europe. Because of the different products, customers and markets in which the Company operates its business, it is necessary to use the best judgment for each financial statement reporting period to foresee the impact of changes in the level of demand in the economy and outlook for the coming years.

For the interim periods ended June 30, 2009 and September 30, 2009, the Company, based on market conditions in some operating segments, decided to perform impairment tests of goodwill and other long-lived assets, based on projections of discounted cash flows which require certain assumptions to be made including: cost of capital, growth rate and adjustments applied to cash flows in perpetuity, methodology for working capital requirements, investment plans, and long-term economic-financial forecasts.

For the interim period ended June 30, 2009, the performed tests identified a loss for impairment of property, plant and equipment in the amount of R\$ 426,420, goodwill in the amount of R\$ 201,657 (only related to the segment Specialty Steel), other intangible assets in the amount of R\$ 304,425, other related restructuring costs in the amount of R\$ 101,469 and investments through the equity accounting method in the amount of R\$ 46,092.

For the interim period ended September 30, 2009, the performed tests identified a loss for impairment of property, plant and equipment in the amount of R\$ 93,596 and other related restructuring costs in the amount of R\$ 49,238. No impairment losses were recognized in the other quarters of 2009.

The discount rate used in the impairment tests for June 2009 and September 2009 was 13.25% as compared to a discount rate of 13.5% used for the December 2008 test. The decrease was due to a lower leveraged Beta (1.46 from 1.50) and a reduction in the risk premium (7.0% from 7.1%) used in the Capital Asset Pricing Model ( CAPM ). These changes are mainly due to a reduction in the volatility of the stock market. The capital structure of 30.0 % debt to total capitalization and 70.0 % equity to total capitalization was based on the average historical industry capital structure. All



Table of Contents

parameters were expressed in nominal terms and based in US dollars. The Company assumed a growth rate of 3.0 % in accordance with its expectations for a global market recovery (for North America a growth rate of 2.0 % was used).

To calculate the perpetual cash flows, the Company normalized working capital and capital expenditures utilizing the last year of the projections. The Company assumed capital expenditures would approximate depreciation and that working capital would increase according to the respective growth rate. Working capital assumptions and calculations were based on an average cash conversion cycle which was estimated using historical industry data. The cash conversion cycle represents working capital needs in terms of days-sales.

The forecasts used for the December 2008 impairment test were based on expected results of the operating segments at that time. The severity of the economic downturn was not fully known at the time in which the forecasts were established and used for the December 2008 impairment analysis. As such, for the June 2009 and September 2009 impairment tests, the forecasts were revised significantly downward in order to align them with the updated expectation of the economic environment in which Gerdau North America and Specialty Steel businesses would operate.

The assumptions changes in the interim June 2009 and September 2009 impairment tests were mainly due to business (strong downturn in automotive and construction markets), economic factors and the uncertainty of the current environment, and as a result of these aspects, the Company's Disclosure Committee in a meeting on July 28, 2009 reviewed the assumptions and estimates related to impairment calculations for the 2nd quarter. On August 3, 2009, the Company's Executive Committee had a meeting to decide relevant aspects related to the business, which were subsequently approved by the Board of Directors on August 4, 2009. These meetings, based on market conditions in some units, decided the following: (a) resume production in a steel mill, maintain the closure of another one and keep evaluating the potential closure of a third steel mill, all of them in North America; (b) not to suspend the production in the Açominas blast furnace 2 announced on June 22, 2009; (c) suspend production in a Specialty steel unit based in the United States; and (d) approve the impairment charge as of June 30, 2009 due to the closure of a steel mill in North America and the production suspension in a Specialty steel unit.

The factors explained above are the effects of a weaker demand impacting operating profit and capacity utilization in Gerdau North America and Specialty Steel. For instance, the 2009 EBITDA forecast for Specialty Steel as of June 2009 and September 2009 decreased by 85% compared to December 31, 2008 estimate. The expected recovery of this market originally was anticipated to begin in the second half of 2009; however, the revised forecast reflected a recovery of the market not occurring until 2010.

The Gerdau North America and Specialty Steel operating segments had negative operating profit (EBIT) for 2009 but the Company expects them to have positive operating profit in forecasted years following 2009. Although these operating segments generated negative operating profit for 2009, they did generate positive cash flows for 2009.

The intangible assets impairment value in Specialty Steel Business was related to a decrease in customer relationship value due to lower demand, as the Company's primary customers from the automotive industry experienced declines in their business due to the economic downturn.

The impairment in the investments through the equity accounting method was mainly due to the postponed investment (due to the lack of cash flow generation of the parent companies) needed at the plants to operate and generate positive cash flows.

Historically, management's past estimates have been accurate when compared to actual results and the Company is fully aware of the implications and the cyclical aspects of the industry and the forecasts are usually conservative compared to actual results. However, the magnitude of the economic downturn experienced by the global steel market was significantly greater than anticipated by the Company as well as by most of the other market analysts and participants.

The Company has a structured planning process which includes preparation of forecasts, execution plans, approvals and check meetings. These quarterly check meetings are reviews of actual results in comparison to goals, targets and status of strategic projects to allow the Company to assess the reasonability of its projections.

For additional information, please see Note 28 of the Consolidated Financial Statements herein.

***Other Operating Income/Expenses***

Other operating income, net did not suffer material changes in 2009 (R\$ 88.4 million) when compared to 2008 (R\$ 89.6 million). The main variation was related to positive tax effects of R\$ 16.6 million (reversion of fine and

Table of Contents

interest) by the adoption of REFIS (Brazilian Tax Debt Refinancing Program in Brazil) granted by the Brazilian Federal Government and the expenses generated by the losses in the write-off/selling of property, plant and equipment.

*Equity in Earnings of Unconsolidated Companies*

Equity in Earnings of Unconsolidated Companies in the period was a loss of R\$ 109.0 million, lower than the gain of R\$ 122.8 million in the previous year, a result of the impacts from the global financial crisis on the results of these companies.

*Income before Financial Income (Expenses) and Taxes*

Operating income was R\$ 846.9 million in 2009, lower than the R\$ 8,127.8 million in 2008. This reduction was driven by the lower shipments and prices in 2009 and the identification of impairment losses of R\$ 1,222.9 million.

*Financial Income, Financial Expenses, Exchange Variations, Gains and Losses in Derivatives*

<b>Financial Income, Financial Expenses, Exchange Variations, net and Gain and Losses on derivatives, net(*)</b> (R\$ million)	<b>2009</b>	<b>2008</b>	<b>Variation Year ended December 31, 2009/ Year ended December 31, 2008</b>
Financial income	436	484	-9.9%
Financial expenses	(1,286)	(1,621)	-20.7%
Exchange variation, net	1,061	(1,036)	
Gains and Losses on derivatives, net	(26)	(62)	-58.1%
<b>Total</b>	<b>185</b>	<b>(2,235)</b>	

(\*) The information above does not include data from jointly controlled entities and associate companies.

Financial income decreased by R\$ 47.8 million in 2009, from R\$ 484.0 million in 2008 to R\$ 436.2 million, mainly because of the lower cash generation and consequently, lower average cash and investment balances, as well as lower interest rates during the year.

Financial expenses decreased by R\$ 334.4 million in 2009, from R\$ 1,620.8 million in 2008 to R\$ 1,286.4 million in 2009, mainly due to a lower average outstanding debt as a result of debt amortizations, including prepayments, during the period.

## Edgar Filing: GERDAU S.A. - Form 20-F

The 2009 financial result includes a gain from the appreciation in the Brazilian real against the U.S. dollar in the period (+25.5%) on the translation of foreign-denominated assets (export receivables) and liabilities (primarily dollar-denominated debt contracted by Brazilian companies) in the amount of R\$ 1,060.9 million. In 2008, the effects of foreign currency variation was a loss of R\$ 1,035.6 million.

Net gain and losses on derivatives decreased by R\$ 36.2 million in 2009 due to the decrease in the results reached with those derivatives.

### ***Income and Social Contribution Taxes***

Provision for Income Taxes was R\$ 27.0 million in 2009, compared to R\$ 948.2 million in 2008. This variation is due to weaker result achieved in 2009 compared to last year. The effective tax rate was 16.1% in 2008, compared to an effective tax rate almost null in 2009, mainly because of tax incentives which resulted in a higher impact over the effective tax rate in 2009. For further information regarding tax incentives, see NOTE 9 Income and Social Contribution Taxes.

### ***Net Income***

Consolidated net income was R\$ 1,004.5 million in 2009, down 79.7% from the previous year which was R\$ 4,944.9 million. This decrease was mainly due to the worse operational performance in 2009 compared to 2008. Net margin (defined as net income divided by net sales) decreased from 11.8% in 2008 to 3.8% in 2009.

At the Brazil Business Operation net income reached R\$ 2,311.6 million in 2009, 19.4 % higher than in 2008, mainly due to the appreciation in the Brazilian *real* against the U.S. dollar in the period (+25.5%) on the translation of foreign-denominated asset balances (export receivables) and liability balances (primarily dollar-denominated debt contracted by Brazilian companies) in the amount of R\$ 1,236.7 million, that compensated the reduction in operational results.

Table of Contents

The North America Business Operation had a net loss of R\$ 236.1 million in 2009 compared to a net income of R\$ 1,057.2 million in 2008, a consequence of lower operational results and the impairment of assets of R\$ 214.4 million.

The Latin America Business Operation had a net loss of R\$ 324.5 million in 2009 compared to a net income of R\$ 454.5 million in 2008, a consequence of lower operational results which considers impairment of assets of R\$ 136.5 million.

The Specialty Steel Business Operation had a net loss of R\$ 613.5 million in 2009 compared to a net income of R\$ 617.5 million in 2008, a consequence of lower operational results which considers impairment of assets of R\$ 872.0 million.

**Critical Accounting Policies**

Critical accounting policies are those that are both (a) important to present the financial position and results of operations and (b) require Management's most difficult, subjective or complex judgments, often as a result of the need to make estimates that impact matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become even more subjective and complex. In the preparation of the Consolidated Financial Statements, the Company has relied on variables and assumptions derived from historical experience and various other factors that it deems reasonable and relevant. Although these estimates and assumptions are reviewed by the Company in the normal course of business, the presentation of its financial position and results of operations often requires making judgments regarding the effects of inherently uncertain matters on the carrying value of its assets and liabilities. Actual results may differ from estimates based on different variables, assumptions or conditions. In order to provide an understanding of how the Company forms its judgments about future events, including the variables and assumptions underlying the estimates, comments have been included that relate to each critical accounting policy described below:

- deferred income and social contribution tax;
- pension and post-employment benefits;
- environmental liabilities;
- derivative financial instruments;
- useful lives of long-lived assets;
- fair value of unquoted derivative financial instruments,
- valuation of assets acquired and liabilities assumed in business combinations, and
- impairment test of assets with definite and indefinite useful life.

**a) Deferred Income and Social Contribution Tax**

The liability method of accounting (according to the concept described in IAS 12) for income taxes is used for deferred income and social contribution taxes arising from temporary differences between the book value of assets and liabilities and their tax bases. The amount of the deferred income and social contribution tax asset is revised at each Consolidated Financial Statement date and reduced by the amount that is no longer probable of being realized based on future taxable income. Deferred income and social contribution tax assets and liabilities are calculated using tax rates applicable to taxable income in the years in which those temporary differences are expected to be realized. Future taxable income may be higher or lower than estimates made when determining whether it is necessary to record a tax asset and the amount to be recorded.

The realization of deferred tax assets for tax loss carryforwards are supported by projections of taxable income based on technical feasibility studies submitted annually to the Company's Board of Directors. These studies consider historical profitability of the Company and its subsidiaries and expectation of continuous profitability and estimated the recovery of deferred tax assets over future years. The other tax credits arising from temporary differences, mainly tax contingencies, and provision for losses, were recognized according to their estimate of realization.

**b) Pension and Post-Employment Benefits**

Actuarial gains and losses are recorded in the period in which they are originated and are recorded in the statement of comprehensive income.

The Company recognizes its obligations related to employee benefit plans and related costs, net of plan assets, in accordance with the following practices:

- i) The cost of pension and other post-employment benefits provided to employees is actuarially determined using the projected unit credit method and management's best estimate of expected investment performance for funded plans, salary increase, retirement age of employees and expected health care costs. The discount rate used for determining

Table of Contents

future benefit obligations is an estimate of the interest rate in effect at the balance sheet date on high-quality fixed-income investments with maturities that match the expected maturity of obligations.

ii) Pension plan assets are stated at fair value.

iii) Gain and losses related to the curtailment and settlement of the defined benefit plans are recognized when the curtailment or settlement occurs and they are based in actuarial evaluation done by independent actuaries.

In accounting for pension and post-retirement benefits, several statistical and other factors that attempt to anticipate future events are used to calculate plan expenses and liabilities. These factors include discount rate assumptions, expected return on plan assets, future increases in health care costs, and rate of future compensation increases. In addition, actuarial computation other factors whose measurement involves judgment are used such as withdrawal, turnover, and mortality rates. The actuarial assumptions used by the Company may differ materially from actual results in future periods due to changing market and economic conditions, regulatory events, judicial rulings, higher or lower withdrawal rates, or longer or shorter participant life spans.

**c) Environmental Liabilities**

The Company records provisions for environmental liabilities based on best estimates of potential clean-up and remediation costs for known environmental sites. The Company has a team of professionals to manage all phases of its environmental programs. These professionals develop estimates of liabilities at these sites based on projected and known remediation costs. This analysis requires the Company to make significant estimates and changes in facts and circumstances may result in material changes in environmental provisions.

The steel industry uses and generates substances that may damage the environment. The Company's management performs frequent surveys with the purpose of identifying potentially impacted areas and records as current liabilities and in noncurrent liabilities in the account Environmental liabilities, based on best cost estimate, the amounts estimated for investigation, treatment and cleaning of potentially affected sites. The Company used assumptions and estimates for determining the estimated amount, which may vary in the future depending on the final investigations and determination of the actual environmental impact.

The Company believes they are compliant with all the applicable environmental regulations in the countries where they operate (see note 21 of the Consolidated Financial Statements herein).

**d) Derivative Financial Instruments**

The Company values the derivative financial instruments considering quotations obtained from market participants, which are the fair value of the financial instruments on the date of the Consolidated Financial Statements. Intense volatility in the foreign exchange and interest rate markets in Brazil has caused, in certain periods, significant changes in forward rates and interest rates over very short periods of time, generating significant changes in the fair value of swaps and other financial instruments over a short period of time. The fair value recognized in its Consolidated Financial Statements may not necessarily represent the amount of cash that the Company would receive or pay, as applicable, if

the Company would settle the transactions on the Consolidated Financial Statements date.

**e) Useful Lives of Long-Lived Assets**

The Company recognizes depreciation of its long-lived assets based on estimated useful lives, which are based on industry practices and prior experience and reflect economic lives of long-lived assets. However, actual useful lives can vary based on technological update of each unit. Useful lives of long-lived assets also affect impairment tests of those long-lived assets, when required.

The Company does not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to calculate long-lived asset impairment losses. However, if actual results are not consistent with estimates and assumptions used in estimating future cash flows and asset fair values, the Company may be exposed to losses that could be material.

**f) Fair Value of Unquoted Derivative Financial Instruments**

The Company has entered into financial instruments in connection with some of its acquisitions, which involve commitments to acquire shares from non-controlling interests of the acquired companies, or grant of put options to some non-controlling interests to sell to the Company their shares. Such derivatives are recorded on the Company's balance sheet in the account Put options on non-controlling interest (note 16.f of the Consolidated Financial Statements herein), and the determination of this value involves a series of estimates that can materially impact its final result. The Company estimates the fair value of the companies whose shares the Company is committed to acquire using criteria established in each contract, which are in line with practices observed in the market for estimating fair value of unquoted instruments.



Table of Contents

**g) Valuation of Assets Acquired and Liabilities Assumed in Business Combinations**

During the last several years, as described at note 3 of the Consolidated Financial Statements, the Company has made certain business combinations. According to IFRS 3, with effect for business combinations occurred after the IFRS transition date, the Company should allocate the cost of the acquired entity to the assets acquired and liabilities assumed based on their fair value estimated on the date of acquisition. Any difference between the cost of the acquired entity and the fair value of the assets acquired, liabilities assumed is recorded as goodwill. The Company exercises significant judgment in the process of identifying tangible and intangible assets and liabilities, valuing these assets and liabilities, and estimating their remaining useful life. The valuation of these assets and liabilities is based on assumptions and criteria that, in some cases, include estimates of future cash flow discounted at the appropriate rates. The use of valuation assumptions includes discounted cash flows estimates or discount rates and may result in estimated values that are different from the assets acquired and liabilities assumed.

The accounting treatment for business acquisitions as from January 1, 2010 changed, if compared to previous years, because the IASB issued a revised version of IAS 27 and IFRS 3. These changes are primarily related to accounting for non-controlling interests, the loss of control of a subsidiary and increase/decrease in interest in a subsidiary without change of control. The revised Standards have resulted in changes in the Company's accounting policies regarding increases or decreases in ownership interests in its subsidiaries. The adoption of this change in accounting policy is expected to affect the accounting for changes in ownership interest as from January 1, 2010, with no impact in business acquisitions performed up to December 31, 2009.

**h) Business Combination**

**Step-acquisitions in which control is obtained**

When a business combination is achieved in stages, the interest previously held by the Company in the acquired company is remeasured at fair value at acquisition date (in the date when the Company acquires the control) and the resulting gain or loss, if any, is recognized in the profit or loss. The amounts of interests on the acquired company before the acquisition date that was recognized on Other comprehensive income are reclassified in income, where such treatment would be appropriate in case this interest was sold.

**Acquisitions in which control is obtained initially**

Acquisitions of subsidiaries and businesses are accounted under the purchase method. The cost of the acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given and liabilities incurred or assumed and equity instruments issued by the Group in exchange of the control of the acquired control. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Under the previous version of the Standard, contingent consideration was recognized at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognized

against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognized against goodwill only to the extent that they arise from better information about the fair value at the acquisition date, and they occur within the provisional period (a maximum of 12 months from the acquisition date). All other subsequent adjustments are recognized in profit or loss.

#### **Increases/decreases in non-controlling interests**

In prior years, in the absence of specific requirements in IFRS, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognized where appropriate.

The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognized in profit or loss. Under the revised standards, all increases or decreases in such interests are accounted for within equity, with no impact on goodwill or profit or loss.

Subsequent purchases, after the Company has obtained control, are treated as the acquisitions of shares from non-controlling shareholders: the identifiable assets and liabilities of the entity are not subject to a further revaluation and the positive or negative difference between the cost of such subsequent acquisitions and the net value of the additional proportion of the company is accounted for within equity.

Table of Contents

**Loss of control of a subsidiary**

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Company derecognizes all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognized at its fair value at the date that control is lost. This fair value is reflected in the calculation of the gain or loss on disposal attributable to the parent, and becomes the initial carrying amount for subsequent accounting for the retained interest under IAS 28, IAS 31 or IAS 39.

The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to complete the purchase price allocation and estimate the fair value of acquired assets and liabilities. However, if actual results are not consistent with estimates and assumptions considered, the Company may be exposed to losses that could be material.

**i) Impairment Test of Assets with definite and indefinite useful life**

There are specific rules to assess the impairment of long-lived assets, especially property, plant and equipment, goodwill and other intangible assets. On the date of each Financial Statement, the Company performs an analysis to determine if there is evidence that the carrying amount of long-lived assets is impaired. If such evidence is identified, the recoverable amount of the assets is estimated by the Company.

The recoverable amount of an asset is determined as the higher of: (a) its fair value less estimated costs of sale and (b) its value in use. The value in use is measured based on discounted cash flows (before taxes) derived from the continuous use of the asset until the end of its useful life.

Regardless of whether or not there is any indication that the carrying amount of the asset may not be recovered, the balances of goodwill arising from business combination and assets with indefinite useful life are tested for impairment at least once a year, in December.

When the residual carrying value of the asset exceeds its recoverable amount, the Company recognizes a reduction in this asset's book balance.

For assets recorded at cost, the reduction in recoverable amount must be recorded in income for the year. If the recoverable amount of an asset is not determined individually, the recoverable amount of the business segment to which the asset belongs is analyzed.

Except for the impairment of goodwill, a reversal of previously recorded impairment losses is allowed. Reversal in these circumstances is limited up to the amount of depreciated balance of the asset at the date of the reversal, determined considering as if the impairment had not been recorded.

## Edgar Filing: GERDAU S.A. - Form 20-F

The Company evaluates the recoverability of goodwill on investments annually and uses accepted market practices, including discounted cash flow for units with goodwill allocated and comparing the book value with the recoverable amount of the assets.

Recoverability of goodwill is evaluated based on the analysis and identification of facts and circumstances that can indicate the necessity to anticipate the test that is performed annually. If some fact or circumstance indicates that the recoverability of goodwill is affected on an interim period, then the test is anticipated. In December 2010, the Company carried out goodwill impairment tests for all of its operating segments, which represent the lowest level at which goodwill is monitored by management based on projections for expected discounted cash flows and that take into consideration the following assumptions: cost of capital, growth rate and adjustments used for perpetual cash flows, methodology for determining working capital, investment plans, and long-term economic-financial forecasts.

In December 2010, the Company performed an impairment test for the goodwill on the operating segments and it was not identified impairment loss for the year.

The projection period for the December 2010 cash flows was five years. The premises used to determine the fair value through the discounted cash flow method include: projected cash flow based in the Management estimates to the future cash flows, discount rates and growth rates to the perpetuity determination. Moreover, the perpetuity was calculated considering the stabilization of the operational margins, levels of working capital and investments. The perpetuity growth rate considered was 3% p.a. to the Brazil, Latin America, Specialty Steels and North America segment.

The discount rates used were determined taking into consideration market information available on the test date. The Company adopted distinct rates to each business segment tested with the objective of demonstrate the differences among the markets in which each segment operate, as well as risk associated to them. The discount rates used were 11.25% p.a. to the North America segment (12.50% in December, 2009), 12.5% p.a. to the Specialty Steel segment (13.30% in

Table of Contents

December, 2009), 12.75% p.a. to Latin America segment (13.50% in December, 2009) and 13.0% p.a. to the Brazil segment (13.8% in December, 2009).

Considering the recoverable amount identified through the discounted cash flows, the recoverable amount exceeded the book value in R\$ 2,126.7 million to the North America segment (R\$ 1,208.7 million in December 2009), R\$ 2,738.7 million to the Specialty Steel segment (R\$ 1,791.7 million in December 2009), R\$ 113.3 million to the Latin America segment (R\$ 778.1 million in December 2009), and R\$ 4,877.7 million to the Brazil segment (R\$ 9,142.6 million in December 2009).

Due to the cash flow potential impact of discount rate and perpetuity growth rate variables, the Company performed a sensitive analysis of changes in these variables. A 0.5% increase in the discount rate to the cash flow of each segment would result in recoverable amounts that would exceed the book value in R\$ 1,378.5 million to the North America segment (R\$ 712.6 million in December 2009), R\$ 2,293.2 million to the Specialty Steel segment (R\$ 1,381.9 million in December 2009), R\$ 3,659.1 million to the Brazil segment (R\$ 8,085.6 million in December 2009) and an recoverable amount lower than the book value in R\$ 182.8 million (recoverable amounts that exceed the book value in R\$ 505.5 million in December 2009).

On the other hand, a 0.5% decrease in the perpetuity growth rate in the discounted cash flow to each segment would result in recoverable amounts that would exceed the book value in R\$ 1,646.3 million to the North America segment (R\$ 897.9 million in December 2009), R\$ 2,444.2 million to the Specialty Steel segment (R\$ 1,532.8 million in December 2009), R\$ 4,072.9 million to the Brazil segment (R\$ 8,495.0 million in December 2009) and an recoverable amount lower than the book value in R\$ 74.9 million for Latin America segment (recoverable amounts that exceed the book value in R\$ 604.5 million in December 2009).

Goodwill that forms part of the carrying amount of an investment in an associate or in a jointly-controlled entity is not separately recognized and it is not tested for impairment separately. Instead, the entire carrying amount of the investment in an associate or in a jointly-controlled entity is tested for impairment as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. An impairment loss recognized in those circumstances is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the associate or jointly-controlled entity. Accordingly, any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

Goodwill originated in a business combination has the recoverability evaluated in an annual basis, and it is anticipated if events or circumstances indicate the necessity. The test considers accepted market practices, including cash flows and compares the book value with its fair value. The reversal of goodwill impairment losses previously recognized from business combination is not allowed. Annually, in December, the Company performs impairment tests for all operating segments, which represents the lowest level in which goodwill is monitored by the management.

The recoverability review process is subjective and requires significant judgments through analysis performed. The determination of fair value for Company's operating segments, based on projected cash flows may be negatively impacted if the economy global recovery happens slowly than expected during the preparation of financial statements in December 2010.

Additional information related to impairment of goodwill and other long lived assets are described at note 28 of Consolidated Financial Statements contained herein.

**B. LIQUIDITY AND CAPITAL RESOURCES**

Gerdau's usual main source of liquidity is the cash generated by its operating activities. Moreover, the Company counts on committed credit facilities, such as asset-backed loan and senior liquidity facility. The Company expects to meet its cash needs for 2011 primarily through a combination of operating cash flow, cash and cash equivalents, short-term investments and capital increase from the public offering.

**Cash Flow**

*Net cash provided by operating activities*

Net cash from operating activities amounted to R\$ 4,139.1 million, R\$ 6,350.6 million and R\$ 3,635.3 million in the years ended December 31, 2010, 2009 and 2008, respectively.

In 2010, net cash provided by operating activities decreased 34.8%, due to new levels in market demand, as a result of a recovery from the international crisis, and consequent increase in production volumes, which impacted the Company's working capital needs. From December 31, 2009 to December 31, 2010 working capital (represented by

Table of Contents

accounts receivable from clients, plus inventories, less suppliers) increased 23.1%, from R\$ 6,632.2 million in the year ended December 31, 2009 to R\$ 8,167.5 million in 2010, mainly influenced by the higher levels of inventories and accounts receivables.

In 2009, net cash from operating activities increased 74.7% comparing to 2008. Considering the international crisis and the consequent reduction in demand, working capital needs decreased, mainly influenced by the reduction in inventories and accounts receivables. In 2008, working capital needs were high, which are directly related to the increase in the operational activities of the Company, due to a combination of acquisitions. Inventories were high mainly because of the increase in the cost of raw materials and as a result of operations from the entities acquired during the year.

*Net cash used in investing activities*

Net cash used in investing activities increased 52.9% from R\$ 1,048.3 million in the year ended December 31, 2009 to R\$ 1,603.1 million in 2010, mainly due to the R\$ 1,269.5 million used for additions to property, plants and equipment and intangibles and R\$ 283.1 million for the payment of Tamco acquisition.

Net cash used in investing activities decreased 84.0% from R\$ 6,560.6 million in the year ended December 31, 2008 to R\$ 1,048.3 million in 2009. The main uses of capital resources were R\$ 1,313.2 million for additions to property, plants and equipment and intangibles. In the other hand, the Company had proceeds from sales of available for sale securities, net in the amount of R\$ 337.4 million. In 2008, the main uses of capital resources were R\$ 2,741.0 million for additions to property, plants and equipment and intangibles and R\$ 4,076.2 million net of cash in payments to acquire businesses, mainly Gerdau MacSteel Inc. for R\$ 2,434.1 million, LuxFin Participation for R\$ 673.6 million and Century Steel Inc. for R\$ 369.9 million.

*Net cash used in financing activities*

Net cash used in financing activities decreased 29.1% from R\$ 4,933.6 million in the year ended December 31, 2009 to R\$ 3,498.6 million in 2010, mainly reflecting a reduction of amortization of loans and financing, despite the payment of minority control acquisitions (mainly Gerdau Ameristeel) and the increase in dividends distribution.

In 2010, the Company repaid loans and financing in the amount of R\$ 3,453.2 million related to the prepayment of the Perpetual Bond in a total of US\$ 600 million (R\$ 1,031 million) and the Gerdau Ameristeel's term loan of US\$ 430 million (R\$ 739 million). The Company also paid R\$ 2,909.0 million for interest increase in subsidiaries, mainly the acquisition of the non-controlling interest in Gerdau Ameristeel for R\$ 2,809.0 million. In 2009, the Company repaid loans and financing in the amount of R\$ 8,469.9 million. This amount was due to the amortizations and prepayments made in the period, such as the Senior Notes of its U.S. subsidiary, the Gerdau Ameristeel, a redemption of US\$ 405 million (R\$ 764 million) with annual coupon of 10.375% and maturity in 2011. The total value of the redemption was US\$ 412.3 million (R\$ 777.8 million). Gerdau Ameristeel also prepaid US\$ 300 million (R\$ 522 million) in debt. Another important impact was the foreign exchange variation effect of 25.5% in period over the debt contracted in U.S. dollar.

## Edgar Filing: GERDAU S.A. - Form 20-F

Proceeds from loans and financing amounted to R\$ 3,885.9 million in 2010 and R\$ 4,089.4 million in 2009. In 2010, the Company issued a ten years bond in order to pay acquisitions (Gerdau Ameristeel non-controlling interest and Tamco) and to prepay some loans and financing.

Cash and cash equivalents totaled R\$1,061.0 million on December 31, 2010, a reduction of 49.3% comparing to the previous year.

Net cash used in financing activities decreased from a positive amount of R\$ 2,600.0 million in the year ended December 31, 2008 to a negative amount of R\$ 4,933.6 million in 2009, mainly reflecting a increase of repayment of loans and financing and the capital increase in 2008.

Proceeds from loans and financing amounted to R\$ 4,089.4 million in 2009 and R\$ 5,117.6 million in 2008. The financing obtained during 2009 were primarily made in order to extend the Company's amortization schedule, through the use of this proceeds to prepay debts with shorter maturity. In 2008, it was used for the Company's liquidity requirements, especially to finance the acquisitions made during the year.

In April 2008, Gerdau concluded the public offering of 48.1 million shares. Additionally, 4.1 million shares were issued by Gerdau to satisfy the underwriters Greenshoe option due to substantial demand for this public offering. The price defined in bookbuilding was R\$ 60.30 per share and for Gerdau S.A the proceeds resulting from the capital increase amounted to R\$ 2,885.1 million related to the public offering. The offering was intended to improve the capital structure of the Company, as well as pay for acquisitions.



Table of Contents

Cash and cash equivalents totaled R\$2,091.9 million on December 31, 2009, a slight increase of 3.2% comparing to the previous year.

**Indebtedness**

The Company's debt is used to finance investments in fixed assets, including the modernization and technological upgrade of its plants and the expansion of installed capacity, as well as for working capital, acquisitions and, depending on market conditions, short-term financial investments.

The following table profiles the Company's debt in the years ended December 31, 2010, 2009 and 2008 (in thousands of Brazilian *reais*):

	2010	2009	2008
<b>SHORT TERM:</b>	<b>1,693,037</b>	<b>1,356,781</b>	<b>3,933,119</b>
<b>Total short-term debt</b>	<b>951,905</b>	<b>735,197</b>	<b>1,929,812</b>
Debt denominated in Brazilian <i>reais</i>	157,108	390,552	50,643
Debt denominated in foreign currency	794,797	344,645	1,879,169
<b>Current portion of long-term debt</b>	<b>626,063</b>	<b>621,584</b>	<b>1,858,273</b>
<b>Debentures</b>	<b>115,069</b>		<b>145,034</b>
<b>LONG TERM:</b>	<b>12,976,958</b>	<b>13,164,134</b>	<b>19,300,717</b>
<b>Total long-term debt</b>	<b>12,986,119</b>	<b>13,184,739</b>	<b>20,453,275</b>
Debt denominated in Brazilian <i>reais</i>	2,436,795	1,852,905	2,614,764
Debt denominated in foreign currency	10,549,324	11,331,834	17,838,511
<b>Current portion of long-term debt</b>	<b>(626,063)</b>	<b>(621,584)</b>	<b>(1,858,273)</b>
<b>Debentures</b>	<b>616,902</b>	<b>600,979</b>	<b>705,715</b>
<b>TOTAL DEBT:</b>	<b>14,669,995</b>	<b>14,520,915</b>	<b>23,233,836</b>
Short and long-term investments, cash and cash equivalents	2,203,292	4,819,348	5,490,809
<b>NET DEBT(1)</b>	<b>12,466,703</b>	<b>9,701,567</b>	<b>17,743,027</b>

(1) The calculation of net debt is made by subtracting short-term investments, cash and cash equivalents from total debt. Net debt is not a GAAP measure recognized under IFRS and should not be considered in isolation from other financial measures. Other companies may calculate net debt differently and therefore this presentation of net debt may not be comparable to other similarly titled measures used by other companies.

Total debt amounted to R\$ 14,670.0 million and R\$ 14,520.9 million and R\$ 23,233.8 million in the years ended December 31, 2010, 2009 and 2008, respectively. Net debt (Net Debt is a non-gaap metric defined as short- and long-term debt plus debentures less short and long-term investments and cash and cash equivalents, broadly used by investors to measure Company's indebtedness position) increased from R\$ 9,701.6 million in 2009 to R\$ 12,466.7 million in 2010. This increase of R\$ 2,765.1 million is due to a reduction in the short and long-term investments, cash and cash equivalents mainly to pay the acquisition of non-controlling interest of Gerdau Ameristeel. Net debt decreased from R\$ 17,743.0 million in 2008 to R\$ 9,701.6 million in 2009. This decrease of R\$ 8,041.5 million is mainly due to the amortizations made in the period (approximately 44% of total), which included prepayments, and to the exchange rate effect on the conversion of U.S. dollar denominated debt (approximately 56% of total).

Of the total debt at December 31, 2010, 12% was short-term and 88% was long-term. In 2009, 9.3% was short-term and 90.7% was long-term and in 2008, short-term debt accounted for 16.9%, while the balance was long-term

As of December 31, 2010, the Company's short-term debt amounted to R\$ 951.9 million. Of this total, R\$ 157.1 million was related to financing in Brazilian *reais* and R\$ 794.8 million to financing in foreign currencies. At the same date, short-term debt plus the current portion of long-term debt and debentures amounted to R\$ 1,693.0 million, representing an increase of 24.8% relative to 2009. The increase in the short-term debt was related to an increase in working capital needs. As of December 31, 2009, the Company's short-term debt amounted to R\$ 735.2 million. Of this total, R\$ 390.6 million was related to financing in Brazilian *reais* and R\$ 344.6 million to financing in foreign currencies. In 2009, short-term debt plus the current portion of long-term debt and debentures amounted to R\$ 1,356.8 million, representing a decrease of 65.6% relative to 2008. The reduction in the short-term debt was due to amortizations and foreign exchange variation.

Total long-term debt excluding the current portion (R\$ 626.1 million) and including debentures (R\$ 616.9 million) amounted to R\$ 12,977.0 million on December 31, 2010. Of the total long-term debt (R\$ 12,986.1 million), R\$ 2,436.8 million was denominated in Brazilian *reais* and R\$ 10,549.3 million in foreign currencies. Total long-term debt excluding the current portion (R\$ 621.6 million) and including debentures (R\$ 601.0 million) amounted to R\$ 13,164.1

Table of Contents

million on December 31, 2009. Of the total long-term debt (R\$ 13,184.7 million), R\$ 1,852.9 million was denominated in Brazilian *reais* and R\$ 11,331.8 million in foreign currencies.

As of December 31, 2010, the maturity profile of the Company's long-term debt with financial institutions, including debentures, was as follows:

**Gerdau S.A. Consolidated**

<b>Long-Term Amortization</b>	<b>(R\$ million)</b>
2012	1,619
2013	3,051
2014	800
2015	328
After 2015	7,179
<b>Total</b>	<b>12,977</b>

**Financial Agreements**

For a description of the Company's material financial agreements outstanding at year end 2009, see the description of financial agreements contained in the Company's 2009 Annual Report on Form 20-F filed with the Commission. We highlight the following transactions for 2010:

Bond 2021

On October 1, 2010, the subsidiary Gerdau Trade Inc. concluded the issue of bonds in the amount of US\$ 1.25 billion and final maturity on January 30, 2021. The following companies guaranteed this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. On December 31, 2010 the outstanding balance of this facility was US\$ 1.25 billion (R\$ 2.1 billion as of December 31, 2010). Part of the proceeds of this issue were used to prepay the Perpetual Bonds on September 22, 2010, in the amount of US\$ 600 million (R\$ 1 billion as of December 31, 2010). The Perpetual Bonds were issued on September 15, 2005 and had no final maturity date.

Bond 2020

On November 18, 2009, the subsidiary Gerdau Holdings Inc. concluded the issue of bonds in the amount of US\$ 1.25 billion and final maturity on January 20, 2020. The following companies guaranteed this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. On December 31, 2010 the outstanding balance of this facility was US\$ 1.25 billion (R\$ 2.1 billion as of December 31, 2010).

Bond 2017

On October 22, 2007, the subsidiary GTL Trade Finance Inc. concluded the issue of bonds in the amount of US\$ 1.00 billion with subsequent reopening of US\$ 500 million, totalizing US\$ 1.5 billion and final maturity on October 20, 2017. The following companies guaranteed this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. On December 31, 2010 the outstanding balance of this facility was US\$ 1.5 billion (R\$ 2.5 billion as of December 31, 2010).

#### Term Loan Facility

On September 10, 2007, the subsidiaries Gerdau Ameristeel US Inc. and GNA Partners entered into a Senior Acquisition Financing in the amount of US\$ 2.75 billion and final maturity on September 14, 2013. The following companies guaranteed this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Comercial de Aços S.A, Gerdau Ameristeel Corporation and Gerdau Açominas Overseas Limited. On December 31, 2010 the outstanding balance of this facility was US\$ 1.26 billion (R\$ 2.1 billion as of December 31, 2010).

Table of Contents

IFC Loan Agreement

In February 2010, Kalyani Gerdau Steels Limited entered into a US\$25 million loan agreement with International Finance Corporation guaranteed by the Company, with a tenor of ten years.

4131 Banco do Brasil

On June 25, 2010, the subsidiary Gerdau Açominas S.A. concluded a working capital financing operation with Banco do Brasil S.A., Tokyo Branch, worth US\$ 350 million, maturing on June 22, 2015. The agreement is guaranteed by a letter of credit issued by Banco do Brasil S.A. On December 31, 2010, the outstanding balance of the operation amounted to US\$ 350.0 million (R\$ 583.2 million on December 31, 2010). The issue was aimed at lengthening the Company's debt profile, and its proceeds were used to settle two obligations with shorter terms. The obligations that were prepaid are: 4131 Banco do Brasil worth US\$ 250.0 million and 4131 Bradesco worth US\$ 150.0 million.

Export Credit Note (NCE) 20/00727-2

On July 1, 2010, the subsidiary Gerdau Açominas S.A. issued an Export Credit Note worth R\$150.0 million, maturing on June 9, 2014, with Banco do Brasil S.A. acting as the creditor. On December 31, 2010, the outstanding balance of the operation amounted to R\$ 150.0 million.

Export Credit Note (NCE) 20/00726-4

On June 30, 2010, the subsidiary Gerdau Açominas S.A. issued an Export Credit Note worth R\$200.0 million, maturing on June 9, 2014, with Banco do Brasil S.A. acting as the creditor. On December 31, 2010, the outstanding balance of the operation amounted to R\$200.0 million.

BNDES Agreements

In July 2010, Aços Villares S.A. entered into three loan agreements with Banco Santander (Brasil) S.A., HSBC Bank Brasil S.A., Banco Múltiplo and Banco Alfa de Investimento S.A. by means of which these banks will on-lend, to Aços Villares S.A., funds provided by the BNDES in the total amount of R\$250 million. The agreements have a tenor of three years.

In October 2010, Gerdau Açominas S.A. entered into a loan agreement with Itaú Unibanco S.A., by means of which this bank will on-lend, to Gerdau Açominas, funds provided by the BNDES in the total amount of R\$60 million. The agreements have a total tenor of one year and two months.

## Guarantees

All loans contracted under the FINAME/BNDES program, totaling R\$ 85.1 million, on the date of the Consolidated Financial Statements, are guaranteed by the assets being financed. Certain financings have as guarantee suretyship from the parent company, on which the Company pays a 0.95% p.a. remuneration, calculated on the surety amount.

## Covenants

As an instrument to monitor the financial condition of the Company by the company's creditors, financial covenants are used in certain financial agreements.

All covenants mentioned below are calculated based on the Consolidated Financial Statements under IFRS of Gerdau S.A., except item IV, which refers to the Consolidated Financial Statements of Metalúrgica Gerdau S.A., as described below:

I) Consolidated Interest Coverage Ratio measures the interest expense payment capacity in relation to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization). The contractual ratio requires that the EBITDA for the last 12 months should represent at least 3 times of the interest expense of the same period. As of December 31, 2010 such covenant was 4.6 times.

II) Consolidated Leverage Ratio measures the level of gross debt in relation to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization). The contractual ratio requires that the gross debt should not surpass 4 times the EBITDA for the last 12 months. As of December 31, 2010 such covenant was 2.8 times.

III) Required Minimum Net Worth measures the minimum net worth required in financial agreements. The contractual ratio requires that the Net Worth must be greater than R\$ 3,759,200. As of December 31, 2010, the Net Worth was R\$ 20.2 billion; and

Table of Contents

IV) Current Ratio measures the company's ability in fulfilling its short term obligations. The contractual terms requires that the ratio of Current Assets divided by Current Liabilities must be greater than 0.8 times. As of December 31, 2010 the current ratio was 2.6 times.

The Company discloses to the market the adjusted EBITDA (earnings before interest, income tax and social contribution, depreciation, amortization and reversal (losses) from the non recoverability of assets and restructuring costs). EBITDA is not a measure used in generally accepted accounting practices and does not represent cash flow in the periods presented, and therefore should not be considered an alternative to cash flow as a liquidity indicator. EBITDA is not standardized and thus is not comparable to the EBITDA of other companies.

Pursuant to the agreements, the penalty for non-compliance with such covenants is the possibility of a declaration of default by the banks and acceleration of maturity of the Company's loans.

As of December 31, 2010 and as of the date of this Annual Report on Form 20-F, the Company was in compliance with all contractual covenants related to its financial agreements.

Based on the Company's internal forecasts, the Company does not expect to be in breach of any of the financial covenants over the next twelve months. Nevertheless, this forecast can be affected positive or negatively by the global economics and the steel market.

Credit Lines

In June 2009, certain subsidiaries of the Company (Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Aços Villares S.A.) obtained a pre-approved credit line with BNDES in the total amount of R\$ 1,500 million bearing interest rate of TJLP + 2.21% per annum when drawn. The transaction is guaranteed by Metalúrgica Gerdau S.A.. On December 31, 2010 the credit line was not in use by the Company.

On May 27, 2008, Gerdau Aços Longos S.A. received a loan approval from BNDES (National Bank for Economic and Social Development) in the total amount of R\$ 543.4 million for financing the construction of the Caçú / Barra dos Coqueiros hydroelectric complex with a grace period of 6 months after startup by October 2010. As of December 31, 2010, R\$ 499.8 million of this credit facility had been used. The amortization will take place from November 2010 to October 2024, subject to TJLP (Long-term interest rate) + 1.46 % p.a.

The North American subsidiaries have a US\$ 650 million (R\$ 1,100 million as of December 31, 2010) line of credit that expires on December, 2012. Inventories and accounts receivable of subsidiaries guarantee this facility. No amounts were outstanding on this line of credit as of December 31, 2010.

## Edgar Filing: GERDAU S.A. - Form 20-F

In May 2008, the subsidiary Gerdau Macsteel, Inc. received a US\$ 100 million (R\$ 166.7 million as of December 31, 2010) 3-year revolving credit facility. The facility was not being used as of December 31, 2010. The contractual interest rate is LIBOR + 1.25%. The following companies guaranteed to this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Comercial de Aços S.A..

### *Derivatives, Off-Balance Sheet Arrangements and Contractual Obligations*

For more details see letter E OFF BALANCE SHEET ARRANGEMENTS

### *Guarantees Granted*

The Company has guaranteed the financing contracts of Gerdau Açominas S.A. in the amount of R\$ 1,200 million on December 2010.

The Company is the guarantor for the subsidiary Empresa Siderúrgica del Perú S.A.A. Siderperú for a secured loan in the amount of US\$ 150 million (R\$ 249.930 million as of December 31, 2010). On December 31, 2010, the outstanding amount was US\$ 9 thousand (R\$ 15 thousand). The Company is also the guarantor for a credit facility of US\$ 70 million (R\$ 116 million as of December 31, 2010) for this same subsidiary.

On September 22, 2010 the Company redeemed all of the 8.875% Guaranteed Perpetual Bonds (the Redemption Date ), in the aggregate totaling US\$600 million, plus accrued and unpaid interest to the Redemption Date and any additional amounts payable with respect thereto.

In February 2010, Kalyani Gerdau Steels Limited entered into a US\$25 million loan agreement with International Finance Corporation guaranteed by the Company, with a tenor of ten years.



Table of Contents

The Company is the guarantor for the associated company Industrias Nacionales C. por A., for a financing contract in the amount of US\$ 25 million (R\$ 42 million as of December 31, 2010), issued on April, 2010.

The Company is the guarantor for the associated company Industrias Nacionales C. por A., for a financing contract in the amount of US\$ 34.935 million (R\$ 58.209 million as of December 31, 2010) covered by SACE

The Company is the guarantor of the jointly-owned subsidiary Dona Francisca S.A. for financing contracts in the amount of R\$ 30.8 million on December 31, 2010, corresponding to a joint liability of 51.82% of the amount.

The Company and the subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especias S.A., Gerdau Açominas S.A., Gerdau Comercial de Aços S.A., Gerdau Açominas Overseas, Ltd. and Gerdau Ameristeel Corporation are jointly liable for the subsidiary GNA Partners, in financing contracts in the amount of US\$ 1.69 billion (R\$ 2.82 billion as of December 31, 2010).

The Company and the subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Açominas S.A and Gerdau Comercial de Aços S.A are guarantors for GTL Trade Finance Inc. for the issuance of bonus with a maturity of 10 years (Ten Years Bond) in the amount of US\$ 1.5 billion (R\$ 2.5 billion as of December 31, 2010)

The Company and the subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Açominas S.A and Gerdau Comercial de Aços S.A are guarantors for Gerdau Holdings Inc. for the issuance of bonus with a maturity of 10 years (Ten Years Bond) in the amount of US\$ 1.25 billion (R\$ 2.1 billion as of December 31, 2010).

The Company and the subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Açominas S.A and Gerdau Comercial de Aços S.A are guarantors for Gerdau Trade Inc for the issuance of bonus with a maturity of 10 years (Ten Years Bond) in the amount of US\$ 1.25 billion (R\$ 2.1 billion as of December 31, 2010).

The Company and its subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especias S.A., Gerdau Açominas S.A. and Gerdau Comercial de Aços S.A. are guarantors for Gerdau MacSteel Inc. for a Revolving Credit Agreement in the amount of US\$ 100 million (R\$ 167 million as of December 31, 2010).

The Company is the guarantor for the subsidiary Diaco S.A. for a financing contract in the amount of COP\$ 61.5 billion equivalent to US\$ 35 million (R\$ 58.3 million as of December 31, 2010).

The Company provides guarantee for its subsidiary Gerdau Aços Especias S.A. in a purchase contract of electric energy in the total amount of R\$ 1.664 million (US\$ 1 million as of December 31, 2010).

## Derivatives

Risk management objectives and strategies: The Company believes that risk management is important to carry out its strategy for profitable growth. The Company is exposed to market risks that mainly involve fluctuations in exchange rates and interest rate volatility. The objective of risk management is to eliminate possible unexpected variations in the performance of group's companies as a result of this fluctuation.

The objective of derivative transactions is always related to mitigation of market risks as stated in our policies and guidelines, as well as to manage volatility in financial flows. The final assessment of results for each contract is measured at the end of each contract when the derivative contract is settled. The monitoring of the effects from these transactions is monthly performed by the Cash Management and Debt Committee, which discusses and validates the marking to market of these transactions. All gains and losses in derivative financial instruments are recognized by its fair value in the Consolidated Financial Statements of the Company.

By internal policy, the Company does not maintain a debt in a currency in which there is no corresponding cash generation.

Policy for use of derivatives: according to internal policy, the financial result must arise from the generation of cash from its business and not gains from the financial market. Therefore, it considers that the use of derivatives should be for non-speculative purposes and intended to hedge the Company from possible exposure to risks. The contracting of a derivative must have as corresponding hedged item an uncovered asset or liability, provided as the position is not leveraged. Criteria adopted for defining the notional amount of derivative financial instruments are linked to the amount of debt and or assets.

Policy for determining fair value: The criteria to determine the fair value of derivative financial instruments is based on the utilization of market curves for each derivative discounted to present value as of the calculation date. The methods and assumptions take into consideration the interpolation of curves, such as in the case of LIBOR, and according to each market where the company has exposure. The swaps, both on the asset and on the liability side, are

Table of Contents

estimated in separate and discounted to present value. The difference in the result between extremities generates the swaps market value. The amounts are calculated based on models and price quotes available in the market and which take into consideration both present and future market conditions. Amounts are gross before taxes. Due to changes in market rates, these amounts can change up to the maturity or in situations of anticipated settlement of transactions.

The derivative transactions may include: interest rate swaps, (both in the Libor dollar, as in other currencies) in currency swap, and NDF s (Non Deliverable Forwards).

Non Deliverable Forwards (NDFs):

The former subsidiary Aços Villares S.A. settled in advanced the NDFs designated as cash flow hedge on December 01, 2010 (prior to incorporation), that assume the PTAX average from the month before the maturity date and the bank adopted a fixed US dollar rate for the maturity date. On December 31, 2010, the effects in the net income was a gain of R\$ 10,755, recognized in the account Gains and losses on derivatives, net . Counterparts to this transaction include the banks Banco Itaú S.A., UBS Pactual, and Unibanco S.A.

Subsidiary Cleary Holdings settled the NDF s (Non Deliverable Forwards), which were designated as cash flow hedges with maturity date on February 5, 2010. This operation was conducted to hedge the exchange exposure on agreements of coal selling in the external market, which are in US Dollars. As of December 31, 2010, the effects of this NDF in the net income of the period was a loss of R\$ 143 and it was registered in the account Gains and losses on derivatives, net . Counterpart to this transaction was Banco de Bogotá.

Subsidiary Cleary Holdings contracted the sale of NDF s, which were designated as cash flow hedges with notional of US\$ 20,000 (R\$ 33,324 as of December 31, 2010) and US\$ 17,500 (R\$ 29,159 as of December 31, 2010), with maturity dates on February, 04, 2011, and March 04, 2011, respectively. This NDF s were contracted in order to protect the Company from the exchange fluctuations of the US dollar in relation to the local currency, which can impact the revenue of their exports and thereby damage the Company image. The fair value of these contracts represents a net gain of R\$ 383 and R\$ 128, respectively. Counterpart to this transaction is Banco de Bogota.

The subsidiary Diaco S.A. contracted NDF s designated as cash flow hedges, in the notional US\$ 5,070 (R\$ 8,448 as of December, 31, 2010) and US\$ 5,040 (R\$ 8,398 as of December, 31, 2010) with maturity dates on April 07, 2011, and October 07, 2011, respectively. These operations were contracted in order to protect itself from the exchange exposure existent in the financing with Davivienda Bank, which are in US Dollars. The fair value of these contracts represents a net gain of R\$ 206 and R\$ 66, respectively. Counterpart to this transaction is Banco de Davivienda.

The prospective and retrospective testing made for above financial instruments does not identify any amount of ineffectiveness.

Swap Contracts

Interest rate swap

Subsidiary Aços Villares S.A, settled in advance, in December 03, 2010, interests rate swaps, which the financial charges for export pre-payment contracts equivalent to LIBOR plus a spread, were swapped for prefixed interest rates. In December 31, 2010, the effects on net income was a loss of R\$ 501, registered on Gains (Losses) on derivatives, net. Counterparts for these transactions were Unibanco and ABN Amro Bank.

The Company, through its subsidiary GTL Equity Investments Corp. contracted swaps based on LIBOR with the bank JP Morgan with maturity dates between December 21, 2010 and December 21, 2011. The notional values of these contracts together were US\$ 100,000 (R\$ 166,620 as of December 31, 2010). These transactions were made in order to optimize the difference between the internal interest rate in dollars ( cupom cambial ) and the external interest rate (LIBOR). Because of this, the Company increases its exposure to the Brazil s risk, however, this risk is inherent to its business. The fair values of these contracts as of December 31, 2010, is a loss of R\$ 7,072 and a gain of R\$ 5,529, generating a net loss of R\$ 1,543.

Also through its subsidiary GTL Equity Investments Corp., the Company settled in advance an interest rate swap, with the bank Calyon, with maturity date on August 15, 2012. This swap was contracted in order to minimize the interest rate fluctuation risk (LIBOR) since the Company incurred in dollar-denominated debts at floating rates. In December 31, 2010, the effect of this swap on net income was a loss of R\$ 193 and it was registered on Gains (Losses) on derivatives, net.

The subsidiary Siderúrgica del Perú S.A.A. - Siderperú has an interest rate swap contract whereby it receives a variable interest rate based on LIBOR and pays a fixed interest rate in US dollars. This contract had a notional value of

Table of Contents

US\$ 50,000 (R\$ 83,310 as of December 31, 2010) and matures on April 03, 2014. This swap was contracted in order to minimize the risk of interest rate fluctuations (LIBOR) since the Company took on debt in dollars at floating rates for an amount greater than the swap. The fair value of this contract as of December 31, 2010, is a net loss of R\$ 6,064. Counterpart for this transaction is Banco Bilbao Vizcaya (BBVA).

Subsidiary Gerdau Ameristeel Corp. entered into an interest rate swap contract qualified as a cash flow hedge in order to reduce its exposure to the fluctuation in LIBOR for the Term Loan Facility. Since the Term Loan Facility was contracted at floating LIBOR rates, the Company chose to exchange it for fixed rates, improving cash flow predictability, as well as eliminating the floating LIBOR risk. The contracts have a notional value of US\$ 1,000,000 (R\$ 1,666,200 as of December 31, 2010). Fixed rates for these swaps are between 3.3005% and 3.7070% and their mature from March 2012 to September 2013. If added to the spread on LIBOR related to tranche B of the Term Loan Facility, the interest rate on these swaps would be between 4.5505% and 4.9570%. The fair value of these swaps as of December 31, 2010 is a net loss of R\$ 79,340, which generates a net effect on taxes of R\$ 33,203 in a specific account of Equity. Counterparts for this transaction are ABN Amro Bank, HSBC, and JP Morgan.

For further information regarding to Swap Contracts (Interest Rate Swap and Cross Currency Swap) refer to Note 16 Financial Instruments, item e) Operations with Derivative Financial Instruments.

**Capital Expenditure**

***2010 Capital Expenditure***

In fiscal year 2010, capital expenditure on fixed assets was R\$ 1,288.7 million. Of this total, 69.3% was allocated to Brazil Business Operation units and the remaining 30.7% was allocated to the other businesses operations. The Company invested R\$ 3,192.1 million (net of cash) in acquisitions during 2010.

*Brazil Business Operation* a total of R\$ 893.7 million was invested in this operation for capital expenditure. The major part of this investment was for the installation of heavy plates and hot-rolled coil rolling mills at the Açominas mill.

*North America Business Operation* this business operation spent R\$ 3,178.3 million on capital projects and acquisitions in 2010. On August 30, 2010, Gerdau S.A. concluded the acquisition of all outstanding common shares issued by Gerdau Ameristeel that it did not yet hold either directly or indirectly, paying a total of R\$ 2,808.9 million. The Company also paid approximately R\$ 283.1 million for the acquisition of Tamco, a company based in the state of California, US.

*Latin America Business Operation* in 2010, the Latin American units spent R\$ 310.9 million, from which R\$ 209.8 million were capital expenditure on fixed assets for the substitution of an electric arc furnace in Peru. In the same period the Company acquired an additional stake of 49.1% in Cleary Holdings Corp. for R\$ 101.1 million.

*Specialty Steel Business Operation* the specialty steel units spent R\$ 97.9 million in 2010, for capital expenditure on fixed assets equally distributed throughout the countries which compose this business operation.

**2009 Capital Expenditure**

In fiscal year 2009, capital expenditure on fixed assets was R\$ 1,313.2 million. Of this total, 57.2% was allocated to Brazil Business Operation units and the remaining 42.8% was allocated to the other businesses operations. The Company invested R\$ 71.1 million (net of cash) in acquisitions during 2009.

*Brazil Business Operation* a total of R\$ 788.4 million was invested in Brazil BO for capital expenditure. The major part of this investment was for the installation of continuous slab casting at the Açominas mill. In the same period the Company also acquired Maco Metalúrgica Ltda. for R\$ 4.2 million.

*North America Business Operation* this business operation spent R\$ 162.8 million on capital projects, representing 11.6% of total capital expenditure on fixed assets, primarily for project of the new finishing-end area at Wilton (USA) and modernization of the reheating furnace at Midhlotian (USA).

*Latin America Business Operation* in 2009, the Latin American units spent R\$ 351.1 million, summing 25.1% of total capital expenditure on fixed assets for the installation of the new melt shop at Tocancipá (Colombia) and capacity expansion of the rolling mill and melt shop at Sidertul (Mexico). In the same period the Company also acquired an additional stake of 4.9% in Gerdau América Latina Participações S.A. for R\$ 66.9 million.

Table of Contents

*Specialty Steel Business Operation* the specialty steel units spent R\$ 75.5 million in 2009, representing 5.4% of total capital expenditures to the installation of bloom casting at Sidenor (Spain) and the increase in continuous casting speed at Aços Especiais Piratini (Brazil).

**2008 Capital Expenditure**

The Company invested R\$ 4,807.5 million (R\$ 4,076.2 million net of cash) in 2008 for the acquisition of new businesses and new property, plant and equipment and R\$ 2,741.0 million for expanding installed capacity and for technological upgrades to its units, mainly in Argentina, Brazil, Canada, Chile, Colombia, Guatemala, Honduras, Mexico, Peru, Spain and the United States. The main investments in the year, considering the effective amount paid (cash flow), are described below.

*Brazil Business Operation* a total of R\$ 1,719.9 million was invested in the Brazilian Business Operation for capital expenditure and acquisitions. The Company invested R\$ 927.8 million at Açominas mill, mainly for the installation of a continuous slab casting unit, with operational startup in the first half of 2009. An investment of R\$ 92.2 million was made to acquire K.E.R.S.P.E Empreendimentos e Participações Ltda., a scrap processing facility.

*Latin America Business Operation* - The Latin American units spent R\$ 1,266.9 million on capital expenditure and acquisitions in 2008. The Company paid R\$ 303.7 million for a strategic partnership entered into with Corporación Centroamericana del Acero S.A. in Guatemala, assuming a 30.0% stake in this company, which has installed capacity of 500,000 tonnes of crude steel and 700,000 tonnes of rolled steel. It also invested R\$ 186.3 million to acquire a 49.0% stake of Corsa Controladora S.A. de C.V. in Mexico, a mini-mill long steel producer with 300,000 tonnes of rolled steel capacity. The Company also paid R\$ 188.7 million for an additional 40.2% interest in the Colombian mini-mill producer Diaco S.A., increasing its controlling interest in this company to 98.7%. Another important investment was the acquisition of a controlling interest in Cleary Holdings Corp., a metallurgical coke producer and coking coal reserves in Colombia for R\$ 119.4 million.

*North American Business Operation* this business operation spent R\$ 821.4 million on capital projects and acquisitions in 2008. The most significant projects in fixed assets included a new finishing-end in Wilton and a new reheating furnace in Midlothian. The main acquisitions were two scrap processing facilities in the United States and Canada for investment of R\$ 110.6 million, and Century Steel, Inc., a steel distributor, for investment of R\$ 369.9 million.

*Specialty Steel Business Operation* this operation invested R\$ 3,744.5 million in capital projects and acquisitions. The company invested R\$ 2,434.1 million to acquire MacSteel, the second-largest specialty steel manufacturer in the United States. With the acquisition of MacSteel, Gerdau's specialty steel capacity increased from 2.5 million to 3.7 million tonnes. Finally, Gerdau paid R\$ 673.6 million to increase by 20% its interest in Corporacion Sidenor SA, a holding company that controls Spain's largest producer of long steel and forged and molded parts, through LuxFin Participation, increasing its stake in the company to 60.0%.

**Main Capital Expenditure Currently in Progress**

## Edgar Filing: GERDAU S.A. - Form 20-F

In 2010, additions to fixed assets totaled R\$ 1.3 billion. Of this total, 72% was allocated to units in Brazil and the remaining 28% to units located abroad.

The investments in fixed assets planned for the period from 2011 to 2015 are estimated at R\$ 10.8 billion, and include both strategic and maintenance investments (see table below).

Investment Plan Main Projects	Location	Additional rolling capacity (1,000 tonnes)	Start-up
<b>Brazil Business Operation</b>			
Expansion of the structural profile rolling mill at Açominas mill-MG	Brazil	160	2011
Flat steel rolling mill (heavy plates and coiled hot-rolled strips) at Açominas mill-MG	Brazil	1,900	2012
Expansion of mining capacity to 7 million tonnes	Brazil		2012
Wire rod and rebar rolling mill in Cosigua mill-RJ(1)	Brazil	600	2012
Fabrication units and ready-to-use steel product units	Brazil		2012
<b>North America Business Operation</b>			
Reheating furnace at Calvert City	USA		2012
<b>Latin America Business Operation</b>			
Port facilities (for coal and coke shipments)	Colombia		2012
<b>Specialty Steel Business Operation</b>			
New continuous slab casting with capacity expansion at the melt shop	USA	200	2012
Specialty steel and rebar rolling mill, sintering and energy generation(2)	India	300	2012
Specialty steel rolling mill	Brazil	500	2012

---

(1) In order to supply this rolling mill Gerdau will resume its melt shop with 600,000 tonnes crude steel capacity located in Santa Cruz Rio de Janeiro.



Table of Contents

(2) Capacity is not included in consolidated figures, since it is a shared controlled company.

Additionally the Company has the following planned investments:

- Brazil: In the phase 2 will have an additional 500,000 tonnes rolling capacity in Santa Cruz-RJ
- Peru: Melt shop modernization and improvement of port logistic, as well the technological improvement on environmental protection at this unit
- United States: dedusting system at Tamco melt shop.

**C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES, ETC.**

All Gerdau mills have excellent quality management supported by a wide array of quality control tools. Product development projects are headed by specialists who use quality tools such as Six Sigma , a set of statistical procedures for improving the assessment of process variables, as well as Quality Function Deployment , a methodology through which technicians can identify the full range of customer requirements.

Given this level of quality management, 45 mills are ISO 9001 or ISO TS 16949 certified. In general, production , technical services and quality teams are responsible for developing new products to meet customer and market needs.

The Company uses a quality management system developed in house that applies tests for product design, manufacturing processes and final-product specifications. A specially trained team and modern technologies also exist to assure the Company s high standards of quality. The Company s technical specialists make planned visits, some may be randomly selected and some are scheduled visits, to its customers to check on the quality of the products delivered by the Company in order to guarantee the final user satisfaction for products purchased indirectly.

Knowledge Management System is used to share information among all steel mills seeking performance improvements and leverage of process knowledge supported by Communities of Practice and technical specialists.

Due to the specialized nature of its business, the Company s specialty steel mills are constantly investing in technological upgrading and in research and development. These mills are active in the automotive segment and maintain a technology department responsible for new products and the optimization of existing processes.

International machinery manufacturers and steel technology companies supply most of the sophisticated production equipment the Company uses. These suppliers generally sign technology transfer agreements with the purchaser and provide extensive technical support and staff training for the installation and commissioning of the equipment. The Company has technology transfer agreements with Nippon Steel, Sumitomo Steel, Thyssen, Daido Steel and BSW.

As is common with mini-mill steelmakers, the Company usually acquires technology in the market rather than developing new technology through intensive research and development, since steelmaking technology is readily available for purchase.

Gerdau works continuously to monitor and anticipate the needs of its customers. For this, has a research and development centers in Brazil, the United States and Spain used to meet the markets for specialty steel, especially for the automotive industry. The Company invested in research and development R\$ 186.5 million in 2008, R\$ 127.5 million in 2009 and R\$ 214.7 million in 2010.

The Company is not dependent on patents or licenses or new manufacturing processes that are material to its business.

#### **D. TREND INFORMATION**

Studies from the World Steel Association indicate that world steel consumption should grow by 5% in 2011, to reach 1.3 billion tonnes.

According to data from the Brazilian Steel Institute, Brazil is expected to produce 28 million tonnes of steel in 2011, a growth of 6% from 2010, supported by solid GDP growth in the period. Brazilian Central Bank estimates call for GDP growth of 4.6% in the year, which comes after the growth of 7.5% registered in 2010, based on the Central Bank's Economic Activity Index (IBC-Br). In the construction industry growth is expected to remain robust, with estimates

Table of Contents

from Sinduscon pointing to growth in Brazil's construction GDP of 6% in 2011. In the manufacturing industry the Brazilian Central Bank is projecting GDP growth in Brazil's manufacturing sector of 4.9% in 2011.

The IMF projects GDP growth in North America for 2011 at 3%. This positive outlook is also supported by data from the World Steel Association, which points to steel consumption growing by 9% in 2011 to reach 86 million tonnes. The highlight in this scenario is the expected continued recovery in industrial construction, especially for energy projects, and the expected need for investments in infrastructure projects over the coming years.

In Latin America (excluding Brazil), for 2011, the estimates are optimistic, with GDP in the region projected to grow by 4.3% in 2011. According to the World Steel Association, steel consumption in Latin America, excluding Brazil, should reach 29 million tonnes in 2011, a growth of 14% on 2010, which should support a gradual increase in per-capita steel consumption in the region, which remains at low levels.

The outlook for the specialty steel market in 2011 is also positive. In the United States, vehicle production is forecasted to grow 10% in 2011 to 13.4 million units. In Brazil, the ANFAVEA (Vehicle Manufacturers' Association) forecasts vehicle production for 2011 to reach 3.7 million units from 3.6 million units in 2009. In Europe, the vehicle production is estimated to grow 2%, reaching 19.5 million units, according to European Automobile Manufacturer's Association (ACEA).

**E. OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources other than the ones described below.

The Company is a guarantor of associate company Industrias Nacionales C. por A. in an agreement with BNP Paribas to finance constructions and auxiliary equipment totaling US\$ 25,000 (R\$ 41,655 as of December 31, 2010). The Company is also guarantor of this same associate in an agreement with BNP Paribas to finance 85% of the principal equipment in the amount of US\$ 34,935 (R\$ 58,209 as of December 31, 2010). In this date the amount used was US\$ 32,878 (R\$ 54,781).

The Company is the guarantor of the associate company Dona Francisca S.A. for financing contracts totaling R\$ 30,795, corresponding to a joint liability of 51.82% of the amount.

The Company provides guarantee to a line of credit to working capital to its associate Gerdau Corsa SAPI de C.V., with BBVA bank, in the amount of US\$ 44,500 (R\$ 74,146 as of December 31, 2010).



Table of Contents**F. DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

The table below sets forth the Company's contractual obligations at December 31, 2010.

Contractual obligations (R\$ thousands)	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term debt obligations (1)	951,905	951,905			
Long-term debt obligations (1)	12,986,119	626,063	4,924,396	3,335	7,432,325
Debtures (1)	731,972	115,069	518,826		98,077
Interest payments (2)	3,469,367	528,335	1,390,490	700,701	849,841
Interest rate swap	92,476		86,412	6,064	
Operating lease obligations (3)	144,440	34,400	59,610	39,305	11,125
Capital expenditures (4)	2,395,883	1,226,035	1,169,848		
Unconditional purchase obligations (5)	3,164,650	725,008	2,300,578	45,948	93,116
Pension funding obligations (6)	744,117	153,927	143,255	106,122	340,813
Put option the remaining stake in PCS acquisition (7)	40,341	40,341			
Put option granted to Santander Group on Corporación Sidenor acquisition (8)	464,868			464,868	
Put option the remaining stake in Sipar Gerdau Inversiones S.A. acquisition (9)	11,497			11,497	
<b>Total</b>	<b>25,197,635</b>	<b>4,401,083</b>	<b>10,593,415</b>	<b>1,377,840</b>	<b>8,825,297</b>

(1) Total amounts are included in the December 31, 2010 consolidated balance sheet. See Note 14 - Loans and Financing and Note 15 - Debtures in the consolidated financial statements.

(2) Interest payments include amounts related to the perpetual bonds, which do not have a final maturity date. For the purpose of interest calculations, interest payments on the perpetual bonds were considered for 30 years.

(3) Includes minimum lease payment obligations for equipment and real property leases in effect as of December 31, 2010.

(4) Purchase obligations for capital expenditures correspond to and are related to capital projects. The full amount relates to capital projects agreements where Gerdau has irrevocably committed with suppliers to acquire equipment. As the equipment had not been received by December 31, 2010, the corresponding liability has not yet been recorded in its current financial statements.

(5) The majority of other purchase obligations are for inventory and operating supplies and expenses used in the ordinary course of business.

(6) Pension funding obligations are included as per actuarial computations made by third party actuaries.

(7) Gerdau Ameristeel has the call option for 16% of the remaining stake in PCS, which can be exercised after 5 years from the purchase date. Additionally, the minority shareholders also have the option to sell the remaining 16% stake in PCS to Gerdau Ameristeel, for the established price and also after 5 years from the date of transaction. See Note 16.f Financial Instruments to the consolidated financial statements included herein.

(8) During 2006, the Company entered into an agreement to acquire an interest of 40% of Corporación Sidenor, but also granted a put option to Santander Group, which acquired another stake of 40% of Corporación Sidenor. According to this put option, Santander Group has the option to sell its interest in Corporación Sidenor to the Company five years after the completion of the acquisition. See Note 16.f Financial Instruments to the consolidated financial statements included herein.

(9) The Company has the call option for 7.25% of the minority shareholders in Sipar Gerdau Inversiones S.A., which can be exercised up to 5 years from 2010. Additionally, the minority shareholders also have the option to sell the remaining 7.25% stake in Sipar Gerdau Inversiones S.A., for the established price and also after five years from the date of transaction. See Note 16.f Financial Instruments to the consolidated financial statements included herein.

#### **G. SAFE HARBOR**

See the disclaimer with respect to Forward-Looking Statements.

Table of Contents

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

**A. DIRECTORS AND SENIOR MANAGEMENT**

The following is a brief biography of each of the Company Directors and Officers:

**JORGE GERDAU JOHANNPETER** (73) has worked for the Gerdau Group since 1954. He and his brothers, Germano, Klaus and Frederico, started their careers as apprentices. Jorge Johannpeter became an Executive Officer in 1971 and a member of the Board of Directors in 1973. In 1983, he became Chairman of the Board of Directors and President of the Company. In 2002, after the implementation of the new corporate governance structure, he also became the President of the Gerdau Executive Committee (CEO). He holds a degree in Law from the Federal University of Rio Grande do Sul. Since January 2, 2007 he has been served exclusively as a member of the Board of Directors, as its President.

**GERMANO HUGO GERDAU JOHANNPETER** (78) has worked for the Gerdau Group since 1951. He became an Executive Officer in 1971 and has been a member of the Board of Directors since 1973. In 2002, under the new corporate governance structure, he became a Vice Chairman of the Board of Directors. He holds a degree in Business Administration from the Getúlio Vargas Foundation.

**KLAUS GERDAU JOHANNPETER** (74) has worked for the Gerdau Group since 1954. He became an Executive Officer in 1971 and has been a member of the Board of Directors since 1973. In 2002, under the new corporate governance structure, he became a Vice Chairman of the Board of Directors. He holds a degree in Civil, Electrical and Mechanical Engineering from the Federal University of Rio Grande do Sul.

**FREDERICO CARLOS GERDAU JOHANNPETER** (67) has worked for the Gerdau Group since 1961. He became an Executive Officer in 1971 and has been a member of the Board of Directors since 1973. Under the new Corporate Governance structure, he also became Senior Vice President of the Gerdau Executive Committee until December, 2006. He holds a degree in Business Administration from the Federal University of Rio Grande do Sul and a master's degree in Business, Finance, Costs and Investments from the University of Cologne, Germany. From January 2, 2007, he has served exclusively as a Vice Chairman of the Board of Directors.

**ANDRÉ PINHEIRO DE LARA RESENDE** (59) was elected as an Independent Board Member in 2002. He graduated in Economics from the Pontifical Catholic University in Rio de Janeiro (PUC), and holds a master's degree from the Postgraduate School of Economics of the Getúlio Vargas Foundation and a PhD from the Massachusetts Institute of Technology in Cambridge, Massachusetts, USA. André Pinheiro de Lara Resende is also a member of the Board of Alps Funds. He was formerly President of the Brazilian National Bank for Economic and Social Development (BNDES), Special Advisor to the President of Brazil, Managing Partner of Banco Matrix S.A., Brazil's chief foreign debt negotiator, Executive President of Companhia Siderúrgica Tubarão (CST), Executive Vice President and member of the Board of Unibanco União de Bancos Brasileiros S.A., Director of Brasil Warrant Administração de Bens e Empresas Ltda., a member of the Board of Directors of Cia. Ferro Brasileiro S.A., a member of the Board of Directors of Lojas Americanas S.A., Managing Partner of Banco de Investimento Garantia and Manager of Public Debt and Open Market of the Brazilian Central Bank.

## Edgar Filing: GERDAU S.A. - Form 20-F

André Pinheiro de Lara Resende was a member of the Board of Directors until April 26, 2011 (see item 8.B Significant Changes below).

**AFFONSO CELSO PASTORE** (70) was elected as an Independent Board Member in 2002. He holds a degree in Economics from the University of São Paulo and a PhD in Economics from the same university. Affonso Celso Pastore is also Professor at the Getulio Vargas Foundation in Rio de Janeiro and an independent economics advisor. He was the Secretary of the São Paulo Treasury Department and President of the Brazilian Central Bank.

**OSCAR DE PAULA BERNARDES NETO** (63) was elected as an Independent Board Member in 2002. He holds a degree in Chemical Engineering and Business Administration from the Federal University of Rio de Janeiro (UFRJ). He is president and director of the Latin America Internet Development Group and executive partner of Íntegra Associados, Reestruturação Empresarial Ltda. He is also a member of the boards of several companies in Brazil and abroad, including Suzano BahiaSul S.A., Satipel Industrial S.A., Grupo RBS, São Paulo Alpargatas S.A., Delphi Corporation (United States) and Johnson Electric (Hong Kong). He is a member of the Consultative Councils of Bunge Brasil, Alcoa Brasil and Veirano.

**ANDRÉ BIER GERDAU JOHANNPETER** (47) has worked for the Gerdau Group since 1980. He is the President of the Company, in the position of Chief Executive Officer ( CEO ) since January, 2007. He graduated in Business Administration from the Pontifícia Universidade Federal do Rio Grande do Sul (PUC RS). He studied General Business Administration at the University of Toronto (Canada), Marketing at the Ashridge Business School (UK), and



Table of Contents

Advanced Management at the Wharton School, University of Pennsylvania (United States). At the beginning of 2008 he became a member of the Board of Directors.

**CLAUDIO JOHANNPETER** (46) joined the Company in 1982. He became an executive officer in 1997, and holds the position of Chief Operating Officer ( COO ) since January, 2007. He graduated in Metallurgical Engineering from the Federal University of Rio Grande do Sul (UFRGS) and studied Operations Management at the University of London, Executive Development at Penn State (United States), and in the Advanced Management Program at Harvard (United States). At the beginning of 2008 he became a member of the Board of Directors.

**OSVALDO BURGOS SCHIRMER** (59) joined the Company in 1986 and was appointed Financial Executive Officer in 1987. He was promoted to the position of Executive Vice President of the Gerdau Executive Committee in 2002, while retaining the positions of Chief Financial Officer (CFO) and Investor Relations Executive Officer of Gerdau S.A. Osvaldo Burgos Schirmer graduated in Business Administration from the Federal University of Rio Grande do Sul in 1973, and holds an MBA from Illinois University. He previously held a position as an executive officer at the Iochpe-Maxion Group, a holding company for companies in the auto parts and railroad equipment sectors.

**MARIO LONGHI FILHO** (56) joined the Company in 2005 as Executive Vice President, member of the Gerdau Executive Committee. Mário graduated in Metallurgical Engineering from Instituto Mauá de Tecnologia, São Paulo. Before joining Gerdau Group, Mário had a successful career at Alcoa, where he became Vice President, heading global operations and member of the Executive Committee.

**EXPEDITO LUZ** (58) has worked for Gerdau since 1976 and in 1989 became an Executive Officer of the Legal Department. He was appointed to the Board of Directors in 2001 and under the new corporate governance structure he is now Secretary-General of the Board of Directors. In 2009 Expedito was appointed as Executive Vice President, Legal and Compliance and assigned as an effective member of the Gerdau Executive Committee. Expedito Luz graduated in Law from the Federal University of Rio Grande do Sul in 1975 and obtained a master's degree in Law from the Columbia Law School in New York in 1980.

**PAULO FERNANDO BINS DE VASCONCELLOS** (65) joined the Company in 1972. In 2002, he was appointed Executive Vice President of the Gerdau Executive Committee. He is now responsible for the Specialty Steel Operations in Brazil, United States and Europe. He holds a degree in Metallurgical Engineering.

Paulo Fernando Bins de Vasconcellos was an Officer (Vice President) and a member of the Gerdau Executive Committee until May 31, 2011 (see item 8.B Significant Changes below).

**ALFREDO HUALLEM** (64) has worked for the Gerdau Group since 1975, He was promoted to Executive Officer in 1993 and since December 2007, he also became member of the Gerdau Executive Committee responsible for the Business Operation Long Steel Brazil. Since July 2009, keeping his position as an Executive Committee member, Alfredo was assigned responsible for Gerdau Commercial Process. He graduated in Metallurgical Engineering from the UFF - Universidade Federal Fluminense, Economic Engineering from the Pontifical Catholic University of Rio de Janeiro, and Strategic Marketing from Stanford.

**MANOEL VITOR DE MENDONÇA FILHO** (53) has worked for the Gerdau Group since 1983 and was promoted to Executive Officer in 2001. Manoel Vitor graduated in Metallurgical Engineering from Federal University of Minas Gerais in 1982, and holds an MBA from the Getúlio Vargas Foundation.

**FRANCISCO DEPPERMANN FORTES** (47) has worked for the Gerdau Group since 1985 and was promoted to Executive Officer and Executive Vice President of the Gerdau Executive Committee in 2011. He graduated in Metallurgical Engineering at the Federal University of Rio Grande do Sul - UFRGS - in 1985, obtained a master degree in Business also from UFRGS in 2001. In 2008 concluded the Gerdau Business program and holds a degree from Stanford Executive Program (2010).

**RICARDO GIUZEPPE MASCHERONI** (49) has worked for the Gerdau Group since 1983 and was promoted to Executive Officer and Executive Vice President of the Gerdau Executive Committee in 2011. He graduated in Economics at Catholic University of Petrópolis - UCP - RJ, in 1982, with a degree in Marketing from PUC - RJ in 1983. Concluded the Gerdau Business Program in 2008.

#### **Family Relationships**

Jorge Gerdau Johannpeter, Germano Hugo Gerdau Johannpeter, Klaus Gerdau Johannpeter and Frederico Carlos Gerdau Johannpeter are brothers. André Bier Johannpeter is Jorge Gerdau Johannpeter's son and Claudio Johannpeter is Klaus Gerdau Johannpeter's son.

Table of Contents

**Arrangements**

Gerdau has no agreement of any kind with shareholders, clients, suppliers or other parties with respect to the election of its officers or directors. There are no pending legal proceedings to which any Company Board Member or Executive Officer is a party against the Company. Apart from statutory severance benefits, none of the Board Members or Executive Officers is entitled to any contractual benefits upon termination of employment, except Mr. Mario Longhi. Mr. Longhi is entitled to receive a pro-rata payment of any bonus earned for the year in which the contract is terminated by the Company, plus the long term incentive and supplemental pension benefits. In the event Mr. Longhi is terminated with cause or he resigns or otherwise voluntarily terminates the employment relationship, he will be entitled to a pro-rata payment of any bonus.

**B. COMPENSATION**

The employees' compensation system is divided into two portions: a fixed salary and a variable pay linked to performance.

The fixed portion of the compensation is constantly monitored and compared to market benchmarks in order to maintain parity with the best market practices as adopted by other companies. The variable portion of the compensation package is tied to semi-annual and annual goals. These goals are measured against standards clearly specified that are intended to support and motivate overachievement of individuals and teams results.

The human resources policy states and recognizes co-workers as being strategic to the business.

The Company conducts evaluations based on several different methodologies, including competence mapping, to track the managerial skills of its executives. Competence mapping aims to identify the degree of alignment of executives with the Company's strategies and business management and to monitor individual development.

In 2010, Directors and Executive officers from Gerdau were paid a total of R\$ 42.3 million in salaries and variable remuneration. The variable remuneration for executives is based on the overall performance of Gerdau, using as performance indicator, actual EBITDA versus planned EBITDA, on the performance of the unit to which the executive is responsible, and on individual performance. Each of the first two factors influencing 30% and the third 40% in the amount of the variable remuneration for more or less.

Gerdau Group co-sponsor Pension Plans to his subsidiaries, in Brazil, United States and Canada covering the majority of their employees. The plans are in majority Defined Benefit plans (42%) and Defined Contribution (58%).

During 2010, Gerdau's contribution to the Gerdau Plan with respect to the executive officers amounted to R\$ 0.7 thousand. This sum includes only that portion of contributions for executives who do not currently receive retirement benefits from the Company. These benefits are in no

way different from those offered to the other employees of the Company.

On April 30th, 2003, Gerdau's shareholders approved a new compensation program for strategic employees in the Company known as the Long Term Incentive Program. This new compensation program foresees the grant of options of the Company's Preferred Shares, on an annual basis, representing 20% of the annual base salary of each executive and, for the Directors and Executive Offices, an additional entrance bonus equivalent to 30% of the annual salary (the latter was eliminated as from April 28, 2005). From 2005 on, in order to match their potential total compensation to market measures, the Board members were granted a number of shares representing 120% of their base salary. This modification on the long term incentive program was approved by the Compensation and Succession Committee in February 2006. In 2007 the Committee on Remuneration and Succession approved the granting of options to the Chief Executive Officer (CEO) and the Chief Operating Officer (COO) in number equivalent to 50% of their annual base salaries. This program aims to attract and assure the long-term commitment of executives by allowing them to share in the growth of the Company, thereby enhancing the sense of participation in the business. (See Item 10. Additional Information - B. Memorandum and Articles of Association).

To meet the effort of aligning globally both, the compensation programs and the business needs, the Human Resources team supported by the HAY Group Consultancy, expert in compensation related matters, reviewed the Long Term Compensation Program which was submitted to and approved by the Gerdau Compensation and Succession Committee during the meeting held on April, 28, 2010.

The purpose of this new Plan is to attract, retain and motivate key employees as well as to stimulate the achievement of long term results by tying significant part of this compensation to a long term financial metric, in this case the ROCE (Return on Capital Employed).

The Chief Executive Officer (CEO), the Chief Operating Officer (COO), Board Members and Director positions and higher have part of their Long Term Compensation tied to ROCE (Return on Capital Employed) calculated on a yearly basis by comparing the actual ROCE against the one foreseen in the Strategic Plan.

Table of Contents

Under this program, the Chief Executive Officer (CEO) and the Chief Operating Officer (COO) are eligible to a grant equivalent to 50% of their annual base salary, the Board Members are eligible to a grant equivalent to 120% of their annual fixed compensation and other participants are eligible to a grant equivalent to 5% to 20% of their annual base salary.

The Compensation and Succession Committee approved all stock option grants since the program begun.

The stock option grants distributed to the Directors and Executive Officers are as follows (see Consolidated Financial Statements Note 25.I for a complete summary of the stock option plans):

Grant date:	Dec/03	Dec/04	Dec/04	Dec/05	Dec/06	Dec/07	Dec/08	Dec/09	Dec/10	Accumulated Number of Shares
To be vested from:	Jan/09	Jan/10	Jan/08	Jan/11	Jan/12	Jan/13	Jan/14	Jan/15	Jan/16	
Must be exercised by:	Dec/13	Dec/14	Dec/14	Dec/15	Dec/16	Dec/17	Dec/18	Dec/19	Dec/20	
Exercise price per share:	R\$6.78	R\$10.58	R\$10.58	R\$12.86	R\$17.50	R\$26.19	R\$14.91	R\$29.12	R\$22.61	
Total Options Granted to Directors and Executive Officers	659,970	570,183	266,221	1,142,605	870,045	667,738	1,243,974	677,079	651,221	6,749,036
Exercised Options	27,534	25,951	28,582							82,067
Canceled Options				7,076	5,512	13,651	11,091	5,935		43,265

Share figures have been retroactively adjusted for all periods to reflect the bonus issue of one share for each share held in April 2004, the bonus issue of one share for every two shares held in April 2005, the bonus issue of one share for every two shares held in April 2006 and the bonus issue of one share for each share held in June 2008.

**C. BOARD PRACTICES**

In November 2006, the Gerdau Group announced a new phase in its corporate governance, marked by the fourth succession in five generations. This process began in 2000 and has already resulted in important structural changes in the organization, with emphasis on the creation of the Executive Committee in 2002.

The new structure was defined by the scale, complexity and challenges facing the Gerdau Group in its global market operations. The best practices of the world's large companies were also taken into account.

The Gerdau Group has a historical commitment to good corporate governance practices and to strengthening the stock markets, which is why it takes part in Nível 1 of the São Paulo Stock Exchange (Bovespa) Differentiated Corporate Governance program (since 2001 in the case of Gerdau S.A. and 2003 for Metalúrgica Gerdau S.A.).

## Edgar Filing: GERDAU S.A. - Form 20-F

Furthermore, the Group's listed companies also have an information disclosure policy that defines the criteria guiding investor relations, including the announcement of relevant acts and facts. The aim is to maintain a fast and efficient flow of data while respecting rules of secrecy and confidentiality. This policy covers controlling shareholders, officers and managers, members of the Board of Directors and Board of Auditors and any organs or persons with technical or consultative functions which, as a result of their responsibilities, function or position, have access to information concerning the Group.

The structure is composed of three levels and has maintained the existing governing bodies – the Board of Directors, the Executive Committee and Business Operations Committee.

**Board of Directors:** The Board of Directors is responsible for determining the broad direction of the Group's business. The Board may have up to eleven members; currently there are two independent Board members. The Board has three Committees: Corporate Governance; Strategy; and, Compensation and Succession. According to the Ordinary General Meeting of Shareholders, held on April 26, 2011, the members of the Board of Directors are:

### *Chairman*

Jorge Gerdau Johannpeter (1), (2)

### *Vice Chairmen*

Germano Hugo Gerdau Johannpeter (2)

Klaus Gerdau Johannpeter (2)

Frederico Carlos Gerdau Johannpeter (1), (2), (3)

### *Member*

André Bier Gerdau Johannpeter (2)

Claudio Johannpeter (2)

Table of Contents

***Independent Members***

Affonso Celso Pastore (3)

Oscar de Paula Bernardes Neto (1), (3)

***Secretary-General***

Expedito Luz

André Pinheiro de Lara Resende was a member of the Board of Directors until April 26, 2011 (see item 8.B Significant Changes below).

(1) Member of the Corporate Governance Committee

(2) Member of the Strategy Committee

(3) Member of the Compensation and Sucession Committee

**Gerdau Executive Committee:** The Gerdau Executive Committee is responsible for coordinating the activities of the executive officers and managing the Company's business, the purpose being to build on the Company's relationship with the market and accompany best corporate governance practices. This structure provides an administrative link between the Board of Directors and the Company's business operations. Its activities are divided into business operations (BOs), defined by product line and/or geographical location: BO - Brazil, BO - Specialty Steel Products, BO - North America and BO - Latin America. The Gerdau Executive Committee is also responsible for the main functional processes that operate vertically throughout the Group, such as finance, accounting, human resources and planning. Committee's members work together to encourage a greater synergy among operations, and individually with a focus on the management of each business and functional process in order to maximize results.

***President, Chief Executive Officer***

André Bier Gerdau Johannpeter

***Chief Operating Officer***

Claudio Johannpeter

***Vice Presidents***

Oswaldo Burgos Schirmer

Mário Longhi Filho

Paulo Fernando Bins de Vasconcellos

Alfredo Huallem

Manoel Vitor de Mendonça Filho

Expedito Luz

Francisco Deppermann Fortes

Ricardo Giuseppe Mascheroni

Francisco Deppermann Fortes and Ricardo Giuseppe Mascheroni are members of the Gerdau Executive Committee since May 03, 2011.

Paulo Fernando Bins de Vasconcellos was an Officer (Vice President) and a member of the Gerdau Executive Committee until May 31, 2011 (see item 8.B Significant Changes below).

**Other Committees:** In order to provide support to the Executive Committee several committees were created and are responsible for advising in specific matters. Among the Executive Committee's support committees should be mentioned the Risk Committee, the Finance Committee and the Human Resources Committee as the most important bodies. The Gerdau Business System Committee is also a support committee to the Gerdau Executive Committee and plays a major role in the Company's organization, as described below.

**Gerdau Business System Committee:** The Gerdau Business System Committee (GBS) is formed by executives who contribute to the achievement of growing levels of operating performance of the Company. The GBS promotes the evaluation of the Company's current situation and growth opportunities, and defines its long-term business focus. The GBS provides support for all processes, aiming at developing best management practices and encouraging the exchange of know-how among the Company's plants and offices.

**Processes:** The Functional Processes consist of Operational Processes and Support Processes. Operational Processes are those directly connected with operating the business, such as Marketing and Sales, Industrial Processes, Purchasing, Logistics and Scrap Purchasing. Support Processes are those which provide backup in running the business as a whole: Strategic Planning - Corporate and Operations, Corporate Communications and Community Relations, Human Resources and Organizational Development, Legal, Compliance, Finance and Investor Relations, Holdings, Accounting and Auditing, Management Technology and Information Technology.

All members of the Board of Directors and the Gerdau Executive Committee are elected for one-year terms, with re-election or re-appointment permitted. Members of the Board of Directors are appointed at the Ordinary General Meeting of Shareholders while members of the Gerdau Executive Committee are elected at meetings of the Board of Directors.



Table of Contents

**Board of Auditors**

Under Brazilian Corporate Law, the board of auditors ( Conselho Fiscal ) is a shareholder nominated audit board and an independent corporate body of the board of directors, the management and the company's external auditors. The board of auditors has not typically been equivalent to or comparable with a U.S. audit committee; its primary responsibility has been to monitor management's activities, review the financial statements, and report its findings to the shareholders. Pursuant to an exemption under Section 10A-3 of the SEC rules concerning the audit committees of listed companies, a foreign private issuer (such as the Company) need not have a separate audit committee composed of independent members if it has a Board of Auditors established and selected pursuant to its home country's legal or listing provisions expressly requiring or permitting such a board and if such a board meets certain requirements. Pursuant to this exemption, a board of auditors can exercise the required duties and responsibilities of an U.S. audit committee to the extent permissible under Brazilian Corporate Law. To comply with the SEC rules, the Board of Auditors must meet the following standards: it must be separate from the full board of directors, its members must not be elected by management, no executive officer may be a member, and Brazilian law must set forth standards for the independence of the members. In order to qualify for exemption, the Board of Auditors must, to the extent permitted by Brazilian law:

- be responsible for the appointment, retention, compensation and oversight of the external auditors (including the resolution of disagreements between management and the external auditors regarding financial reporting);
- be responsible for establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- have the authority to engage independent counsel and other advisors as deemed necessary, to carry out its duties; and
- receive appropriate funding from the Company for payment of compensation to the external auditors, for any advisors and ordinary administrative expenses.

As a foreign private issuer, the Company decided to modify its Board of Auditors to comply with the exemption requirements. Accordingly, the Ordinary General Meeting of Shareholders held on April 28, 2005, amended the Company's by-laws to modify the duties of the Board of Auditors and the Board of Directors, and, on the same date approved the delegation of certain additional responsibilities to the Board of Auditors. The Board of Auditors operates pursuant to a charter ( regimento interno ) that contemplates the activities described above to the extent permitted by Brazilian Law and is compliant with the requirements of the Sarbanes-Oxley Act, the pertinent regulations, and the requirements of the New York Stock Exchange and the Conselho Fiscal .

Because Brazilian Corporate Law does not permit the board of directors to delegate responsibility for the appointment, retention and compensation of the external auditors and does not provide the board or the board of auditors with the authority to resolve disagreements between management and the external auditors regarding financial reporting, the board of auditors cannot fulfill these functions. Therefore, in addition to its oversight responsibilities, the board of auditors may only make recommendations to the board of directors with respect to the appointment, retention and compensation of the external auditors. Likewise, the board of auditors may only make recommendations to

management and the board with regard to the resolution of disagreements between management and the external auditors. This limited scope of authority is a key difference between the board of auditors and the customary authority of an audit committee as a full committee of the board of directors.

Under Brazilian Corporate Law, members of the board of auditors of a company are not allowed to be members of the board of directors, hold executive office, or be employed in any other position within that of the company or its subsidiaries or controlled companies. In addition a member of the board of auditors cannot be spouse or relative of any member of the company's management. In addition, the Brazilian Corporate Law requires that members of the board of auditors receive a remuneration at least 10% of the average amount paid to each executive officer. The Brazilian Corporate Law requires that a board of auditors be composed of a minimum of three and a maximum of five members and their respective alternates.

As part of the adaptation of its Board of Auditors to the regulations, the Company has installed a permanent (standing) Board of Auditors currently composed of three members and their alternates who are elected at the Ordinary General Meeting of Shareholders with term of office to run until the next Ordinary General Meeting of Shareholders following their election, reelection being permitted. Under Brazilian Corporate Law, holders of Preferred Shares have the right to elect through a separate vote, one member of the board of auditors to represent their interests. Likewise, minority groups of shareholders with voting shares also have the right to elect one member of the board of auditors through a separate vote. However, irrespective of circumstances, the common shareholders have the right to elect the majority of

Table of Contents

the members of the board of auditors. Set forth below are the names, ages and positions of the members of the Company's Board of Auditors and their respective alternates, since April 26, 2011.

Name	Birthday	Member Position	Year First Elected
Bolívar Charneski(1)	08/22/1950	Effective	2011
Carlos Roberto Schröder	02/19/1940	Effective	2005
Maria das Graças Conceição Machado Costa	05/02/1948	Effective	2009
Carlos Roberto Schröder (2)	02/19/1940	Alternate	2005
Tranquilo Paravizi (3)	05/07/1934	Alternate	2011
Kurt Lowenhaupt	09/29/1950	Alternate	2010

(1) Egon Handel was replaced by Bolívar Charneski as effective member and as audit committee financial expert in the shareholders meeting held on April 26, 2011.

(2) Eduardo Grande Bittencourt was replaced by Carlos Roberto Schroder as alternate member for the financial expert .

(3) Domingos Matias Urroz Lopes was replaced by Tranquilo Paravizi as alternate chosen by the preferred shareholders in the shareholders meeting held on April 26, 2011.

The Board has determined that Bolívar Charneski is an audit committee financial expert within the meaning of the rules adopted by the SEC concerning disclosure of financial experts. Each member of the Board of Auditors has acquired significant financial experience and exposure to accounting and financial issues. Mr. Charneski holds a bachelor degree in Accounting (1974) and has 40 years of experience as auditor and consultant. Since 1988, he has been the found and partner of Charneski Assessoria e Consultoria Ltda., formerly an independent auditing and consulting firm that was restructured in 2010, by strategic decision of its partners, in order to continue providing only consulting services. He had also worked to Price Waterhouse from 1971 to 1988 and had been named Acting Partner in the latter years. Currently Mr Charneski holds the position of member of the Board of Auditors of Gerdau S.A, as well as of Grandene S.A. He was a member of the Board of Auditors of Forja Taurus S.A from 1998 to 2007 and of Plascar Participações Industriais S.A in 2009. Mr. Schröder holds a bachelor degree in Accounting and worked as Financial Officer and Manufacturing Officer for large companies in Brazil. Mrs. Costa holds a degree in Engineering and a MBA in Corporate Governance from the University of São Paulo (USP), and worked as manager and regional superintendent of Banco do Brasil S.A.

**D. EMPLOYEES**

The following chart presents information on the geographical distribution of Gerdau's employees:

Direct	Brazil	Overseas	Total
2008	23,497	22,720	46,217
2009	20,601	17,560	38,161
2010	22,577	18,713	41,290

<b>Outsourced*</b>	<b>Brazil</b>	<b>Overseas</b>	<b>Total</b>
2008	9,419	2,639	12,058
2009	6,796	3,010	9,806
2010	7,676	3,565	11,241

---

\* *Outsourced correspond to employees of third-party service providers of Gerdau which provide, as employees of those providers, services directly to Gerdau in areas that are not the core business of Gerdau .*

As of December 31, 2010, the Company employed 41,290 at its industrial units excluding jointly controlled entities. 55% of this total is based in Brazil and the remainder in South America, North America and Europe, which have 6,017, 10,130 and 2,830 employees, respectively.

As labor unions in Brazil and other Countries in Latin America and Europe are organized on a regional basis, the Company has no nationwide agreements with its employees. Gerdau believes that its employee pay and benefits structure is comparable to the general market. 36% of the employees of Gerdau in North America are unionized.

Gerdau maintain good working conditions at its mills and consequently has what it believes to be a comparatively low employee turnover rate.

Gerdau has been and continues to be proactive in establishing and maintaining a climate of good employee relations. Ongoing initiatives include organizational development skills training, team-building programs, opportunities for participation in employee involvement teams, and an open book system of management. Gerdau believes that a high level of employee involvement is a key factor in the success of its operations. Compensation programs are designed to meet employee s financial interests with those of Gerdau shareholders.

Table of Contents**E. STOCK OWNERSHIP**

The following table shows the individual holdings of shares in preferred and common stock in Gerdaul S.A. for each director and executive officer as of April 30, 2011.

Shareholder	Common Shares		Preferred Shares	
	(with voting rights)	%	(with restricted voting rights)	%
Jorge Gerdaul Johannpeter	1,581	0.00	121,147	0.01
Frederico C. Gerdaul Johannpeter	10,748	0.00	9,512,825	0.83
Germano H. Gerdaul Johannpeter	4,217	0.00	11,660,311	1.02
Klaus Gerdaul Johannpeter	4,358	0.00	3,161,019	0.28
Affonso Celso Pastore		0.00	6,238	0.00
Oscar de Paula Bernardes Neto		0.00	80,488	0.01
André Pinheiro de Lara Resende		0.00	49,344	0.00
Manoel Vitor de Mendonça Filho		0.00	76,761	0.01
André Bier Johannpeter	39,495	0.01	304,506	0.03
Claudio Johannpeter	38,435	0.01	219,464	0.02
Oswaldo B. Schirmer		0.00		0.00
Paulo F. B. Vasconcellos	36	0.00	44,576	0.00
Mário Longhi Filho		0.00		0.00
Expedito Luz		0.00	12,780	0.00
Alfredo Huallem		0.00	350	0.00
<b>TOTAL</b>	<b>98,870</b>	<b>0.02</b>	<b>25,249,809</b>	<b>2.20</b>

The Company has different employee stock option plans for each of its subsidiaries. See NOTE 25 Long-Term Incentive Plans in its consolidated financial statements included herein for further details.

André Pinheiro de Lara Resende was a member of the Board of Directors until April 26, 2011 (see item 8.B Significant Changes below).

Paulo Fernando Bins de Vasconcellos was an Officer (Vice President) and a member of the Gerdaul Executive Committee until May 31, 2011 (see item 8.B Significant Changes below).

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS****A. MAJOR SHAREHOLDERS**

As of April 30, 2011, Gerdaul S.A. had 573,627,483 common shares and 1,146,031,245 non-voting preferred shares outstanding (excluding treasury stock). Of the two classes of stock traded in the market, only the common stock carries voting rights. Under the terms of the Company's

## Edgar Filing: GERDAU S.A. - Form 20-F

bylaws, however, specific rights are assured to the non-voting preferred stock. See the bylaws of Gerdau S.A. attached to this Annual Report.

The table below presents certain information as of April 30, 2011, regarding (i) any person known to the Company as the owner of more than 5% of the Gerdau S.A.'s outstanding common stock, (ii) any person known to the Company as the owner of more than 5% of the Gerdau S.A.'s outstanding preferred stock, and (iii) the total amount of the common and preferred stock owned by the members of the board of directors and executive officers of the Gerdau S.A. as a group.

Shareholder	Common Shares	%	Preferred Shares	%
Metalúrgica Gerdau S.A.	439,481,675	76.61	252,841,484	22.06
BNDES Participações S.A. BNDESPAR *	37,917,222	6.61	28,303,062	2.47
Members of the board of directors and executive officers as a group (15 members)	98,870	0.02	25,249,809	2.20

Table of Contents

---

\* BNDES Participações S.A. BNDESPAR has a conversion option of 131,280 debentures issued by Metalúrgica Gerdau convertible into 1 to 200 preferred shares of Gerdau S.A. with maturity of 5 years from June, 2008 with the possibility to be converted any time during this period. Additionally BNDES Participação S.A. BNDESPAR has a put option of 34,309,522 common shares of Gerdau S.A.

Metalúrgica Gerdau S.A. is a holding company that directly and indirectly controls all Gerdau companies in Brazil and abroad. Metalúrgica Gerdau and its subsidiaries hold 76.61% of the voting capital stock of Gerdau S.A. and thus have the ability to control the Company's Board of Directors as well as its management and operations.

**B. RELATED-PARTY TRANSACTIONS**

The Company's transactions with related parties consist of (i) loans, (ii) commercial operations, (iii) the administration of the Company's investment funds by a related party bank and (iv) the payment of guarantees and royalties to some controlling companies. See Note 19 Related Party Transactions for further information.

(i) Gerdau S.A. maintains loans with some of its subsidiaries and other affiliates through loan contracts, which are repaid under conditions similar to those prevailing in the open market. Loan agreements between Brazilian companies are adjusted by the monthly variation in the CDI (interbank deposit rate). The agreements with foreign companies are adjusted by contracted charges plus foreign exchange variation, when applicable.

(ii) Commercial operations between Gerdau S.A. and its subsidiaries or related parties basically consist of transactions involving the purchase and sale of inputs and products. These transactions are carried out under the terms and conditions established in the contract between the parties and under prevailing market conditions. The commercial operations include payments relating to loan guarantees.

(iii) The Company holds marketable securities in investment funds managed by a related-party bank. These marketable securities comprise time deposits and debentures issued by major Brazilian banks and treasury bills issued by the Brazilian government.

(iv) The Company pays a fee of 0.95% per year for debt guaranteed by a controlling related-party company. In 2009, the average debt guaranteed by the related party amounted to R\$ 2.3 billion.

**C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

**A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

The Company's financial statements are included in Item 18.

**Legal Proceedings**

**General**

Like other Brazilian companies, Gerdau and its subsidiaries are party to proceedings with respect to tax, labor and civil matters, most of them arising in the regular course of business. Based on advice from legal counsel, management believes that the reserve for provisions is sufficient to meet probable and reasonably estimable losses in the event of unfavorable rulings, and that the ultimate resolution will not have a significant effect on its consolidated financial position of December 31, 2010.

The most significant legal and administrative disputes are detailed below. The amount disclosed for each dispute is as of December 31, unless otherwise stated. For further information on the reserve for contingencies, see Note 18 to the consolidated financial statements.

The following table summarizes the balances of provisions recorded for tax, civil and labor liabilities and related judicial deposits as of December 31, 2010, 2009 and 2008 (in thousand of reais):



Table of Contents**Claims**

	2010	Reserve for Contingencies 2009	2008	2010	Judicial Deposits 2009	2008
Tax	472,879	295,650	329,319	458,458	297,332	227,484
<b>Labor</b>	<b>160,752</b>	<b>141,507</b>	<b>124,479</b>	<b>31,631</b>	<b>26,167</b>	<b>27,984</b>
Others	12,470	10,014	13,278	3,413	1,179	3,152

**Tax Provisions**

Part of the provisions correspond to tax matters. The most significant provision of contingencies are related to:

- R\$ 49 million related to Tax on Circulation of Goods and Services ( *Imposto sobre a circulação de Mercadorias e Serviços - ICMS*), the majority of which is related to credit rights involving the Finance Secretariat and the State Courts.
- R\$ 21 million in Contributions allegedly due to the Social Security authorities, which are being challenged in tax foreclosure proceedings and suits for annulment pending before the Federal Courts.
- R\$ 34 million related to the Emergency Capacity Charge ( *Encargo de Capacidade Emergencial - ECE*), as well as R\$ 22 million related to the Extraordinary Tariff Recomposition ( *Recomposição Tarifária Extraordinária - RTE*), which are charges included in the electric energy bills. The Supreme Court has upheld the constitutionality of the ECE, and for this reason, once the lawsuits are terminated, the reserve for contingency, will be released, as the amount in dispute, covered by deposits in court, will be fully paid. As to the RTE, the Company understands the charge as of a tax nature and, as such, incompatible with the National Tax System. For this reason the constitutionality of this charge is being challenged in court. The lawsuits are outstanding before the First and Second Instances of the Federal Justice. The Company has made a full deposit in court for the amount of the disputed charge.
- R\$ 64 million related to discussions on Social Contribution Tax on Profits ( *Contribuição Social sobre o Lucro - CSLL* ), mostly concerning the constitutionality and basis of calculation of the contribution.
- R\$ 268 million related to (i) compensation of Contribution to the Social Integration Plan ( *Contribuição ao Programa de Integração Social - PIS*) credits, (ii) taxation of Contribution to the Social Integration Plan ( *Contribuição ao Programa de Integração Social - PIS*) and Social Security Financing Contribution ( *Contribuição para o Financiamento da Seguridade Social - COFINS*) over income in excess of sales, and (iii) exclusion of the Tax on Circulation of Goods and Services ( *Imposto sobre a circulação de Mercadorias e Serviços - ICMS*) from the basis of calculation of the Contribution to the Social Integration Plan ( *Contribuição ao Programa de Integração Social - PIS*) and Social Security Financing Contribution ( *Contribuição para o Financiamento da Seguridade Social - COFINS*). In regards to proceedings explained in (ii) and (iii), the Company makes full deposit in courts.

- R\$ 13 million related to other taxes, which are in dispute and for which the Company has set up a provision.

**There are other contingent tax liabilities, for which the probability of losses are not probable and, therefore, are not recognized in the provision for contingencies. These claims are comprised by:**

- The Company is a defendant in debt foreclosures filed by the state of Minas Gerais to demand Tax on Circulation of Goods and Services ( *Imposto sobre a circulação de Mercadorias e Serviços - ICMS*) credits arising mainly from the sales of products to commercial exporters. The total amount of the lawsuits is R\$ 56 million. The Company did not set aside a reserve for contingencies, since products for export are exempted from Tax on Circulation of Goods and Services ( *Imposto sobre a circulação de Mercadorias e Serviços - ICMS*) and no tax is payable.
- The Company is a defendant in tax foreclosures, which are claiming Tax on Circulation of Goods and Services ( *Imposto sobre a circulação de Mercadorias e Serviços - ICMS*) credits on the export of semi-finished manufactured products. The amount involved is R\$ 111 million. Gerdau has not set aside a reserve for contingency for the lawsuits, as the products do not fit in the definition of semi-finished manufactured products as defined by federal complementary law and, therefore, are not subject to Tax on Circulation of Goods and Services ( *Imposto sobre a circulação de Mercadorias e Serviços - ICMS*).
- The Company and its subsidiaries, Gerdau Aços Longos .S.A and Gerdau Comercial de Aços S.A., are part in other Tax on Circulation of Goods and Services ( *Imposto sobre a circulação de Mercadorias e Serviços - ICMS*) discussions, mostly related to credit rights and aliquot differences. The total amount of the discussions is R\$ 118 million. No reserve for contingency was set aside for these claims, as the probability of loss is not probable.

Table of Contents

- The Company and its subsidiary, Gerdau Açominas S.A. and Gerdau Aços Longos S.A., are part in discussions related to other taxes for which no reserve for contingency was established, as the probability of loss is less likely than not. The total amount involved is R\$ 97 million.
- The Company's subsidiary Gerdau Internacional Empreendimentos Ltda. is part in a legal proceeding discussing taxation of Corporate Income Tax (IRPJ) and Social Contribution Tax on Profits ( Contribuição Social sobre o Lucro - CSLL) over profits generated abroad, in the amount of R\$ 232 million. The Company has not made a provision for contingency, as its legal consultants consider the probability of loss as possible but not probable.
- The Company entered into Fiscal Recovering Program ( Programa de Recuperação Fiscal - REFIS), brought in by Law 11.941/2009, which allowed the Company to pay fiscal debts in installments. The remaining balance of Fiscal Recovering Program ( Programa de Recuperação Fiscal - REFIS), in which the Company has entered in 2000, will now be discharged in this Program.

**Contingent Assets:**

- The Company had a court-ordered debt security issued in 1999 for the benefit of the Company by the state of Rio de Janeiro, arising from an ordinary lawsuit regarding non-compliance with the Loan Agreement for Periodic Execution in Cash under the Special Industrial Development Program - PRODI. Due to the low expectation of receiving such credit, the Company had never recognized it in its financial statements.

However, in 2010 the Rio de Janeiro State issued Law n.º 5.647, allowing the Company to use part of this credit to pay for tax debts. The Company did so and ended tax discussions in the amount of R\$ 7 million. Moreover, the Company transferred R\$ 9 million to its subsidiaries and other R\$ 87 million to third parties, in compliance with the same Law, using all the pending credit.

In September 2010, the State of Rio de Janeiro Attorney General Office reviewed and approved all compensations and transfers. As a consequence, the Company recognised R\$ 103 million as tax credit in its financial statements (R\$ 43 million as other operating income and R\$ 60 million as financial income).

**Labor Provisions**

The Company is also defending labor proceedings, for which there is a provision as of December 31, 2010 of R\$ 153,7 million. None of these lawsuits refers to individually significant amounts, and the lawsuits mainly involve claims due to overtime, hazardous and risk additional, among others. The balance in judicial deposits relate to labor provisions as at December 31, 2010, totaling R\$ 31.6 million.

**Other Provisions**

The Company is also defending civil proceedings, other provisions arising from the normal course of its operations, which provisions for these claims amount to R\$ 12.0 million. Judicial deposits related to these provisions, at December 31, 2010, amount to R\$ 3.4 million. Other contingent liabilities with remote or possible chances of loss, involving uncertainties as to their occurrence, and therefore, not included in the provision for contingencies, are comprised of:

***Antitrust Proceedings***

Antitrust process involving Gerdau S.A. related to the representation of two civil construction syndicates in the state of São Paulo that alleged that Gerdau S.A. and other long steel producers in Brazil divide customers among them, violating the antitrust legislation. After investigations carried out by the National Secretariat of Economic Law (Secretaria de Direito Econômico - SDE) and based on public hearings, the SDE is of the opinion that a cartel existed. The process was sent to the Administrative Council for Economic Defense (Conselho Administrativo de Defesa Econômica - CADE), for judgment.

CADE judgment was put on hold by an injunction obtained by Gerdau S.A., which aimed at annulling the administrative process, due to formal irregularities. This injunction was cancelled by appeals made by CADE and the Federal Government, and CADE proceeded with the judgment. On September 23, 2005, CADE issued a rule condemning the Company and the other long steel producers, determining a fine of 7% of gross revenues less excise taxes of each company, based on the year before the commencement of the process, due to cartel practices. The Company has appealed from this decision, and the appeal is pending of judgment.

The Company has proposed a judicial proceeding aiming to cancel the administrative process due to the above mentioned formal irregularities. If the Company is successful in this proceeding, the CADE decision can be annulled in the future.

Table of Contents

On July 26, 2006, due to a reversal of decision terms pronounced by CADE, the Company appealed to the Justice using a new ordinary lawsuit which point out irregularities in the administrative procedures conducted by CADE. The federal judge designated for the analysis of the fact decided, on August, 30, 2006 to suspend the effect of the CADE decision until a final decision is taken with respect to this judicial process and requested a guarantee through a stand-by letter amounting to 7% of gross revenue less taxes in 1999 (R\$ 346 million). This ordinary lawsuit proceeds together with the injunction originally proposed on CADE. An order was announced on June 28, 2007, which made the parties aware of the decision from the lower court judge about the maintenance of the legal protection granted, after it was contested by CADE.

Prior to the CADE decision, the Federal Public Ministry of Minas Gerais ( Ministério Público Federal de Minas Gerais ) had presented a Public Civil Action, based on SDE opinion, without any new facts, accusing the Company of involvement in activities that breach antitrust laws. The Company presented its defense on July 22, 2005.

Gerdau S.A. denies having engaged in any type of anti-competitive behavior and understands, based on information available that the administrative process until now includes many irregularities, some of which are impossible to resolve. The Company believes it has not committed any violation of anti-trust regulation, and based on opinion of its legal advisors believes in a reversion of this unfavorable outcome.

***Insurance Dispute***

A civil lawsuit was filed by Sul América Seguradora on August 4, 2003 against Gerdau Açominas S.A. and Westdeutsche Landesbank Girozentrale for the payment of approximately R\$ 34.4 million, which were deposited in court to settle an insurance claim made by Gerdau Açominas. In its defense, Gerdau Açominas asked for the payment of the unpaid balance at the time, corresponding to approximately R\$ 276.7 million\*, minus the amount received (approximately R\$ 33.3 million\*) as advance during the regulation process (to assess the amount due) and the amount paid in court.

The lawsuit is the result of an accident at the blast furnace regenerators that occurred on February 23, 2002, which caused loss of production, material damages and loss of profits. Gerdau Açominas initially asked for indemnification amounting to approximately R\$ 142.8 million\*, based on costs incurred in part of the period in which the equipment was out of service and costs incurred for temporary recovery thereof. During the regulation process (to assess the amount due), Gerdau Açominas received an advance of approximately R\$ 33.3 million\*. At the end of the regulation process, the insurance company ascertained that indemnification amounted to only R\$ 52.6 million\* (against which the advance of approximately R\$ 33.3\* million would be set-off) and conditioned payment of the balance (nearly R\$ 19.3 million\*) to a general release with respect to the accident, which was refused by Gerdau Açominas.

In view of the aforementioned events, Gerdau Açominas filed a suit to collect the undisputed amount. Concomitantly, Sul América Seguradora filed a suit against Gerdau Açominas and a third party (the bank) and deposited with the court the amount that it deemed appropriate as indemnification, corresponding to approximately R\$34,4 million. It stated that it was unsure as to who should receive the payment and claimed that Gerdau Açominas had refused to receive the indemnification and give a general release. The amount deposited with the court was collected by Gerdau Açominas in December 2004. In their responses, the defendants made clear who should receive the payment and demonstrated the insufficiency of the amount deposited with the court. Gerdau Açominas also claimed that the insurance company should deposit the unpaid balance, in the amount of approximately R\$ 276.7 million\*, minus the amount received as advance during the regulation process (R\$ 33.3 million\*) and the amount paid in court, or that the court should determine the amount effectively due. Expert engineering accounting evidence is currently being compiled. Engineering and accounting analyses for such purpose are currently ongoing. Gerdau Açominas expects to be successful in the lawsuits.

---

\*These amounts were originally claimed or stated in US dollars, and the exchange rate used to convert them into Reais was the official rate published by the Brazilian Central Bank (PTAX 800 transaction, option 5) on December 31, 2010 (R\$1,6662).

*Arbitration Proceedings (Confidential)*

Arbitration proceedings of a confidential nature are currently ongoing, involving a possible loss for the Company of approximately R\$ 22.3 million and a possible gain of approximately R\$ 21.5 million.

Table of Contents

**No Material Effect**

Management believes that the probability of losses as a consequence of other contingencies is remote, and that were they to arise, they would not have a materially adverse effect on the consolidated financial position of the Company, its consolidated results of operations or its future cash flows.

**Dividend Distribution Policy**

Brazilian Corporate Law generally requires the by-laws of each Brazilian corporation to specify a minimum percentage of the profits for each fiscal year that must be distributed to shareholders as dividends. The law requires a minimum payout of 25% of adjusted net income. Under the Company's bylaws, this percentage has been fixed at no less than 30% of the adjusted net income (according to the section 19 of the Company's articles of association) for distribution for each fiscal year.

Dividends for a given fiscal year are payable from (i) retained earnings from prior periods and (ii) after-tax income for the same period, after the allocation of income to the legal reserve and to other reserves ( Adjusted Net Income ). In order to convert the dividends paid by the Company from *reais* into U.S. dollars, the institution providing the Company with custodial services ( Custodian ) will use the relevant commercial market exchange rate on the date that these dividends are made available to shareholders in Brazil. Under Brazilian Corporate Law, a Brazilian company is required to maintain a legal reserve, to which it must allocate 5% of net income determined in accordance with the Law for each fiscal year until such reserve reaches an amount equal to 20% of the company's paid-in capital. On December 31, 2009, in accordance with Brazilian GAAP, Gerdau S.A.'s legal reserve amounted to R\$200.2 million (\$114.9 million, using the year-end exchange rate) or 1.4% of total paid-in capital of R\$ 14,184.8 million (\$8,146.6 million, using the year-end exchange rate).

According to Law 9,457, holders of Preferred Shares in a Brazilian corporation are entitled to dividends at least 10% greater than the dividends paid on Common Shares, unless one of three exceptions described in the Law holds. Gerdau S.A.'s executive directors presented a proposal at the 2002 shareholders' meeting, to grant both Common and Preferred shares 100% tag-along rights. Shareholders approved this measure and the right was extended to all shareholders, even though the new Brazilian Corporate Law only requires that such rights be granted to the common minority shareholders (and only for 80% of the consideration paid to the controlling shareholders).

Under the amendments to the Brazilian Corporate Law, by extending the tag along rights to minority shareholders, the Company no longer needs to comply with the requirement to pay an additional 10% premium on dividends paid to preferred shareholders. Following the approval and implementation of the amendments to the Company's bylaws to provide for the tag-along rights as described above, the Company now pays the stated minimum dividend of 30% of adjusted net profit (according to the section 19 of the Company's articles of association) to all shareholders, from January 1, 2002 dividends paid to preferred shareholders no longer being subject to a minimum 10% premium over those paid to holders of common shares.

As a general requirement, shareholders who are non-resident in Brazil must have their Brazilian company investments registered with the Central Bank in order to be eligible for conversion into foreign currency of dividends, sales proceeds or other amounts related to their shares for remittance outside Brazil. Preferred Shares underlying the ADRs will be held in Brazil by the Custodian as agent for the Depository Bank ( Depository ). The holder of Preferred Shares will be the registered holder recorded in the preferred shares register.

Payments of cash dividends and distributions, if any, will be made in Brazilian currency to the Custodian, on behalf of the Depositary, which will then convert such proceeds into U.S. dollars and deliver the same U.S. dollars to the Depositary for distribution to holders of ADRs. If the Custodian is unable to convert the Brazilian currency received as dividends into U.S. dollars immediately, the amount of U.S. dollars payable to holders of ADRs may be adversely affected by any devaluation or depreciation of the Brazilian currency relative to the U.S. dollar that may occur before such dividends are converted and remitted. Dividends in lieu of the Preferred Shares paid to holders who are not resident in Brazil, including holders of ADRs, are not subject to Brazilian withholding tax.

*Interest on Capital Stock*

Law 9,249 of December 1995, provides that a company may, at its sole discretion, pay interest on capital stock in addition to, or instead of, dividends. A Brazilian corporation is entitled to pay its shareholders interest on capital stock up to the limit of an amount computed as the TJLP (Long-Term Interest Rate) rate of return on its interest on capital stock or 50% of the net income (according BR GAAP) for the fiscal year, whichever is the lower. The payment of interest as described herein is subject to a 15% withholding income tax. See Item 10. Additional Information Taxation.



Table of Contents

***Dividend Policy***

The Company currently intends to pay dividends on its outstanding Preferred Shares at its mandatory distribution rates for any particular fiscal year, subject to any determination by the Board of Directors that such distributions would be inadvisable in view of the Company's financial condition. Although not required to do so by its bylaws, the Company had been paying dividends twice a year in the form of interest on capital stock. On March 31, 2003, the Board of Directors approved a new policy for paying dividends and interest on capital stock on a quarterly basis.

Since 1999, dividends have been paid to holders of the Company's Common and Preferred Shares in *reais* and in U.S. dollars translated from *reais* at the commercial exchange rate on the date of payment. Relevant amounts are described in Item 3 Key Information - Selected Financial Data.

**B. SIGNIFICANT CHANGES**

**Recent Developments**

On February 2, 2011, the Board of Directors authorized the Company to acquire shares of its own issuance in order to attend the Long-Term Incentive Plan, as well as other commitments related to the shares granted by Gerdau Ameristeel plan, using resources supported by retained earnings. On April 02, 2011, the shares acquisition was concluded with 3,100,000 preferred shares acquired, in a total of R\$ 70,153. For more details, see item 16E.

On February 10, 2011, the Company performed the exchange of Gerdau S.A. shares assigned in substitution to the rights of Prontofer and Villares shareholders in the proportion of one common or preferred share issued by Gerdau S.A. for each 22,247601 membership interests in Prontofer held and one preferred share issued by Gerdau S.A. for each 24 common share issued by Villares S.A.

On March 2, 2011, the Company announced investment of R\$ 2.47 billion to expand the steel and rolled production at the Company's Cosigua mill located in the Industrial District of Santa Cruz in the state of Rio de Janeiro. The unit's steel production capacity will be expanded by 50% to reach 1.8 million tonnes per year. A new wire rod and rebar rolling mill with annual installed capacity of 1.1 million tonnes will also be installed, in two stages. The investments, which comply with the most stringent environmental standards, also include the installation of all infrastructure required for expanding the industrial unit.

On March 3, 2011, the Company announced that its current measured, indicated and inferred mineral resources are higher than previously noticed. This increase is due to (i) the new assessments recently conducted of the volumes and iron content of the mineral resources; and (ii) the acquisition of additional areas of land. In this context, and in view of the outlook for commodities in the international market, especially iron ore, the Board of Directors, in a meeting held on March 1, 2011, determined that the Management should conduct further studies to explore alternatives for monetizing part of these resources by evaluating various strategic options. Once these studies are concluded, a new Material Fact will be disclosed to the market, although it is impossible to ensure when and if these actions will be carried out.

On April 12, 2011, the Board of Directors of Gerdau S.A. approved the issue of 68,026,910 common shares and 134,830,100 preferred shares, for a total capital increase of approximately R\$ 3.7 billion, carried out as a primary public distribution of shares by the Company. On the same date, a secondary public distribution was held that involved 69,000,000 preferred shares issued by Gerdau S.A. and owned by the shareholders Metalúrgica Gerdau S.A. and Gerdau BG Participações S.A., worth R\$ 1.3 billion, which was fully used by the selling shareholders to subscribe and pay in common shares of the primary offering. Under the scope of the Global Offering, which includes the primary and secondary offerings, a total of approximately R\$ 5.0 billion was raised, of which roughly R\$ 3.7 billion was used for the capital increase at Gerdau S.A. Following said increase, the capital stock now stands at R\$ 19.3 billion, divided into 573,627,483 common shares and 1,146,031,245 preferred shares, all of which are registered, book-entry shares with no par value. The issue price of the shares established after the book building process was R\$ 15.60 per common share and R\$ 19.25 per preferred share issued by Gerdau S.A. The funds raised through the offering will be used for investments to improve and expand the Company's installed capacity, to strengthen the Company's cash position and to pre-pay a loan contracted by its wholly owned subsidiaries in North America. On April 18, 2011, the primary and secondary public offerings were settled, with a net injection of R\$ 3.6 billion in the Company's cash position. Of this amount, R\$ 2.1 billion has already been used for the pre-payment, on April 21, of a loan contracted by its wholly owned subsidiaries in the North America. The remaining balance was added to the Company's cash.

From the investments described in the item 4.D Property, plans and equipment, the expansion of the structural profile rolling mill at Açominas mill has already been finished and two other investments were added to the 2011-2015 investment plan, as follows: a new line of rebars rolls at Araçariçuama mill in São Paulo state; and capacity expansion in crude steel, rolling mill and finishing (at 4 different mills) at the Specialty Steel Operation. In addition to the investment plan, the following new investments are also under analysis:

Table of Contents

- Brazil BO
  - Installation of two plants, with one in the North-Northeast region and the other in the Midwest region, each with installed capacity of between 500,000 and 700,000 tonnes, targeting the construction and manufacturing industries.
  - Installation of a new long products rolling mill in the South region of the country, with installed capacity of 600,000 tonnes.
- Specialty Steel BO
  - Construction of a new specialty steel mill in North America with installed capacity of between 700,000 and 800,000 tonnes.

**Board of Directors, Executive Committee and Board of Auditors.**

Since April 26, 2011, André Pinheiro de Lara Resende is no longer a member of Gerdau's Board of Directors.

Since May 31, 2011, Paulo Fernando Bins de Vasconcellos is no longer an Officer of the Company nor a member of the Gerdau Executive Committee.

Francisco Deppermann Fortes and Ricardo Giuseppe Mascheroni are members of the Gerdau Executive Committee since May 3, 2011.

Egon Handel was replaced by Bolívar Charneski as effective member and as financial expert of the Board of Auditors in the shareholder's meeting held on April 26, 2011.

**ITEM 9.**

**THE OFFER AND LISTING**

**A. OFFER AND LISTING DETAILS**

## Edgar Filing: GERDAU S.A. - Form 20-F

The Company carried out a public offering on April 28, 2008 ( Offering ) through the primary distribution of common ( Common Shares ) and preferred ( Preferred Shares ), and jointly with the Common Shares, the Shares ) registered, book-entry shares with no par value, free and clear of any encumbrances and charges, issued by the Company, with the exclusion of the preemptive rights of its current shareholders, in accordance with Article 172, Item I of Federal Law 4 of December 15, 1976, ( Brazilian Corporation Law ). The Offering simultaneously involved: i) the primary public distribution of Shares in Brazil, on the unorganized over-the-counter market, pursuant to CVM Instruction 400 of December 29, 2003 ( CVM Instruction 400 ), under the coordination of Banco Itaú BBA S.A. ( Lead Manager ) and Banco J.P. Morgan S.A. ( J.P. Morgan ) and, jointly with the Lead Manager, the Joint Bookrunners ), with the participation of other financial institutions in the securities distribution system contracted by the Joint Bookrunners and of other brokerages operating as the intermediaries of operations on the BM&FBovespa that participated exclusively in the efforts to place the Shares with non-institutional investors and the Company's Shareholders. and (ii) the primary public distribution of Preferred Shares abroad, in the form of American Depositary Shares ( ADSs ), represented by American Depositary Receipts ( ADRs ), registered with the SEC, in conformity with the procedures provided for by the Securities Act, pursuant to the terms of the International Purchase Agreement, coordinated by the International Placement Agents. Each ADS corresponds to one Preferred Share.

Efforts were also made to place the Shares abroad, exclusively with qualified institutional investors resident and domiciled in the United States of America, pursuant to Rule 144A of the Securities Act of 1933 of the United States of America, as amended, in accordance with the registration exemption provided for by the Securities Act, and in countries other than Brazil and the United States of America, in conformity with the procedures provided for by Regulation S of the Securities Act issued by the Securities and Exchange Commission, and in accordance with the laws of the country of domicile of each foreign investor, which invest in Brazil in conformity with the investment mechanisms established by Resolution 2,689 issued by the National Monetary Council (CMN) on January 26, 2000, as amended, and by CVM Rule 325 dated January 27, 2000, as amended.

In addition, the full exercise was effected: (i) by the Lead Manger, the over-allotment option involving 3,447,064 Shares; and (ii) by Itaú Securities, the over-allotment option involving 650,000 Preferred Shares in the form of ADSs.

The Shares were issued at the price of sixty reais and thirty centavos (R\$60.30) and the ADRs were issued at the price of thirty-six U.S. dollars (US\$ 36.00). Considering the Shares offered, the Overallotment Options and the Preferred Shares represented by ADSs, a total of 16,686,239 Common Shares and 31,410,825 Preferred Shares were distributed, for a total of two billion, nine hundred million, two hundred fifty-two thousand, nine hundred fifty-nine reais and twenty centavos (R\$2,900,252,959.20).

Table of Contents**Price Information***Preferred Stock*

The following table presents high and low market prices in Brazilian *reais* for Gerdau S.A. preferred stock (GGBR4) listed on the São Paulo Stock Exchange (BOVESPA) for the periods shown, as well as the high and low market prices in U.S. dollars for the same period.

Additionally the Company has common shares listed at BOVESPA (GGBR3).

**Closing Price GGBR4 Annual Basis (adjusted for dividends and events)**

Year	Brazilian reais per Share		U.S. dollars per Share	
	High	Low	High	Low
2006	16.51	11.44	7.98	4.89
2007	25.55	14.77	14.67	6.91
2008	39.91	10.18	24.48	4.45
2009	29.38	10.93	17.12	4.65
2010	31.16	19.45	17.52	11.34

Source: Bloomberg

**Closing Price GGBR4 Quarterly Basis (adjusted for dividends and events)**

Year	Brazilian reais per Share		U.S. dollars per Share	
	High	Low	High	Low
<b>2009</b>				
1Q	18.27	10.93	8.02	4.65
2Q	21.85	13.09	11.19	5.73
3Q	24.10	18.05	13.36	9.15
4Q	29.38	22.55	17.12	12.65
<b>2010</b>				
1Q	29.78	23.88	17.19	12.77
2Q	31.16	22.44	17.52	11.84
3Q	26.59	22.44	15.16	12.75
4Q	23.44	19.45	13.78	13.78
<b>2011</b>				
1Q	24.66	19.99	14.71	12.05

Source: Bloomberg

## Closing Price GGBR4 Monthly Basis (adjusted for dividends and events)

Year	Brazilian reais per Share		U.S. dollars per Share	
	High	Low	High	Low
<b>2010</b>				
January	29.67	24.82	17.13	13.16
February	26.05	23.80	14.35	12.72
March	28.30	25.85	15.91	14.32
April	31.04	27.86	17.46	15.89
May	27.37	22.36	15.80	11.80
June	25.34	22.91	14.22	12.32
July	25.56	22.62	14.49	12.70
August	26.49	22.72	15.10	12.90
September	24.62	22.36	14.34	13.08
October	22.53	20.27	13.38	11.95
November	22.83	19.38	13.46	11.30
December	23.35	20.37	13.73	11.94
<b>2011</b>				
January	24.57	20.87	14.65	12.38
February	23.88	21.71	14.35	13.07
March	22.61	19.92	13.66	12.00
April	20.02	18.33	12.68	11.56
May	18.42	16.35	11.71	10.04

Source: Bloomberg

Table of Contents

In the above tables, the stock prices have been retroactively adjusted for all periods to reflect: (a) a stock dividend of one share for two shares held, approved in March 2006; and (b) a stock dividend of one share for one shares held, approved in June 2008.

The common and preferred stock are traded in the market, but only the common stock has voting rights. According to the Company's bylaws, however, specific rights are assured to the non-voting preferred shares. See Gerdau's bylaws, which are provided as an exhibit of this document.

**American Depositary Receipts**

The following table presents high and low market prices for Gerdau S.A.'s American Depositary Receipts (ADRs) traded on the New York Stock Exchange (NYSE) for the periods shown:

**Closing Price GGB Annual Basis (adjusted for dividends and events)**

Year	U.S. dollars per Share	
	High	Low
2006	3.32	1.40
2007	4.94	2.53
2008	8.04	4.58
2009	14.63	6.93
2010	24.43	4.09

Source: Bloomberg

**Closing Price GGB Quarterly Basis (adjusted for dividends and events)**

Year	U.S. dollars per Share	
	High	Low
<b>2009</b>		
1Q	8.00	4.61
2Q	11.37	5.75
3Q	13.59	9.20
4Q	17.03	12.51
<b>2010</b>		
1Q	17.48	12.77
2Q	17.65	12.08
3Q	15.35	12.89
4Q	13.96	11.59
<b>2011</b>		
1Q	14.92	12.17

Source: Bloomberg

**Closing Price GGB Monthly Basis (adjusted for dividends and events)**

Year	U.S. dollars per Share	
	High	Low
<b>2010</b>		
January	17.42	13.18
February	14.45	12.73
March	15.97	14.35
April	17.59	15.98
May	15.88	12.04
June	14.20	12.27
July	14.65	12.85
August	15.29	13.02
September	14.57	13.25
October	13.52	12.21
November	13.73	11.55
December	13.91	12.01
<b>2011</b>		
January	14.87	12.74
February	14.66	13.37
March	13.92	12.13
April	12.74	11.72
May	11.94	10.18

Source: Bloomberg



Table of Contents

The above tables show the lowest and highest market prices for Gerdau stock since 2005. The stock prices have been retroactively adjusted for all periods to reflect: (a) a stock dividend of one share for two shares held, approved in March 2006; and (b) a stock dividend of one share for each share held, approved in June 2008.

**B. DISTRIBUTION PLAN**

Not required.

**C. MARKETS**

*São Paulo stock Exchange - Brasil*

**Trading on the BOVESPA**

The São Paulo Stock Exchange (BOVESPA) is the only stock trade center in Brazil and Latin America's largest stock exchange. Until August, 2007, BOVESPA was a non-profit association owned by its member brokerage firms and trading on the BOVESPA was limited to these member brokerage firms and a limited number of authorized nonmembers. On August 28, 2007, BOVESPA was subject to a corporate restructuring process that resulted in the creation of BOVESPA Holding S.A., a public corporation which had, as fully-owned subsidiaries, the São Paulo Stock Exchange S.A. (*Bolsa de Valores de São Paulo S.A. BVSP*) responsible for the operations by the stock exchange and the organized over-the-counter markets and the Brazilian Clearing and Depository Corporation (*Companhia Brasileira de Liquidação e Custódia*) responsible for the settlement, clearing and depository services. Such corporate restructuring has consolidated a demutualization process, thereby causing the access to the trading and other services rendered by the BOVESPA not conditioned to a stock ownership. On May 8, 2008, BOVESPA was subject to another corporate restructuring process that resulted in the creation of BM&F BOVESPA S.A. - Bolsa de Valores, Mercadorias e Futuros, a public corporation which merged the operations of BOVESPA Holding S.A. and BM&F S.A. On November 28, 2008, Brazilian Clearing and Depository Corporation (*Companhia Brasileira de Liquidação e Custódia*), fully-owned subsidiary of BM&F BOVESPA S.A., was merged into BM&F BOVESPA S.A.

The BOVESPA's trading is conducted between 10:00 a.m. and 5:00 p.m. on the BOVESPA automated system. There is also trading on the so-called After-Market, a system that allows for evening trading through an electronic trading system. Trades are made by entering orders in the Mega Bolsa electronic trading system, created and operated by BOVESPA. The system places a ceiling on individual orders of R\$ 100,000 and price variations are limited to 2% (above or below) the closing quote of the day.

In order to better control volatility, the BOVESPA adopts a circuit breaker system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever the index of the BOVESPA falls below the limits of 10% or 15%, respectively, in relation to the index registered in the previous trading session. If any circuit breaker takes place during the day, trading sessions thereafter may be suspended by a period of time to be determined as per BOVESPA's own discretion whenever the index of the BOVESPA falls below the limit of 20% in relation to the index registered in the trading session of the day before.

## Edgar Filing: GERDAU S.A. - Form 20-F

Since March 17, 2003, market making activities have been allowed on the BOVESPA. The CVM (*Comissão de Valores Mobiliários*) and the BOVESPA have discretionary authority to suspend trading in shares of a particular issuer under certain circumstances. Trading of securities listed on the BOVESPA may be effected off the stock exchange market under certain circumstances, although such trading is very limited.

Although any of the outstanding shares of a listed company may trade on the BOVESPA, in most cases less than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling shareholders that rarely trade their shares. For this reason, data showing the total market capitalization of the BOVESPA tends to overstate the liquidity of the Brazilian equity market, which is relatively small and illiquid compared to major world markets.

Settlement of transactions is effected three business days after the trade date without adjustment of the purchase price for inflation. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date.

Trading on the BOVESPA by non-residents of Brazil is subject to certain limitations under Brazilian foreign investment legislation. *See Regulation of Foreign Investments in Brazil* .

Table of Contents

**Corporate Governance Practices in Brazil**

In 2000, the BOVESPA introduced three special listing segments, known as Level 1 and 2 of Differentiated Corporate Governance Practices and the *Novo Mercado*, aimed at encouraging Brazilian companies to follow good corporate governance practices and higher levels of transparency, as required by Brazilian Corporate Law. The listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements in addition to those already imposed by Brazilian law. These rules generally increase shareholders' rights and enhance the quality of information provided to shareholders.

The Company is listed on the Level 1 segment of the BOVESPA. To become a Level 1 company, in addition to the obligations imposed by current Brazilian law, an issuer must agree to (i) ensure that shares of the issuer representing at least 25% of its total capital are effectively available for trading; (ii) adopt offering procedures that favor widespread ownership of shares whenever making a public offering; (iii) comply with minimum quarterly disclosure standards, including cash flow statements; (iv) follow stricter disclosure policies with respect to transactions made by controlling shareholders, directors and officers; (v) disclose the terms of the transactions with related parties; (vi) make a schedule of corporate events available to shareholders; and (vii) at least once a year, hold public meetings with analysts and investors.

**Regulation of the Brazilian Securities Market**

The Brazilian securities markets are regulated by the CVM (*Comissão de Valores Mobiliários*), which has authority over stock exchanges and the securities markets generally, and by the Brazilian Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities market is governed by the Brazilian Securities Law (Law N. 6,385 of December 7, 1976, as amended) and the Brazilian Corporate Law (Law N. 6,404 of December 15, 1976, as amended).

Law 11,638, of December 28, 2007, and Law N. 11,941, of May 27, 2009 (which resulted from the conversion into law of Provisional Decree (MP) N. 449, of December 3, 2008), amended a number of provisions of Law N. 6,385/76 and Law N. 6,404/76, related to accounting rules and financial statements of Brazilian corporations. The new changes aim to bring Brazilian accounting rules/financial statements closer to international standards.

Under the Brazilian Corporate Law, a company is either publicly held, such as Gerdau S.A., or closely held. All publicly held companies must apply for registration with the CVM and are subject to ongoing reporting requirements. A publicly held company may have its securities traded either on the BOVESPA or on the Brazilian over-the-counter markets (Brazilian OTC). The shares of a publicly held company, including Gerdau S.A., may also be traded privately subject to certain limitations established in CVM regulations.

CVM has recently issued Instruction N. 480, of December 7, 2009, that provides for the requirements for the registration of publicly held companies and companies that intend to trade securities in regulated securities markets. The referred CVM Instruction N. 480/09 significantly modified the reporting requirements applicable to publicly held companies and set forth the obligation to such companies to present annually to CVM a Reference Form (*formulário de referência*) containing all of the company's relevant information and to update the information contained therein as soon as any relevant changes occur.

## Edgar Filing: GERDAU S.A. - Form 20-F

In addition to such reporting requirements, the occurrence of certain events also requires disclosure of information to the CVM, the BOVESPA, or even the public. These include (i) the direct or indirect acquisition by an investor of at least 5% (five percent) of any class or type of shares representing the share capital of a publicly held company, (ii) the sale of shares representing the transfer of control of a publicly held company and (iii) the occurrence of a material event to the corporation. On March 5, 2002, the CVM issued Instruction N. 361, which regulates tender offers if one of the following events occurs: (i) delisting of companies; (ii) an increase in the equity interest of the controlling shareholder; or (iii) the transfer of control of a public held company.

The Brazilian OTC market consists of direct trades between individuals in which a financial institution registered with the CVM serves as intermediary. No special application, other than registration with the CVM, is necessary for securities of a publicly held company to be traded on the Brazilian OTC. The CVM must be notified of all trades carried out on the Brazilian OTC by the company's respective intermediaries. The trading of a company's securities on the BOVESPA may be suspended in anticipation of a material announcement. Trading may also be suspended at the initiative of the BOVESPA or the CVM on the basis of a belief that a company has provided inadequate information regarding a material event, has not provided an adequate response to the inquiries by the CVM or the stock exchange, or for other reasons.

The laws and regulations regarding the Brazilian Securities Market provide for disclosure requirements, restrictions on insider trading and price manipulation, and protection of minority shareholders. Although many changes and improvements have been introduced, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or those in certain other jurisdictions.

Table of Contents

**Regulation of Foreign Investment in Brazil**

Foreign investors may either register their investments in the Company's shares as a foreign direct investment under Law N. 4,131/62 and CMN (*Conselho Monetário Nacional*) Resolution N. 3,844/10 or as a portfolio investment under CMN Resolution N. 2,689/00 and CVM Instruction N. 325/00, both as amended. Foreign investors, regardless of whether their investments are made as foreign direct investments or portfolio investments, must be enrolled with the RFB (*Receita Federal do Brasil*, the Brazilian internal revenue service) pursuant to its Regulatory Instruction N. 1,005, of February 08, 2010, as amended. This registration process is undertaken by the investor's legal representative in Brazil.

Law N. 4,131/62 and CMN Resolution N. 3,844/10 provide that, after a foreign direct investment is made, an application for its registration with the Central Bank must be submitted by the investee and the non-resident investor, through its independent representatives in Brazil, within 30 days. The registration of the foreign direct investment with the Central Bank allows the foreign investor to remit abroad resources classifiable as capital return, resulting either from: (i) the transfer of corporate interests to Brazilian residents, (ii) capital reduction, or (iii) the liquidation of a company, as well as funds classified as dividends, profits or interest on shareholders' equity. Foreign investors with foreign direct investments may also divest those investments through private transactions or transactions conducted through the stock exchange or the over-the-counter market. See *Taxation - Brazilian Tax Considerations* for information regarding the taxation of such transactions.

There are no restrictions on ownership of the Company's shares by individuals or legal entities domiciled outside Brazil. With certain limited exceptions, under CMN Resolution N. 2,689/00 investors are permitted to carry out any type of transaction in the Brazilian financial and capital markets involving a security traded on a stock, futures or organized over-the-counter markets. Investments and remittances outside of Brazil of gains, dividends, profits or other payments for common and preferred shares are made through the exchange market. See *Exchange Controls* for further information regarding non-Brazilian holders who qualify under CMN Resolution N. 2,689/00.

Securities and other financial assets held by non-Brazilian investors pursuant to CMN Resolution N. 2,689/00 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading is restricted to transactions carried out in the stock exchanges or through organized over-the-counter markets licensed by the CVM, except for transfers resulting from a corporate reorganization, or occurring upon the death of an investor by operation of law or will.

**Trading on Exchanges outside Brazil**

In addition to the BOVESPA, Gerdaul shares are traded on two other stock exchanges:

***New York Stock Exchange***

On March 10, 1999, Gerdaul S.A. obtained registration for the issuance of Level II ADRs, which began trading on the New York Stock Exchange the same day. Under the GGB symbol, these Level II ADRs have been traded in virtually every session since the first trading day. In 2009, 1.9 billion ADRs were traded, a figure 5.8% higher than in 2008, representing a trading volume of \$19.4 billion, equivalent to a daily average of \$77.1 million.

***Latibex - Madrid Stock Exchange***

Since December 2, 2002, Gerdau S.A.'s preferred shares have been traded on the Latibex, the segment of the Madrid Stock Exchange devoted to Latin American companies traded in Euros. Following approval by the CVM and the Brazilian Central Bank, this date marked the beginning of the Depositary Receipts (DR) Program for preferred shares issued by the Company in Spain. The shares are traded in Spain under the symbol XGGB in the form of DRs, each corresponding to one preferred share. This participation in the Latibex boosted the Company's visibility in the European market. In 2009, a total of 918 thousand Gerdau preferred shares were traded on the Madrid Stock Exchange (Latibex), a figure 74.3% lower than in 2008, representing a trading volume of 7.2 million, equivalent to a daily average of 28.0 thousand

**ITEM 10. ADDITIONAL INFORMATION**

**A. SHARE CAPITAL**

Not applicable.

**B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

The information required in this item was included in the Registration Statement on Form 20-F filed with the Commission on June 30, 2005 (file number SEC: 1-14878). The last amendment of the By-Laws was made on December 30, 2010, to amend the wording of Article 2 of the Company By-Laws, including the following activities: (i) interests in companies and industrial consortia; and (ii) industry and trade exploitation, including through representation, importing and exporting of steel, iron and related products, as well as the caput of Article 4, to include the capital stock increasing to R\$ 15,666,547,445.00, divided in 505,600,573 common shares and 1,011,201,145 preferred shares, with no par value.

Table of Contents

The consolidated by-laws can be found as an attachment to the present report.

***Summary of Special Conditions Relating to Directors and Officers***

Although the by-laws do not specifically address this matter, the Company and its directors and officers are obliged to adhere the provisions of Law 6.404/76, which regulates corporations in Brazil. In general terms, article 153 of the Corporate Law establishes that in exercising his/her duties, a company director or officer shall employ the care and diligence which an active person of integrity normally employs in the administration of his/her own affairs.

Article 154, paragraph 2 of the Corporate Law, states that directors and officers shall not: a) perform an act of liberality at the expense of the company; b) borrow money or property from the company or use company property, services or credits for his/her own advantage or for the advantage of any entity in which he/she/any third party has an interest without the prior approval of a General Shareholders Meeting or the Board of Directors; c) by virtue of his/her position, receive any type of direct or indirect personal benefit unless according to the Company's by-laws or a General Shareholders Meeting.

In more specific terms, as outlined in the paragraph 1 of article 156 of the same law, a director or an officer may only perform transactions with the Company under reasonable and fair conditions, identical to the conditions prevailing in the market, or in situations under which the Company would contract with third parties, including occasional loan agreements between the Company and its directors or officers.

Article 152 of the Corporate Law states that the General Shareholders Meeting shall establish the financial compensation of directors and officers as well as any benefits and representational allowances. Article 146 of Law 6,404/76 establishes that the members of the Company's Board of Directors must be shareholders, and that they must own at least one share in the Company. There is no by-law or legal rule as to any mandatory employment limit date or retirement age for directors and officers. In addition to enforcing the pertinent legal provisions, the Company also observes the rules and corporate governance recommendations of the São Paulo Stock Exchange (Information regarding the differentiated corporate governance levels was included in the Registration Statement on Form 20-F dated June 30, 2004 - Commission file number 1-14878).

Adherence to these rules is consolidated in a contract in which the Company and its directors and officers agree to enforce the relevant regulations, which establish that the company shall submit to the São Paulo Stock Exchange and disclose information on any contract established between the Company and its controlled and associated companies, senior managers and the controlling shareholder; between the Company and the subsidiary or associated companies of its senior managers and the controlling shareholder; and between the Company and any other companies that form a de facto or de jure group with the entities mentioned above, whenever a single contract, or a series of related contracts, with or without the same purpose, equals or exceeds R\$ 200,000.00 within any one-year period, or equals or exceeds an amount equal to one percent of the company's net equity, whichever is higher.

When submission or disclosure of information is required, the information must detail the scope of the contract, its term of effectiveness and value, the conditions for termination and accelerated expiration and any influence that such a contract may have on the company's management and business. This issue is also covered in the Gerdau Ethical Guidelines, which outline and consolidate the rules guiding the behavior of the Gerdau Group and its employees, as described in item 16 B of this document, and also available at [www.gerdau.com.br](http://www.gerdau.com.br) Gerdau's officers must

abide by the Gerdau Ethical Guidelines, both internally and when representing the Company. They must act in accordance with standards that reflect their personal and professional integrity and are compatible with the bond they have established with the Company and society at large. They must carefully evaluate situations involving conflicts between personal interests and those of the Company, and carry out in the Company's best interests all activities involving Company resources, property, services or credits, reporting any private activities that may interfere or conflict with the Company's interests, disclosing the extent and nature of such activities, maintaining their loyalty to the Company, and refraining from using privileged information concerning business opportunities to their own benefit or to the benefit of others, regardless of whether these are to the advantage or the disadvantage of the Company.

### **C. MATERIAL CONTRACTS**

For information concerning material contracts regarding the acquisition of assets, see Item 4 Company Information, Item 5 Operating and Financial Review and Prospects and Item 8 Financial Information. Gerdau S.A. has entered into financial agreements in order to finance its expansion projects and improve its debt profile. Although some of these contracts entail significant amounts, none exceeds 15% of the Company's consolidated total assets. The most significant financial agreements are described below, with the Company agreeing to provide a copy of the debt instruments described herein to the Securities and Exchange Commission upon request.



Table of Contents

**Bond 2021** - On October 1, 2010, the subsidiary Gerdau Trade Inc. concluded the issue of bonds in the amount of US\$ 1.25 billion and final maturity on January 30, 2021. The following companies guaranteed this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. On December 31, 2010 the outstanding balance of this facility was US\$ 1.25 billion (R\$ 2.1 billion as of December 31, 2010). Part of the proceeds of this issue were used to prepay the Perpetual Bonds on September 22, 2010, in the amount of US\$ 600 million (R\$ 1 billion as of December 31, 2010). The Perpetual Bonds were issued on September 15, 2005 and had no final maturity date.

**Bond 2020** - On November 18, 2009, the subsidiary Gerdau Holdings Inc. concluded the issue of bonds in the amount of US\$ 1.25 billion and final maturity on January 20, 2020. The following companies guaranteed this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. On December 31, 2010 the outstanding balance of this facility was US\$ 1.25 billion (R\$ 2.1 billion as of December 31, 2010).

**Bond 2017** - On October 22, 2007, the subsidiary GTL Trade Finance Inc. concluded the issue of bonds in the amount of US\$ 1.00 billion with subsequent reopening of US\$ 500 million, totalizing US\$ 1.5 billion and final maturity on October 20, 2017. The following companies guaranteed this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. On December 31, 2010 the outstanding balance of this facility was US\$ 1.5 billion (R\$ 2.5 billion as of December 31, 2010).

**Term Loan Facility** - On September 10, 2007, the subsidiaries Gerdau Ameristeel US Inc. and GNA Partners entered into a Senior Acquisition Financing in the amount of US\$ 2.75 billion and final maturity on September 14, 2013. The following companies guaranteed this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Comercial de Aços S.A., Gerdau Ameristeel Corporation and Gerdau Açominas Overseas Limited. On December 31, 2010 the outstanding balance of this facility was US\$ 1.26 billion (R\$ 2.1 billion as of December 31, 2010).

**Senior Secured Credit Facility** - The North American subsidiaries have a US\$ 650 million (R\$ 1,100 million as of December 31, 2010) line of credit that expires on December, 2012. Inventories and accounts receivable of subsidiaries guarantee this facility. No amounts were outstanding on this line of credit as of December 31, 2010.

**BNDES** - In June 2009, certain subsidiaries of the Company (Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Aços Villares S.A.) obtained a pre-approved credit line with BNDES in the total amount of R\$ 1,500 million bearing interest rate of TJLP + 2.21% per annum when drawn. The transaction is guaranteed per aval and financial covenants by Metalúrgica Gerdau S.A.. On December 31, 2010 the credit line was not in use by the Company.

**Acquisition of Corporación Sidenor, S.A.**

On November 15, 2005, the subsidiary Gerdau Hungria Holdings signed, together with two Spanish companies, one a company belonging to the Santander Group, and other composed of the main executives of the administration of the Sidenor Group, as purchasers, and Industria Férricas del Norte Inversiones, S.L., as the seller, a purchase agreement for the acquisition of all the capital stock of Corporación Sidenor, S.A., in Spain.

## Edgar Filing: GERDAU S.A. - Form 20-F

On January 10, 2006, the Company completed its acquisition of 40% of Corporación Sidor S.A. ( Sidor ), a Spanish steel producer with operations in Spain and Brazil. The Santander Group, Spanish financial conglomerate, purchased simultaneously 40% of Sidor. The acquisition price of 100% of Sidor consists of a fixed installment of 443,820 thousand plus a contingent variable installment to be paid only by the Company. The fixed price paid by the Company on January 10, 2006 for its interest of 40% in Sidor was 165,828 thousand (R\$ 432,577). The Santander Group has the option to sell its interest in Sidor to the Company 5 years after the purchase at a fixed price with a fixed interest rate, and Sidor has the right of preference to purchase these shares and also may, at any time during the period of the put option validity require the Santander Group to exercise the put option before the expiration date. On December 23, 2010, Santander and the Company renewed the put option of the participation in Sidor and the maturity date of the put option became January 10, 2014, and can be exercised in advance on each month of January from 2012 until the maturity date. The put option price became 208.648 (R\$ 464.868 on December 31, 2010), accrued by a fixed interest rate. The potential commitment of the Company to purchase from the Santander Group its 40% interest in Sidor was recorded as a non-current liability under Put options on minority interest . As a result of the recognition of this potential obligation, the Company has recognized since the acquisition date, an additional interest of 40% of Sidor as its investment. As of December 31, 2010, such potential obligation totaled R\$ 464.868 (R\$ 449.599 as of December 31, 2009)

On December 19, 2008 the subsidiary Gerdau Hungria Holdings indirectly acquired an additional 20% interest in Corporación Sidor, S.A.. The total amount paid by Gerdau Hungria Holdings was approximately \$ 288.0 million (R\$ 674.0 million in the acquisition date), drawing on its own funds. As a result of this acquisition, Gerdau Hungria

Table of Contents

Holdings directly and indirectly holds 60% of Corporación Sidenor's capital, and Grupo Santander, with which Grupo Gerdau will continue to share control, holding the remaining 40%.

**D. EXCHANGE CONTROLS**

There are no restrictions on ownership or voting of the Company's paid-in capital by individuals or legal entities domiciled outside Brazil. The right to convert dividend payments and proceeds from the sale of the Company's paid-in capital into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally require, among other things, the prior registration of the relevant investment with the Central Bank.

In Brazil, a mechanism is available to foreign investors interested in trading directly on the BOVESPA. Until March 2000, this mechanism was known as Annex IV Regulations, in reference to the Annex IV of CMN Resolution N. 1,289/87 ( Annex IV Regulations ). Currently, this mechanism is regulated by CMN Resolution N. 2,689/00.

CMN Resolution N. 2,689/00, which took effect on March 31, 2000, establishes rules for foreign investments in Brazilian equities. Such rules allow foreign investors to invest in almost all types of financial asset and to engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled.

Pursuant to CMN Resolution N. 2,689/00, foreign investors are defined as individuals, legal entities, mutual funds and other collective investments resident, domiciled or headquartered abroad. CMN Resolution N. 2,689/00 prohibits the offshore transfer or assignment of title to the securities, except in the cases of (i) corporate reorganization effected abroad by a foreign investor or (ii) inheritance.

Pursuant to CMN Resolution N. 2,689/00, foreign investors must: (i) appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment; (ii) fill in the appropriate foreign investor registration form; (iii) obtain registration as a foreign investor with the CVM; (iv) appoint an authorized custodian in Brazil for its investment and (v) register the foreign investment with the Central Bank. The securities and other financial assets held by the foreign investor pursuant to CMN Resolution N. 2,689/00 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or by the CVM or be registered in registration, clearing and custody systems authorized by the Central Bank or by the CVM. In addition, securities trading is restricted to transactions carried out on exchanges or organized over-the-counter markets licensed by the CVM. All investments made by a foreign investor under CMN Resolution N. 2,689/00 will be subject to electronic registration with the Central Bank.

CMN Resolution N. 1,927/92 of the National Monetary Council, which is the Amended and Restated Annex V to CMN Resolution N. 1,289/87 ( Annex V Regulations ), provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. Since ADRs have been approved under the Annex V Regulations by the Central Bank and the CVM, the proceeds from the sale of the ADRs by ADR holders outside Brazil are free of Brazilian foreign investment controls and holders of the ADRs will be subject to a more favorable tax treatment. According to CMN Resolution N. 2,689/00, foreign investments registered under Annex V Regulations may be transferred to the new investment system created by CMN Resolution N. 2,689/00 and vice versa, with due regard to the conditions set forth by the Central Bank and by the CVM.

A foreign investment registration has been made in the name of The Bank of New York Mellon, as Depositary for the Preferred ADRs ( Depositary ), and is maintained by Banco Itaú S.A. ( Custodian ) on behalf of the Depositary. Pursuant to the registration, the Custodian and the Depositary are able to convert dividends and other distributions with respect to the Preferred Shares represented by Preferred ADRs into foreign currency and remit the proceeds abroad. Subject to the provisions set forth in Annex V Regulations, holders of preferred ADRs may exchange such ADRs for the underlying Preferred Shares. In this event, such a holder will be entitled to continue to rely on the Depositary's registration of foreign investment for only five business days after such exchange, after which time, the same holder must seek its own registration with the Central Bank.

The Registered Capital for Preferred Shares that are withdrawn upon surrender of Preferred ADRs will be the U.S. dollar equivalent to (i) the average price of the Preferred Shares on the BOVESPA on the day of withdrawal, or (ii) if no Preferred Shares were sold on such day, the average price of Preferred Shares that were sold in the fifteen trading sessions immediately preceding the same withdrawal. The U.S. dollar value of the Preferred Shares is determined on the basis of the average Foreign Exchange rates quoted by the Central Bank on the same date (or, if the average price of Preferred Shares is determined under clause (ii) of the preceding sentence, the average of such average quoted rates on the same fifteen dates used to determine the average price of the Preferred Shares). A non-Brazilian holder of Preferred Shares may experience delays in effecting the registration of Registered Capital, which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder.

Table of Contents

Thereafter, unless the Preferred Shares are held pursuant to CMN Resolution No. 2,689/00 or to Law N. 4,131/62 by a foreign investor, the same holder may not be able to convert into foreign currency and remit the proceeds outside Brazil from the disposal of, or distributions with respect to, such Preferred Shares, and will generally be subject to less favorable Brazilian tax treatment than a holder of Preferred ADRs.

Restrictions on the remittance of foreign capital overseas could hinder or prevent the Custodian, as custodian for the Preferred Shares represented by Preferred ADRs, or holders who have exchanged Preferred ADRs for Preferred Shares, from converting dividends, distributions or the proceeds from any sale of Preferred Shares into U.S. dollars and remitting such U.S. dollars abroad. Holders of Preferred ADRs could be adversely affected by delays in, or refusal to grant any required government approval for conversions of Brazilian currency payments and remittances abroad of the Preferred Shares underlying the Preferred ADRs.

**Exchange Rates**

Before March 2005, there were two legal foreign exchange markets in Brazil, the commercial market and the floating market. The difference between these two markets was the type of transaction that could be performed through each market.

On March 4, 2005, through CMN Resolution N. 3,265 (revoked and replaced by CMN Resolution N. 3,568, of May 29, 2008), CMN introduced a single foreign exchange market and abolished the legal differences between the referred Commercial and Floating Markets. Among the modifications to foreign exchange market rules is a greater freedom to remit funds abroad through the foreign exchange market. On the other hand, the so-called CC5-Accounts, which are bank accounts in *reais* held in Brazil by foreign entities, may no longer be used to transfer funds on behalf of third parties.

On March 24, 2010, the CMN approved Resolution No. 3,844, adopting a series of measures to consolidate and simplify the Brazilian foreign exchange regulations. These changes are expected to reduce the effective cost of foreign exchange transactions and the related administrative expenses for both the public and private sectors as well as to provide more legal certainty to the parties to such transaction.

In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through the return of a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar.

The current exchange rates from U.S Dollar to Brazilian Reais are demonstrated in the table of item 3.A, Exchange rates between the United States Dollar and Brazilian Reais.

**E. TAXATION**

## Edgar Filing: GERDAU S.A. - Form 20-F

The following summary contains a description of the principal Brazilian and U.S. federal income tax consequences of the purchase, ownership and disposition of a Preferred Share and a Preferred ADR. It does not purport to be a comprehensive description of all tax considerations that may be relevant to a decision to purchase those securities. In particular, this summary deals only with holders that will hold Preferred Shares or Preferred ADRs as capital assets (generally, property held for investment) and does not address the tax treatment of a holder that may be subject to special tax rules, like a bank, an insurance company, a dealer in securities, a person that will hold Preferred Shares or Preferred ADRs in a hedging transaction or as a position in a straddle, conversion transaction or other integrated transaction for tax purposes, a person that has a functional currency other than the U.S. dollar, a person liable for alternative minimum tax, a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) or a person that owns or is treated as owning 10% or more of the voting shares of the Company. Each prospective purchaser of a Preferred Share or Preferred ADR should consult his own tax advisers as to the personal tax consequences of his investment, which may vary for investors in different tax situations. The summary is based upon tax laws of Brazil and the United States and applicable regulations, judicial decisions and administrative pronouncements as in effect on the date hereof. Those authorities are subject to change or new interpretations, possibly with retroactive effect. Although there is no income tax treaty between Brazil and the United States at this time, the tax authorities of the two countries have had discussions that may culminate in a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the US holders of Preferred Shares or Preferred ADRs. This summary is also based upon the representations of the Depositary (as defined below) and on the assumption that each obligation in the Deposit Agreement relating to the Preferred ADRs and any related documents will be performed in accordance with its terms.

Table of Contents

Brazilian Tax Considerations

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of our preferred shares or ADSs by a holder that is not resident or domiciled in Brazil for purposes of Brazilian taxation, which we refer to as non-Brazilian holder .

The following is a general discussion only. It does not specifically address all of the Brazilian tax considerations applicable to any particular non-Brazilian holder. The discussion does not address the effects of any tax treaties or reciprocity of tax treatment entered into by Brazil and other countries. The discussion does not address either any tax consequences under the laws of any state or municipality of Brazil.

Income tax

Dividends

Dividends paid by a Brazilian corporation, such as our company, including stock dividends and other dividends paid to a non-Brazilian holder of preferred shares or ADSs, are currently not subject to withholding income tax in Brazil to the extent that such dividends are related to profits generated on or after January 1, 1996. Dividends paid from profits generated before January 1, 1996 may be subject to Brazilian withholding income tax at varying rates, according to the tax legislation applicable to each corresponding year.

Interest on Shareholders' Equity

Law No. 9,249, dated December 26, 1995, as amended, permits a Brazilian corporation, such as our company, to make distributions to shareholders of interest on shareholders' equity and to treat such payments as a deductible expense for purposes of calculating Brazilian corporate income tax and social contribution on net profits, as far as the limits described below are observed. For tax purposes, this interest is limited to the daily pro rata variation of the Brazilian long-term interest rate ( TJLP ), as determined by the Central Bank from time to time, and the amount of the deduction may not exceed the greater of:

- 50% of net income (after the deduction of social contribution on net profits and before taking into account the provision for corporate income tax and the amounts attributable to interest on shareholders' equity) for the period in respect of which the payment is made; and
- 50% of the sum of retained profits and profit reserves as of the date of the beginning of the period in respect of which the payment is made.

## Edgar Filing: GERDAU S.A. - Form 20-F

Payment of interest to a non-Brazilian holder is subject to withholding income tax at the rate of 15%, or 25% if the non-Brazilian holder is domiciled in a country or location that (1) does not impose income tax or (2) where the maximum income tax rate is lower than 20% or (3) where the laws of that country or location do not allow access to shareholding composition, ownership of investments, or identity of beneficial owners of earnings attributed to non-residents ( Tax Favorable Jurisdiction ). Please refer to Discussion on Low or Nil Tax Jurisdictions, Tax Favorable Jurisdictions and Privileged Tax Regimes below for a discussion that the concept of Tax Favorable Jurisdiction may be broadened by Law No. 11,727.

Payments of interest on shareholders' equity may be included, at their net value, as part of any mandatory dividend. To the extent payment of interest on shareholders' equity is so included, the corporation is required to distribute to shareholders an additional amount to ensure that the net amount received by them, after payment of the applicable withholding income tax, plus the amount of declared dividends, is at least equal to the mandatory dividend.

### Capital Gains

According to Law No. 10,833, dated December 29, 2003, gains deriving from the disposition of assets located in Brazil by a non-Brazilian holder, whether to another non-Brazilian resident or to a Brazilian resident, may be subject to withholding income tax in Brazil.

With respect to a disposition of preferred shares, as they are assets located in Brazil, the non-Brazilian holder will be subject to withholding income tax on the gains assessed, following the rules described below.

With respect to ADSs, although the matter is not entirely clear, arguably the gains realized by a non-Brazilian holder on the disposition of ADSs are not taxed in Brazil, based on the argument that ADSs do not constitute assets located in Brazil for purposes of Article 26 of Law No. 10,833. We cannot assure you, however, that Brazilian tax authorities or Brazilian tax courts will agree with this interpretation. Accordingly, in the event that ADSs are deemed to



Table of Contents

be assets located in Brazil for purposes of Article 26 of Law No. 10,833, gains on a disposition of ADSs by a non-Brazilian holder will be subject to withholding income tax in Brazil, following the rules described below.

As a general rule, gains realized as a result of a disposition of preferred shares (or ADSs, in case they are deemed to be assets located in Brazil ) are equal to the positive difference between the amount realized on the disposition, and the cost of acquisition of the assets that were disposed of.

The rules related to the levy of withholding income tax on such gains will vary depending on the domicile of the non-Brazilian holder, the type of registration of the investment by the non-Brazilian holder with the Central Bank, and how the disposition is carried out, as described below.

Gains assessed on a disposition of preferred shares carried out on the Brazilian stock exchange (which includes transactions carried out on the organized over-the-counter market) are:

- exempt from income tax when assessed by a non-Brazilian holder that (1) has registered its investment in Brazil with the Central Bank under the rules of National Monetary Council Resolution No. 2,689, dated January 26, 2000 ( 2,689 Holder ) and (2) is not domiciled or resident in a country or location that does not tax income, or that taxes income at a maximum rate lower than 20% ( Low or Nil Tax Jurisdiction ). Please refer to Discussion on Low or Nil Tax Jurisdictions, Tax Favorable Jurisdictions and Privileged Tax Regimes below for a discussion that the concept of Low or Nil Tax Jurisdiction may be broadened by Law No. 11,727; or
- subject to income tax at a rate of up to 25% in any other case, including a case of gains assessed by a non-Brazilian holder that is not a 2,689 Holder, and of a non-Brazilian holder that is domiciled or a resident in a Low or Nil Tax Jurisdiction. In these cases, a withholding income tax of 0.005% of the sale value will be applicable and can be later offset with the eventual income tax due on the capital gain.

Gains assessed on a disposition of preferred shares (or ADSs, in case they are deemed to be assets located in Brazil ) that is not carried out on a Brazilian stock exchange are subject to income tax at the rate of 15%, or of up to 25% in the case of a non-Brazilian holder that is domiciled or resident in a Low or Nil Tax Jurisdiction or in a Tax Favorable Jurisdiction. Please refer to Discussion on Low or Nil Tax Jurisdictions, Tax Favorable Jurisdictions and Privileged Tax Regimes below for a discussion that these concepts may be broadened by Law No. 11,727. In the event that these gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% shall also be applicable and can be offset with the eventual income tax due on the capital gain.

In the event of a redemption of preferred shares (or ADSs, in case they are deemed to be assets located in Brazil ) or of a capital reduction by a Brazilian corporation, such as our company, the positive difference between the amount received by the non-Brazilian holder and the acquisition cost of the respective preferred shares (or ADSs, in case they are deemed to be assets located in Brazil ) will be treated as a capital gain derived from a disposition that is not carried out on a Brazilian stock exchange market, and therefore will be subject to withholding income tax at a rate of 15% or up to 25%, as the case may be.

## Edgar Filing: GERDAU S.A. - Form 20-F

Any exercise of preemptive rights relating to the preferred shares or ADSs will not be subject to Brazilian income tax. Gains realized by a non-Brazilian holder on the disposition of preemptive rights relating to preferred shares or ADSs will be subject to Brazilian income tax according to the same rules described above.

As a non-Brazilian holder of ADSs, you may cancel your ADSs and exchange them for preferred shares. Income tax may not be levied on such exchange, as long as the appropriate rules are complied with in connection with the registration of the investment with the Central Bank, and as long as ADSs are not deemed to be assets located in Brazil .

The deposit of preferred shares by a non-Brazilian holder in exchange for ADSs may be subject to income tax if the acquisition cost of the common shares is lower than (a) the average price per preferred share on a Brazilian stock exchange on which the greatest number of such preferred shares were sold on the day of deposit; or (b) if no preferred shares were sold on that day, the average price on a Brazilian stock exchange on which the greatest number of preferred shares were sold in the 15 trading sessions immediately preceding such deposit. The difference between the acquisition cost and the average price of the preferred shares will be considered to be a capital gain subject to income tax at the rate of up to 25%, as the case may be. In some circumstances, there may be arguments to claim that this taxation is not applicable in the case of a non-Brazilian holder that is a 2,689 Holder and that is not domiciled or resident in a Low or Nil Tax Jurisdiction.

There can be no assurance that the current favorable tax treatment of 2,689 Holders will continue in the future.

Table of Contents

Discussion on Low or Nil Tax Jurisdictions, Tax Favorable Jurisdictions, and Privileged Tax Regimes

Law No. 11,727, dated June 24, 2008, with effect as of January 1, 2009, created the concept of privileged tax regime, considered as such the tax regime that (1) does not tax income or taxes it at a maximum rate lower than 20%; or (2) grants tax benefits to non-resident entities or individuals (a) without the requirement to carry out substantial economic activity in the country or location or (b) contingent to the non-exercise of a substantial economic activity in the country or location; or (3) does not tax or taxes at a maximum rate lower than 20%, in particular, income earned outside of the respective country or location; or (4) does not allow access to information related to shareholding composition, ownership of assets and rights, or economic transactions that are carried out ( Privileged Tax Regime ).

The concept of Privileged Tax Regime should only apply to specific types of transactions, including those subject to transfer pricing rules. Regulation issued by Brazilian tax authorities seems to confirm this interpretation.

Tax on Foreign Exchange Transactions

Brazilian law imposes a Tax on Foreign Exchange Transactions ( IOF/FX ) due on the liquidation of foreign exchange agreements related to the conversion of reais into foreign currency and on the conversion of foreign currency into reais. The currently applicable rate for most types of foreign exchange transactions is 0.38%. However, other rates apply to specific types of transactions.

In particular, foreign exchange transactions related to inflows of funds to Brazil for investments made by foreign investors on the Brazilian financial and capital markets are generally subject to IOF/FX at a rate of 6%. Exceptionally, some types of foreign exchange transactions connected to those types of investments are subject to the IOF/FX at a 2% rate. These exceptions include foreign exchange transactions related to: (1) inflow of funds for floating rate investments (such as preferred shares) made in a Brazilian stock or future and commodities exchange by 2,689 Holders, provided that the transactions do not involve derivatives and do not result in pre-determined income; (2) inflow of funds for the acquisition of shares of Brazilian companies in either (a) a public offer of shares that is registered with the CVM, or (b) subscription of shares, provided that, in both cases (a) and (b), the Brazilian company issuing the shares is entitled to trade its shares in a Brazilian stock exchange; (3) inflow of funds resulting from the cancellation of ADSs and exchange for shares traded in a Brazilian stock exchange; and (4) inflow of funds deriving from the change of the type of registration of the foreign investment from a foreign direct investment to an investment registered under the rules of National Monetary Council Resolution No. 2,689.

Foreign exchange transactions related to outflows of funds in connection with investments carried out on the Brazilian financial and capital markets are subject to the IOF/FX at a rate of zero percent. The IOF/FX also levies at a zero percent rate in case of dividends and interest on shareholders' equity paid by a Brazilian corporation, such as our company, to non-Brazilian holders.

The Brazilian government is permitted to increase the rate of the IOF/FX at any time by up to 25% on the foreign exchange transaction amount. However, any increase in rates will only apply to transactions carried out after this increase in rates enters into force.

Tax on Transactions Related to Bonds and Securities

Brazilian law imposes a Tax on Transactions Related to Bonds and Securities ( IOF/Bonds ) due on transactions involving bonds and securities, including those carried out on a Brazilian stock exchange. Although the rate of IOF/Bonds applicable to most types of transactions involving preferred shares and ADSs is currently zero, the rate of the IOF/Bonds applicable to the transfer of shares traded in the Brazilian stock exchange with the sole purpose of enabling the issuance of ADSs to be traded outside Brazil is currently 1.5%. The Brazilian government is permitted to increase the rate of the IOF/Bonds at any time by up to 1.5% per day of the transaction amount, but only in respect of future transactions.

#### Other Brazilian Taxes

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of preferred shares or ADSs, except for gift and inheritance taxes that may be imposed by some Brazilian states. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of preferred shares or ADSs.

Table of Contents

United States Tax Considerations

U.S. Federal Income Tax Considerations

The following discussion summarizes the principal U.S. federal income tax considerations relating to the purchase, ownership and disposition of Preferred Shares or Preferred ADRs by a U.S. holder (as defined below) holding such shares or ADRs as capital assets (generally, property held for investment). This summary is based on the Internal Revenue Code of 1986, as amended (the Code), Treasury regulations, administrative pronouncements of the U.S. Internal Revenue Service (the IRS) and judicial decisions, all as in effect on the date hereof, and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This summary does not describe any state, local or non-U.S. tax law considerations, or any aspect of U.S. federal tax law other than income taxation. U.S. holders are urged to consult their own tax advisers regarding such matters.

This summary does not purport to address all material U.S. federal income tax consequences that may be relevant to a U.S. holder of a Preferred Share or Preferred ADR, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks or other financial institutions, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, U.S. expatriates, investors liable for the alternative minimum tax, partnerships and other pass-through entities, investors that own or are treated as owning 10% or more of the Company's voting stock, investors that hold the Preferred Shares or Preferred ADRs as part of a straddle, hedge, conversion or constructive sale transaction or other integrated transaction, and U.S. holders whose functional currency is not the U.S. dollar) may be subject to special tax rules.

As used herein, a U.S. holder is a beneficial owner of a Preferred Share or Preferred ADR that is, for U.S. federal income tax purposes, (i) a citizen or resident alien individual of the United States, (ii) a corporation (or an entity taxable as a corporation) created or organized under the laws of the United States, any State thereof or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income tax without regard to its source, or (iv) a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust, and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (2) the trust has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person. For purposes of this discussion, a non-U.S. holder is a beneficial owner of a Preferred Share or Preferred ADR that is not a U.S. holder or a partnership.

If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of a Preferred Share or Preferred ADR, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. A holder of a Preferred Share or Preferred ADR that is a partnership and partners in that partnership are urged to consult their own tax advisers regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of Preferred Shares or Preferred ADRs.

Nature of Preferred ADRs for U.S. Federal Income Tax Purposes

The following summary assumes that the representations contained in the deposit agreement among us, The Bank of New York Mellon, as depositary, and the holders and beneficial owners from time to time of ADSs issued thereunder are true and that the obligations in the deposit

agreement and any related agreement will be complied with in accordance with their terms. In general, for U.S. federal income tax purposes, a holder of a Preferred ADR will be treated as the owner of the underlying Preferred Shares. Accordingly, except as specifically noted below, the tax consequences discussed below with respect to Preferred ADRs will be the same for Preferred Shares in the Company, and exchanges of Preferred Shares for Preferred ADRs, and Preferred ADRs for Preferred Shares, generally will not be subject to U.S. federal income tax.

For purposes of the following summary, any reference to Preferred Shares shall be understood to also include reference to the Preferred ADRs, unless otherwise noted.

#### Taxation of Distributions

##### U.S. holders

In general, subject to the passive foreign investment company ( PFIC ) rules discussed below, a distribution on a Preferred Share will constitute a dividend for U.S. federal income tax purposes to the extent that it is made from the Company's current or accumulated earnings and profits as determined under U.S. federal income tax principles. If a distribution exceeds the amount of the Company's current and accumulated earnings and profits, it will be treated as a non-taxable reduction of basis to the extent of the U.S. holder's tax basis in the Preferred Share on which it is paid, and to the extent it exceeds that basis it will be treated as capital gain. The Company does not intend to calculate its earnings and profits under U.S. federal income tax principles. Therefore, a U.S. holder should expect that a distribution on a

Table of Contents

Preferred Share generally will be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. For purposes of this discussion, the term "dividend" means a distribution that constitutes a dividend for U.S. federal income tax purposes.

The gross amount of any dividend on a Preferred Share (which will include the amount of any Brazilian taxes withheld) generally will be subject to U.S. federal income tax as foreign source dividend income and will not be eligible for the corporate dividends received deduction. In the case of a Preferred Share, but not a Preferred ADR, the amount of a dividend paid in Brazilian currency will be its value in U.S. dollars based on the prevailing spot market exchange rate in effect on the day that the U.S. holder receives the dividend. In the case of a dividend received in respect of a Preferred ADR, the amount of a dividend paid in Brazilian currency will be its value in U.S. dollars based on the prevailing spot market exchange rate in effect on the date the Depositary receives it, whether or not the dividend is converted into U.S. dollars. A U.S. holder will have a tax basis in any distributed Brazilian currency equal to its U.S. dollar amount on the date of receipt, and any gain or loss realized on a subsequent conversion or other disposition of the Brazilian currency generally will be treated as U.S. source ordinary income or loss. If dividends paid in Brazilian currency are converted into U.S. dollars on the date they are received by a U.S. holder or the Depositary or its agent, as the case may be, the U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. holders are urged to consult their own tax advisers regarding the treatment of any foreign currency gain or loss if any Brazilian currency received by the U.S. holder or the Depositary or its agent is not converted into U.S. dollars on the date of receipt.

Subject to certain exceptions for hedged positions, any dividend that a non-corporate U.S. holder receives on a Preferred Share in a taxable year beginning before January 1, 2013 will be subject to a maximum tax rate of 15% if the dividend is a "qualified dividend." A dividend on a Preferred Share will be a qualified dividend if (i) the Preferred Shares are readily tradable on an established securities market in the United States, (ii) the U.S. holder meets the holding period requirement for the Preferred Share (generally more than 60 days during the 121-day period that begins 60 days before the ex-dividend date), and (iii) the Company was not, in the year prior to the year the dividend was paid, and is not, in the year the dividend is paid, a passive foreign investment company ("PFIC").

The Preferred ADRs are listed on the New York Stock Exchange and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on existing guidance, it is not entirely clear whether a dividend on a preferred share will be treated as a qualified dividend, because the preferred shares themselves are not listed on a U.S. exchange. As discussed below under "PFIC Rules," the Company does not believe that it was a PFIC for U.S. federal income tax purposes for its 2010 taxable year, nor does it anticipate being classified as a PFIC in its current taxable year or future taxable years. Given that the determination of PFIC status involves the application of complex tax rules, and that it is based on the nature of the Company's income and assets from time to time, no assurances can be provided that the Company will not be considered a PFIC for the current (or any past or future) taxable year.

The U.S. Treasury Department has announced its intention to promulgate detailed rules pursuant to which holders of stock of non-U.S. corporations, and intermediaries through whom the stock is held, will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because those detailed procedures have not yet been issued, it is not clear whether the Company will be able to comply with them. Special limitations on foreign tax credits apply to dividends subject to the reduced rate of tax for qualified dividends. U.S. holders of Preferred Shares are urged to consult their own tax advisers regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

Any Brazilian withholding tax will be treated as a foreign income tax eligible for credit against a U.S. holder's U.S. federal income tax liability, subject to generally applicable limitations under U.S. federal income tax law. For purposes of computing those limitations separately for specific categories of income, a dividend generally will constitute foreign source "passive category income" or, in the case of certain holders, "general category income." A U.S. holder will be denied a foreign tax credit with respect to Brazilian income tax withheld from dividends received with respect to the underlying Preferred Shares to the extent the U.S. holder has not held the Preferred Shares for at least 16 days of the 30-day period

## Edgar Filing: GERDAU S.A. - Form 20-F

beginning on the date which is 15 days before the ex-dividend date or to the extent the U.S. holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. holder has substantially diminished its risk of loss on the Preferred Shares are not counted toward meeting the 16-day holding period required by the statute. Alternatively, any Brazilian withholding tax may be taken as a deduction against taxable income, provided the U.S. holder takes a deduction and not a credit for all foreign income taxes paid or accrued in the same taxable year. The rules relating to the determination of the foreign tax credit are complex, and U.S. holders are urged to consult with their own tax advisers to determine whether and to what extent they will be entitled to foreign tax credits as well as with respect to the determination of the foreign tax credit limitation.

U.S. holders should be aware that the IRS has expressed concern that parties to whom ADRs are transferred may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of ADRs.



Table of Contents

Accordingly, the discussion above regarding the credibility of Brazilian withholding taxes could be affected by future actions that may be taken by the IRS.

Non-U.S. holders

A dividend paid to a non-U.S. holder on a Preferred Share will not be subject to U.S. federal income tax unless the dividend is effectively connected with the conduct of trade or business by the non-U.S. holder within the United States (and, if an applicable income tax treaty so provides, is attributable to a permanent establishment or fixed base the non-U.S. holder maintains in the United States). A non-U.S. holder generally will be subject to tax on an effectively connected dividend in the same manner as a U.S. holder. A corporate non-U.S. holder may also be subject under certain circumstances to an additional branch profits tax, the rate of which may be reduced pursuant to an applicable income tax treaty.

Taxation of Capital Gains

U.S. holders

Subject to the PFIC rules discussed below, on a sale or other taxable disposition of a Preferred Share, a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the U.S. holder's adjusted basis in the Preferred Share and the amount realized on the sale or other taxable disposition, each determined in U.S. dollars. Such capital gain or loss will be long-term capital gain or loss if at the time of the sale or other taxable disposition the Preferred Share has been held for more than one year. In general, any adjusted net capital gain of a non-corporate U.S. holder in a taxable year beginning before January 1, 2013 is subject to a maximum tax rate of 15%. In subsequent years, the maximum tax rate on the net capital gain of a non-corporate U.S. holder may be higher. The deductibility of capital losses is subject to limitations.

Any gain a U.S. holder recognizes generally will be U.S. source income for U.S. foreign tax credit purposes, and, subject to certain exceptions, any loss will generally be a U.S. source loss. If a Brazilian tax is withheld on a sale or other disposition of a Preferred Share, the amount realized will include the gross amount of the proceeds of that sale or other disposition before deduction of the Brazilian tax. The generally applicable limitations under U.S. federal income tax law on crediting foreign income taxes may preclude a U.S. holder from obtaining a foreign tax credit for any Brazilian income tax withheld on a sale of a Preferred Share. Alternatively, any Brazilian withholding tax may be taken as a deduction against taxable income, provided the U.S. holder takes a deduction and not a credit for all foreign income taxes paid or accrued in the same taxable year. The rules relating to the determination of the foreign tax credit are complex, and U.S. holders are urged to consult with their own tax advisers regarding the application of such rules.

Non-U.S. holders

A non-U.S. holder will not be subject to U.S. federal income tax on a gain recognized on a sale or other disposition of a Preferred Share unless (i) the gain is effectively connected with the conduct of trade or business by the non-U.S. holder within the United States (and, if an applicable income tax treaty so provides, is attributable to a permanent establishment or fixed base the non-U.S. holder maintains in the United States), or

(ii) in the case of a non-U.S. holder who is an individual, the holder is present in the United States for 183 or more days in the taxable year of the sale or other taxable disposition and certain other conditions apply. Any effectively connected gain of a corporate non-U.S. holder may also be subject under certain circumstances to an additional branch profits tax, the rate of which may be reduced pursuant to an applicable income tax treaty.

#### PFIC Rules

A special set of U.S. federal income tax rules applies to a foreign corporation that is a PFIC for U.S. federal income tax purposes. Based on the Company's audited financial statements and relevant market and shareholder data, as well as the Company's current and projected income, assets and activities, the Company believes it was not a PFIC for U.S. federal income tax purposes for its 2010 taxable year, nor does it anticipate being classified as a PFIC in its current taxable year or future taxable years. However, because the determination of whether the Company is a PFIC is based upon the composition of its income and assets from time to time, and because there are uncertainties in the application of the relevant rules, it is possible that the Company will become a PFIC in a future taxable year (and no assurance can be provided that the Company will not be considered a PFIC for its current (or any past) taxable year).

If the Preferred Shares were shares of a PFIC for any taxable year, U.S. holders (including certain indirect U.S. holders) may be subject to adverse tax consequences, including the possible imposition of ordinary income treatment for gains or excess distributions (generally a distribution in excess of 125% of the average distributions received during the past three years or, if shorter, the U.S. holder's holding period) that would otherwise be taxed as capital gains or dividends, along with an interest charge on gains or excess distributions allocable to prior years in the U.S. holder's holding period during which the Company was determined to be a PFIC. If the Company is deemed to be a PFIC for a

Table of Contents

taxable year, dividends on a Preferred Share would not constitute qualified dividends subject to preferential rates of U.S. federal income taxation. In addition, if the Company is deemed to be a PFIC for a taxable year, U.S. holders would be subject to increased reporting requirements. U.S. holders are urged to consult their own tax advisers regarding the application of the PFIC rules.

Information Reporting and Backup Withholding

Under U.S. federal income tax law and the Treasury regulations, certain categories of U.S. holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. For example, recently enacted legislation generally imposes new U.S. return disclosure obligations (and related penalties) on U.S. holders that hold certain specified foreign financial assets in excess of \$50,000. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. U.S. holders may be subject to these reporting requirements unless their Preferred Shares are held in an account at a domestic financial institution. Penalties for failure to file certain of these information returns are substantial. U.S. holders should consult with their own tax advisers regarding the requirements of filing information returns, and, if applicable, filing obligations relating to the PFIC rules.

Dividends paid on, and proceeds from the sale or other taxable disposition of, a Preferred Share to a U.S. holder generally may be subject to information reporting requirements and may be subject to backup withholding (currently at the rate of 28%) unless the U.S. holder provides an accurate taxpayer identification number or otherwise demonstrates that it is exempt. The amount of any backup withholding collected from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that certain required information is timely submitted to the IRS. A non-U.S. holder generally will be exempt from these information reporting requirements and backup withholding tax but may be required to comply with certain certification and identification procedures in order to establish its eligibility for exemption.

**F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

**G. STATEMENT BY EXPERTS**

Not applicable.

**H. DOCUMENTS ON DISPLAY**

## Edgar Filing: GERDAU S.A. - Form 20-F

The Company makes its filings in electronic form under the EDGAR filing system of the U.S. Securities and Exchange Commission. Its filings are available through the EDGAR system at [www.sec.gov](http://www.sec.gov). The Company's filings are also available to the public through the Internet at Gerdau's website at [www.gerdau.com](http://www.gerdau.com). Such filings and other information on its website are not incorporated by reference in this Annual Report. Interested parties may request a copy of this filing, and any other report, at no cost, by writing to the Company at the following address: Av. Farrapos, 1811 - Porto Alegre-RS - 90.220-005 - Brazil or calling 55-51-3323 2703 or by e-mail at [inform@gerdau.com.br](mailto:inform@gerdau.com.br). In compliance with New York Stock Exchange Corporate Governance Rule 303A.11, the Company provides on its website a summary of the differences between its corporate governance practices and those of U.S. domestic companies under the New York Stock Exchange listing standards.

### **I. SUBSIDIARY INFORMATION**

Not applicable.

### **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK**

Gerdau is exposed to various market risks, mainly variations in exchange rates and interest rate volatility. The company enters into derivatives and other financial instruments to manage and reduce the impact of fluctuations in interest rates and in the exchange rates. Gerdau has established policies and procedures for risk assessment and the approval, reporting and monitoring of its derivative financial activities. Gerdau does not carry out leveraged operations involving derivative instruments. The use of derivatives is limited to managing the foreign-exchange exposure of the cash flow generated by the Company's operations, as well as interest rate swaps.

Table of Contents

**Foreign Exchange Rate Risk**

This risk is related to the possibility of fluctuations in exchange rates affecting financial expenses (or income) and the liability (or asset) balance of contracts denominated in foreign currency. The Company assesses its exposure to the exchange rate by subtracting its liabilities from its assets in dollars, having in this way the net exchange rate exposure basis, which is the basis subject to effects in a change in the foreign currency. Therefore, along with accounts receivable originated from exports and investments abroad that in economic terms result in a natural hedge, the Company assesses using hedge operation, more commonly swap operations, if the Company has more liabilities in dollars than assets.

Gerdau is exposed to fluctuations in the exchange rate of several different currencies movements since substantially all of its revenues generated outside its subsidiaries in the United States, are in the local currency of the respective subsidiaries, mainly in Brazilian *reais*, while a significant portion of its debt is denominated in or indexed to U.S. dollar.

The Company's estimate of the fair value of its financial instruments, including long-term debt, approximates to their recognized book value.

Foreign currency sensitivity analysis: the Company is exposed to variations in foreign currency, especially in loans and financing. The sensitivity analysis made by the Company considers the effects of an increase or a reduction of 5% between the Brazilian real and the foreign currencies on such outstanding loans and financing on the date of the Consolidated Interim Financial Statements. As of December 31, 2010, the Company is mainly exposed to variations between Brazilian real and US Dollar, since the loans taken by the other than Brazilian subsidiaries of the Company are mainly in the same currency of the functional currency of each subsidiary, and because of this aspect, these loans do not expose the Company to variations in foreign currency. The impact calculated considering such variation in the foreign exchange rate totals R\$ 88,535 as of December 31, 2010 (R\$ 199,427 as of December 31, 2010) and represents an income if an appreciation of the Brazilian real against the US Dollar occurs or an expense in the case of a depreciation of the Brazilian real against the US Dollar. The Company believes that the Dollar appreciation against Real for 2011 will be 2%.

The net amounts related to accounts receivable and accounts payable in foreign currency do not present relevant risks related to exchange rates fluctuation.

**Interest rate risk**

This risk arises from the possibility of losses (or gains) due to fluctuations in interest rates applied to the Company's assets (investments) or liabilities in the market. To minimize possible impacts from interest rate fluctuations, the Company adopts a diversification policy, alternating from variable (such as LIBOR and CDI) to fixed rates when contracting debts and hedges and periodically renegotiating contracts to adjust them to market.

From time to time, the Company has entered into interest rate swaps in order to reduce interest rate risk and interest expense. The Company makes only limited use of derivative instruments and only for non-speculative purposes, in order to manage well-defined interest rate risks arising during the normal course of its business.

Interest rate sensitivity analysis: the Company is exposed to interest rate risks in its loans and financing and debentures. The sensitivity analysis made by the Company considers the effects of an increase or reduction of 0.1% on outstanding loans and financing and debentures on the date of the Consolidated Interim Financial Statements. The impact calculated considering this variation in the interest rate totals R\$ 77,516 as of December 31, 2010 (R\$ 66,858 as of December 31, 2009) and would impact the Financial expenses account in the Consolidated Statements of Income.

**Price risk of commodities**

This risk is related to the possibility of changes in prices of the products sold by the Company or in prices of raw materials and other inputs used in the productive process. Since the subsidiaries operate in a commodity market, their sales revenues and cost of sales may be affected by changes in the international prices of their products or materials. In order to minimize this risk, the subsidiaries constantly monitor the price variations in the domestic and international markets.

**Credit risk**

This risk arises from the possibility of the subsidiaries not receiving amounts arising from sales to customers or investments made with financial institutions. In order to minimize this risk, the subsidiaries adopt the procedure of analyzing in detail the financial position of their customers, establishing a credit limit and constantly monitoring their

Table of Contents

balances. In relation to cash investments, the Company invests solely in financial institutions with low credit risk, as assessed by rating agencies. In addition, each financial institution has a maximum limit for investment, determined by the Company's Credit Committee.

**Capital management risk**

This risk comes from the Company's choice in adopting a financing structure for its operations. The Company manages its capital structure, which consists of a ratio between the financial debts and its own capital (Shareholders' Equity, retained earnings, and profit reserves) based on internal policies and benchmarks. The BSC (Balance Scorecard) methodology was used in the last 5 years to elaborate strategic maps with objectives and indicators of the main processes. The KPI's (Key Performance Indicators) related to the objective Capital Structure Management are: WACC (Weighted Average Cost of Capital), Total Indebtedness/EBITDA, Interest Coverage Ratio, and Indebtedness/Shareholders' Equity Ratio. The Total Debt is composed of loans and financing (see Note 14 Consolidated Financial Statements) and debentures (see Note 15 - Consolidated Financial Statements). The Company can change its capital structure depending on economic-financial conditions in order to optimize its financial leverage and its debt management. At the same time, the Company tries to improve its ROCE (Return on Capital Employed) by implementing a working capital management process and an efficient fixed asset investment program.

**Liquidity risk**

The Company's management policy of indebtedness and cash on hand is based on using the committed lines and the currently available credit lines with or without a guarantee in export receivables for maintaining adequate levels of short, medium, and long-term liquidity.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**A. DEBT SECURITIES**

Not applicable.

**B. WARRANTS AND RIGHTS**

Not applicable.

**C. OTHER SECURITIES**

Not applicable.

**D. AMERICAN DEPOSITARY SHARES**

The Bank of New York Mellon, as depositary, has agreed to reimburse the Company for expenses it incurs that are related to the establishment and maintenance of the ADS program. The depositary has agreed to reimburse the Company for its continuing and annual stock exchange listing fees. It has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, and to reimburse the Company annually for certain investor relations programs or special promotional activities. In certain instances, the depositary has agreed to provide additional payments to the Company based on any applicable performance indicators relating to the ADR facility. There are limits on the amount of expenses for which the depositary will reimburse the Company, but the amount of reimbursement available to the Company is not necessarily tied to the amount of fees the depositary collects from investors. During calendar year 2010, the depositary reimbursed the Company in the amount of U.S. \$1.2 million.

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them.



Table of Contents

**PART II**

**ITEM 13.           DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

**ITEM 14.           MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

**ITEM 15.           CONTROLS AND PROCEDURES**

**Disclosure control and procedures**

The Company has carried out an evaluation of the effectiveness of the design and operations to assurance the objectives achievement of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Security Exchange Act of 1934) under the supervision of its management, which is responsible for the management of the internal controls, and includes its Chief Executive Officer and Chief Financial Officer. A control system, no matter how well designed and operated, can only provide reasonable, not absolute, assurance that the control system's objectives will be met. Therefore, based upon the Company's evaluation as of December, 31st of 2010, the Company's management concluded that the design and operation of the Company's disclosure controls and procedures are effective at the reasonable assurance level.

Gerda S.A. has a Disclosure Committee composed of the Chief Executive Officer, Andre Bier Gerda Johannpeter, the Chief Financial Officer and Investor Relations Executive Officer, Osvaldo Burgos Schirmer, the Executive Vice President, Legal and Compliance, Expedito Luz, the Accounting Director, Geraldo Toffanello, the Financial Director, Harley Scardoelli and the Corporate Communication & Public Affairs Director, Renato Gasparetto Junior. This Committee oversees and reviews all materials for which there is a legal disclosure requirement, together with all data required to support the documents mentioned above. This committee meets at regular intervals in order to review all data.

No changes in the Company's internal controls over financial reporting occurred during the period covered by this report that materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

## Edgar Filing: GERDAU S.A. - Form 20-F

In addition, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Please see Exhibit 12.01 and 12.02 for the certifications required by this Item.

### **Management's Report On Internal Controls Over Financial Reporting**

The management of Gerdau S.A. is responsible for the implementation, effectiveness and maintenance of an effective system of internal control over Financial Reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over Financial Reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management assessed the effectiveness of the Company's internal control over Financial Reporting as of December 31, 2010, based on the criteria established in *Internal Control - Integrated Framework*, issued by the *Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Based on that assessment, Management believes that, as of December 31, 2010, the Company's internal control over financial reporting is effective.

The Company's independent registered public accounting firm, Deloitte Touche Tohmatsu Auditores Independentes, has issued an audit report on the effectiveness of the Company's internal control over financial reporting. That report is included herein.

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Gerdau S.A.

Rio de Janeiro, Brazil

Table of Contents

We have audited the internal control over financial reporting of Gerdau S.A. and subsidiaries (the Company) as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over Financial Reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2010 of the Company and our report dated March 18, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu Auditores Independentes

Porto Alegre, Brazil

March 18, 2011

**ITEM 16. [RESERVED]**

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Board of Directors has determined that Bolívar Charneski, a member of its Board of Auditors, is a financial expert and independent within the meaning of the SEC rules applicable to disclosure of such expertise.

**ITEM 16B. CODE OF ETHICS**

Gerdau S.A. has adopted a Code of Ethics, termed "Gerdau Ethical Guidelines", which consolidates the ethical values and expected behaviors underlying the Company's activities. "Gerdau Ethical Guidelines" is a document applicable to all

Table of Contents

Group employees in Latin America and Europe, independent of their position. The provisions of the document are thus binding on Gerdau's Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, and other persons performing similar functions. The subsidiary Sidenor (Spain) has its own Code of Ethics, which is compatible with Gerdau's guidelines.

The Company's subsidiary, Gerdau Ameristeel Corporation has also its own Code of Ethics and Business Conduct, which is compatible with Gerdau's guidelines as well. All documents meet the definition of code of ethics contemplated by applicable SEC and New York Stock Exchange rules, covering wrongdoing related to business conduct, conflicts of interest, disclosure in reports and other documents, as well as compliance with legislation. Each document establishes a manner of reporting violations, as well as accountability for adherence.

Gerdau Ethical Guidelines states and defines the values that have formed the foundation of the Gerdau Group for more than 100 years, which are: Satisfied Customers; Total Safety in the Workplace; Engaged and Fulfilled People; Quality in Everything We Do; Responsible Entrepreneurship; Integrity; Growth and Profitability. The document also covers the Company's and employees' commitments regarding relationships between Company and employees, customers, shareholders, suppliers, competitors, community and environment.

Gerdau Ameristeel's Code of Ethics and Business Conduct covers the following issues: Business Conduct and Compliance with Laws (Safety and Health; Equal Employment; Discriminatory Harassment; Sexual Harassment; Environmental; Antitrust; Campaign and Election Law Matters; Improper Payments and Foreign Governmental Contracts; Delegation of Authorities and Insider Trading; Conflicts of Interest; Corporate Opportunities; Accuracy of Records and Information Reporting; Confidentiality; Fair Dealing; Protection and Proper Use of Company Assets).

Gerdau Ameristeel has also adopted a Code of Ethics applicable to its Senior Executives, which is a supplement to the Code of Ethics and Business Conduct. This document binds all of Gerdau Ameristeel's employees who have significant responsibility for preparing or overseeing the preparation of the Company's financial statements and other financial data included in the Company's periodic reports to the Canadian securities regulatory authorities and the U.S. Securities and Exchange Commission and in other public communications made by the Company.

Gerdau Ethical Guidelines and Gerdau Ameristeel's Code of Ethics and Business Conduct were not amended in the last fiscal year, and the Companies did not grant any waiver from the documents' provisions.

The Gerdau Ethical Guidelines document may be accessed through its Internet website ([www.gerdau.com.br](http://www.gerdau.com.br)). Gerdau Ameristeel's Code of Ethics and Business Conduct as well as the Code of Ethics Applicable to Senior Executives can be found on its web site at [www.gerdauameristeel.com](http://www.gerdauameristeel.com).

Gerdau is in the final process of reviewing the three documents mentioned above, in order to create one single Code of Ethics. The new Code, which will be applied to all of Gerdau's business units around the world, is focused on the ethics and compliance issues most important to a public company and will meet all applicable legal requirements.

## Edgar Filing: GERDAU S.A. - Form 20-F

The Company has adhered to the BOVESPA Level 1 Corporate Governance Guidelines and has agreed to comply with all corresponding practices. These include improving quarterly disclosures, promoting compliance with disclosure rules, disclosing the existence and contents of shareholders' agreements and stock options plans as well as an annual agenda for corporate events.

### ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table provides information on fees billed to Gerdau for professional services rendered by the external auditors responsible for auditing the financial statements included in this Annual Report (in thousands of Brazilian Reais) which were Deloitte Touche Tohmatsu Auditores Independentes for the year ended December 31, 2010 and December 31, 2009:

	2010	2009
Audit fees	8,999	10,056
Audit-related fees	117	1,069
All other fees	209	165
<b>Total</b>	<b>9,325</b>	<b>11,290</b>

Audit fees are related to professional services rendered in the auditing of Gerdau's consolidated financial statements, quarterly reviews of Gerdau's consolidated financial statements and statutory audits and interim reviews of

Table of Contents

certain of the Company's subsidiaries and affiliates as required by the appropriate legislation. Those amounts also include fee related to the audit of internal controls over financial reporting of Gerdau and of Gerdau Ameristeel.

Audit-related fees are for assurance and related services, such as due diligence services traditionally performed by an external auditor related to acquisitions, as well as consulting on accounting standards and transactions.

Other fees are related to services provided to subsidiaries in Europe (relating to tax compliance) and to subsidiaries in North America (tax services).

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

On April 28, 2005, the Company elected its Board of Auditors duly adapted to ensure compliance with the Sarbanes-Oxley Act requirements and exemptions from the listing standards. The Board of Auditors ( Conselho Fiscal ) has been operating in accordance with Brazilian Corporate Law 6,404/76, since April 2000. The customary role of this board is to monitor and verify the actions of company directors and executive officers and the compliance with their legal duties, providing opinions and official statements on the annual management report and the proposals of members of the Board of Directors, denouncing errors or fraud, calling meetings whenever necessary and analyzing financial statements. In establishing a permanent Board of Auditors, the Company has availed itself of paragraph (c)(3) of Rule 10A-3 of the U.S. Securities Exchange Act of 1934, as amended, which provides a general exemption from the audit committee requirements for a foreign private issuer (such as the Company) with a board of auditors, subject to certain requirements which continue to be applicable under Rule 10A-3.

NYSE rules require that listed companies have an audit committee that (i) is composed of a minimum of three independent directors who are all financially literate, (ii) meets the SEC rules regarding audit committees for listed companies, (iii) has at least one member who has accounting or financial management expertise and (iv) is governed by a written charter addressing the committee's required purpose and detailing its required responsibilities. However, as a foreign private issuer, the Company needs only to comply with the requirement that the audit committee, or Board of Auditors in its case, meet the SEC rules regarding audit committees for listed companies. The Brazilian Corporate Law requires companies to have a non-permanent Board of Auditors composed of three to five members who are elected by the shareholders at the Ordinary General Meeting of Shareholders. The Board of Auditors operates independently from management and from a company's external auditors. Its main function is to monitor the activities of the management of the company, examine the financial statements of each fiscal year and provide a formal report to its shareholders.

The Company has a permanent Conselho Fiscal that consists of three up to five members and three up to five alternates and which has ordinary meetings every two months. The members of the Gerdau S.A.'s Conselho Fiscal are all financially literate and one member has accounting expertise that qualifies him as an audit committee financial expert. Gerdau S.A. believes that its Board of Auditors, as modified, meets the requirements for the exemption available to foreign private issuers under the SEC rules regarding audit committees of listed companies. In addition, the Board of Auditors operates under a written charter that is in the process of being amended and which the Gerdau S.A. believes meets the NYSE's requirements for audit committee charters. The Board of Auditors is not the equivalent of, or wholly comparable to, a U.S. audit committee. Among other differences, it is not required to meet the standards of independence established in Rule 10A-3 and is not fully empowered to act on matters that are required by Rule 10A-3 to be within the scope of an audit committee's authority. Nonetheless, with the duties that have been provided to the Board of Auditors to the extent permitted by Brazilian law, Gerdau S.A. believes that its current corporate governance system, taken as a whole, including the ability of the Board of Auditors to consult internal and external experts, is fully equivalent to a system having an audit committee functioning as a committee of its Board of Directors. For a further discussion of its Board of Auditors, see Item 6C. Board Practices Board of Auditors .

The Board of Auditors members are elected at the Ordinary Shareholders Meeting for one-year terms. They are eligible for reelection. In Gerdau S.A. the Board of Auditors consists of three members and three alternates. In Metalúrgica Gerdau S.A. the minority and preferred shareholders elected two of the current effective five members. As required by Brazilian law, members of the Board of Auditors must have college graduation or held office for at least three years as business administrators or as members of boards of auditors. The Board of Auditors, at the request of any of its members, may ask the external auditors to provide explanations or information and to investigate specific facts.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

On January 8, 2008, the Board of Directors of Gerdau S.A. met in accordance with statutory requirements and the terms of CVM Instruction 10/80 and 268/97 of the Securities and Exchange Commission of Brazil (CVM), resolving to authorize the acquisition by said Company of preferred shares issued by it to remain in treasury for the Company's Long Term Incentive Program.



Table of Contents

These acquisitions were carried out using cash funds of existing profit reserves up to the adjusted limit of 2,000,000 preferred shares, representing approximately 0.34% of outstanding preferred stock, which totaled 583,853,698 adjusted preferred shares on November 30, 2007.

The Board of Director s authorization remained in force for 30 days from the above date of its approval, ending on February 6, 2008. The transaction was concluded through the stock exchanges, at market prices, with the intermediation of the following brokers:

- Bradesco S.A. Corretora de Títulos e Valores Mobiliários
- Itaú Corretora de Valores S.A.
- Unibanco Investshop Corretora de Valores Mobiliários S.A.

**Purchases by the Issuer of Equity Securities**

(Shares and prices have been retroactively adjusted for all periods below to reflect a one bonus share for each one preferred shares held, approved in April 2008.)

	Total Number of Shares Purchased	Average Price Paid per Share (in R\$)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Still Be Purchased Under the Plans or Programs
<b>January</b>				
(01/08/2008 - 01/17/2008)	2,000,000	24.85		100%
<b>TOTAL</b>	<b>2,000,000</b>	<b>24.85</b>		<b>100%</b>

On August 26, 2009, the Board of Directors of Gerdau S.A. met in accordance with statutory requirements and the terms of CVM Instruction 10/80 and 268/97 of the Securities and Exchange Commission of Brazil (CVM), resolving to authorize the acquisition by said Company of preferred shares issued by it to remain in treasury for the Company s Long Term Incentive Program.

These acquisitions were carried out using cash funds of existing profit reserves up to the adjusted limit of 500,000 preferred shares, representing approximately 0.08% of outstanding preferred stock, which totaled 622,428,013 preferred shares on July 30, 2009.

## Edgar Filing: GERDAU S.A. - Form 20-F

The Board of Director's authorization remained in force for 10 days from the above date of its approval, ending on September 10, 2009. The transaction was concluded through the stock exchanges, at market prices, with the intermediation of the following broker:

- Credit Suisse Brasil S.A. Corretora de Títulos e Valores Mobiliários

### Purchases by the Issuer of Equity Securities

	Total Number of Shares Purchased	Average Price Paid per Share (in R\$)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Still Be Purchased Under the Plans or Programs
<b>August</b>				
(08/26/2009 - 08/31/2009)	168,000	21.94	33.6%	332,000
<b>September</b>				
(09/01/2009 - 09/10/2009)	332,000	22.24	66.4%	
<b>TOTAL</b>	<b>500,000</b>	<b>22.14</b>	<b>100%</b>	

On January 25, 2010, the Board of Directors of Gerdaul S.A. met in accordance with statutory requirements and the terms of CVM Instruction 10/80 and 268/97 of the Securities and Exchange Commission of Brazil (CVM), resolving to authorize the acquisition by said Company of preferred shares issued by it to remain in treasury for the Company's Long Term Incentive Program.

These acquisitions were carried out using cash funds of existing profit reserves up to the adjusted limit of 1,200,000 preferred shares, representing approximately 0.19% of outstanding preferred stock, which totaled 622,121,522 preferred shares on December 31, 2009.

Table of Contents

The Board of Director's authorization remained in force for 10 days from the above date of its approval, ending on February 3, 2010. The transaction was concluded through the stock exchanges, at market prices, with the intermediation of the following broker:

- Credit Suisse Brasil S.A. Corretora de Títulos e Valores Mobiliários

**Purchases by the Issuer of Equity Securities**

	Total Number of Shares Purchased	Average Price Paid per Share (in R\$)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Still Be Purchased Under the Plans or Programs
<b>January</b>				
(01/25/2010 - 01/31/2010)	1,200,000	25.99		100%
<b>TOTAL</b>	<b>1,200,000</b>	<b>25.99</b>		<b>100%</b>

On February 26, 2010, the Board of Directors of Gerdaul S.A. met in accordance with statutory requirements and the terms of CVM Instruction 10/80 and 268/97 of the Securities and Exchange Commission of Brazil (CVM), resolving to authorize the acquisition by said Company of preferred shares issued by it to remain in treasury for the Company's Long Term Incentive Program.

These acquisitions were carried out using cash funds of existing profit reserves up to the adjusted limit of 500,000 preferred shares, representing approximately 0.08% of outstanding preferred stock, which totaled 621,230,171 preferred shares on January 31, 2010.

The Board of Director's authorization remained in force for 5 days from March 1, 2010 to March 5, 2010. The transaction was concluded through the stock exchanges, at market prices, with the intermediation of the following broker:

- Itaú Corretora de Valores S.A.

**Purchases by the Issuer of Equity Securities**

	Total Number of Shares Purchased	Average Price Paid per Share (in R\$)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Still Be Purchased Under the Plans or Programs
<b>March</b>				
(03/01/2010 - 03/05/2010)	500,000	26.83		100%

Edgar Filing: GERDAU S.A. - Form 20-F

<b>TOTAL</b>	<b>500,000</b>	<b>26.83</b>	<b>100%</b>
--------------	----------------	--------------	-------------

On February 2nd, 2011, the Board of Directors of Gerda S.A. met in accordance with statutory requirements and the terms of CVM Instruction 10/80 and 268/97 of the Securities and Exchange Commission of Brazil (CVM), resolving to authorize the acquisition by said Company of preferred shares issued by it to remain in treasury for the Company's Long Term Incentive Program.

These acquisitions were carried out using cash funds of existing profit reserves up to the adjusted limit of 3,100,000 preferred shares, representing approximately 0.43% of outstanding preferred stock, which totaled 725,509,986 preferred shares on December 31, 2010.

The Board of Director's authorization remained in force for 10 days from February 2nd, 2011 to February 11th, 2011. The transaction was concluded through the stock exchanges, at market prices, with the intermediation of the following broker:

- Itaú Corretora de Valores S.A.
- Credit Suisse Brasil S.A. Corretora de Títulos e Valores Mobiliários
- Bradesco S.A. Corretora de Títulos e Valores Mobiliários
- Corretora JP Morgan S.A.

Table of Contents**Purchases by the Issuer of Equity Securities**

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share (in R\$)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Still Be Purchased Under the Plans or Programs</b>
<b>February</b>				
(02/02/2011 - 02/11/2011)	3,100,000	22.65		100%
<b>TOTAL</b>	<b>3,100,000</b>	<b>22.65</b>		<b>100%</b>

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT.**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

Under the Corporate Governance Rules of the New York Stock Exchange, currently in effect, Gerdaul S.A. is required to disclose any significant ways in which its corporate governance practices differ from those required to be followed by domestic companies under NYSE listing standard. These significant differences are summarized below.

The Company is permitted to follow practice in Brazil in lieu of the provisions of the Corporate Governance Rules, except that are required to avail itself of an appropriate exemption to the requirement to have a qualifying audit committee under Section 303A.06 of the Rules and its Chief Executive Officer is obligated, under Section 303A.12(b), to promptly notify the NYSE in writing after any of its executive officers becomes aware of any material non-compliance with any applicable provisions of the Corporate Governance Rules.

Majority of Independent Directors: Under NYSE Rule 303A.01 domestic listed companies must have a majority of independent directors. The Company does not have a similar requirement under Brazilian practice and does not have a majority of independent directors serving on its board of directors, even though the majority of the members are non-management directors.

Separate meetings of non-management directors: Under NYSE Rule 303A.03, the non-management directors of each domestic listed company must meet at regularly scheduled executive sessions without management. Gerdaul does not have a similar requirement under Brazilian practice, but non-management directors meet separately once a year to assess management performance.

Nominating/corporate governance committee: Under NYSE Rule 303A.04, a domestic listed company must have a nominating/corporate governance committee composed entirely of independent directors. While the Company is not required to have such a committee under

## Edgar Filing: GERDAU S.A. - Form 20-F

Brazilian law, it has a Corporate Governance Committee that is composed by a majority of independent directors. The purpose of this Committee is to provide its views to the board in respect of the best practices in Corporate Governance.

Compensation Committee: Under NYSE Rule 303A.05, a domestic listed company must have a compensation committee composed entirely of independent directors. Gerdau is not required to have such a committee under Brazilian practice. It has established a Remuneration and Succession Committee to advise the full Board on employee and executive compensation and recruitment, incentive-compensation plans and related matters, but such committee does not have a separate charter and is composed by a majority of independent directors. Its full Board of Directors otherwise is directly responsible for employee and executive compensation and recruitment, incentive-compensation and related matters.

Audit Committee: Under NYSE Rule 303A.06 and the requirements of Rule 10A-3 of the Securities and Exchange Commission, domestic listed companies are required to have an audit committee consisting entirely of independent directors that otherwise complies with Rule 10A-3. In addition, the audit committee must have a written charter that addresses the matters outlined in NYSE Rule 303A.06(c), has an internal audit function and otherwise fulfills the requirements of the NYSE and Rule 10A-3. There is no requirement for an audit committee under Brazilian law and there are features of Brazilian law that require adaptation of the independent audit committee rule to local practice, as permitted by NYSE Rule 303A.06 and Rule 10A-3. Gerdau has a board of auditors (conselho fiscal) that currently performs certain of the functions prescribed for the audit committee, although the scope of its duties is not entirely compatible with the requirements of U.S. law and the NYSE rules. The company has adapted its corporate governance practices and the functions of the board of auditors (with certain limitations due to Brazilian corporate law that qualify for an exemption as authorized by the SEC) to assure compliance with the requirements of the NYSE Rule

Table of Contents

and Rule 10A-3. See Item 6C. Board Practices Board of Auditors and Item 16D. Exemption from the Listing Standards for Audit Committees.

Equity Compensation Plans: Under NYSE Rule 303A.08, shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with certain limited exemptions as described in the Rule. The General Shareholders' meeting held on April 30, 2003 approved the establishment by the Board of a stock option plan for executives. Any material changes to such plan, or a new or different plan if established, would require the favorable vote of holders of the common shares of the Company. Holders of preferred shares, including holders of Gerdau's ADSs, would not have the opportunity to vote on such a plan or any revisions thereto.

Corporate governance guidelines: Under NYSE Rule 303A.09, domestic listed companies must adopt and disclose their corporate governance guidelines. Gerdau does not have a similar requirement under Brazilian law, although it does establish operating principles for its executive management and it observes the requirements of Instruction 358 of the Brazilian Securities Commission (CVM) concerning trading in its shares. In addition, it has adhered to the Level I listing standards of the BOVESPA.

Code of Business Conduct and Ethics: Under NYSE Rule 303A.10, domestic listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees and promptly disclose any waivers of the code for directors or executive officers. Gerdau has a similar requirement under Brazilian law and it has adopted a code of ethics that applies to its directors, officers and employees. The code does not apply to Gerdau Ameristeel, Sidenor and Villares, each of which has its own separate policy. The Company is currently working on revising the code so that it will apply also to Gerdau Ameristeel, Sidenor and Villares. A copy of Gerdau's Ethical Guidelines can be accessed on the Company's website at [www.gerdau.com](http://www.gerdau.com) and a copy can be obtained from us by contacting us at the contact information on the cover of this Annual Report.

Further information concerning Gerdau's corporate governance practices and applicable Brazilian law is available on the Company's website, in its submissions to the U.S. Securities and Exchange Commission. The Company has also voluntarily adhered to the Level I listing standards of the Sao Paulo Stock Exchange (BOVESPA) on which its shares are traded, which impose heightened standards of disclosure, transparency and corporate governance on Gerdau.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

The Company has responded to Item 18 in lieu of responding to this item.

**ITEM 18. FINANCIAL STATEMENTS**

Reference is made to Item 19 for a list of all financial statements filed as part of this Annual Report.

**ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS**

(a) **Financial Statements**

	<b>Page</b>
<u>Report of independent registered public accounting firm</u>	F-2
<u>Consolidated balance sheets on December 31, 2010 and 2009</u>	F-3
<u>Consolidated statements of income for the years ended December 31, 2010, 2009 and 2008</u>	F-5
<u>Consolidated statements of comprehensive income for the years ended December 31, 2010, 2009 and 2008</u>	F-6
<u>Consolidated statement of cash flow for the years ended December 31, 2010, 2009 and 2008</u>	F-8
<u>Notes to consolidated financial statements for the years ended December 31, 2010, 2009 and 2008</u>	F-9



Table of Contents

**(b) List of Exhibits**

- 1.01 Bylaws of Gerdau S.A.
- 2.02 Corporate Governance Level 1 BOVESPA \*
- 2.03(a) Deposit Agreement dated September 18, 1997, as amended and restated on March 8, 1999, and as further amended and restated on May 7, 2003, and on December 2, 2008, among the Company, The Bank of New York as Depositary and all Owners and Beneficial Owners from time to time of American Depositary Receipts issued thereunder. \*\*
- 2.04(a) Senior Export and Working Capital Facility Agreement, dated as of September 10, 2007, among Gerdau Ameristeel US Inc. and GNA Partners, GP, as borrowers, the Company, Gerdau Ameristeel Corporation, Gerdau Açomias S.A., Gerdau Açominas Overseas Limited, Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A., as guarantors, the Banks as defined there in and JPMorgan Chase Bank, N.A., as administrative Agent and Collateral Agent. \*\*\*
- 2.04(b) The Company agrees to furnish to the Commission upon its request any instrument relating to long-term debt issued by the Company or any subsidiary where the total amount of securities authorized under that instrument does not exceed 10% of the Company's consolidated assets.
- 4.02 Policies of the Stock Option Plan
- 12.01 Certification of the Chief Executive Officer under Item 15
- 12.02 Certification of the Chief Financial Officer under Item 15
- 13.01 Certification pursuant to 18 U.S.C. Section 1350 \*\*\*\*
- 13.02 Certification pursuant to 18 U.S.C. Section 1350 \*\*\*\*

---

\* Incorporated by reference to the Company's Annual Report on Form 20-F for the year ended December 31, 2003 (File No 001-14878), filed with the Securities and Exchange Commission on June 30, 2004.

\*\* Incorporated by reference to the Company's Registration Statement on Form F-6 (File No. 333-9896), filed with the Securities and Exchange Commission on November 18, 2008.

\*\*\* Incorporated by reference to Exhibit 99.3 of Gerdau Ameristeel Corporation Form 6-K filed with the Securities and Exchange Commission on September 24, 2007.

\*\*\*\* This certification will not be deemed filed for purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.



Table of Contents

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**GERDAU S.A.**

By: /s/ André Bier Johannpeter

Name: André Bier Johannpeter

Title: Chief Executive Officer

By: /s/ Osvaldo Burgos Schirmer

Name: Osvaldo Burgos Schirmer

Title: Chief Financial Officer

Dated: May 31, 2011

Table of Contents

**GERDAU S.A.**

Consolidated financial statements

as of December 31, 2010 and 2009

and for each of the three years in the period

ended December 31, 2010

and reports of independent registered public accounting firms

prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board  
IASB

F-1

---

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Gerdau S.A.

Rio de Janeiro, Brazil

We have audited the accompanying consolidated statements of financial position of Gerdau S.A. and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flow for each of the three years in the period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Gerdau S.A. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the three years in the period ended December 31, 2010, in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 18, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu  
Deloitte Touche Tohmatsu Auditores Independentes  
Porto Alegre, Brazil  
March 18, 2011



Table of Contents**GERDAU S.A.****CONSOLIDATED BALANCE SHEETS**

as of December 31, 2010 and 2009

In thousands of Brazilian reais (R\$)

	Note	2010	2009
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	1,061,034	2,091,944
Short-term investments			
Held for Trading	5	1,105,902	2,619,418
Available for sale	5	9,559	58,296
Trade accounts receivable	6	3,153,027	2,585,709
Inventories	7	6,797,785	5,751,593
Tax credits	8	586,056	788,564
Unrealized gains on derivatives	16	783	5,737
Other current assets		231,798	263,425
		12,945,944	14,164,686
<b>NON-CURRENT ASSETS</b>			
Available for sale securities	5	26,797	49,690
Tax credits	8	401,222	484,434
Deferred income taxes	9	1,579,011	1,347,036
Unrealized gains on derivatives	16	5,529	14,297
Judicial deposits	18	493,502	324,678
Other non-current assets		212,180	314,348
Prepaid pension cost	20	437,072	516,360
Investments in associates and jointly-controlled entities	11	1,264,520	1,199,910
Other investments	11	19,002	19,635
Goodwill	12	8,158,098	8,424,341
Other Intangibles	13	1,176,823	992,800
Property, plant and equipment, net	10	16,171,560	16,731,101
		29,945,316	30,418,630
<b>TOTAL ASSETS</b>		42,891,260	44,583,316

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents**GERDAU S.A.****CONSOLIDATED BALANCE SHEETS**

as of December 31, 2010 and 2009

In thousands of Brazilian reais (R\$)

	Note	2010	2009
<b>CURRENT LIABILITIES</b>			
Trade accounts payable		1,783,274	1,705,058
Short-term debt	14	1,577,968	1,356,781
Debentures	15	115,069	
Taxes payable	17	524,967	675,681
Payroll and related liabilities		475,237	354,518
Dividends payable	22	90,289	365,811
Unrealized losses on derivatives	16		2,483
Environmental liabilities	21	29,191	9,835
Other current liabilities		425,905	348,354
		5,021,900	4,818,521
<b>NON-CURRENT LIABILITIES</b>			
Long-term debt	14	12,360,056	12,563,155
Debentures	15	616,902	600,979
Deferred income taxes	9	2,270,849	2,273,759
Unrealized losses on derivatives	16	92,476	90,377
Provision for tax, civil and labor liabilities	18	645,375	447,171
Environmental liabilities	21	42,902	66,642
Employee benefits	20	834,471	961,300
Put options on non-controlling interest	16-f	516,706	518,096
Other non-current liabilities		342,008	238,523
		17,721,745	17,760,002
<b>EQUITY</b>			
	22		
Capital		15,651,352	14,184,805
Treasury stocks		(161,405)	(124,685)
Legal reserve		307,329	200,205
Stock Option		22,700	9,018
Other reserves		(1,884,002)	(1,339,915)
Retained earnings		5,534,468	5,578,045
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		19,470,442	18,507,473
<b>NON-CONTROLLING INTERESTS</b>		677,173	3,497,320
<b>EQUITY</b>		20,147,615	22,004,793
<b>TOTAL LIABILITIES AND EQUITY</b>		42,891,260	44,583,316

The accompanying notes are an integral part of these Consolidated Financial Statements.





Table of Contents**GERDAU S.A.****CONSOLIDATED STATEMENTS OF INCOME**

for the years ended December 31, 2010, 2009 and 2008

In thousands of Brazilian reais (R\$)

	Note	2010	2009	2008
<b>NET SALES</b>	24	31,393,209	26,540,050	41,907,845
Cost of sales	29	(25,873,476)	(22,305,550)	(31,228,035)
<b>GROSS PROFIT</b>		5,519,733	4,234,500	10,679,810
Selling expenses	29	(551,547)	(429,612)	(479,551)
General and administrative expenses	29	(1,805,914)	(1,714,494)	(2,284,857)
Reversal (Impairment) of assets	28	336,346	(1,072,190)	
Restructuring costs	29		(150,707)	
Other operating income		207,320	190,157	205,676
Other operating expenses		(100,840)	(101,810)	(116,064)
Equity in earnings of unconsolidated companies		39,454	(108,957)	122,808
<b>INCOME BEFORE FINANCIAL INCOME(EXPENSES) AND TAXES</b>		3,644,552	846,887	8,127,822
Financial income	30	295,563	436,236	484,046
Financial expenses	30	(1,097,633)	(1,286,368)	(1,620,782)
Exchange variations, net	30	104,364	1,060,883	(1,035,576)
Gain and losses on derivatives, net	30	12,392	(26,178)	(62,396)
<b>INCOME BEFORE TAXES</b>		2,959,238	1,031,460	5,893,114
Income and social contribution taxes				
Current	9	(642,306)	(303,272)	(1,423,660)
Deferred	9	140,447	276,320	475,444
<b>NET INCOME</b>		2,457,379	1,004,508	4,944,898
<b>ATTRIBUTABLE TO:</b>				
Owners of the parent		2,142,488	1,121,966	3,940,505
Non-controlling interests		314,891	(117,458)	1,004,393
		2,457,379	1,004,508	4,944,898
Basic earnings per share - preferred and common	23	1.50	0.79	2.83
Diluted earnings per share - preferred and common	23	1.50	0.79	2.83

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents

## GERDAU S.A.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the years ended December 31, 2010, 2009 and 2008

In thousands of Brazilian reais (R\$)

	2010	2009	2008
<b>Net income for the year</b>	2,457,379	1,004,508	4,944,898
<b>Other comprehensive income</b>			
Net unrealized (Losses) Gains on defined benefit pension plan, gross of tax of R\$ (81,813), R\$ 6,565 and R\$ (265,763), respectively	(259,637)	16,244	(694,623)
Cumulative translation difference	(631,196)	(4,559,004)	3,470,982
Unrealized Gains (Losses) on net investment hedge	130,750	893,700	(634,050)
Cash flow hedges			
Unrealized (Losses) Gains, gross of tax of R\$ (24,545), R\$ 69,745 and R\$ (58,303), respectively	(75,532)	257,537	(213,488)
Reduced by: reclassification adjustments of gains included in net income, gross of tax of R\$ 13,226 and R\$ (16,188), respectively	47,217	(28,315)	(213,488)
Unrealized Gains (Losses) on available for sale securities, gross of tax of R\$ 392, R\$ 5,929 and R\$ (14,454), respectively	1,153	17,966	(43,799)
Income tax relating to components of other comprehensive income	92,740	(66,051)	338,520
<b>Total comprehensive income (loss) for the year, net of tax</b>	1,762,874	(2,490,829)	7,168,440
<b>Total comprehensive income (loss) attributable to:</b>			
Owners of the parent	335,434	(1,195,560)	1,403,066
Non-controlling interests	1,762,874	(2,490,829)	7,168,440

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents

## GERDAU S.A.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended December 31, 2010, 2009 and 2008

in thousands of Brazilian reais (R\$)

	Attributed to parent company's interest					Other reserves			Total parent company's interest	Non-controlling interests	
	Capital	Treasury stocks	Legal reserve	Stock options	Retained earnings	Gains and losses on sale securities	Gains and losses on investment hedge	Gains and losses on cash flow hedges			Cumulative translation difference
<b>Balance as of January 1, 2008</b>	7,810,453	(106,667)	278,713	17,651	5,815,481	13,723			(1,049,333)	12,780,021	3,943,187
<b>2008 Changes in Equity</b>											
Net income					3,940,505					3,940,505	1,004,393
Other comprehensive income recognized in the year					(328,168)	(23,175)	(634,050)	(117,063)	2,927,325	1,824,869	398,673
Total comprehensive income recognized in the year					3,612,337	(23,175)	(634,050)	(117,063)	2,927,325	5,765,374	1,403,066
Capital increase by issuance of shares	2,885,058									2,885,058	
Capital increase by capitalization of reserves	3,489,294		(273,525)		(3,215,769)						
Stock option expenses recognized in the year				7,545						7,545	
Stock option exercised during the year		34,106		(23,770)						10,336	
Dividends/interest on capital					(1,240,902)					(1,240,902)	(271,481)
Destinations proposed to the general assembly			138,874		(138,874)						
Non-controlling interest over fair value allocation											(15,510)
					9,329					9,329	(424,394)

Edgar Filing: GERDAU S.A. - Form 20-F

Non-controlling interest on consolidated entities												
Put options												242,214
Treasury stocks	(50,259)									(50,259)		
<b>Balance as of December 31, 2008</b>	14,184,805	(122,820)	144,062	1,426	4,841,602	(9,452)	(634,050)	(117,063)	1,877,992	20,166,502		4,877,076
<b>2009 Changes in Equity</b>												
Net income					1,121,966					1,121,966		(117,458)
Other comprehensive income recognized in the year					40,107	11,404	893,700	94,916	(3,457,362)	(2,417,235)		(1,078,102)
Total comprehensive income recognized in the year					1,162,073	11,404	893,700	94,916	(3,457,362)	(1,295,269)		(1,195,560)
Stock option expenses recognized in the year				10,001							10,001	
Stock option exercised during the year	11,054		(2,409)								8,645	
Gain in treasury stock sellings					782						782	
Dividends/interest on capital					(419,066)					(419,066)		(186,237)
Destinations proposed to the general assembly			56,143		(56,143)							
Non-controlling interest on consolidated entities					17,533						17,533	(31,363)
Effect of the IAS 29 (Financial Reporting in Hyperinflationary Economies) adoption					31,264						31,264	612
Put options												32,792
Treasury stocks	(12,919)									(12,919)		
<b>Balance as of December 31, 2009</b>	14,184,805	(124,685)	200,205	9,018	5,578,045	1,952	259,650	(22,147)	(1,579,370)	18,507,473		3,497,320
<b>2010 Changes in Equity</b>												
Net income					2,142,488					2,142,488		314,891
Other comprehensive income recognized in the year					(170,961)	754	130,750	(11,586)	(664,005)	(715,048)		20,543
Total comprehensive income					1,971,527	754	130,750	(11,586)	(664,005)	1,427,440		335,434

Edgar Filing: GERDAU S.A. - Form 20-F

recognized in the year											
Capital increase by issuance of shares (note 3.5)	1,466,547									1,466,547	
Effects of interest increase in subsidiaries				(1,734,517)						(1,734,517)	(3,084,173)
Fair value adjustment on issuance of shares				443,173						443,173	
Stock option expenses recognized in the year				15,667						15,667	
Losses in treasury stock sellings				(994)						(994)	
Stock option exercised during the year	22,527			(1,985)						20,542	
Dividends/interest on capital				(629,692)						(629,692)	(134,369)
Destinations proposed to the general assembly			107,124	(107,124)							
Non-controlling interest on consolidated entities				14,050						14,050	41,990
Put options											20,964
Treasury stocks	(59,247)									(59,247)	
<b>Balance as of December 31, 2010</b>	<b>15,651,352</b>	<b>(161,405)</b>	<b>307,329</b>	<b>22,700</b>	<b>5,534,468</b>	<b>2,706</b>	<b>390,400</b>	<b>(33,733)</b>	<b>(2,243,375)</b>	<b>19,470,442</b>	<b>677,173</b>

The accompanying notes are an integral part of these Consolidated Financial Statements

Table of Contents

## GERDAU S.A.

## CONSOLIDATED STATEMENTS OF CASH FLOW

for the years ended December 31, 2010, 2009 and 2008

In thousands of Brazilian reais (R\$)

	Note	2010	2009	2008
<b>Cash flows from operating activities</b>				
Net income for the year		2,457,379	1,004,508	4,944,898
Adjustments to reconcile net income for the year to net cash provided by operating activities				
Depreciation and amortization	29	1,893,074	1,745,319	1,896,076
(Reversal) Impairment of assets	29	(336,346)	1,072,190	
Restructuring costs	29		150,707	
Equity in earnings of unconsolidated companies	11	(39,454)	108,957	(122,808)
Exchange variation, net	30	(104,364)	(1,060,883)	1,035,576
(Gains) / Losses on derivatives, net		(12,392)	26,178	62,396
Post-employment benefits	20	82,611	33,995	130,976
Stock based remuneration		18,629	22,380	7,545
Income tax	9	501,859	26,952	948,216
(Gain) / Loss on disposal of property, plant and equipment and investments		(20,532)	116,989	72,782
Provision for losses on available for sale securities				140,166
Allowance for doubtful accounts		16,018	57,971	25,613
Provision (reversal) for tax, labor and civil claims		199,092	(15,886)	(13,120)
Interest income and other financial incomes		(174,622)	(346,531)	(244,501)
Interest expense	30	919,594	992,693	1,151,253
Provision for net realisable value adjustment in inventory	7	50,526	36,459	289,850
Reversal of net realisable value adjustment in inventory	7	(50,634)	(196,981)	(33,393)
		5,400,438	3,775,017	10,291,525
<b>Changes in assets and liabilities:</b>				
(Increase) Decrease in trade accounts receivable		(660,891)	1,449,678	1,065,076
(Increase) Decrease in inventories		(1,160,419)	3,766,059	(2,489,882)
Increase (Decrease) in trade accounts payable		110,358	(1,731,878)	(2,215,810)
Decrease (Increase) in other receivables		176,403	(148,962)	(427,162)
(Decrease) Increase in other payables		(168,962)	203,038	197,636
Distributions from joint-controlled entities		68,647	41,887	68,095
Purchases of trading securities		(712,204)	(1,283,438)	(6,739,256)
Proceeds from maturities and sales of trading securities		2,423,597	1,642,383	6,751,527
<b>Cash provided by operating activities</b>		5,476,967	7,713,784	6,501,749
Interest paid on loans and financing		(796,799)	(1,026,893)	(970,986)
Income and social contribution taxes paid		(541,048)	(336,299)	(1,895,419)
<b>Net cash provided by operating activities</b>		4,139,120	6,350,592	3,635,344
<b>Cash flows from investing activities</b>				
Additions to property, plant and equipment	10	(1,288,769)	(1,377,776)	(2,745,207)
Proceeds from sales of property, plant and equipment, investments and other intangibles		19,269	64,606	21,238
Additions to other intangibles	13	(94,598)		(17,079)

Edgar Filing: GERDAU S.A. - Form 20-F

Payment for business acquisitions, net of cash of acquired entities	3.6	(283,110)	(71,068)	(4,076,171)
Purchases of available for sale securities		(1,371,835)	(2,589,350)	(484,965)
Proceeds from sales of available for sale securities		1,415,981	2,925,254	741,539
<b>Net cash used in investing activities</b>		<b>(1,603,062)</b>	<b>(1,048,334)</b>	<b>(6,560,645)</b>
<b>Cash flows from financing activities</b>				
Capital increase				2,885,058
Purchase of treasury shares		(38,705)	(12,919)	(50,259)
Dividends and interest on capital paid		(1,018,488)	(328,691)	(1,649,936)
Payment of loans and financing fees		(4,562)	(37,989)	(3,821)
Payments for interest increase in subsidiaries	3.6	(2,908,969)		
Proceeds from loans and financing		3,885,937	4,089,424	5,117,617
Repayment of loans and financing		(3,453,158)	(8,469,908)	(4,963,991)
Intercompany loans, net		39,344	(173,549)	1,265,290
<b>Net cash (used in) provided by financing activities</b>		<b>(3,498,601)</b>	<b>(4,933,632)</b>	<b>2,599,958</b>
Exchange variation on cash and cash equivalents		(68,367)	(303,291)	325,856
(Decrease) Increase in cash and cash equivalents		(1,030,910)	65,335	513
Cash and cash equivalents at beginning of year		2,091,944	2,026,609	2,026,096
<b>Cash and cash equivalents at end of year</b>		<b>1,061,034</b>	<b>2,091,944</b>	<b>2,026,609</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.



Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**NOTE 1 - GENERAL INFORMATION**

Gerdau S.A. is a publicly traded corporation with its corporate domicile in the city of Rio de Janeiro, Brazil, and is a company in the Gerdau Group, which is engaged in the production and sale of steel products from plants located in Brazil, Argentina, Chile, Colombia, Guatemala, Mexico, Peru, Dominican Republic, Uruguay, Venezuela, the United States, Canada, Spain, and India. The Gerdau Group started its path of expansion over a century ago and it is one of the main players in the process of consolidating the global steel industry. The Company produces common long steel, special steels and flat steels, mainly through the production process in electric furnaces using scrap and pig iron that are mostly purchased in the region in which each plant operates (mini-mill concept), and also produces steel from iron ore (through blast furnaces and direct reduction). Its products serve the sectors of civil construction, industry, automotive and agriculture.

The Consolidated Financial Statements of Gerdau S.A and subsidiaries (collectively referred to as the Company ) were approved by the Board of Directors on March 18, 2011.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES**

**2.1 - Basis of Presentation**

The Company's Consolidated Financial Statements for the years ended on December 31, 2010 and 2009 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by *International Accounting Standards Board* (IASB).

The preparation of the Consolidated Financial Statements in accordance with IFRS requires Management to make accounting estimates. The areas that involve judgment or use of estimates relevant to the Consolidated Financial Statements are stated in Note 2.18. The Consolidated Financial Statements have been prepared using the historical cost as its basis, except for the valuation of certain financial instruments and biological assets, which are measured at fair value.

The Company adopted all applicable rules, revision of rules and interpretations issued by IASB and that were effective on December 31, 2010.

## 2.2 Translation of Foreign Currency Balances

### a) Functional and Reporting Currency

The Financial Statements of each subsidiary included in the Company's consolidation and those used as a basis for accounting for equity investments are prepared using the functional currency of each entity. The functional currency of an entity is the currency of the primary economic environment where it operates. By defining the functional currency of each subsidiary, Management considered which currency significantly influences the sales price of its products and services and the currency in which most of the cost of its production inputs is paid or incurred. The Consolidated Financial Statements are presented in Brazilian reais (R\$), which is the functional and reporting currency of Gerdau S.A.

### b) Transactions and Balances

For purposes of the Consolidated Financial Statements, the balances of each subsidiary of the Company are converted into Brazilian reais, which is the functional currency of the Company and also the presentation currency of the Consolidated Financial Statements.

In the preparation of the financial statements of each subsidiary of the Company, transactions in foreign currency, or any other currency than the functional currency of each company, are recorded according to the exchange rates prevailing at the time of each transaction. At the end of each period, monetary items in foreign currencies are converted at the rates prevailing at year end. The non-monetary items measured at fair value determined in foreign currency are converted at the rates prevailing on the date that the fair value was determined. The non-monetary items that are measured at historical cost in a foreign currency must be converted using the prevailing rate in the transaction date.

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

For presentation of the consolidated financial statements purposes, assets and liabilities of operations abroad are translated into reais using the exchange rates prevailing at year end. The results are translated at average exchange rates for the period unless the exchange rates have fluctuated significantly over the period, in which case, we use exchange rates for the dates of transactions. The exchange differences resulting from these conversions, if any, are recorded in comprehensive income and accumulated in equity, being assigned the noncontrolling interests as appropriate.

When there is a write off for an operation abroad (full write off of participation in a foreign operation, loss of control over an investee or a jointly controlled entity that have operations abroad, or loss of significant influence over an affiliate that has an operation in abroad), the accumulated amount of exchange variance, regarding this operation, recorded in equity is reclassified to profit or loss.

**c) Group Companies**

The results of operations and financial position of all subsidiaries, except the subsidiary located in Venezuela, included in the consolidated financial statements and equity investments with functional currencies different from the reporting currency are translated into the reporting currency as follows:

- i)** Assets and liabilities balances are translated at the exchange rate in effect at the date of the Consolidated Financial Statements;
- ii)** Income and expenses are translated using the average monthly exchange rates for the year; and
- iii)** Translation gains and losses resulting from the above methodology are recognized in Equity, in the Statement of Comprehensive Income, in the account named Cumulative translation difference .

**d) Hyperinflation in Venezuela**

Beginning 2009, Venezuela started to be considered an hyperinflationary economy and in accordance with the standard IAS 29 and IFRIC 7, the financial statements of the subsidiary located in this country have been adjusted so that the amounts are stated in the measurement currency unit of the end of the year, which considers the effects measured by the IPC - Índice de Preços ao Consumidor (Consumer Price Index) of Venezuela, which recorded an accumulated index of 142.3%, since the date of acquisition of the subsidiary in Venezuela by the Company in June 2007, and 52% in 2010. The effects of inflation in 2010 were presented in the consolidated statements of income.

For purposes of translation of the subsidiary in Venezuela's accounting balances to the presentation currency used in its Consolidated Financial Statements, the Company applied the requirements established by the standard IAS 21, where assets, liabilities, income and expenses balances are translated at the exchange rate prevailing at the date of the Consolidated Financial Statements, being all exchange rate differences from translation being recognized in Equity, and in the Consolidated Statement of Comprehensive Income, in line account Cumulative translation difference.

## **2.3 - Financial Assets**

### **a) Cash and Cash Equivalents**

Cash and cash equivalents include cash, bank accounts and highly liquid investments with original maturities of 90 days or less and low risk of variation in market value and are stated at cost plus accrued interest.

### **b) Short and Long-term Investments**

Short and long-term investments are classified into the following categories: held to maturity securities, available for sale securities, and securities reported at fair value through profit and loss with gains and losses included in income (trading securities). The classification depends on the purpose for which the investment was acquired. When the investment purpose is to earn short-term gains, they are classified as trading securities. When the purpose is to hold the investment until maturity, they are classified as held to maturity securities, provided that Management has the positive intent and financial condition to hold the investment until maturity. When the purpose is none of the two options above, investments are classified as available for sale securities.

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

When applicable, additional costs directly related to the acquisition of a financial asset are added to the amount initially recognized, except for trading securities which are categorized as fair value through profit and loss.

Held to maturity securities are recognized at amortized cost and are reported at acquisition cost plus interest, monetary adjustments, and exchange variation, less impairment losses, when applicable, incurred up to the Consolidated Financial Statements date.

Trading securities are stated at fair value. Interest, monetary adjustments, and exchange variation, when applicable, as well as variations arising from adjustment to fair value are recognized in income when incurred.

Available for sale securities are stated at fair value. Interest, monetary adjustments, and exchange variation, when applicable, are recognized in income when incurred. The variations arising from adjustment to fair value, except for impairment losses, are recognized in other comprehensive income when incurred. Gains and losses recorded in Equity are recognized in income for the year when these investments are sold or considered not recoverable.

**c) Trade Accounts Receivable - Net**

Trade accounts receivable are stated at amortized cost, and accounts receivable from foreign customers are adjusted based on exchange rates in effect at the date of the Consolidated Financial Statements. The allowance for doubtful accounts is calculated based on a risk assessment, which considers historical losses, individual situation of each customer and the situation of the economic group to which they belong, applicable collateral and guarantees and legal counsel's opinion. The allowance is considered sufficient to cover any losses incurred on uncollectible receivables. Information on the breakdown of current and past-due trade accounts receivable and the related allowance for doubtful accounts is provided at note 6.

**d) Impairment of Financial Assets**

Financial assets are assessed at each balance sheet date for evidence of impairment. They are considered impaired when there is evidence that one or more events have occurred after the initial recognition of the financial asset and such event or events had a negative impact on the estimated future cash flows of the investment.

## 2.4 Inventories

Inventories are valued based on the lower of historical cost of acquisition and production and net realizable value. The acquisition and production costs are increased of transport, storage and non-recoverable taxes expenses.

Net realizable value is the estimated sale price in the ordinary course of business less the estimated costs of completion and selling expenses directly related. Information regarding the opening of the net realizable value is demonstrated in note 7.

## 2.5 - Property, Plant and Equipment

Property, plant and equipment are stated at historical cost monetarily adjusted when applicable in accordance with IAS 29, less depreciation, except for land, which is not depreciated, as Deemed Cost since there is no substantial difference between the carrying amount and the fair value of property, plant and equipment. The Company recognizes monthly as part of the acquisition cost of the property, plant and equipment in process the borrowing costs incurred on loans and financing considering the following capitalization criteria: (a) the capitalization period occurs when the property, plant and equipment item is on construction in process and the capitalization of borrowing costs are ceased when the asset is available for use; (b) borrowing costs are capitalized considering the weighted average rate of loans existing on the capitalization date or a specific rate, in the case of loans to acquire property, plant and equipment; (c) borrowing costs capitalized monthly do not exceed the interest expenses calculated in the period of capitalization; and (d) capitalized borrowing costs are depreciated considering the same criteria and useful life determined for the property, plant and equipment item to which it was capitalized. Biological assets are measured at fair value on the date of financial statements in accordance with IAS 41.

Depreciation is calculated under the modified straight-line method at rates that take into consideration the estimated useful lives of the assets, its level of utilization and the estimated residual value of the asset at the end of its useful life.

Subsequent costs are added to the residual value of property, plant and equipment or recognized as a specific item, as appropriate, only if the economic benefits associated to these items are probable and the amounts can be reliably measured.

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

The residual value of the replaced item is written off. Other repairs and maintenance are recognized directly in income when incurred.

The estimated residual value of the asset at the end of its useful life and useful life of the assets are reviewed and adjusted, if necessary, at the fiscal year-end.

The net book value of property, plant and equipment is written off immediately when it exceeds its recoverable amount by the amount the net book value exceeds the recoverable amount (note 2.7).

**2.6 Other Intangible Assets**

Other intangible assets are stated at acquisition cost, less accumulated amortization and impairment losses, when applicable. Intangible assets consist of carbon emission reduction certificates, customer contracts and relationships, which represent the capacity to add value of acquired companies based on the relationship with customers. Intangible assets with definite useful life are amortized taking into consideration their effective use or a method that reflects their economic benefit. The net book value of intangible assets is written off immediately when it exceeds the estimated recoverable amount by the amount the net book value exceeds the recoverable amount (note 2.7).

Intangible assets acquired in a business combination are recorded at fair value, less accumulated amortization and impairment losses, when applicable. Intangible assets that do not have indefinite lives are amortized over their useful lives using an amortization method which reflects the economic benefit of the intangible asset. The customer and supplier relationship intangible asset have been amortized based on an accelerated method that considers the expected future economic benefit provided by those acquired customers and suppliers over time. Intangible assets are reviewed for impairment annually or if events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Company reviews the amortization period and amortization method for intangible assets with definite useful life at the end of each year.

**2.7 Provision for Impairment of Long-Lived Assets**

## Edgar Filing: GERDAU S.A. - Form 20-F

On the date of each Consolidated Financial Statement, the Company performs an analysis to determine if there is evidence that the carrying amount of long-lived assets is impaired. If such evidence is identified, the recoverable amount of the assets is estimated by the Company.

The recoverable amount of an asset is determined as the higher of: (a) its fair value less estimated costs to sell and (b) its value in use. The value in use is measured based on discounted cash flows (before taxes) derived from the continuous use of the asset until the end of its estimated useful life.

Regardless of whether or not there is any indication that the carrying amount of the asset may not be recovered, the balances of goodwill arising from business combinations and intangible assets with indefinite useful lives are tested for impairment at least once a year in December.

When the carrying amount of the asset exceeds its recoverable amount, the Company reduces the asset's carrying amount to the recoverable amount.

The reduction to the recoverable amount of assets is recorded in income for the year.

Except for an impairment of goodwill, a reversal of previously recorded impairment losses is allowed. Reversal in these circumstances is limited up to the amount of depreciated balance of the asset at the date of the reversal, determined as if the impairment had not been recorded, as demonstrated in note 28.2

### **2.8 Investments**

#### **a) Investments in Subsidiaries**

The Company's consolidated financial statements incorporate the financial statements of Gerdau S.A. and all its subsidiaries. The Company considers that it has control when it directly or indirectly holds a majority of the voting rights in the Shareholders Meetings or has the power to determine the financial and operational policies in order to obtain benefits



Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

from its activities. In situations in which the Company in essence holds control of other special purpose entities, even though it does not control a majority of the voting rights, these entities are consolidated under the full consolidation method.

Third parties' interests in equity and net income of subsidiaries are reported separately in the consolidated balance sheet and in the consolidated statement of income, respectively, under the account Non-controlling interests .

For companies acquired after January 1, 2006, which is the Company's transition date to IFRS, the assets, liabilities, and contingent liabilities of a subsidiary are reported at their respective fair value on the date of acquisition. Any excess of the acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill. When the acquisition cost is less than the fair value of the net assets identified, the difference is recorded as a gain in the statement of income for the year in which the acquisition took place. The non-controlling interests are presented based on the proportion of the fair value of the assets and liabilities identified.

Net income of the subsidiaries acquired or sold during the year is included in the statement of income from the acquisition date or until the sale date, respectively, when applicable. Intercompany transactions and balances are eliminated in consolidation process. Gains or losses resulting from the transactions among consolidated entities of the Gerdau Group are also eliminated.

Adjustments are made to the Financial Statements of the subsidiaries whenever necessary in order for them to be in accordance with the respective accounting practices established by the IFRS and adopted by the Company.

**b) Investments in Jointly-Controlled Entities**

Jointly-controlled entities are those in which the control is held jointly by the Company and one or more partners. Investments in jointly-controlled entities are recognized under the equity method from the date the joint control is acquired. According to this method, investments in jointly-controlled entities are recognized in the consolidated balance sheet at acquisition cost and are adjusted periodically based on the Company's share in earnings and other variations in Equity of these companies. Additionally, the balances of the investments can be reduced due to impairment losses.

Losses in jointly-controlled entities in excess of the investment in these entities are not recognized, except when the Company is contractually obligated or has agreed to reimburse these losses.

Any excess of the acquisition cost of an investment over the net fair value of assets, liabilities and contingent liabilities of a jointly-controlled entity on the respective acquisition date of the investment is recorded as goodwill. Goodwill is added to the value of the respective investment and its recovery is analyzed annually as an integral part of the investment. When the acquisition cost is less than the fair value of the net assets identified, the difference is recorded as a gain in the statement of income for the year in which the acquisition takes place.

Furthermore, dividends received from these companies are recorded as a reduction in the value of the investments.

Gains and losses on transactions with jointly-controlled entities are eliminated against the value of the investment in these jointly-controlled entities proportionately to the Company's interest.

### **c) Investments in Associate Companies**

An associate company is one over which the Company exercises significant influence by participating in the decisions related to its financial and operational policies, but over which it does not have control or joint control of its policies.

Investments in associate companies are recorded under the equity method. According to this method, investments in associate companies are recognized in the consolidated balance sheet at cost and are adjusted periodically for the share in their earnings against gains and losses on financial assets and other variations in net assets acquired. Additionally, investments can be adjusted to recognize impairment losses.

Losses on associate companies in excess of the investment in these entities are not recognized, except when the Company has agreed to cover these losses.

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

Any excess of the acquisition cost of an investment over the net fair value of the assets, liabilities, and contingent liabilities of the associate company on the respective acquisition date of the investment is recorded as goodwill. The goodwill is added to the value of the respective investment and its recovery is analyzed annually as an integral part of the investment. When the acquisition cost is less than the fair value of the net assets identified, the difference is recorded as a gain in the statement of income for the year in which the acquisition takes place.

Furthermore, dividends received from these companies are recorded as a decrease in the value of the investments.

Gains and losses on transactions with associate companies are eliminated proportionately to the Company's interest against the value of the investment in these associate companies.

**2.9 Financial Liabilities and Equity Instruments**

**a) Classification as Debt or Equity**

Debt or equity instruments are classified in accordance with the substance of the contractual terms.

**b) Short and Long-Term Debts**

Short and Long-Term Debts are stated at amortized cost.

They are stated net of transaction costs, and are subsequently measured at the amortized cost using the effective interest rate method.

**c) Equity Instruments**

An equity instrument is based on a contract that evidences a residual interest in the assets of an entity after deducting its liabilities.

**d) Derivative Instruments**

The Company enters into derivative financial instruments mainly to manage its exposure to fluctuation in interest rates and exchange rates. The Company measures its derivative financial instruments based on quotations obtained from market participants, which are the fair value of the financial instruments on the date of the Consolidated Financial Statement.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge or a net investment hedge are recorded in the statement of comprehensive income.

The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When a hedging instrument is sold, terminated, expires or exercised, the cumulative unrealized gain or loss, which had been recognized in the statement of comprehensive income, is reported immediately in the statement of income. Additionally, changes in the fair value of financial instruments not characterized as hedge are recognized in the row of financial expenses or financial income in the Income Statement.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in the statement of comprehensive income, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in the statement of income.

The potential cash payments related to put options issued by the Company over the equity of subsidiaries are accounted under account "Put options on non-controlling interest". The amount that may become payable under the option on exercise is initially recognized at fair value and are subsequently measured in order to accrete the liability up to the amount payable under the option at the date at which it first becomes exercisable. The charge arising is recorded as a financial expense in the statement of income. In the event that the option expires unexercised, the liability is derecognized with a corresponding adjustment to equity.

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**2.10 Current and Deferred Income and Social Contribution Taxes**

Current income and social contribution tax expense is calculated in conformity with current tax laws in effect at the date of the financial statements in the countries where the Company's subsidiaries operate and generate taxable income.

Current tax is the tax payable or receivable on the expected taxable income or loss for the year, at the tax rates effective at the date of the financial statements.

Deferred income and social contribution taxes are recognized for differences between assets and liabilities recognized for tax purposes and related amounts recognized in the Consolidated Financial Statements. However, deferred income and social contribution taxes are not recognized if they arise at the initial recognition of assets and liabilities from operations that do not affect the tax bases, except in business combinations. Deferred income and social contribution taxes are determined based on the tax rates and laws in effect at the date of the Consolidated Financial Statements and applicable when the respective income and social contribution taxes are paid.

Deferred income and social contribution tax assets are recognized only to the extent that it is probable that there will be taxable income for which temporary differences and tax losses can be utilized.

Deferred income tax and social contribution assets are reviewed at each closing date and will be reduced to the extent that their realization is not more likely than not.

The expense for income tax and social contribution taxes comprises current and deferred taxes. Current tax and deferred tax is recognized in income unless they are related to business combination, or items directly recognized in equity or in other comprehensive income.

Deferred tax is recognized related to temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the corresponding amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets and liabilities in a transaction other than a business combination and that affects neither accounting nor taxable profit nor loss, and differences associated with investments in subsidiaries and controlled entities when it is probable that they do not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on initial recognition of goodwill.

Deferred tax is measured at the tax rates expected to apply to temporary differences when they reverse, based on the laws that were enacted or substantively enacted as of the date of submission of the financial statements.

An income and social contribution tax asset is recognized for tax losses, tax credits and deductible temporary differences not used when it is probable that future profits subject to taxation will be available against which will be used.

The Company only recognizes a provision on tax issues if a past event leads to a present obligation. The Company determines whether a present obligation exists at the year end taking in consideration all available evidence, including, for example, the opinion of legal advisors. The Company also considers whether it is probable that there will be an outflow of assets and a reliable estimate can be made of the amount of the obligation.

## **2.11 Employee Benefits**

The Company has several employee benefit plans including pension and retirement plans, health care benefits, profit sharing, bonus, and share-based payment, as well as other retirement and termination benefits. The main benefit plans granted to the Company's employees are described in notes 20 and 25.

The actuarial obligations related to the pension and retirement benefits and the actuarial obligations related to the health care plans are recorded based on actuarial calculations performed every year by independent actuaries, using the projected unit credit method, net of the assets that fund the plan, when applicable, and the related costs are recognized over the employees' vesting period. Any employee benefit plan surpluses are also recognized up to the probable amount of reduction in future contributions of the plans' sponsor.

The projected unit credit method considers each period of service as a triggering event of an additional benefit unit, which is accrued to calculate the total obligation. Other actuarial assumptions are also used such as estimates of the increase of healthcare costs, demographical and economic hypotheses and, also, historical costs and employee contributions.

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

Actuarial gains and losses arising from adjustments and changes in actuarial assumptions of the pension and retirement benefit plans and actuarial obligations related to the health care plan are recognized directly in Equity as described in Note 20. The Company believes that the recognition of actuarial gains and losses in comprehensive income provides a better presentation of these changes in the consolidated financial statements when considered as a whole.

**2.12 - Other Current and Non-current Assets and Liabilities**

They are recorded at their realizable amounts (assets) and at their known or estimated amounts plus accrued charges and monetary adjustments (liabilities), when applicable.

**2.13 Related-Party Transactions**

Loan agreements between the companies in Brazil and abroad within the Gerdau Group are adjusted by contracted charges plus foreign exchange variation, when applicable. Sales and purchases of inputs and products are made under terms and conditions as stated in contracts between the parties.

**2.14 Dividend Payment**

Dividend payments are recognized as liabilities at the time dividends are approved by the shareholders of Gerdau S.A. The bylaws of Gerdau S.A. specify dividends of not less than 30% of the annual income; therefore, Gerdau S.A. records a provision at year-end for the minimum dividend amount that has not yet been paid during the year up to the limit of the mandatory minimum dividend described above.

**2.15 Revenue Recognition**

Sales revenues are presented net of taxes and discounts. Taxes on sales are recognized when sales are invoiced and discounts on sales are estimated and recognized when known. Revenues from sales of products are recognized when the sales amount is reliably measured, the

Company no longer has control over the goods sold or any other responsibility related to its ownership, the costs incurred or that will be incurred related to the transaction can be reliably measured, it is more likely than not that the economic benefits will be received by the Company, and the risks and benefits of the products have been fully transferred to the buyer. The related costs of freight are included in cost of sales.

## **2.16 - Investments in Environmental Protection**

Environmental costs that relate to current operations are expensed or capitalized as appropriate. Environmental costs that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation or cost reduction are expensed. Liabilities are recorded when environmental assessments and or remedial efforts are probable and the cost can be reasonably estimated based on discussions with the environmental authorities and other assumptions relevant to the nature and extent of the remediation that may be required. The ultimate cost to Gerdau is dependent upon factors beyond its control such as the scope and methodology of the remedial action requirements to be established by environmental and public health authorities, new laws or government regulations, rapidly changing technology and the outcome of any potential related litigation. Environmental liabilities are adjusted to present value using a rate of 7% per year if the aggregate amount of the obligation and the amount and timing of the cash payments are fixed or reliably determinable.

## **2.17 Lease Contracts**

Leases are classified as finance leases whenever the terms of lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Payments made on operational lease contracts are charged to income on a straight-line basis over the period of the lease.

## **2.18 - Use of Estimates**

The preparation of the Consolidated Financial Statements requires estimates to record certain assets, liabilities and other transactions. To make these estimates, Management used the best information available on the date of preparation of the Consolidated Financial Statements and the experience of past and/or current events, also considering assumptions related to future events. The Consolidated Financial Statements include, therefore, estimates for the determination of useful lives of property, plant and equipment (note 10), estimates of the recoverable amount of long-lived assets, with respect to the need and



Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

the amount of provisions for tax, civil and labor liabilities (note 18), for the determination of income taxes (note 9), in determining the fair value of financial instruments (assets and liabilities) and other instruments (note 16), estimates in selecting interest rates, expected return on assets, mortality tables and expectations for salary increases in long-term postretirement benefits (note 20), and estimates when selecting the valuation model and inputs used in measuring share-based compensation (note 25). Actual results could differ from those estimates.

**2.19 Business Combinations**

The accounting treatment for business acquisitions as from January 1, 2010 changed, if compared to previous years, because the IASB issued a revised version of IAS 27 and IFRS 3. These changes are primarily related to accounting for non-controlling interests, the loss of control of a subsidiary and increase/decrease in interest in a subsidiary without change of control. The revised Standards have resulted in changes in the Company's accounting policies regarding increases or decreases in ownership interests in its subsidiaries. The adoption of this change in accounting policy is expected to affect the accounting for changes in ownership interest as from January 1, 2010, with no impact in business acquisitions performed up to December 31, 2009.

**a) Step-acquisitions in which control is obtained**

When a business combination is achieved in stages, the interest previously held by the Company in the acquired company is remeasured at fair value at acquisition date (in the date when the Company acquires the control) and the resulting gain or loss, if any, is recognized in the profit or loss. The amounts of interests on the acquired company before the acquisition date that was recognized on Other comprehensive income are reclassified in income, where such treatment would be appropriate in case this interest was sold.

**b) Acquisitions in which control is obtained initially**

Acquisitions of subsidiaries and businesses are accounted under the purchase method. The cost of the acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given and liabilities incurred or assumed and equity instruments issued by the Group in exchange of the control of the acquired control. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Under the previous version of the Standard, contingent consideration was recognized at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognized against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognized against goodwill only to the extent that they arise from better information about the fair value at the acquisition date, and they occur within the provisional period (a maximum of 12 months from the acquisition date). All other subsequent adjustments are recognized in profit or loss.

**c) Increases/decreases in non-controlling interests**

In prior years, in the absence of specific requirements in IFRS, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognized where appropriate.

The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognized in profit or loss. Under the revised standards, all increases or decreases in such interests are accounted for within equity, with no impact on goodwill or profit or loss.

Subsequent purchases, after the Company has obtained control, are treated as the acquisitions of shares from non-controlling shareholders: the identifiable assets and liabilities of the entity are not subject to a further revaluation and the positive or negative difference between the cost of such subsequent acquisitions and the net value of the additional proportion of the company is accounted for within equity.

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**d) Loss of control of a subsidiary**

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Company derecognizes all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognized at its fair value at the date that control is lost. This fair value is reflected in the calculation of the gain or loss on disposal attributable to the parent, and becomes the initial carrying amount for subsequent accounting for the retained interest under IAS 28, IAS 31 or IAS 39.

**2.20 Restructuring Provision**

A restructuring provision is recognized when the Company has a detailed restructuring plan approved and the restructuring was already initialized or been publically announced. Future operational losses provisions are not recognized.

**2.21 - Application of Judgment and Critical Accounting Policies when Preparing Consolidated Financial Statements**

Critical accounting policies are those that are both (a) important to present the financial position and results of operations and (b) require Management's most difficult, subjective or complex judgments, often as a result of the need to make estimates that impact matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become even more subjective and complex. In the preparation of the Consolidated Financial Statements, the Company has relied on variables and assumptions derived from historical experience and various other factors that it deems reasonable and relevant. Although these estimates and assumptions are reviewed by the Company in the normal course of business, the presentation of its financial position and results of operations often requires making judgments regarding the effects of inherently uncertain matters on the carrying value of its assets and liabilities. Actual results may differ from estimates based on different variables, assumptions or conditions. In order to provide an understanding of how the Company forms its judgments about future events, including the variables and assumptions underlying the estimates, comments have been included that relate to each critical accounting policy described below:

**a) Deferred Income and Social Contribution Tax**

The liability method of accounting (according to the concept described in IAS 12) for income taxes is used for deferred income and social contribution taxes arising from temporary differences between the book value of assets and liabilities and their tax bases. The amount of the deferred income and social contribution tax asset is revised at each Consolidated Financial Statement date and reduced by the amount that is no longer probable of being realized based on future taxable income. Deferred income and social contribution tax assets and liabilities are calculated using tax rates applicable to taxable income in the years in which those temporary differences are expected to be realized. Future taxable income may be higher or lower than estimates made when determining whether it is necessary to record a tax asset and the amount to be recorded.

The realization of deferred tax assets for tax loss carryforwards are supported by projections of taxable income based on technical feasibility studies submitted annually to the Company's Board of Directors. These studies consider historical profitability of the Company and its subsidiaries and expectation of continuous profitability and estimated the recovery of deferred tax assets over future years. The other tax credits arising from temporary differences, mainly tax contingencies, and provision for losses, were recognized according to their estimate of realization.

**b) Pension and Post-Employment Benefits**

Actuarial gains and losses are recorded in the period in which they are originated and are recorded in the statement of comprehensive income.

The Company recognizes its obligations related to employee benefit plans and related costs, net of plan assets, in accordance with the following practices:

- i) The cost of pension and other post-employment benefits provided to employees is actuarially determined using the projected unit credit method and management's best estimate of expected investment performance for funded plans, salary increase, retirement age of employees and expected health care costs. The discount rate used for determining

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

future benefit obligations is an estimate of the interest rate in effect at the balance sheet date on high-quality fixed-income investments with maturities that match the expected maturity of obligations.

**ii)** Pension plan assets are stated at fair value.

**iii)** Gain and losses related to the curtailment and settlement of the defined benefit plans are recognized when the curtailment or settlement occurs and they are based in actuarial evaluation done by independent actuaries.

In accounting for pension and post-retirement benefits, several statistical and other factors that attempt to anticipate future events are used to calculate plan expenses and liabilities. These factors include discount rate assumptions, expected return on plan assets, future increases in health care costs, and rate of future compensation increases. In addition, actuarial computation other factors whose measurement involves judgment are used such as withdrawal, turnover, and mortality rates. The actuarial assumptions used by the Company may differ materially from actual results in future periods due to changing market and economic conditions, regulatory events, judicial rulings, higher or lower withdrawal rates, or longer or shorter participant life spans.

**c) Environmental Liabilities**

The Company records provisions for environmental liabilities based on best estimates of potential clean-up and remediation costs for known environmental sites. The Company has a team of professionals to manage all phases of its environmental programs. These professionals develop estimates of liabilities at these sites based on projected and known remediation costs. This analysis requires the Company to make significant estimates and changes in facts and circumstances may result in material changes in environmental provisions.

The steel industry uses and generates substances that may damage the environment. The Company's management performs frequent surveys with the purpose of identifying potentially impacted areas and records as current liabilities and in noncurrent liabilities in the account Environmental liabilities, based on best cost estimate, the amounts estimated for investigation, treatment and cleaning of potentially affected sites. The Company used assumptions and estimates for determining the estimated amount, which may vary in the future depending on the final investigations and determination of the actual environmental impact.

The Company believes they are compliant with all the applicable environmental regulations in the countries where they operate (note 21).

**d) Derivative Financial Instruments**

The Company values the derivative financial instruments considering quotations obtained from market participants, which are the fair value of the financial instruments on the date of the Consolidated Financial Statements. Intense volatility in the foreign exchange and interest rate markets in Brazil has caused, in certain periods, significant changes in forward rates and interest rates over very short periods of time, generating significant changes in the fair value of swaps and other financial instruments over a short period of time. The fair value recognized in its Consolidated Financial Statements may not necessarily represent the amount of cash that the Company would receive or pay, as applicable, if the Company would settle the transactions on the Consolidated Financial Statements date.

**e) Useful Lives of Long-Lived Assets**

The Company recognizes depreciation of its long-lived assets based on estimated useful lives, which are based on industry practices and prior experience and reflect economic lives of long-lived assets. However, actual useful lives can vary based on technological update of each unit. Useful lives of long-lived assets also affect impairment tests of those long-lived assets, when required.

The Company does not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to calculate long-lived asset impairment losses. However, if actual results are not consistent with estimates and assumptions used in estimating future cash flows and asset fair values, the Company may be exposed to losses that could be material.

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**f) Fair Value of Unquoted Derivative Financial Instruments**

The Company has entered into financial instruments in connection with some of its acquisitions, which involve commitments to acquire shares from non-controlling interests of the acquired companies, or grant of put options to some non-controlling interests to sell to the Company their shares. Such derivatives are recorded on the Company's balance sheet in the account Put options on non-controlling interest (note 16.f), and the determination of this value involves a series of estimates that can materially impact its final result. The Company estimates the fair value of the companies whose shares the Company is committed to acquire using criteria established in each contract, which are in line with practices observed in the market for estimating fair value of unquoted instruments.

**g) Valuation of Assets Acquired and Liabilities Assumed in Business Combinations**

During the last several years, as described at note 3, the Company has made certain business combinations. According to IFRS 3, with effect for business combinations occurred after the IFRS transition date, the Company should allocate the cost of the acquired entity to the assets acquired and liabilities assumed based on their fair value estimated on the date of acquisition. Any difference between the cost of the acquired entity and the fair value of the assets acquired, liabilities assumed is recorded as goodwill. The Company exercises significant judgment in the process of identifying tangible and intangible assets and liabilities, valuing these assets and liabilities, and estimating their remaining useful life. The valuation of these assets and liabilities is based on assumptions and criteria that, in some cases, include estimates of future cash flow discounted at the appropriate rates. The use of valuation assumptions includes discounted cash flows estimates or discount rates and may result in estimated values that are different from the assets acquired and liabilities assumed.

The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to complete the purchase price allocation and estimate the fair value of acquired assets and liabilities. However, if actual results are not consistent with estimates and assumptions considered, the Company may be exposed to losses that could be material.

**h) Impairment Test of Assets with definite and indefinite useful life**

There are specific rules to assess the impairment of long-lived assets, especially property, plant and equipment, goodwill and other intangible assets. On the date of each Financial Statement, the Company performs an analysis to determine if there is evidence that the carrying amount of long-lived assets is impaired. If such evidence is identified, the recoverable amount of the assets is estimated by the Company.

The recoverable amount of an asset is determined as the higher of: (a) its fair value less estimated costs of sale and (b) its value in use. The value in use is measured based on discounted cash flows (before taxes) derived from the continuous use of the asset until the end of its useful life.

Regardless of whether or not there is any indication that the carrying amount of the asset may not be recovered, the balances of goodwill arising from business combination and assets with indefinite useful life are tested for impairment at least once a year, in December.

When the residual carrying value of the asset exceeds its recoverable amount, the Company recognizes a reduction in this asset's book balance.

For assets recorded at cost, the reduction in recoverable amount must be recorded in income for the year. If the recoverable amount of an asset is not determined individually, the recoverable amount of the business segment to which the asset belongs is analyzed.

Except for the impairment of goodwill, a reversal of previously recorded impairment losses is allowed. Reversal in these circumstances is limited up to the amount of depreciated balance of the asset at the date of the reversal, determined considering as if the impairment had not been recorded.

The Company evaluates the recoverability of goodwill on investments annually and uses accepted market practices, including discounted cash flow for units with goodwill allocated and comparing the book value with the recoverable amount of the assets.



Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

Recoverability of goodwill is evaluated based on the analysis and identification of facts and circumstances that can indicate the necessity to anticipate the test that is performed annually. If some fact or circumstance indicates that the recoverability of goodwill is affected on an interim period, then the test is anticipated. In December 2010, the Company carried out goodwill impairment tests for all of its operating segments, which represent the lowest level at which goodwill is monitored by management based on projections for expected discounted cash flows and that take into consideration the following assumptions: cost of capital, growth rate and adjustments used for perpetual cash flows, methodology for determining working capital, investment plans, and long-term economic-financial forecasts.

The tests carried out did not identify any new impairment to the Company's goodwill as well as other assets with indefinite useful life.

Goodwill that forms part of the carrying amount of an investment in an associate or in a jointly-controlled entity is not separately recognized and it is not tested for impairment separately. Instead, the entire carrying amount of the investment in an associate or in a jointly-controlled entity is tested for impairment as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. An impairment loss recognized in those circumstances is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the associate or jointly-controlled entity. Accordingly, any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

Goodwill originated in a business combination has the recoverability evaluated in an annual basis, and it is anticipated if events or circumstances indicate the necessity. Uses accepted market practices, including cash flow and compare the book value with fair value. The reversal of impairment losses previously accounted on goodwill from business combination it is not allowed. In December of each year, the Company performs impairment tests for all operating segments, which represent the lowest level where goodwill is monitored by management.

The recoverability review process is subjective and requires significant judgments through analysis performed. The determination of fair value for Company's operating segments, based on projected cash flows may be negatively impacted if the economy global recovery happens slowly than expected during the preparation of financial statements in December 2010.

**2.22 - New IFRS and Interpretations of the IFRIC (International Financial Reporting Interpretations Committee)**

Some new IASB accounting procedures and IFRIC interpretations were published and/or reviewed and have their optional or compulsory adoption beginning on January 1, 2010. The Company's assessment of the impact that these new procedures and interpretations were as follows:

**Current standards and interpretation of standards or adopted in advance**

**IAS 27 Consolidated and Separate Financial Statements**

In January 2008, the IASB issued a revised version of IAS 27, which changes are related, primarily, to accounting for non-controlling interests and the loss of control of a subsidiary. This amended Standard must be applied to years beginning on or after July 1, 2009. The revised Standard has resulted in changes in the Company's accounting policies regarding increases or decreases in ownership interests in its subsidiaries. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or bargain purchase gain being recognized where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognized in profit or loss. Under IAS 27 (2008), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss. When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Group derecognizes all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognized at its fair value at the date that control is lost. This fair value is reflected in the calculation of the gain or loss on disposal attributable to the parent, and becomes the initial carrying amount for subsequent accounting for the retained interest under IAS 28, IAS 31 or IAS 39. The adoption of this amendment affected the accounting for changes in ownership interest in accounting periods beginning on January 1, 2010, where the impact was determined based on occurred transactions.

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**IFRS 3 Business Combinations**

In January 2008, the IASB issued a revised version of the IFRS 3, which deals with the recognition and measurement in the financial statements of acquired assets, assumed liabilities and non-controlling interests, and the goodwill originated in a business combination and disclosures related to the subject. These changes are effective for years beginning on or after July 1, 2009. The adoption of this amendment affected the accounting for business combinations in accounting periods beginning on January 1, 2010, where the impact was determined based on occurred transactions.

**IAS 39 Financial Instruments: Recognition and Measurement**

In July 2008, the IASB issued a revised version of IAS 39 which deals with items eligible for hedge. The changes are effective for years beginning on or after July 1, 2009. The adoption of this amendment did not have an impact in the Company's Consolidated Financial Statements.

**IAS 39 e IFRIC 9 - Embedded Derivatives**

In March 2009, the IASB revised IAS 39 and IFRIC 9, which deal with aspects related to the recognition of derivatives. The entity is required to implement these changes for years beginning on or after June 30, 2009. The adoption of these changes did not have an impact in the Company's Consolidated Financial Statements.

**IFRS Annual improvements of April 2009**

In April 2009, the IASB revised various standards and interpretations as follows: IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16. The changes in the standards IFRS 2 and IAS 38 and interpretations IFRIC 9 and IFRIC 16 are effective for years beginning on or after July 1, 2009. The other changes in standards are effective for years beginning on or after January 1, 2010. The adoption of these regulations did not have an impact in the Company's Consolidated Financial Statements.

**IFRS 2 Share-based Payment**

In June 2009, the IASB revised rule IFRS 2, which deals with share based payments settled in cash or other assets, or by the issuance of equity instruments. This change is effective for years beginning on or after January 1, 2010. The adoption of this revised rule did not have an impact in the Company's Consolidated Financial Statements.

**IFRS 1 Additional Exemptions for First-time adopters**

In July 2009, the IASB revised standard IFRS 1, which deals with additional exemptions for first-time IFRS adopters. This change is effective for years beginning on or after January 1, 2010. Because the Company has already adopted the IFRS, the change of this standard did not have an impact in the Company's Consolidated Financial Statements.

**IAS 32 IFRS Classification of Rights Issues: Amendment to IAS 32**

In October 2009, the IASB revised IAS 32, which deals with contracts that will or may be settled in the entity's own equity instruments and establish that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments. This change is effective for years beginning on or after February 1, 2010. The adoption of this revised standard did not have an impact in the Company's Consolidated Financial Statements.

**IFRIC 17 Distributions of Non-cash Assets to Owners**

In November 2008, the IFRIC issued Interpretation 17, which deals with the distributions of non-cash assets to the owners. The entity is required to implement this Interpretation for years that begin on or after July 1, 2009, but earlier adoption is permitted. The adoption of this Interpretation did not have an impact in the Company's Consolidated Financial Statements.

**IFRIC 18 Transfers of Assets from Customers**

In January 2009, the IFRIC issued Interpretation 18, which deals with the transfer of assets from customers to the Company. The entity is required to prospectively implement this Interpretation for assets received from customers on or

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

after July 1, 2009 and earlier adoption is permitted. The adoption of this Interpretation did not have an impact in the Company's Consolidated Financial Statements.

**Standards and Interpretations of standards not yet in force**

**IFRS 1 and IFRS 7 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters**

In January 2010, the IASB amended IFRS 1 and IFRS 7, which deal with aspects of comparative information disclosure of financial instruments. These changes are effective for years beginning on or after July 1, 2010. The adoption of these changes will not have an impact in the Company's Consolidated Financial Statements.

**IFRS 9 Financial Instruments**

In November 2009, the IASB issued the standard IFRS 9, which has the objective of replacing the standard IAS 39 Financial Instruments: Recognition and measurement, in three phases. This standard represents the first part of phase 1 of replacement of IAS 39 and addresses the classification and measurement of financial assets. This standard is effective for years beginning on or after January 1, 2013. The Company is evaluating the effects related to the adoption of this standard and eventual difference in relation to IAS 39.

**IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**

In November 2009, the IFRIC issued the interpretation IFRIC 19, which deals with the issuance of equity instruments by an entity to its creditor with the objective of settling financial liabilities. This interpretation is effective for years beginning on or after July 1, 2010. The adoption of this interpretation will not have an impact in the Company's Consolidated Financial Statements.

**IFRIC 14 Prepayments of a Minimum Funding requirement Amendments to IFRIC 14**

In November 2009, the IFRIC amended interpretation IFRIC 14, which is applied in limited circumstances when an entity is subject to minimum funding requirements and performs a payment of contributions in advance to cover these requirements. These changes are effective for years beginning on or after January 1, 2011. The adoption of these changes will not have an impact in the Company's Consolidated Financial Statements.

#### **IAS 24 - Related Party Disclosures**

In November 2009, the IASB revised IAS 24, which deals with disclosures of transactions with related parties and relationships between parents and subsidiaries. This change is effective for years beginning on or after January 1, 2011. The adoption of this revised standard will not have an impact in the Company's Consolidated Financial Statements.

#### **IFRS Annual improvements of May 2010**

In May 2010, the IASB revised various standards and interpretations as follows: IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13. The change in the standard IFRS 3 is effective for years beginning on or after July 1, 2010. The other changes in standards are effective for years beginning on or after January 1, 2011. The Company is evaluating the effects related to the adoption of these changes in its Consolidated Financial Statements.

#### **IFRS 7 - Disclosure - Transfers of Financial Assets**

In October 2010, the IASB revised IFRS 7. This amendment has the objective of adding disclosures that enable users of financial statements to assess the risk of exposure over transfers of financial assets and the effects of these risks on the entity's financial position. The change in the standard IFRS 7 is effective for annual periods beginning on or after July, 2011. The Company is evaluating the impact of the adoption of this amendment in its Consolidated Financial Statements.

#### **IFRS 9 - Financial Instruments**

In October 2010, the IASB revised the standard IFRS 9. The change in the standard IFRS 9 added requirements for classification and measurement of financial liabilities. This standard is effective for annual periods beginning on or after

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

January 2013. The Company is evaluating the effects from the application of this standard and any differences from IAS 39.

**IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters**

In December 2010, the IASB revised the standard IFRS 1. The change in the standard IFRS 1 provides guidelines to first time adopters, which be located in countries with hyperinflationary economy and also removes fixed dates with the objective of avoiding the treatment of operations happened before the IFRS transition date. This revision in the standard is effective for annual periods beginning on or after July 2011. The Company understands that these changes will not impact its Consolidated Financial Statements due to the Company has already adopted IFRS 1.

**IAS 12 Deferred Tax: Recovery of Underlying Assets**

In December 2010, the IASB revised the standard IAS 12. This change in the IAS 12 includes aspects related to the determination of the expected way of deferred assets and liabilities income tax recovery when an investment property is measured through the fair value model of IAS 40. This revision in the standard is effective for annual periods beginning on or after January 2012. The Company is evaluating the effects from the application of this standard in its consolidated financial statements.

**NOTE 3 - CONSOLIDATED FINANCIAL STATEMENTS**

The Consolidated Financial Statements include Gerdaul S.A. and its subsidiaries.

**3.1 - Subsidiaries**

Listed below are the main interests in consolidated subsidiaries, as follows:

Edgar Filing: GERDAU S.A. - Form 20-F

Consolidated company	Country	Total capital (*)		Equity Interests		Voting capital	
		2010	2009	2008	2010	2009	2008
Gerdau GTL Spain S.L.	Spain	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Internacional Empreendimentos Ltda. - Grupo Gerdau	Brazil	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Steel North America Inc.	Canada	100.00	66.32	100.00	100.00	66.32	100.00
Gerdau Ameristeel Corporation and subsidiaries (1)	USA/Canada	100.00	66.32	66.37	100.00	66.32	66.37
Gerdau Açominas S.A. and subsidiary (2)	Brazil	93.98	93.98	93.30	93.99	93.98	93.31
Gerdau Aços Longos S.A.	Brazil	93.96	93.96	93.30	93.97	93.97	93.31
Maco Holdings Ltda. (3)	Brasil		100.00			100.00	
Gerdau Steel Inc.	Canada	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Holdings Inc. and subsidiaries (4)	USA	100.00	100.00	100.00	100.00	100.00	100.00
Paraopeba - Fixed-income investment fund (5)	Brazil	75.88	95.20	94.15	75.88	95.20	94.15
Corporación Sidenor S.A. and subsidiaries (6)	Spain	60.00	60.00	60.00	60.00	60.00	60.00
Gerdau América Latina Participações S.A.	Brazil	94.22	94.22	89.35	94.22	94.22	89.36
Axol S.A.	Uruguay	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Chile Inversiones Ltda. and subsidiaries (7)	Chile	99.99	100.00	99.99	99.99	100.00	99.99
Gerdau Aços Especiais S.A.	Brazil	94.35	94.35	93.30	94.36	94.35	93.31
Gerdau Hungria Holdings Limited Liability Company and subsidiaries (8)	Hungary	98.84	98.75	98.75	98.84	98.75	98.75
Gerdau Comercial de Aços S.A.	Brazil	95.58	95.58	93.30	95.59	95.59	93.31
Aramac S.A.	Uruguay	100.00	100.00	100.00	100.00	100.00	100.00
GTL Equity Investments Corp.	British Virgin Islands	100.00	100.00	100.00	100.00	100.00	100.00
Empresa Siderúrgica del Perú S.A.A. - Siderperú	Peru	88.66	86.66	83.28	88.66	86.66	83.28
Diaco S.A. and subsidiaries (9)	Colombia	99.36	99.34	98.72	99.36	99.34	98.72
Gerdau GTL México, S.A. de C.V. and subsidiaries (10)	Mexico	100.00	100.00	100.00	100.00	100.00	100.00
Seiva S.A. - Florestas e Indústrias	Brazil	97.06	97.06	97.06	99.73	99.73	99.73
Itaguaí Com. Imp. e Exp. Ltda.	Brazil	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Laisa S.A.	Uruguai	100.00	100.00	99.90	100.00	100.00	99.90
Sipar Gerdau Inversiones S.A. and subsidiaries (11)	Argentina	92.75	92.75	92.75	92.75	92.75	92.75
Siderúrgica del Pacífico S.A.	Colombia	98.32	98.29	98.24	98.32	98.29	98.24
Clary Holdings Corp.	Colombia	100.00	50.90	50.90	100.00	50.90	50.90
Sizuca - Siderúrgica Zuliana, C. A.	Venezuela	100.00	100.00	100.00	100.00	100.00	100.00
GTL Financial Corp. (12)	Netherlands		100.00	100.00		100.00	100.00
GTL Trade Finance Inc.	British Virgin Islands	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Trade Inc.	British Virgin Islands				100.00		
Gerdau Trade II Inc.	Cayman Islands	100.00			100.00		
Aços Villares S.A. (13)	Brazil		58.50	58.44		58.50	58.44

(\*) The equity interests reported represents the ownership percentage directly and indirectly held by the investor in the subsidiary.

(1) Subsidiaries: Gerdau Ameristeel US Inc., GNA Partners, Pacific Coast Steel Inc., Gerdau Ameristeel Perth Amboy Inc., Sheffield Steel Corporation, Gerdau Ameristeel Sayreville Inc., TAMCO Steel, Chaparral Steel Company.

(2) Subsidiary: Gerdau Açominas Overseas Ltd.

(3) The subsidiary Maco Holdings Ltd started to be presented as an associate Company, as described in note 3.3.

(4) Subsidiaries: Gerdau US Financing Inc. and Gerdau MacSteel Inc.



Table of Contents**GERDAU S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****for the years ended December 31, 2010, 2009 and 2008****(in thousands of Brazilian reais R\$, unless otherwise stated)**

(5) Fixed-income investment fund managed by JP Morgan.

(6) Subsidiaries: Corporación Sidenor S.A. y Cía., Sidenor Industrial S.L., Sidenor y Cia, Sociedad Colectiva, Sidenor I+D S.A., Forjanor S.L., Sidenor Calibrados S.L.

(7) Subsidiaries: Aza Participaciones S.A., Industrias del Acero Internacional S.A., Gerdau Aza S.A., Distribuidora Matco S.A., Aceros Cox Comercial S.A., Salomon Sack S.A., Matco Instalaciones Ltda. e Trefilados Bonati S.A., Cerney Holdings Ltd., Indac Colômbia S.A.

(8) Subsidiaries: LuxFin Participation S.L. and Bogey Holding Company Spain S.L.

(9) Subsidiaries: Ferrer Ind. Corporation and Laminados Andinos S.A.

(10) Subsidiaries: Siderúrgica Tultitlán, S.A.de C.V., Sidertul S.A. de C.V., Arrendadora Valle de México, S.A. de C.V. e GTL Servicios Administrativos México, S.A. de C.V.

(11) Subsidiaries: Sipar Aceros S.A. and Siderco S.A.

(12) The subsidiary GTL Financial Corp. was closed in 2010.

(13) The subsidiary Aços Villares S.A.was merged by Gerdau S.A., as described in note 3.5.d.

As operation result of the sales option described in the note 16.f, the Company recognizes 100% as its interest in Corporación Sidenor, instead of the 60% described in the table above.

**3.2 - Jointly-Controlled Entities**

Listed below are the interests in jointly-controlled entities:

Jointly-owned subsidiaries	Country	Total capital(*)		Equity Interests		Voting capital	
		2010	2009	2008	2010	2009	2008
Gallatin Steel Company	USA	50.00	50.00	50.00	50.00	50.00	50.00
Bradley Steel Processors	Canada	50.00	50.00	50.00	50.00	50.00	50.00
MRM Guide Rail	Canada	50.00	50.00	50.00	50.00	50.00	50.00

Edgar Filing: GERDAU S.A. - Form 20-F

Gerdau Corsa S.A.P.I. de C.V.	Mexico	50.00	50.00	50.00	50.00	50.00	50.00
Kalyani Gerdau Steel Ltd.	India	73.22	56.81	45.17	73.22	56.81	45.17

(\*) The equity interests reported represents the ownership percentage directly and indirectly held by the investor in the jointly-controlled entity.

Although the Company owns more than 50% of Kalyani Gerdau Steel Ltd., it does not consolidate the Financial Statements of this entity, because of the joint control agreement, which establish rights of shared management of the business with the other partner.

The summarized financial information of the jointly-controlled entities Gallatin Steel Company, Bradley Steel Processors, MRM Guide Rail, Gerdau Corsa, S.A.P.I. de C.V. and Kalyani Gerdau Steel Ltd., accounted for under the equity method, are presented below on a combined basis:

	Joint-controlled entities	
	2010	2009
<b>Assets</b>		
Current	468,419	435,775
Non-current	566,490	612,138
Total Assets	1,034,909	1,047,913
<b>Liabilities</b>		
Current	155,930	121,986
Non-current	295,497	263,939
Adjusted Equity	583,482	661,988
Total Liabilities and Equity	1,034,909	1,047,913
Company's share of net assets of jointly-controlled entities	300,547	332,904

Table of Contents

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

	2010	2009	2008
<b>Income statement</b>			
Net sales	1,813,014	1,288,714	2,202,182
Cost of sales	(1,662,143)	(1,230,352)	(2,106,349)
Gross profit	150,871	58,362	95,833
Selling, general and administrative expenses	(29,722)	(36,596)	(25,270)
Other operating expenses/income	(80,641)	(88,115)	110,343
(Loss) Income before financial income and expenses, and taxes	40,508	(66,349)	180,906
Financial (expenses) income	(25,180)	(87,276)	21,103
(Loss) Income before taxes	15,328	(153,625)	202,009
Provision for income and social contribution taxes	497	22,315	(4,689)
Net (loss) income	15,825	(131,310)	197,320
Company's share of net (loss) income of jointly controlled entities	(13,921)	(57,723)	7,321

**3.3 Associate companies**

Listed below are the interests in associate companies:

Affiliated companies	Country	Equity interests					
		2010	Total capital (*) 2009	2008	2010	Voting capital 2009	2008
Dona Francisca Energética S.A.	Brazil	51.82	51.82	51.82	51.82	51.82	51.82
Armacero Industrial y Comercial S.A.	Chile	50.00	50.00	50.00	50.00	50.00	50.00
Multisteel Business Holdings Corp. and subsidiaries (1)	Dominican Rep.	49.00	49.00	49.00	49.00	49.00	49.00
Corsa Controladora, S.A. de C.V. and subsidiaries (2)	Mexico	49.00	49.00	49.00	49.00	49.00	49.00
Corporación Centroamericana del Acero S.A. and subsidiaries (3)	Guatemala	30.00	30.00	30.00	30.00	30.00	30.00
Maco Holding Ltda.	Brazil	47,86			47,86		

(\*) The equity interest reported represents the ownership percentage directly and indirectly held by the investor in the associate company.

## Edgar Filing: GERDAU S.A. - Form 20-F

(1) Subsidiaries: Industrias Nacionales C. by A. (Dominican Rep.), Steelchem Trading Corp., NC Trading e Industrias Nacionales C. x A., I.S.A. (Costa Rica).

(2) Subsidiaries: Júpiter Direccional S.A. de C.V., Aceros Ticomán, S.A. de C.V., Centro Técnico Joist, S.A. de C.V., Aceros Corsa, S.A. de C.V., Aceros Ticoregios, S.A. de C.V.

(3) Subsidiaries: Aceros de Guatemala S.A., Indeta S.A., Siderúrgica de Guatemala S.A.

Although the Company owns more than 50% of Dona Francisca Energética S.A., it does not consolidate the Financial Statements of this associate because of the veto rights granted to minority shareholders that prevent the Company from fully implementing the decisions on conducting the associate's business.

In 2010, Maco Holdings Ltd. (formerly named Maco Metalúrgica Ltd.), previously a subsidiary of Gerdau, became an associate company as a result of a statutory reorganization, which impacted that entity. In the reorganization the Company has not exercised a subscription right in the capital increase of that entity in December 2010, remaining with an interest of approximately 48% in Maco.

The summarized financial information of the associate companies Dona Francisca Energética S.A., Armacero Industrial y Comercial S.A., Multisteel Business Holdings Corp. and subsidiaries, Corsa Controladora S.A. de C.V. and subsidiaries, Corporación Centroamericana del Acero S.A. and subsidiaries, and Maco Holdings Ltd., accounted for under the equity method, are shown on a combined basis as follows:

Table of Contents

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

	Associate Companies		
	2010	2009	
<b>Assets</b>			
Current	885,246	755,305	
Non-current	1,175,116	891,900	
Total Assets	2,060,362	1,647,205	
<b>Liabilities</b>			
Current	427,446	307,855	
Non-current	341,746	351,006	
Adjusted Equity	1,291,170	988,344	
Total Liabilities and Equity	2,060,362	1,647,205	
Company's share of net assets of associate companies	603,892	495,305	
	2010	2009	2008
<b>Income statement</b>			
Net sales	1,409,468	1,463,761	1,923,267
Cost of sales	(1,213,825)	(1,388,946)	(1,535,852)
Gross profit	195,643	74,815	387,415
Selling, general and administrative expenses	(81,199)	(101,101)	(109,526)
Other operating expenses/income	4,578	(1,112)	83,007
(Loss) Income before financial income and expenses, and taxes	119,022	(27,398)	360,896
Financial (expenses) income	(14,157)	(37,675)	(38,939)
(Loss) Income before taxes	104,865	(65,073)	321,957
Provision for income and social contribution taxes	(32,498)	(11,232)	(41,173)
Net (loss) income	72,367	(76,305)	280,784
Company's share of net (loss) income of associate companies	53,375	(51,234)	115,062

**3.4 - Goodwill**

Goodwill represents the excess of the acquisition cost over the net fair value of the assets acquired, liabilities assumed, and identifiable contingent liabilities of the Company's subsidiaries, jointly-controlled entities, or associate company at the respective date of acquisition.

Goodwill related to investments in foreign companies is reported in the functional currency of the party acquiring these subsidiaries and translated to Brazilian reais (the Company's reporting currency) at the exchange rate in effect at the balance sheet date. The exchange rate differences arising from this translation are recorded under the account "Cumulative translation difference" in Equity after the date of transition to

IFRS.

Goodwill is recorded as an asset under the accounts Investments in associates and jointly-controlled entities and Goodwill . The goodwill is not amortized and subject to impairment tests annually or whenever there are indications of impairment. Any impairment loss is immediately recorded as a cost in the statement of income and cannot be reversed later. The goodwill is allocated to the operating segments, which represent the lowest level at which goodwill is monitored by management.

At the time of selling a subsidiary, jointly-controlled entity or associate company, goodwill is included in the determination of the gain or loss.

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**3.5 - Acquisition of additional interest in subsidiaries and business combinations**

**a) Cleary Holdings Corp**

On August 12, 2010, the Company acquired an additional interest of 49.1% in Cleary Holdings Corp., holding company of production units of metallurgical coke and coking coal reserves in Colombia, which now holds all of the company's shares. The total transaction was US\$ 57.0 million (equivalent to R\$ 100.1 million at the acquisition date) and as a result of the operation in accordance with IAS 27, the Company recognized in equity in the account Effects of interest increase in subsidiaries, the amount of R\$ 26.1 million which is regarding the difference between the amount paid and the net assets acquired. Additionally, the Company recognized the amount of R\$ 70.6 million as goodwill, related to the portion of the contingent price over the acquisition of controlling on February 21, 2008, due to such portion being now characterized as probable.

**b) Gerdau Ameristeel Corporation**

On August 30, 2010, the Company acquired all common shares of its subsidiary Gerdau Ameristeel Corporation, issued and outstanding, which was not yet owned, directly or indirectly, by the amount of US\$ 11.00 per share in cash. The total amount of the transaction was US\$ 1,598.6 million (equivalent to R\$ 2,808.9 million at the acquisition date). In accordance with IAS 27 (2008), changes in interest of a parent company in its subsidiary that do not result in loss of control are registered as equity transactions. Any difference between the value of non-controlling interest acquired and the fair value of the consideration paid is recognized directly in equity and attributed to the controlling shareholders. Thus, as a result of the transaction, the Company recognized its equity in the amount of R\$ 431.2 million due to the difference between the fair value of consideration given and carrying amount of non controlling interest.

**c) Tamco**

On October 21, 2010, the Company, through its subsidiary, Gerdau Ameristeel, purchased 100% of the shares of Tamco, a mini-mill that produces rebar and is one of the largest producers in the U.S. West Coast. Located in Rancho Cucamonga in California, the Tamco is the only producer of long steel products in California and primarily serves the markets of California, Arizona and Nevada.

## Edgar Filing: GERDAU S.A. - Form 20-F

The Company recognized goodwill from this acquisition due to the following:

- The acquisition resulted in an expansion of the Company's geographic presence in the western of the United States,
- The Company believes it will successfully integrate the business operation and will have synergies from the acquisition.

The total purchase price deemed to acquire Tamco was US\$ 166.4 million (R\$ 283.1 million at the acquisition date), plus the assumption of certain liabilities, and was allocated to the assets acquired and liabilities assumed based on estimates of their fair values. The following table summarizes the preliminary fair value of assets acquired and liabilities assumed for Tamco at the acquisition date:

	Book Value	Acquisition Adjustments	Fair value upon acquisition
Net assets (liabilities) acquired			
Current assets	75,649	(7,045)	68,604
Property, plant and equipment	69,216	103,751	172,967
Intangible assets	11,365	19,226	30,591
Goodwill		90,363	90,363
Non-current assets	558	29	587
Current liabilities	(17,589)	(521)	(18,110)
Non-current liabilities	(18,142)	(43,750)	(61,892)
	121,057	162,053	283,110
Total purchase price considered			283,110



Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

The total receivables acquired by the Company were equivalent to R\$ 14,3 million. There are no significant adjustments to the receivables fair value and the projected cash flow from these receivables.

The acquisition of intangible assets and goodwill are not deductible for tax purposes, however, the register of the acquisition requires the recognition of deferred income tax liability on the adjusted amounts related to intangible assets that will be recognized as a tax benefit in future periods to the extent that the assets are amortized.

The amounts recognized as revenue, attributable to Tamco, included in the Company's consolidated financial statements since the acquisition date of this subsidiary are not material. Since the acquisition date, Tamco generated a loss of R\$ 2.8 million. Additionally, the amounts of revenue and net income that would be generated by Tamco for 2010, if the entity had been acquired earlier this year, would not be significant.

**d) Aços Villares S.A.**

On December 30, 2010, the Company acquired an additional 41.5% interest in its subsidiary Aços Villares S.A., 28.91% by merging the company Prontofer Building Services Ltd (Prontofer) and 12.59% purchased from third parties, by merging the company Aços Villares S.A., now holding all shares of the company. The total amount of the transaction was R\$ 1,909,720 and the payment was made with the issuance of Gerdau S.A. shares in the ratio of one share of Gerdau S.A. for every 24 shares of Aços Villares S.A. and one share of Gerdau S.A. for every 22.247601 shares of Prontofer. As a result of the operation in accordance with IAS 27, the Company recognized in Equity, in the line Effects on interest increase in subsidiaries, the amount of R\$ 1,277.2 million, which is regarding the difference between the amount paid and the net assets acquired.

Table of Contents**GERDAU S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

**3.6 - Total cash paid for the acquisitions in the years ended December 31, 2010, 2009 and 2008**

	2010	2009	2008
Companies / interest acquired			
<b>Acquisitions</b>			
Maco Metalúrgica Ltd.		4,200	
Tamco	283,110		
Trefilados Bonati S.A.			12,307
Century Steel, Inc.			369,899
Cleary Holdings Corp.			119,350
Corsa Controladora, S.A de C.V.			186,284
Gerdau Corsa S.A.P.I. de C.V.			71,423
SJK Steel Plant Limited			84,091
Corporación Centroamericana del Acero S.A.			303,696
Gerdau MacSteel Inc.			2,434,062
Distribuidora y Comercializadora de Aceros Regionales Limitada			8,578
Rectificadora del Vallés			81,000
Vicente Gabilondo e Hijos, S.A.			35,000
Hearon Steel Co.			22,179
K.e.r.s.p.e. Empreendimentos e Participações Ltd.			92,174
Caños Córdoba S.R.L.			14,596
Metro Recycling Co.			73,522
Sand Springs Metal Processors			37,049
LuxFin Participation			673,591
Total purchase price considered of acquired companies	283,110	4,200	4,618,801
Less: Cash and cash equivalents of acquired companies			(731,323)
	283,110	4,200	3,887,478
<b>Interest increase in subsidiaries</b>			
Gerdau América Latina Participações S.A.		66,868	
Cleary Holdings Corp.	100,100		
Gerdau Ameristeel	2,808,869		
Diaco S.A.			188,693
	2,908,969	66,868	188,693
<b>Interest increase by issuance of shares</b>			
Prontofer Serviços e Construção Ltd.	1,322,075		
Aços Villares S.A.	587,645		
	1,909,720		
<b>Total paid</b>	<b>5,101,799</b>	<b>71,068</b>	<b>4,076,171</b>

The Company does not have any other relevant acquisition costs in addition to the amount already paid.

**3.7 Acquisitions during the years ended December 31, 2009 or 2008 for which accounting at year-end was provisionally determined and was subsequently adjusted**

**a) Corsa Controladora, S.A. de C.V.**

In February 2009, the Company completed the evaluation of the fair value of assets and liabilities of the Company Corsa, S.A. de C.V. allocating part of the goodwill of R\$ 0.7 million in the Investment in associates and jointly-controlled entities account.

Table of Contents**GERDAU S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****for the years ended December 31, 2010, 2009 and 2008****(in thousands of Brazilian reais R\$, unless otherwise stated)**

This investment is recorded under the equity method; therefore, the allocation of the fair value of assets and liabilities of the acquired company is not consolidated and has effect only through a reclassification of goodwill originally recognized. Additionally, the amount from the amortization of the fair value allocation will be recognized in income of the Company in the Equity in earnings of unconsolidated companies account.

The amount of goodwill on acquisition recorded by the Company was due to the following:

- This partnership strengthens the Company presence in the third largest steel consumer market in the Americas and allows the Company to continue to be a consolidator of the global steel industry.
- The rapidly growing steel industry consolidation all over the world has resulted in a significant increase in purchase prices.
- The Company believes it was able to successfully integrate Corsa Controladora, S.A. de C.V. operations and achieve synergies from the acquisition.

**b) Gerdau MacSteel Inc.**

In March 2009, the Company completed the evaluation of the fair value of assets and liabilities of Gerdau MacSteel Inc., allocating part of the goodwill of R\$ 1.7 million during the period.

The following table presents the fair value of the assets and liabilities of Gerdau MacSteel Inc., as of the acquisition date:

	<b>Book Value</b>	<b>Acquisition Adjustments</b>	<b>Fair value upon acquisition</b>
Net assets (liabilities) acquired			
Current assets	750,404	132,543	882,947
Property, plant and equipment	397,986	455,291	853,277
Intangible assets	33,042	315,249	348,291
Non-current assets	50,400	(1,047)	49,353
Goodwill	11,072	1,582,835	1,593,907

Edgar Filing: GERDAU S.A. - Form 20-F

Current liabilities	(588,272)	(313,105)	(901,377)
Non-current liabilities	(95,272)	(297,064)	(392,336)
	559,360	1,874,702	2,434,062
Total purchase price considered			2,434,062

Upon the acquisition, the Company recorded goodwill due to the following:

- The rapidly growing global steel industry consolidation has resulted in a significant increase in purchase prices.
- Gerdau strengthens its position as a global supplier of specialty steels (SBQ).
- The acquisition of MacSteel will open new opportunities for growth in specialty long steels in the United States, which is one of the largest and most traditional automotive industry markets in the world. MacSteel produces SBQ and around 80% of its production is intended for the automotive industry.
- The Company believes it was able to successfully integrate MacSteel's operations and achieve synergies from the acquisition

**c) Kalyani Gerdau Steel Ltd. (SJK Steel Plant Limited)**

In March 2009, the Company completed the measurement of the fair value of assets and liabilities of the Kalyani Gerdau Steel Ltd. and recognized goodwill of R\$ 35.0 million.

This investment is recorded under the equity method; therefore, the allocation of the fair value of assets and liabilities of the acquired company is not consolidated and has effect only through a reclassification of goodwill originally recognized.

**d) Caños Córdoba S.R.L.**

In October 2009, the Company completed the measurement of the fair value of assets and liabilities of the Caños Córdoba S.R.L. allocating part of the goodwill of R\$ 2.8 million.

Table of Contents**GERDAU S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****for the years ended December 31, 2010, 2009 and 2008****(in thousands of Brazilian reais R\$, unless otherwise stated)**

The table below shows the fair value of the assets and liabilities of Caños Córdoba S.R.L., as of the acquisition date:

	Book Value	Acquisition Adjustments	Fair value upon acquisition
Net assets (liabilities) acquired			
Current assets	12,497		12,497
Goodwill		5,432	5,432
Property, plant and equipment	1,841	4,342	6,183
Current liabilities	(7,997)		(7,997)
Deferred income tax		(1,519)	(1,519)
	6,341	8,255	14,596
Total purchase price considered			14,596

The amount of goodwill on acquisition recorded by the Company was due to the following:

- The rapidly growing steel industry consolidation all over the world has resulted in a significant increase in purchase prices.
- The Company believes it was able to successfully integrate Caños Córdoba S.R.L. operations and achieve synergies from the acquisition.

**e) K.e.r.s.p.e. Empreendimentos e Participações Ltda.**

In December 2009, the Company completed the evaluation of the fair value of assets and liabilities of the K.e.r.s.p.e. Empreendimentos e Participações Ltda. allocating goodwill totaling R\$ 91.6 million.

The following table presents the fair value of the assets and liabilities of K.e.r.s.p.e. Empreendimentos e Participações Ltda., as of the acquisition date:

Edgar Filing: GERDAU S.A. - Form 20-F

	Book Value	Acquisition Adjustments	Fair value upon acquisition
Net assets (liabilities) acquired			
Current assets	1		1
Property, plant and equipment	610		610
Other intangibles		143,182	143,182
Deferred income tax		(48,682)	(48,682)
Negative goodwill recognized in the income statement		(2,937)	(2,937)
	611	91,563	92,174
Total purchase price considered			92,174

**f) Grupo Feld S.A. de C.V. (Gerdau GTL México, S.A. de C.V.)**

On March 28, 2007, the Company purchased 100% of Grupo Feld S.A. de C.V., a Mexican Group that owns three companies: Siderúrgica Tultitlán S.A. de C.V. ( Sidertul ), a mini-mill located in Mexico City that produces 350 thousand tonnes of crude steel and 330 thousand tonnes of rolled steel; Ferrotultitlán S.A. de C.V. ( Ferrotul ), a company that sells almost all the production of Sidertul; and Arrendadora Valle de México S.A. de C.V. ( Arrendadora ), a real estate company that owns the land and buildings where Sidertul is located.

The total price paid for this acquisition was US\$ 258.8 million (R\$ 536.5 million on acquisition date).

In March 2008, the Company completed an evaluation of the fair value of assets and liabilities of Gerdau GTL México, S.A. de C.V. resulting in the recognition of additional goodwill of R\$ 7,468 and a counter entry that mainly involved property, plant and equipment.

The table below presents the calculation of the fair value of the assets and liabilities for the purchase of Gerdau GTL Mexico on the purchase date:

Table of Contents**GERDAU S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****for the years ended December 31, 2010, 2009 and 2008****(in thousands of Brazilian reais R\$, unless otherwise stated)**

	<b>Book Value</b>	<b>Acquisition Adjustments</b>	<b>Fair value upon acquisition</b>
Net assets (liabilities) acquired			
Current assets	90,478	3,612	94,090
Non-current assets	233,193	(11,080)	222,113
Goodwill	22,667	243,628	266,295
Current liabilities	(43,081)		(43,081)
Non-current liabilities	(2,873)		(2,873)
	300,384	236,160	536,544
Total purchase price considered			536,544

Goodwill was recorded on the acquisition due to the following:

- The fast consolidation of the global steel industry has resulted in a significant increase in purchase prices.
- The Company believes it was able to successfully integrate Gerdau GTL Mexico's operations and achieve synergies from the acquisition.

**g) Multisteel Business Holdings Corp.**

On May 25, 2007, the Company acquired a 30.45% stake in Multisteel Business Holdings Corp., which is the holding of Industrias Nacionales, C. por A. ( INCA ), a company located in Santo Domingo, Dominican Republic. INCA is a rolling mill company with an annual capacity of approximately 350 thousand tonnes of rolled steel. This partnership will allow the Company to enter the Caribbean market.

The total value of this investment was US\$ 42 million (R\$ 82 million on acquisition date) and the Company had preliminarily recorded goodwill of US\$ 19.7 million (R\$ 38 million on acquisition date). According to the purchase contract, the Company agrees to pay the purchase price contingent on future profits of the investment acquired. These earn-out clauses establish an additional payment if a certain level of EBITDA (defined in the contract) is reached in the next 5 years. This contingent purchase price will be included in goodwill when it is considered as the Company's liability.



## Edgar Filing: GERDAU S.A. - Form 20-F

On July 2, 2007 the Company acquired an additional stake of 18.55% in Multisteel Business Holdings Corp, totaling 49% interest after this investment. The total value of this second acquisition was US\$ 72 million (R\$ 135.2 million on acquisition date) and the Company recorded an additional goodwill of US\$ 23.1 million (R\$ 43.4 million on acquisition date). This investment is recorded under the equity method.

In May 2008, the Company completed an appraisal of the fair value of assets and liabilities of Multisteel Business Holdings Corp., and allocated part of the goodwill in the amount of R\$ 45.8 million to the investment account.

This investment is accounted under the equity method and therefore the allocation of the fair value of the acquired company's assets and liabilities is not consolidated and has effect only through a reclassification of the goodwill originally recognized. This amount is shown at note 12. In addition, the amount resulting from the amortization of the fair value is recognized in the Company's income statement under Equity in earnings of unconsolidated companies.

### **h) Siderúrgica Zuliana C.A.**

On June 18, 2007, the Company purchased 100% of Siderúrgica Zuliana C.A., a Venezuelan steel producer in the city of Ojeda, Venezuela, with an annual production capacity of 300 thousand tonnes of crude steel and 200 thousand tonnes of rolled steel.

The total value of the acquisition was US\$ 92.5 million (R\$ 176.2 million on acquisition date).

In June 2008, the Company concluded the appraisal of the fair value of the assets and liabilities of Siderúrgica Zuliana C.A., allocating part of the goodwill initially recognized in the amount of R\$ 8.1 million substantially in property, plant and equipment.

The table below shows the estimated fair value of assets and liabilities of Siderúrgica Zuliana C.A. as of the acquisition date:

Table of Contents**GERDAU S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****for the years ended December 31, 2010, 2009 and 2008****(in thousands of Brazilian reais R\$, unless otherwise stated)**

	<b>Book Value</b>	<b>Acquisition Adjustments</b>	<b>Fair value upon acquisition</b>
Net assets (liabilities) acquired			
Current assets	24,750		24,750
Non-current assets	54,964	12,248	67,212
Goodwill		103,850	103,850
Current liabilities	(8,620)		(8,620)
Non-current liabilities	(4,500)	(4,164)	(8,664)
	66,594	111,934	178,528
Total purchase price considered			178,528

The Company recorded an amount of goodwill with the acquisition due to the following factors:

- The fast consolidation of the global steel industry has resulted in a significant increase in acquisition prices.
- The Company believes it was able to successfully integrate Siderúrgica Zuliana's operations and achieve synergies from the acquisition.

**NOTE 4 - CASH AND CASH EQUIVALENTS**

	<b>2010</b>	<b>2009</b>
Cash	4,105	52,158
Banks and short-term investments	1,056,929	2,039,786
Cash and cash equivalents	1,061,034	2,091,944

The Company has no significant amounts of restricted cash or cash equivalents for the presented periods.

In 2010, The Company had transactions which did not affected cash in the amount of R\$ 1,322,075 and R\$ 587,645 relating to the acquisition of additional interest in the company Prontofer Construction Services Ltd. and Aços Villares S.A., respectively, with the issuance of shares, as described in note 3.5.d.

**NOTE 5 SHORT AND LONG-TERM INVESTMENTS****Held for trading**

Held for trading securities include Bank Deposit Certificates and marketable securities investments, which are stated at their fair value. Income generated by these investments is recorded as financial income. On December 31, 2010 the Company held R\$ 1,105,902 (R\$ 2,619,418 as of December 31, 2009) in trading securities.

**Available for sale securities**

As of December 31, 2010 the Company held R\$ 9,559 (R\$ 58,296 as of December 31, 2009) in available for sale securities in current assets and R\$ 26,797 (R\$ 49,690 as of December 31, 2009) in non-current assets, net of provision for losses. These amounts are registered at fair value.

**NOTE 6 TRADE ACCOUNTS RECEIVABLE**

	2010	2009
Trade accounts receivable - in Brazil	1,046,962	1,100,911
Trade accounts receivable - exports from Brazil	312,870	108,187
Trade accounts receivable - foreign subsidiaries	1,860,458	1,457,111
(-) Allowance for doubtful accounts	(67,263)	(80,500)
	3,153,027	2,585,709

Table of Contents**GERDAU S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****for the years ended December 31, 2010, 2009 and 2008****(in thousands of Brazilian reais R\$, unless otherwise stated)**

The Company's maximum exposure to doubtful accounts is the amount of the accounts receivable listed above. The actual risk of losses is presented as allowance for doubtful accounts.

The credit risk results from the possibility of the Company not receiving amounts arising from sales operations. In order to minimize this risk, the Company adopts the procedure of carefully analyzing the financial position of its customers, establishing a credit limit, and constantly monitoring customers' balances. The allowance is calculated based on a credit risk assessment, which considers historical losses, individual situation of each customer and the economic group to which they belong, applicable collateral and guarantees and legal counsel's opinion, and is considered sufficient to cover any losses on uncollectible receivables.

The aging list of trade accounts receivable is as follows:

	2010	2009
Current	2,658,628	2,172,081
Past-due:		
Up to 30 days	354,980	260,856
From 31 to 60 days	52,432	64,678
From 61 to 90 days	15,379	38,225
From 91 to 180 days	28,277	32,991
From 181 to 360 days	39,850	58,929
Above 360 days	70,744	38,449
(-) Allowance for doubtful accounts	(67,263)	(80,500)
	3,153,027	2,585,709

The changes in the allowance for doubtful accounts are as follows:

Balance as of January 01, 2008	(51,156)
Provisions for bad debt during the year	(25,912)
Recoveries in the year	299
Write-offs	12,420
Exchange variation	(7,323)
Acquisitions	(648)
Balance as of December 31, 2008	(72,320)
Provisions for bad debt during the year	(58,180)
Recoveries in the year	210

Edgar Filing: GERDAU S.A. - Form 20-F

Write-offs	40,961
Exchange variation	8,829
Balance as of December 31, 2009	(80,500)
Provisions for bad debt during the year	(20,906)
Recoveries in the year	4,887
Write-offs	26,753
Exchange variation	2,503
Balance as of December 31, 2010	(67,263)

F-35

---

Table of Contents

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

## NOTE 7 - INVENTORIES

	2010	2009
Finished products	2,455,459	1,975,003
Work in progress	1,418,347	1,258,384
Raw materials	1,639,393	1,213,984
Storeroom supplies	1,037,672	1,058,746
Advances to suppliers	104,262	214,467
Imports in transit	295,040	181,330
(-) Provision for market value adjustment	(152,388)	(150,321)
	6,797,785	5,751,593

The balances of the allowance for adjustment to market are mainly related to the reduction in the cost or the adjustment to market related to the impact in certain raw materials acquired by the Company, which had a reduction in the sales price of finished products. As a result of higher values in raw materials plus estimated costs to conclude the production in an amount higher to the sales price less estimated cost of sales, the Company recognized adjustments to net realizable values, as follows:

Balance as of January 01, 2008	(40,867)
Write-offs	33,393
Provision for the year	(289,850)
Exchange rate variation	(57,107)
Balance as of December 31, 2008	(354,431)
Write-offs	196,981
Provision for the year	(36,459)
Exchange rate variation	43,588
Balance as of December 31, 2009	(150,321)
Write-offs	50,634
Provision for the year	(50,526)
Exchange rate variation	3,781
Business acquisitions	(5,956)
Balance as of December 31, 2010	(152,388)

Inventories are insured against fire and overflow. The insurance coverage is based on the amounts and risks involved.

The amounts of R\$ 25.873.476, R\$ 22,305,550 and R\$ 31,228,035 were recognized, respectively, as cost of sales and freight during the years ended December 31, 2010, 2009 and 2008. As of December 31, 2010, 2009 and 2008 the cost of sales includes, respectively, the amounts of

Edgar Filing: GERDAU S.A. - Form 20-F

R\$ 50,634, R\$ 196,981 and R\$ 33,393 related to inventories permanently written off and, respectively, the amounts of R\$ 50,526, R\$ 36,459 and R\$ 289,850 related to the recognition of a provision for obsolescence and adjustment to market value.

The amounts of reversal for the provisions identified above were registered with a counter entry in the account of cost of sales and were generated substantially by the recovery of market prices.

Table of Contents

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

## NOTE 8 TAX CREDITS

	2010	2009
<b>Current</b>		
ICMS (state VAT)	153,808	151,264
COFINS (tax on revenue)	59,903	101,780
PIS (tax on revenue)	10,800	14,692
IPI (federal VAT)	53,202	34,343
Withholding income tax	168,897	377,451
IVA (value-added tax)	139,446	109,034
	586,056	788,564
<b>Non-current</b>		
ICMS (state VAT)	77,440	100,488
PIS (tax on revenue)	368	3,740
COFINS (tax on revenue)	1,678	17,209
Withholding income tax and others	321,736	362,997
	401,222	484,434
	987,278	1,272,998

The estimate of realization of non-current tax credits is as follows:

	2010	2009
2011		108,430
2012	106,109	81,021
2013	85,382	84,110
2014	17,067	55,256
After 2015	192,664	155,617
	401,222	484,434

## NOTE 9 - INCOME AND SOCIAL CONTRIBUTION TAXES

a) Reconciliation of income tax (IR) and social contribution (CS) adjustments on the net income:



Edgar Filing: GERDAU S.A. - Form 20-F

	2010	2009	2008
Income before income taxes	2,959,238	1,031,460	5,893,114
Statutory tax rates	34%	34%	34%
Income and social contribution taxes at statutory rates	(1,006,141)	(350,696)	(2,003,659)
Tax adjustment with respect to:			
- Difference in tax rates in foreign companies	6,622	11,325	170,755
- Equity in subsidiaries	13,414	(37,045)	41,755
- Interest on equity	132,780	44,099	282,453
- Tax incentives	65,686	96,921	108,448
- Tax deductible goodwill recorded in statutory books	291,484	188,708	287,723
- Other permanent differences (net)	(5,704)	19,736	164,309
Income and social contribution taxes	(501,859)	(26,952)	(948,216)
Current	(642,306)	(303,272)	(1,423,660)
Deferred	140,447	276,320	475,444

F-37

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

The reconciliation above considers the effect of income and social contribution taxes applying a nominal rate of 34%, current in Brazil. The effects of the difference rates from Brazil to the various other countries where the Company's businesses are presented under Differences in tax rates in foreign companies .

The Company's subsidiaries in Brazil received R\$ 41,855 during the year ended December 31, 2010 (R\$ 44,772 and R\$ 46,810 during the years ended December 31, 2009 and 2008, respectively) of tax incentives in the form of income tax credits, related to technological innovation, funds for the rights of children and adolescents, PAT (Workers' Meal Program), and cultural and artistic activities. The units of the subsidiary Gerdau Aços Longos S.A., located in the northeast region of Brazil, will receive until 2013, a 75% reduction in income tax on operating profit, which represented R\$ 23,831 as of December 31, 2010 (R\$ 52,149 and R\$ 61,638 during the years ended December 31, 2009 and 2008, respectively). The respective tax incentives were recorded directly in the income and social contribution tax accounts in the statement of income.

On December 31, 2010, the Company has a total of tax losses arising carryforwards from its operations in Brazil of R\$ 607,370 Income tax (R\$ 340,248 and R\$ 253,828 during the years ended December 31, 2009 and 2008, respectively) and a total of negative basis of social contribution R\$ 849,446 (R\$ 418,285 and R\$ 315,378 during the years ended December 31, 2009 and 2008, respectively), representing a deferred tax asset of R\$ 228,293 (R\$ 122,708 and R\$ 91,841 during the years ended December 31, 2009 and 2008, respectively). The Company believes that the values will be realized based on the expectation of future taxable income. In addition to these deferred tax assets, the Company has not recorded a portion of tax asset of R\$ 68,048 (R\$ 26,496 and R\$ 50,762 during the years ended December 31, 2009 and 2008, respectively), due to lack of opportunity to use the tax losses and negative social contribution of subsidiaries. However, these tax losses and negative basis of social contribution not have an end date to expire.

On December 31, 2010, the subsidiary Gerdau Ameristeel has a deferred tax assets due to tax losses arising from their operations on Canada, in a total of income taxes R\$ 113,272 (R\$ 63,287 on December 31, 2009). The subsidiary believes that the amounts will be realized based on future taxable income, and historically the subsidiary has generated taxable income enough to use this assets.

On December 31, 2010, the subsidiary Gerdau Ameristeel had R\$ 151,551 (R\$ 139,973 on December 31, 2009) of taxes losses related to losses of capital which deferred tax assets were not recognized on Consolidated Financial Statements. These losses relate primarily to the long-term investments write-off from subsidiary, and currently have maturity date defined, except for an amount of R\$ 55,424 included on the Financial Statements on December 31, 2010, which expires in 2015. The subsidiary had several state tax losses totaling R\$ 205,982 (R\$ 237,669 on December 31, 2009) which were not recognized on the Consolidated Financial Statements, and there are various maturity dates between 2011 and 2030. The subsidiary had also R\$ 63,119 (R\$ 57,494 on December 31, 2009) state tax credits that were not recognized in the subsidiary Consolidated Financial Statements. These credits has several maturity dates distributed between 2015 and 2018, except for a portion of R\$ 12,968 (R\$ 11,840 on December 31, 2009), which has not a maturity date.

Edgar Filing: GERDAU S.A. - Form 20-F

b) Breakdown and changes in deferred income and social contribution tax assets and liabilities at using statutory tax rates:

	Balance as of January 01, 2008	Business acquisition	Recognized in income	Recognized in statement of comprehensive income	Balance as of December 31, 2008
<b>Non-current assets</b>					
Tax losses	133,923		243,787	203,685	581,395
Offset of tax losses	19,123		9,282		28,405
Provision for tax	128,962		(6,513)		122,449
Benefits granted to employees	262,336		(23,336)	231,893	470,893
Other temporary differences	322,361		129,345	(40,521)	411,185
Amortized goodwill	17,171		40,597		57,768
Property, plant and equipment			(6,920)		(6,920)
Provision for losses	130,253		(29,073)		101,180
<b>Total Non-current assets</b>	<b>1,014,129</b>		<b>357,169</b>	<b>395,057</b>	<b>1,766,355</b>
<b>Non-current liabilities</b>					
Property, plant and equipment and intangible allocations in fair value	1,865,789	278,004	(397,940)	514,068	2,259,921
Amortized negative goodwill	67,726		4,866		72,592
Benefits granted to employees	171,531		(141,162)	61,702	92,071
Other temporary differences	241,094	80,363	415,961	(101,734)	635,684
<b>Total Non-current liabilities</b>	<b>2,346,140</b>	<b>358,367</b>	<b>(118,275)</b>	<b>474,036</b>	<b>3,060,268</b>
<b>Total net</b>	<b>(1,332,011)</b>	<b>(358,367)</b>	<b>475,444</b>	<b>(78,979)</b>	<b>(1,293,913)</b>
Effect in the income of the year			475,444		

Table of Contents

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

	Balance as of December 31, 2008	Business acquisition	Recognized in income	Recognized in statement of comprehensive income	Balance as of December 31, 2009
<b>Non-current assets</b>					
Tax losses	581,395		211,785	(122,278)	670,902
Offset of tax losses	28,405		9,258		37,663
Provision for tax	122,449		1,865	13,382	137,696
Benefits granted to employees	470,893		11,045	(243,197)	238,741
Other temporary differences	411,185		(4,920)	(306,206)	100,059
Amortized goodwill	57,768		(65)	(19,344)	38,359
Property, plant and equipment	(6,920)		6,920		
Provision for losses	101,180		15,787	6,649	123,616
Total Non-current assets	1,766,355		251,675	(670,994)	1,347,036
<b>Non-current liabilities</b>					
Property, plant and equipment and intangible allocations in fair value	2,259,921	49,798	(46,865)	(573,843)	1,689,011
Amortized negative goodwill	72,592		50,915	(27,119)	96,388
Benefits granted to employees	92,071		26,429	52,133	170,633
Other temporary differences	635,684		(55,124)	(262,833)	317,727
Total Non-current liabilities	3,060,268	49,798	(24,645)	(811,662)	2,273,759
Total net	(1,293,913)	(49,798)	276,320	140,668	(926,723)
Effect in the income of the year			276,320		

	Balance as of December 31, 2009	Business acquisition	Recognized in income	Recognized in statement of comprehensive income	Balance as of December 31, 2010
<b>Non-current assets</b>					
Tax losses	670,902		140,570	10,340	821,812
Offset of tax losses	37,663		38,786		76,449
Provision for tax	137,696		51,199	4,581	193,476
Benefits granted to employees	238,741		6,072	(87,045)	157,768
Other temporary differences	100,059	4,562	(48,606)	114,762	170,777
Amortized goodwill	38,359		35,789	(1,669)	72,479
Provision for losses	123,616		(6,367)	(30,999)	86,250

Edgar Filing: GERDAU S.A. - Form 20-F

Total Non-current assets	1,347,036	4,562	217,443	9,970	1,579,011
<b>Non-current liabilities</b>					
Allocations in fair value	1,689,011	44,764	61,190	(77,884)	1,717,081
Amortized negative goodwill	96,388		(23,796)		72,592
Benefits granted to employees	170,633		20,967	(47,584)	144,016
Other temporary differences	317,727		18,635	798	337,160
Total Non-current liabilities	2,273,759	44,764	76,996	(124,670)	2,270,849
Total net	(926,723)	(40,202)	140,447	134,640	(691,838)
Effect in the income of the year			140,447		

F-39

Table of Contents**GERDAU S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****for the years ended December 31, 2010, 2009 and 2008****(in thousands of Brazilian reais R\$, unless otherwise stated)**

Credits recognized over tax losses and negative basis of social contribution are supported by projections of taxable income, based on technical feasibility studies submitted annually to the Company's Board of Directors. These studies consider historical profitability of the Company and its subsidiaries and the prospect of maintaining current profitability in the future, allowing an estimated recovery of credits. The other tax credits arising from temporary differences, mainly tax contingencies, and provision for losses, were recognized according to their expectation of realization.

c) Estimated recovery of income and social contribution tax credits:

	<b>Assets</b>	
	<b>2010</b>	<b>2009</b>
2010		258,074
2011	373,210	185,249
2012	229,942	190,869
2013	190,350	195,864
2014	183,873	199,512
After 2015	601,636	317,468
	1,579,011	1,347,036

	<b>Liabilities</b>	
	<b>2010</b>	<b>2009</b>
2010		96,070
2011	82,752	114,326
2012	96,267	111,717
2013	96,478	111,972
2014	96,023	111,717
After 2015	1,899,329	1,727,957
	2,270,849	2,273,759

Table of Contents

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

## NOTE 10 PROPERTY, PLANT AND EQUIPMENT

## a) Summary of changes in property, plant and equipment:

	Lands and buildings	Machines, equipment, and installations	Furniture and Fixture	Vehicles	Data electronic equipment	Forestry/ reforestation	Property, plant and equipment under construction	Total
<b>Gross cost of the property, plant, and equipment</b>								
Balances as of January 01, 2008	4,732,794	14,698,041	177,263	132,192	553,411	410,527	2,372,356	23,076,584
Foreign exchange effect	525,834	1,606,036	35,433	24,489	11,365		174,114	2,377,271
Acquisitions/sales of companies and allocation of fair value	193,529	922,442	5,251				18,559	1,139,781
Additions	248,630	785,247	36,392	47,157	48,540	108,167	1,864,911	3,139,044
Transfers	158,411	1,529,666	6,489	(2,134)	38,759	301	(1,731,492)	
Disposals	(26,055)	(217,716)	(2,506)	(3,549)	(2,185)	(16,835)	(28,611)	(297,457)
Balances as of December 31, 2008	5,833,143	19,323,716	258,322	198,155	649,890	502,160	2,669,837	29,435,223
Foreign exchange effect	(289,136)	(1,139,241)	(37,309)	(26,339)	178,771		(89,076)	(1,402,330)
Acquisitions/sales of companies		3,189						3,189
Additions	26,225	277,498	13,887	4,202	74,238	51,940	929,786	1,377,776
Transfers	(45,676)	1,942,361	(9,951)	(33,225)	(27,132)	(17,384)	(1,808,993)	
Disposals	(30,606)	(771,018)	(17,042)	(22,763)	(119,229)	(73,774)	(82,878)	(1,117,310)
Impairment (note 28.2)	(73,138)	(497,488)	(61)	(3,880)	(1,914)		(17,599)	(594,080)
Balances as of December 31, 2009	5,420,812	19,139,017	207,846	116,150	754,624	462,942	1,601,077	27,702,468
Foreign exchange effect	(91,688)	(512,149)	2,618	1,836	(14,849)		3,320	(610,912)
Acquisitions/sales of companies	35,800	109,436					27,862	173,098
Additions	89,107	49,189	6,432	4,133	7,974	108,628	1,023,306	1,288,769
Transfers	519,280	718,598	1,595	12,397	22,457		(1,274,327)	
Disposals	(24,874)	(127,586)	(1,709)	(18,291)	(3,455)	(58,915)	(9,051)	(243,881)
Impairment (note 28.2)		(168,449)						(168,449)
Reversal of Impairment (note 28.2)	33,911	154,910	44					188,865
Balances as of December 31, 2010	5,982,348	19,362,966	216,826	116,225	766,751	512,655	1,372,187	28,329,958

Machines,

Property, plant and

Edgar Filing: GERDAU S.A. - Form 20-F

	Lands and buildings	equipment, and installations	Furniture and Fixture	Vehicles	Data electronic equipment	Forestry/ reforestation	equipment under construction	Total
<b>Accumulated depreciation</b>								
Balance on January 01, 2008	(1,416,797)	(5,245,274)	(104,531)	(67,928)	(337,047)	(77,063)		(7,248,640)
Foreign exchange effect	(55,728)	(545,866)	(19,434)	(12,232)	(15,169)			(648,429)
Depreciation, amortization and depletion	(193,828)	(1,298,641)	(21,176)	(26,611)	(70,635)	(13,277)	(4)	(1,624,172)
Transfers	(17)	(175)	1	191				
Disposals	5,092	130,053	1,052	2,396	2,172			140,765
Balances as of December 31, 2008	(1,661,278)	(6,959,903)	(144,088)	(104,184)	(420,679)	(90,340)	(4)	(9,380,476)
Foreign exchange effect	(187,900)	(888,589)	21,518	11,109	(30,920)	(34)	919	(1,073,897)
Depreciation, amortization and depletion	(35,525)	(1,442,492)	(9,736)	(11,130)	(42,382)	(21,599)	(361)	(1,563,225)
Transfers	204	(21,139)	1,299	537	1,551	17,691	(143)	
Disposals	7,963	742,400	16,876	18,937	117,855	68,137		972,168
Impairment	3,529	67,513		1,574	1,447			74,063
Balances as of December 31, 2009	(1,873,007)	(8,502,210)	(114,131)	(83,157)	(373,128)	(26,145)	411	(10,971,367)
Foreign exchange effect	83,568	219,397	(1,697)	857	5,891			308,016
Depreciation, amortization and depletion	(232,659)	(1,376,603)	(18,003)	(15,093)	(55,448)	(16,681)		(1,714,487)
Transfers	3,867	(984)	(19)	(3,115)	251			
Disposals	4,806	80,693	754	12,197	3,663	16,887		119,000
Impairment		100,440						100,440
Balances as of December 31, 2010	(2,013,425)	(9,479,267)	(133,096)	(88,311)	(418,771)	(25,939)	411	(12,158,398)
<b>Net property, plant and equipment</b>								
Balances as of December 31, 2008	4,171,865	12,363,813	114,234	93,971	229,211	411,820	2,669,833	20,054,747
Balances as of December 31, 2009	3,547,805	10,636,807	93,715	32,993	381,496	436,797	1,601,488	16,731,101
Balances as of December 31, 2010	3,968,923	9,883,699	83,730	27,914	347,980	486,716	1,372,598	16,171,560

The following useful lives are used to calculate depreciation, amortization, and depletion:

	Useful lives of property, plant and equipment
Buildings	20 to 33 years
Machines, equipment, and installations	10 to 20 years
Furniture and fixture	5 to 10 years
Vehicles	3 to 5 years
Data electronic equipment	2.5 to 6 years
Forestry/reforestation	Cutting plan

**b) Insured amounts** property, plant and equipment are insured against fire, electrical damage and explosion. The insurance coverage is based on the amounts and risks involved. The plants of the North and Latin American subsidiaries (except Brazil), Spanish subsidiaries and the subsidiaries Gerdau Açominas S.A. are also insured against loss of profits.





Table of Contents

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

**c) Capitalized borrowing costs** borrowing costs capitalized during the year 2010 totaled R\$ 48,246 (R\$ 78,535 and R\$ 120,010 during the years ended on December 31, 2009 and 2008, respectively).

**d) Guarantees** property, plant and equipment have been pledged as collateral for loans and financing in the amount of R\$ 129,202 as of December 31, 2010 (R\$ 218,833 and R\$ 2,341,749 as of December 31, 2009 and 2008, respectively).

**e) Impairment of property, plant and equipment** The Company carried out impairment tests on its property, plant and equipment as discussed in Note 28. On December 31, 2010, the residual amount for the fixed assets impacted by the impairment is R\$ 34,622 for lands, buildings and constructions and R\$ 13,089 for machines, equipments and installations.

## NOTE 11 INVESTMENTS

## a) Associates and jointly-controlled entities

	Dona Francisca Energética S.A.		Armacero Ind. Com. Ltda.		Joint Ventures North America		Grupo Multisteel Business Holdings Corp.		Corsa Controladora S.A. de C.V.		Gerdau Corsa S.A.P.I. de C.V.		Corporación Centro Americana del Acero, S.A.		Kalyani Gerdau Steel Ltd.
	Investment	Goodwill	Investment	Investment	Investment	Goodwill	Investment	Goodwill	Investment	Goodwill	Investment	Investment	Goodwill	Investment	
Balances as of															
January 01, 2008	74,586	17,074	6,120	286,157	152,703	76,472									
Equity in earnings	9,904		8,492	34,832	56,432		33,813		9,948		6,421				(37,459)
Cumulative															
Translation															
Adjustment			1,326	253,453	42,225	15,123	20,324	36,097	(2,291)		56,364	93,533			7,467
Dividends				(183,582)											
Acquisition/disposal							892	52,250	134,034	80,479	103,978	199,718			127,254
of investment															
Reclassification of															
fair value					41,602	(41,602)					63,243	(63,243)			
Balance as of															
December 31, 2008	84,490	17,074	15,938	390,860	292,962	50,885	106,387	170,131	88,136	230,006	230,008				97,262
Equity in earnings	5,966		1,192	(15,579)	(56,347)		13,076		(4,639)		(15,121)				(37,505)
Cumulative	2,154		(1,323)	(95,592)	(74,128)	(8,319)	(2,933)	(30,454)	(25,409)	(81,550)	(58,680)				2,393
Translation															

Edgar Filing: GERDAU S.A. - Form 20-F

Adjustment												
Dividends				(20,931)	(2,721)		(17,963)			(4,780)		
Impairment												
Balance as of												(46,092)
December 31, 2009	92,610	17,074	15,807	258,758	159,766	42,566	98,567	139,677	58,088	128,555	171,328	16,058
Equity in earnings	12,765		1,773	829	15,075		7,385		(1,657)	(6,672)		(13,093)
Cumulative												
Translation												
Adjustment			333	1,844	(8,236)	(3,454)	1,226	1,009	769	7	(9,409)	(1,813)
Dividends	(5,182)			(43,788)	441		(8,279)			165		
Acquisition/disposal												
of investment												
Capital increase												
Balance as of												24,552
December 31, 2010	100,193	17,074	17,913	217,643	167,046	39,112	98,899	140,686	57,200	122,055	161,919	25,704

**b) Other investments**

	<b>MRS Logística S.A.</b>	<b>Others</b>	
	<b>Investment</b>	<b>Investment</b>	<b>Total</b>
Balance as of January 01, 2009	4,772	16,996	21,768
Acquisition/disposal of investment		(2,133)	(2,133)
Balance as of December 31, 2009	4,772	14,863	19,635
Acquisition/disposal of investment		(633)	(633)
Balance as of December 31, 2010	4,772	14,230	19,002

The results of the impairment tests on its investments are presented in Note 28.

Table of Contents

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

## NOTE 12 GOODWILL

The changes in goodwill are as follows:

	Goodwill	Accumulated impairment losses	Goodwill after Impairment losses
Balance as of January 01, 2008	6,043,396		6,043,396
(+/-) Foreign exchange effect	2,568,239	(38,919)	2,529,320
(+) Additions	2,775,351		2,775,351
(-) Write-off	(53,965)		(53,965)
Balance as of December 31, 2008	11,333,021	(38,919)	11,294,102
(+/-) Foreign exchange effect	(2,632,029)	29,377	(2,602,652)
(+) Additions	26,111		26,111
(-) Write-off	(91,563)		(91,563)
(-) Impairment losses		(201,657)	(201,657)
Balance as of December 31, 2009	8,635,540	(211,199)	8,424,341
(+/-) Foreign exchange effect	(443,075)	15,888	(427,187)
(+) Additions	160,944		160,944
Balance as of December 31, 2010	8,353,409	(195,311)	8,158,098

The amount of goodwill by segment is as follows:

	2010	2009	2008
Brazil	372,402	376,322	464,699
Specialty Steels	1,800,754	1,933,685	2,807,117
Latin America	696,110	682,998	756,041
North America	5,288,832	5,431,336	7,266,245
	8,158,098	8,424,341	11,294,102

**Goodwill impairment test**

The Company evaluates the recoverability of goodwill on investments annually and uses accepted market practices, as the discounted cash flow for operating segments which have goodwill.

Recoverability of goodwill is evaluated based on analysis and identification of facts and circumstances that could result in the need of anticipation for the tests performed annually. If some fact or circumstance indicates that the recoverability of goodwill is affected, then the test is performed. On December 31, 2010, the Company carried out goodwill impairment tests for all of its operating segments, which represented the lowest level at which goodwill is monitored by management based on projections for expected discounted cash flows and which took into consideration the following assumptions: cost of capital, growth rate and adjustments used for perpetual cash flows, methodology for determining working capital, investment plans, and long-term economic-financial forecasts.

The results of recoverability of goodwill as disclosed in Note 28.

Table of Contents

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

## NOTE 13 INTANGIBLE ASSETS

Intangible assets refer basically to relationships arising from the acquisition of companies and software development:

	Supplier relationship	Software development	Carbon Emission Reduction Certified	Customer contracts and relationships	Others	Total
Balance as of January 01, 2008			6,564	1,062,191	4,960	1,073,715
Exchange variation			3,154	473,019	468	476,641
Acquisition			25,843		26,285	52,128
Business combination acquisitions				404,953		404,953
Disposal			(12,709)	(30,135)	(17,756)	(60,600)
Amortization				(230,927)	(2,980)	(233,907)
Balance as of December 31, 2008			22,852	1,679,101	10,977	1,712,930
Exchange variation			(4,548)	(369,298)	(253)	(374,099)
Business combination acquisitions	155,682					155,682
Impairment				(270,544)		(270,544)
Amortization	(28,637)		(10,561)	(190,495)	(1,476)	(231,169)
Balance as of December 31, 2009	127,045		7,743	848,764	9,248	992,800
Exchange variation			(2,430)	(30,526)	129	(32,827)
Acquisition		82,701	11,897			94,598
Business combination acquisitions				30,591		30,591
Reversal of impairment losses				216,191		216,191
Disposal			(4,925)			(4,925)
Amortization	(8,129)			(110,558)	(918)	(119,605)
Balance as of December 31, 2010	118,916	82,701	12,285	954,462	8,459	1,176,823
Estimated useful lives	5 to 20 years	7 years	Undefined	5 to 20 years	5 years	

The composition of other intangible assets by segment is as follow:

Edgar Filing: GERDAU S.A. - Form 20-F

	2010	2009	2008
Brazil	190,228	130,706	3,661
Specialty Steels	272,455	60,501	491,067
North America	714,140	801,593	1,218,202
	1,176,823	992,800	1,712,930

Intangible assets are amortized over their estimated useful lives and have the counterpart the account the cost of sales. The 2010 acquisitions refer substantially to the software development project with application on the business management and the allocation is detailed in note 3.5.c. The evaluation results of the other intangible assets impairment are presented in note 28.

Table of Contents

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

## NOTE 14 LOANS AND FINANCING

Loans and financing are as follows:

	Annual charges (*)	2010	2009
<b>Short term financing in Brazilian reais</b>			
Working capital	6.09%	151,379	130,830
Financing of investment	10.85%	5,729	259,722
<b>Short term financing in foreign currency</b>			
Working capital (US\$)	1.93%	502,393	124,894
Working capital ( )	3.30%	100,635	93,247
Working capital (Clp\$)	1.95%	24,373	18,404
Working capital (Cop\$)	6.82%	79,775	92,738
Working capital (PA\$)	9.78%	35,377	472
Working capital (Mxn\$)	7.45%	46,314	7,276
Financing of property, plant and equipment and others (US\$)	4.34%	5,930	7,614
		951,905	735,197
Plus current portion of long-term financing		626,063	621,584
Short term financing plus current portion of long-term financing		1,577,968	1,356,781
<b>Long-term financing in Brazilian reais</b>			
Working capital	6.33%	939,286	103,604
Financing of property, plant and equipment	7.90%	1,497,509	1,749,301
<b>Long-term financing in foreign currency</b>			
Working capital (US\$)	2.96%	1,062,624	1,141,440
Working capital ( )	3.30%	82,761	149,126
Working capital (Mxn\$)	7.45%	4,872	12,041
Working capital (COP\$)	6.82%	206,638	300,440
Bearer bonds (Perpetual bonds and Senior Notes) (US\$)			1,046,780
Ten Year Bonds (US\$)	6.71%	6,709,187	4,840,778
Term Loan Facility (US\$)	1.68%	2,073,264	2,942,628
Advances on export contracts (US\$)	5.91%	130,138	514,015
Financing of investment (US\$)	4.34%	38,323	81,488
Financing of property, plant and equipment and others (US\$)	3.59%	241,517	303,098
		12,986,119	13,184,739
Less: current portion		(626,063)	(621,584)
Long term financing minus current portion		12,360,056	12,563,155
Total financing		13,938,024	13,919,936



Edgar Filing: GERDAU S.A. - Form 20-F

(\*) Weighted average effective interest costs on December 31, 2010.

Loans and financing denominated in Brazilian reais are indexed to the TJLP (long-term interest rate, which is established quarterly by the Federal Government for adjusting long-term loans granted by the BNDES - National Bank for Economic and Social Development), or to the IGP-M (general market price index, a Brazilian inflation rate measured by Fundação Getúlio Vargas), or CDI (Interbank Deposit Certificate).

Summary of loans and financing by currency:

F-45

---

Table of Contents**GERDAU S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****for the years ended December 31, 2010, 2009 and 2008****(in thousands of Brazilian reais R\$, unless otherwise stated)**

	<b>2010</b>	<b>2009</b>
Brazilian Real (R\$)	2,593,903	2,243,457
U.S. Dollar (US\$)	10,763,376	11,002,735
Euro ( )	183,396	242,373
Colombian Peso (Cop\$)	286,413	393,178
Argentine Peso (PA\$)	35,377	472
Chilean Peso (Clp\$)	24,373	18,404
Mexican Peso (Mxn\$)	51,186	19,317
	13,938,024	13,919,936

Timeline of installments payments of long term loans and financing is as follows:

	<b>2010</b>	<b>2009</b>
2011		677,664
2012	1,547,697	2,650,655
2013	2,589,530	2,305,967
2014	787,169	378,255
2015 on	7,435,660	6,550,614
	12,360,056	12,563,155

**a) Ten Year Bonds****Bond 2021**

On October 01, 2010, the subsidiary Gerdau Trade Inc., concluded the issuance of bonds totaling US\$ 1.25 billion and final maturity on January 30, 2021. The following companies guarantee this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Comercial de Aços S.A.. On December 31, 2010, the outstanding principal of this facility was R\$ 2,082,750. Part of these resources were used for early settlement of the obligation (Perpetual Bond) in a total of US\$ 600 million (R\$ 1,031 million on the redemption date). These obligations were captured on September 15, 2005 and had no final maturity, and from September 22, 2010, Gerdau has the right to exercise the repurchase the bond.

**Bond 2020**

On November 18, 2009, subsidiary Gerdau Holdings Inc. concluded the issue of bonds totaling US\$1.25 billion and final maturity on January 20, 2020. The following companies guarantee to this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. On December 31, 2010 the outstanding principal of this facility is US\$1.25 billion (R\$ 2,082,750 on December 31, 2010).

**Bond 2017**

On October 10, 2007, subsidiary GTL Trade Finance Inc. concluded the issue of bonds totaling US\$1 billion with subsequent reopening of US\$ 500 million, totalizing US\$1.5 billion and final maturity on October 20, 2017. The following companies granted guarantee to this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. On December 31, 2010 the outstanding principal of this facility was US\$1.5 billion (R\$ 2,499,300 on December 31, 2010).

**b) Term Loan Facility**

On September 10, 2007, the subsidiaries Gerdau Ameristeel US Inc. and GNA Partners entered into a Senior Acquisition Financing totaling US\$2.75 billion and final maturity on September 14, 2013. The following companies granted guarantee to this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Comercial de Aços S.A., Gerdau Ameristeel Corporation and Gerdau Açominas Overseas Limited. On December 31, 2010 the outstanding principal of this facility was US\$1.26 billion (R\$ 2,103,578 on December 31, 2010).

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**c) Guarantees**

All loans contracted under the FINAME/BNDES program, totaling R\$ 85,134 on the date of the Consolidated Financial Statements, are guaranteed by the assets being financed. Certain other loans are guaranteed by the controlling shareholders, for which the Company pays a fee of 0.95% per year, over the amount endorsed.

**d) Covenants**

As an instrument to monitor the financial conditions of the Company by the Company's creditors, certain financial agreements contain financial covenants.

In the second quarter of 2009, the Company's management, based on projections which took into account the economic crisis and its impacts on the steel market worldwide, concluded that there was a possibility that the Company would temporarily be in default of certain covenants in some debt agreements and this default, in the case of occur, would be in the end of the third or fourth quarters of 2009.

As a proactive initiative, the Company worked on a proposal for a temporary reset of the financial covenants and, during the second quarter of 2009, presented the proposal to its creditors involved in debt facilities subject to financial covenants. On June 22, 2009, the Company obtained approval from 100% of the affected creditors, representing 43 banks and a portion of US\$3.7 billion of the Company's total indebtedness.

The covenant reset would be in place in case of a covenant breach, which was the case on September 30, 2009. This structure still active until September 30, 2010, when it was not necessary anymore.

Below are brief descriptions of the financial covenants originally required in the Company's debt agreements.

All covenants mentioned below are calculated based on the Consolidated Financial Statements under IFRS of Gerdaul S.A., except item IV, which refers to the Consolidated Financial Statements of Metalúrgica Gerdaul S.A., as described below:

**I) Consolidated Interest Coverage Ratio** measures the interest expense payment capacity in relation to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization), according to the contracts with banks (earnings before interest, taxes, depreciation, amortization, impairment reversal/losses and restructure costs). The contractual ratio indicates that the EBITDA for the last 12 months should represent at least 3 times of the interest expense of the same period. As of December 31, 2010 such covenant was 4.6 times;

**II) Consolidated Leverage Ratio** measures the level of gross debt in relation to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization). The contractual ratio indicates that the gross debt should not surpass 4 times the EBITDA for the last 12 months. As of December 31, 2010 such covenant was 2.8 times;

**III) Required Minimum Net Worth** measures the minimum net worth required in financial agreements. The contractual ratio indicates that the Net Worth must be greater than R\$ 3,795,200; As of December 31, 2010 such level was R\$ 20,147,615; and

**IV) Current Ratio** measures the company's ability in fulfilling its short term obligations. The contractual terms indicates that the ratio of Current Assets divided by Current Liabilities must be greater than 0.8 times. As of December 31, 2010 the current ratio was 2.6 times.

Pursuant to the financial agreements, the penalty for non-compliance with such financial covenants is the possibility of declaration of default by the creditors and loans having its maturity accelerated.

#### **e) Credit Lines**

In June 2009, certain subsidiaries of the Company (Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and the former subsidiary Aços Villares S.A.) obtained a pre-approved credit line with BNDES in the total amount of R\$ 1,500,025 to be applied on revamp and modernization in several areas, increase in the production capacity of certain product lines, investment in logistics and energy generation, and also environmental and sustainability projects. The funds will be made available at the time each subsidiary start its specific investment and present to BNDES its respective

Table of Contents**GERDAU S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****for the years ended December 31, 2010, 2009 and 2008****(in thousands of Brazilian reais R\$, unless otherwise stated)**

certificate of accomplishment. The transaction bears interest rate of TJLP + 2.21% p.a. The transaction is guaranteed per guarantee and financial covenants of Metalúrgica Gerdau S.A.. As of December 31, 2010, the credit facility was not in use by the Company.

On May 27, 2008, Gerdau Aços Longos S.A. received a loan approval from BNDES (National Bank for Economic and Social Development) in the total amount of R\$ 543,413 for financing the construction of the Caçú / Barra dos Coqueiros hydroelectric complex with a grace period of 6 months after startup by October 2010. As of December 31, 2010, R\$ 499,836 of this credit facility had been used. The amortization will take place from November 2010 to October 2024, subject to TJLP (Long-term interest rate) + 1.46 % p.a.

The North American subsidiaries have a US\$ 650 million (R\$ 1,083,030 on December 31, 2010) line of credit that expires in December 2012. Inventories and accounts receivable of subsidiaries guarantee this facility. No amounts were outstanding on this line of credit as of December 31, 2010.

In May 2008, the subsidiary Gerdau Macsteel, Inc. obtained a line of credit with a consortium of banks, led by Citibank N.A., in a total of US\$ 100 million (R\$ 166,620 on December 31, 2010) 3-year revolving credit facility. On December 31, 2010, no amounts were outstanding on this line of credit. The interest rate was LIBOR + 1.25% p.a.. The following companies granted guarantee to this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Comercial de Aços S.A.

**NOTE 15 DEBENTURES**

Issuance	General Meeting	Quantity as of December 31, 2010		Maturity	Annual Charges*	2010	2009
		Issued On	Portfolio				
3rd- A and B	May 27, 1982	144,000	97,187	06/01/2011	CDI	115,069	115,844
7th	July 14, 1982	68,400	45,349	07/01/2012	CDI	40,717	33,838
8th	November 11, 1982	179,964	5,548	05/02/2013	CDI	463,656	313,986
9th	June 10, 1983	125,640	35,816	09/01/2014	CDI	14,452	42,380
11th - A and B	June 29, 1990	150,000	124,573	06/01/2020	CDI	98,077	94,931
<b>Total Consolidated</b>						731,972	600,979
Current						115,069	
Non-current						616,902	600,979

(\*) CDI - Interbank Deposit Certificate

Maturities of long-term amounts are as follows:

	2010	2009
2011		115,844
2012	40,717	33,838
2013	463,656	313,986
2014	14,452	42,380
After 2015	98,077	94,931
	616,902	600,979

**Debentures issued by Gerdau S.A.** The debentures are denominated in Brazilian reais, are not convertible into shares and have variable interest at a percentage of the CDI (Interbank Deposit Rate). The nominal annual interest rate was 9.75% and 9.88% as of December 31, 2010 and December 31, 2009, respectively.

#### NOTE 16 - FINANCIAL INSTRUMENTS

**a) General considerations** - Gerdau S.A. and its subsidiaries enter into transactions with financial instruments whose risks are managed by means of strategies and exposure limit controls. All financial instruments are recorded in the accounting books and consist mainly of cash and cash equivalents, short-term investments, trade accounts receivable, trade accounts payable, perpetual bonds, Ten Years bonds, Term Loan Facility, other financing, debentures, unrealized gains on derivatives, unrealized losses on derivatives, other accounts receivable, other accounts payable and put options on non-

Table of Contents

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

controlling interests. These transactions are not conducted for speculative purposes nature and are intended to hedge the company against exchange rate fluctuations on foreign currency-denominated loans and against interest rate fluctuations.

The Company uses derivative instruments and non-derivatives as hedges of certain operations, and applies the hedge accounting methodology for some of these transactions.

**b) Market value** the market value of the aforementioned financial instruments is as follows:

	2010		2009	
	Book value	Market value	Book value	Market value
Cash and cash equivalents	1,061,034	1,061,034	2,091,944	2,091,944
Short-term investments	1,142,258	1,142,258	2,727,404	2,727,404
Trade accounts receivable	3,153,027	3,153,027	2,585,709	2,585,709
Trade accounts payable	1,783,274	1,783,274	1,705,058	1,705,058
Perpetual bonds			1,044,720	1,069,271
Ten Years Bonds	6,709,187	7,167,676	4,840,778	5,047,889
Term Loan Facility	2,073,264	2,073,264	2,942,628	2,942,628
Other financing	5,155,573	5,155,573	5,091,810	5,091,810
Debentures	731,971	731,971	600,979	600,979
Unrealized gains on derivatives	6,312	6,312	20,034	20,034
Unrealized losses on derivatives	92,476	92,476	92,860	92,860
Other accounts receivable	443,978	443,978	577,773	577,773
Other accounts payable	767,913	767,913	586,877	586,877
Put options on minority interest	516,706	516,706	518,096	518,096

The market value of Ten-Year bond Securities and Perpetual bonds are based on quotations in the secondary market for these securities.

All other financial instruments, which are recognized in the Consolidated Financial Statements at their carrying amount, are substantially similar to those that would be obtained if they were traded in the market. However, because there is no active market for these instruments, differences could exist if they were settled in advance.



**c) Risk factors that could affect the Company's and its subsidiaries' business:**

**Price risk of commodities:** this risk is related to the possibility of changes in prices of the products sold by the Company or in prices of raw materials and other inputs used in the productive process. Since the subsidiaries operate in a commodity market, their sales revenues and cost of sales may be affected by changes in the international prices of their products or materials. In order to minimize this risk, the subsidiaries constantly monitor the price variations in the domestic and international markets.

**Interest rate risk:** this risk arises from the possibility of losses (or gains) due to fluctuations in interest rates applied to the Company's assets (investments) or liabilities in the market. To minimize possible impacts from interest rate fluctuations, the Company adopts a diversification policy, alternating from variable (such as LIBOR and CDI) to fixed rates when contracting debts and hedges and periodically renegotiating contracts to adjust them to market.

**Exchange rate risk:** this risk is related to the possibility of fluctuations in exchange rates affecting financial expenses (or income) and the liability (or asset) balance of contracts denominated in foreign currency. The Company assesses its exposure to the exchange rate by subtracting its liabilities from its assets in dollars, having in this way the net exchange rate exposure basis, which is the basis subject to effects in a change in the foreign currency. Therefore, along with accounts receivable originated from exports and investments abroad that in economic terms result in a natural hedge, the Company assesses using hedge operation, more commonly swap operations, if the Company has more liabilities in dollars than assets.

**Credit risk:** this risk arises from the possibility of the subsidiaries not receiving amounts arising from sales to customers or investments made with financial institutions. In order to minimize this risk, the subsidiaries adopt the procedure of analyzing in detail the financial position of their customers, establishing a credit limit and constantly monitoring their

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

balances. In relation to cash investments, the Company invests solely in financial institutions with low credit risk, as assessed by rating agencies. In addition, each financial institution has a maximum limit for investment, determined by the Company's Credit Committee.

**Capital management risk:** this risk comes from the Company's choice in adopting a financing structure for its operations. The Company manages its capital structure, which consists of a ratio between the financial debts and its own capital (Equity, retained earnings, and profit reserves) based on internal policies and benchmarks. The BSC (Balance Scorecard) methodology has been used in the last years to elaborate strategic maps with objectives and indicators of the main processes. The KPIs (Key Performance Indicators) related to the objective "Capital Structure Management" are: WACC (Weighted Average Cost of Capital), Total Indebtedness/EBITDA, Interest Coverage Ratio, and Indebtedness/Equity Ratio. The Total Debt is composed of loans and financing (note 14) and debentures (note 15). The Company can change its capital structure depending on economic-financial conditions in order to optimize its financial leverage and its debt management. At the same time, the Company tries to improve its ROCE (Return on Capital Employed) by implementing a working capital management process and an efficient fixed asset investment program.

The Company seeks to remain between the following parameters:

WACC	between 10% to 13% a year
Gross debt/EBITDA	between 2 and 3 times
Interest Coverage Ratio	greater than 5 times
Debt/Equity Ratio	between 40%-60% and 60%-40%

These key indicators are used for the objectives described above and may not be used as indicators for other purposes, such as impairment tests.

**Liquidity risk:** the Company's management policy of indebtedness and cash on hand is based on using the committed lines and the currently available credit lines with or without a guarantee in export receivables for maintaining adequate levels of short, medium, and long-term liquidity. The maturity of long-term loans, financing, and debentures are presented in Notes 14 and 15, respectively.

The following are the contractual maturities of financial liabilities:

Edgar Filing: GERDAU S.A. - Form 20-F

Contractual obligations	Total	Less than 1 year	1-3 years	4-5 years	More than 5
Long-term debt obligations	12,986,119	626,063	4,137,227	790,504	7,432,325
Debtentures	731,971	115,069	504,373	14,452	98,077
Put option the remaining stake in PCS acquisition	40,341	40,341			
Put option the remaining stake in Sipar acquisition	11,497			11,497	
Put option granted to Santander Group on Corporación Sidenor acquisition	464,868			464,868	
<b>Total</b>	<b>14,234,796</b>	<b>781,473</b>	<b>4,641,600</b>	<b>1,281,321</b>	<b>7,530,402</b>

Contractual obligations	Total	Less than 1 year	<sup>2009</sup> 1-3 years	4-5 years	More than 5
Long-term debt obligations	13,184,739	621,584	3,328,319	2,684,222	6,550,614
Debtentures	600,979		463,668	42,380	94,931
Put option the remaining stake in PCS acquisition	56,483		56,483		
Put option the remaining stake in Sipar acquisition	12,014				12,014
Put option granted to Santander Group on Corporación Sidenor acquisition	449,599		449,599		
<b>Total</b>	<b>14,303,814</b>	<b>621,584</b>	<b>4,298,069</b>	<b>2,726,602</b>	<b>6,657,559</b>

The Company performed the following sensitivity analysis:

Table of Contents

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

Assumptions	Impacts on Statements of Income and Comprehensive Income	
	Variance	2010
Foreign currency sensitivity analysis	5%	88,535
Interest rate sensitivity analysis	0.10%	77,516
Price products sensitivity analysis	1%	313,932
Sensitivity analysis of changes in sales price of products and price of raw materials	1%	182,126
Sensitive analysis of interest rate swaps	0.10%	3,347
Sensitive analysis of currency swaps and NDF's (Non Deliverable Forwards)	5%	3,941

**Foreign currency sensitivity analysis:** the Company is exposed to variations in foreign currency, especially in loans and financing. The sensitivity analysis made by the Company considers the effects of an increase or a reduction of 5% between the Brazilian real and the foreign currencies on such outstanding loans and financing on the date of the Consolidated Interim Financial Statements. As of December 31, 2010, the Company is mainly exposed to variations between Brazilian real and US Dollar, since the loans taken by the other than Brazilian subsidiaries of the Company are mainly in the same currency of the functional currency of each subsidiary, and because of this aspect, these loans do not expose the Company to variations in foreign currency. The impact calculated considering such variation in the foreign exchange rate totals R\$ 88,535 as of December 31, 2010 (R\$ 199,427 as of December 31, 2009) and represents an income if an appreciation of the Brazilian real against the US Dollar occurs or an expense in the case of a depreciation of the Brazilian real against the US Dollar. The Company believes that the Dollar appreciation against Real for 2011 will be 2%.

The net amounts related to accounts receivable and accounts payable in foreign currency do not present relevant risks related to exchange rates fluctuation.

**Interest rate sensitivity analysis:** the Company is exposed to interest rate risks in its loans and financing and debentures. The sensitivity analysis made by the Company considers the effects of an increase or reduction of 0.1% on outstanding loans and financing and debentures on the date of the Consolidated Interim Financial Statements. The impact calculated considering this variation in the interest rate totals R\$ 77,516 as of December 31, 2010 (R\$ 66,858 as of December 31, 2009) and would impact the Financial expenses account in the Consolidated Statements of Income. The specific interest rates the Company is exposed, which are related to loans, financing, and debentures are presented in Notes 14 and 15, and are mainly comprised by Libor and CDI Interbank Deposit Certificate. Because of strong reductions in international interest rates, such as Libor, which occurred around the world because of the crisis, the Company believes that in the long term, the curves of interest rates can increase again with the economic recovery.

**Sensitivity analysis of changes in sales price of products and price of raw materials and other inputs used in production:** the Company is exposed to changes in the price of its products. This exposure is associated with the fluctuation of the sales price of the Company's products and the price of raw materials and other inputs used in the production process, especially because the Company operates in a commodities market. The sensitivity analysis made by the Company considers the effects of an increase or of a reduction of 1% on both prices. The impact measured

considering this variation in the price of products sold totals R\$ 313,392 as of December 31, 2010 (R\$ 265,401 as of December 31, 2009) and raw materials and other inputs totals R\$ (182,126) as of December 31, 2010 (R\$ (155,506) as of December 31, 2009). The impact in the price of products sold and raw materials would be recorded in the accounts Net Sales and Cost of Sales, respectively, in the Consolidated Statements of Income. The Company does not expect to be more vulnerable to a change in one or more specific product or raw material.

**Sensitivity analysis of interest rate swaps:** the Company has an interest rate swaps exposure for some of its loans and financing. The sensitivity analysis calculated by the Company considers the effects of either an increase or a decrease of 0.1% in the interest curve (Libor), and its impacts in the swaps mark to market. An increase of 0.1% change in the interest rates represents an income of R\$ 3,347 (income of R\$ 9,040 as of December 31, 2009) and a decrease of 0.1% change in the interest rates represents an expense of R\$ 3,347 (expense of R\$ 9,040 as of December 31, 2009). All these swaps were contracted to hedge debt positions from floating to fix (Liability). As of December 31, 2010, these effects would be recognized in statement of income and in the statement of comprehensive income, in the amounts of R\$ 311 and R\$ 3,036, respectively (R\$ 2,075 and R\$ 6,965 as of December 31, 2009). The effects of changes in cash flow hedges are recorded in the statement of comprehensive income and they are subsequently recognized in the statement of income upon settlement.

**Sensitivity analysis of currency swaps and NDF s (Non Deliverable Forwards)**the Company has currency swaps (*cross currency swaps*) and NDF s exposure to some of its assets and liabilities. The sensitivity analysis calculated by the Company considers an effect of a 5% Real depreciation or appreciation against US Dollar and Colombian Peso and

Table of Contents**GERDAU S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****for the years ended December 31, 2010, 2009 and 2008****(in thousands of Brazilian reais R\$, unless otherwise stated)**

Brazilian Real, and its effects on these derivatives mark to market. An increase of 5% on the US Dollar against these currencies represents an expense of R\$ 3,941 (R\$2,960 as of December 31, 2009) and a decrease of 5% on the US Dollar against these currencies represents an income of R\$ 3,941 (R\$2,960 as of December 31, 2009). These NDF s were contracted to hedge asset positions (Exports). These effects would be recognized in the statement of comprehensive income and subsequently recognized in the statement of income upon settlement.

**d) Financial Instruments per Category**

Summary of the financial instruments per category:

<b>December 31, 2010</b>		<b>Assets at fair value with gains and losses recognized in income</b>	<b>Assets at fair value with gains and losses recognized in shareholder s equity</b>	<b>Total</b>
<b>Assets</b>	<b>Loans and receivables</b>			
Short-term investments		1,105,902	36,356	1,142,258
Unrealized gains on derivatives		6,312		6,312
Trade accounts receivable	3,153,027			3,153,027
Other accounts receivable	443,978			443,978
Cash and cash equivalents	1,061,034			1,061,034
<b>Total</b>	<b>4,658,039</b>	<b>1,112,214</b>	<b>36,356</b>	<b>5,806,609</b>
	<b>Liabilities at market value with gains and losses recognized in the result</b>	<b>Liabilities at fair value with gains and losses recognized in shareholder s equity</b>	<b>Other financial liabilities at amortized cost</b>	<b>Total</b>
<b>Liabilities</b>				
Trade accounts payable			1,783,274	1,783,274
Ten Years Bonds			6,709,187	6,709,187
Term Loan Facility			2,073,264	2,073,264
Other financing			5,155,573	5,155,573
Debentures			731,971	731,971
Other accounts payable			767,913	767,913
Put options on minority interest	516,706			516,706
Unrealized losses on derivatives	59,273	33,203		92,476
<b>Total</b>	<b>575,979</b>	<b>33,203</b>	<b>17,221,182</b>	<b>17,830,364</b>

Assets at fair value                      Assets at fair value with gains and losses

Edgar Filing: GERDAU S.A. - Form 20-F

December 31, 2009		with gains and losses	recognized in	Total
Assets	Loans and receivables	recognized in income	shareholder s equity	
Short-term investments		2,619,418	107,986	2,727,404
Unrealized gains on derivatives		20,034		20,034
Trade accounts receivable	2,585,709			2,585,709
Other accounts receivable	577,773			577,773
Cash and cash equivalents	2,091,944			2,091,944
<b>Total</b>	<b>5,255,426</b>	<b>2,639,452</b>	<b>107,986</b>	<b>8,002,864</b>

	Liabilities at market	Liabilities at fair value	Other financial	Total
Liabilities	value with gains and	with gains and losses	liabilities at amortized	
	losses recognized in	recognized in	cost	
	the result	shareholder s equity		
Trade accounts payable			1,705,058	1,705,058
Ten Years Bonds			4,840,778	4,840,778
Term Loan Facility			2,942,628	2,942,628
Perpetual Bonds			1,044,720	1,044,720
Other financing			5,091,810	5,091,810
Debentures			600,979	600,979
Other accounts payable			586,877	586,877
Put options on minority interest	518,096			518,096
Unrealized losses on derivatives	81,180	11,680		92,860
<b>Total</b>	<b>599,276</b>	<b>11,680</b>	<b>16,812,850</b>	<b>17,423,806</b>

F-52

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

Except for an instrument classified as cash flow hedge, whose effectiveness can be measured and that has its unrealized losses and/or gains classified directly in other Comprehensive income, all derivative financial instruments are interest rate swaps and NDFs (Non Deliverable Forwards). These instruments were recorded at fair value and the realized and unrealized losses and/or gains were presented in the account Gains and losses on derivatives, net in the consolidated statement of income.

**e) Operations with derivative financial instruments**

**Risk management objectives and strategies:** The Company believes that risk management is important to carry out its strategy for profitable growth. The Company is exposed to market risks that mainly involve fluctuations in exchange rates and interest rate volatility. The objective of risk management is to eliminate possible unexpected variations in the performance of group's companies as a result of this fluctuation.

The objective of derivative transactions is always related to mitigation of market risks as stated in our policies and guidelines, as well as to manage volatility in financial flows. The final assessment of results for each contract is measured at the end of each contract when the derivative contract is settled. The monitoring of the effects from these transactions is monthly performed by the Cash Management and Debt Committee, which discusses and validates the marking to market of these transactions. All gains and losses in derivative financial instruments are recognized by its fair value in the Consolidated Financial Statements of the Company.

By internal policy, the Company does not maintain a debt in a currency in which there is no corresponding cash generation.

**Policy for use of derivatives:** according to internal policy, the financial result must arise from the generation of cash from its business and not gains from the financial market. Therefore, it considers that the use of derivatives should be for non-speculative purposes and intended to hedge the Company from possible exposure to risks. The contracting of a derivative must have as corresponding hedged item an uncovered asset or liability, provided as the position is not leveraged.

Criteria adopted for defining the notional amount of derivative financial instruments are linked to the amount of debt and or assets.

**Policy for determining fair value:** The criteria to determine the fair value of derivative financial instruments is based on the utilization of market curves for each derivative discounted to present value as of the calculation date. The methods and assumptions take into consideration



the interpolation of curves, such as in the case of LIBOR, and according to each market where the company has exposure. The swaps, both on the asset and on the liability side, are estimated in separate and discounted to present value. The difference in the result between extremities generates the swaps market value.

The amounts are calculated based on models and price quotes available in the market and which take into consideration both present and future market conditions. Amounts are gross before taxes.

Due to changes in market rates, these amounts can change up to the maturity or in situations of anticipated settlement of transactions.

The derivative transactions may include: interest rate swaps, (both in the Libor dollar, as in other currencies) in currency swap, and NDF s (Non Deliverable Forwards).

#### **Non Deliverable Forwards (NDFs)**

The former subsidiary Aços Villares S.A. has sale in advanced the NDFs designated as cash flow hedge on December 01, 2010 (prior de incorporation), that assume the PTAX average from the month before the maturity date and the bank adopted a fixed US dollar rate for the maturity date. On December 31, 2010, the effects in the net income was a gain of R\$ 10,755, recognized in the account Gains and losses on derivatives, net . Counterparts to this transaction include the banks Banco Itaú S.A., UBS Pactual, and Unibanco S.A.

Subsidiary Cleary Holdings settled the NDF s (Non Deliverable Forwards), which were designated as cash flow hedges with maturity date on February 5, 2010. This operation was conducted to hedge the exchange exposure on agreements of coal selling in the external market, which are in US Dollars. As of December 31, 2010, the effects of this NDF in the net income of the period was a loss of R\$ 143 and it was registered in the account Gains and losses on derivatives, net . Counterpart to this transaction was Banco de Bogotá.

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

Subsidiary Cleary Holdings contracted the sale of NDFs, which were designated as cash flow hedges with notional of US\$ 20,000 (R\$ 33,324 as of December 31, 2010) and US\$ 17,500 (R\$ 29,159 as of December 31, 2010), with maturity dates on February, 04, 2011, and March 04, 2011, respectively. This NDFs were contracted in order to protect itself from the exchange fluctuations of the US dollar in relation to the local currency, which can impact the revenue of their exports and thereby damage the Company image. The fair value of these contracts represents a net gain of R\$ 383 and R\$ 128, respectively. Counterpart to this transaction is Banco de Bogota.

The subsidiary Diaco S.A. contracted its NDFs designated as cash flow hedges, in the notional US\$ 5,070 (R\$ 8,448 as of December, 31, 2010) and US\$ 5,040 (R\$ 8,398 as of December, 31, 2010) with maturity dates on April 07, 2011, and October 07, 2011, respectively. These operations were contracted in order to protect itself from the exchange exposure existent in the financing with Davivienda Bank, which are in US Dollars. The fair value of these contracts represents a net gain of R\$ 206 and R\$ 66, respectively. Counterpart to this transaction is Banco de Davivienda.

The prospective and retrospective testing made for above financial instruments does not identify any amount of ineffectiveness.

**Swap Contracts**

**Interest rate swap**

Subsidiary Aços Villares S.A, settled in advance, in December 03, 2010, interests rate swaps which the financial charges for export pre-payment contracts equivalent to LIBOR plus a spread are swapped for prefixed interest rates. In December 31, 2010, the effects on net income was a loss of R\$ 501, registered on Gains (Losses) on derivatives, net. Counterparts for these transactions were Unibanco and ABN Amro Bank.

The Company, through its subsidiary GTL Equity Investments Corp. contracted exchange swaps based on the LIBOR with the bank JP Morgan with maturity dates between December 21, 2010 and December 21, 2011. The notional values of these contracts together were US\$ 100,000 (R\$ 166,620 as of December 31, 2010). These transactions were made in order to optimize the difference between the internal interest rate (exchange coupon) and the external interest rate (LIBOR). Because of this, the Company increases its exposure to the Brazil's risk, however, this risk is inherent to its business. The fair values of these contracts as of December 31, 2010, is a loss of R\$ 7,072 and a gain of R\$ 5,529, generating a net loss of R\$ 1,543.

## Edgar Filing: GERDAU S.A. - Form 20-F

Also through its subsidiary GTL Equity Investments Corp., the Company settled in advance an interest rate swap, with the bank Calyon, with maturity date on August 15, 2012. This swap was contracted in order to minimize the interest rate fluctuation risk (LIBOR) since the Company incurred in dollar-denominated debts at floating rates. In December 31, 2010, the effect of this swap on net income was a loss of R\$ 193 and it was registered on Gains (Losses) on derivatives, net .

The subsidiary Siderúrgica del Perú S.A.A. - Siderperú has an interest rate swap contract whereby it receives a variable interest rate based on LIBOR and pays a fixed interest rate in US dollars. This contract had a notional value of US\$ 50,000 (R\$ 83,310 as of December 31, 2010) and matures on April 03, 2014. This swap was contracted in order to minimize the risk of interest rate fluctuations (LIBOR) since the Company took on debt in dollars at floating rates for an amount greater than the swap. The fair value of this contract as of December 31, 2010, is a net loss of R\$ 6,064. Counterpart for this transaction is Banco Bilbao Vizcaya (BBVA).

Subsidiary Gerdau Ameristeel Corp. entered into an interest rate swap contract qualified as a cash flow hedge in order to reduce its exposure to the fluctuation in LIBOR for the Term Loan Facility. Since the Term Loan Facility was contracted at floating LIBOR rates, the Company chose to exchange it for fixed rates, improving cash flow predictability, as well as eliminating the floating LIBOR risk. The contracts have a notional value of US\$ 1,000,000 (R\$ 1,666,200 as of December 31, 2010). Fixed rates for these swaps are between 3.3005% and 3.7070% and their mature from March 2012 to September 2013. If added to the spread on LIBOR related to tranche B of the Term Loan Facility, the interest rate on these swaps would be between 4.5505% and 4.9570%. The fair value of these swaps as of December 31, 2010 is a net loss of R\$ 79,340, which generates a net effect on taxes of R\$ 33,203 in a specific account of Equity. Counterparts for this transaction are ABN Amro Bank, HSBC, and JP Morgan.

Table of Contents

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

**Guarantee Margins**

The Company has contracts of derivative financial instruments, which establish the possibility of deposits constitution and/or guarantee margins when the mark-to-market amounts of these instruments exceed the limits established in each contract. As of December 31, 2010, there were no margin calls for any of the above contracts.

The derivatives instruments can be summarized and categorized as follows:

Contracts for Asset Protection	Position	Notional value		Recognized value				Fair value			
		2010	2009	Net income	Shareholder's equity	Amount receivable	Amount payable				
<b>Forward</b>											
Aços Villares S.A.			US\$ 89,1 million	10,755	(21,950)		31,931		6,181		
Diaco S.A.							3,180				
Diaco S.A.		US\$ 5,07 million		209				206			
Diaco S.A.		US\$ 5,04 million		66				66			
Siderúrgica del Perú S.A.A. - Siderperú					(913)						
Gerdau Aza S.A.					(921)						
Salomon Sack						130					
Cleary Holdings			US\$ 14,17 million	(143)	(50)		(584)				(584)
Cleary Holdings		US\$ 20,0 million		383				383			
Cleary Holdings		US\$ 17,5 million		128				128			
				11,398	(20,524)		31,347	783	6,181		(584)
<b>Swap contracts</b>											
<b>Interest rate swap</b>											
Aços Villares S.A.	receivable edge	Libor 6M + 1,94%	US\$ 39,18 million	(501)	(5,671)						(2,476)
	payable edge	6.95%									
Gerdau Açominas S.A.						2,450					

Edgar Filing: GERDAU S.A. - Form 20-F

Siderúrgica del Perú S.A.A. - Siderperú	receivable edge	Libor 6M + 0,90%	US\$ 50,0 million	US\$ 64,29 million	(2,795)	(5,818)			(6,064)	(7,196)		
	payable edge	5.50%										
Gerdau Ameristeel Corp.	receivable edge	Libor 6M + 1,37%	US\$ 1 billion	US\$ 1 billion			(33,203)	(38,281)	(79,340)	(65,856)		
	payable edge	3.48%										
Gerdau MacSteel Holdings Inc.	receivable edge	Libor 6M							(19,052)			
	payable edge	3.59%										
GTL Equity Investments Corp.	receivable edge	Libor 6M		US\$ 7,5 million	(193)	(874)				(680)		
	payable edge	3.48%										
GTL Equity Investments Corp.	receivable edge	4,51% a.a.	US\$ 100 million	US\$ 300 million	4,483	47,883		5,529	13,853	(7,072)	(16,068)	
	payable edge	3,51% a.a.										
					994	18,918	(33,203)	(38,281)	5,529	13,853	(92,476)	(92,276)
<b>Cross currency swap</b>												
Gerdau Açominas S.A.										(2,579)		
Gerdau Açominas S.A.										(21,993)		
										(24,572)		
					12,392	(26,178)	(33,203)	(6,934)	6,312	20,034	(92,476)	(92,860)

The fair value effects were classified in the Balance sheet as follows:

	2010	2009
<b>Unrealized gains on derivatives</b>		
Current assets	783	5,737
Non-current assets	5,529	14,297
	6,312	20,034
<b>Unrealized losses on derivatives</b>		
Current liabilities		(2,483)
Non-current liabilities	(92,476)	(90,377)
	(92,476)	(92,860)
<b>Net effect</b>	(86,164)	(72,826)

**f) Put options on non-controlling interest**

On January 10, 2006, the Company completed its acquisition of 40% of Corporación Sidenor S.A. ( Sidenor ), a Spanish steel producer with operations in Spain and Brazil. The Santander Group, Spanish financial conglomerate, purchased simultaneously 40% of Sidenor. The acquisition price of 100% of Sidenor consists of a fixed installment of 443,820 plus a contingent variable installment to be paid only by the Company. The fixed price paid by the Company on January 10, 2006 for its interest of 40% in Sidenor was 165,828 (R\$ 432,577). The Santander Group has the option to sell its interest in Sidenor to the Company after 5 years to the purchase at a fixed price with a fixed interest rate, and Sidenor has the right of preference to purchase these shares and also may, at any time during the period of the put option validity require the Santander Group to exercise the put option before the expiration date. On December 23, 2010, the Santander Group and the

Company renewed the put option on Sidenor interest and the new maturity date is January 10, 2014, and can be settled in

F-55

---

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

advanced in January at each year after 2012. The option amount is 208.648 (R\$ 464.868 as of December 31, 2010), updated according to the fixed interest rate. The potential commitment of the Company to purchase from the Santander Group its 40% interest in Sidenor was recorded as a non-current liability under Put options on non-controlling interest. As a result of the recognition of this potential obligation, the Company has recognized since the acquisition date, an additional interest of 40% of Sidenor as its investment. As of December 31, 2010, such potential obligation totaled R\$ 464,868 (R\$ 449,599 as of December 31, 2009).

Gerdau Ameristeel has the call option for 16% of the remaining stake in Pacific Coast Steel (PCS), which can be exercised after 5 years from the purchase date, which took place on November 1, 2006. Additionally, the minority shareholders also have the option to sell the remaining 16% interest in PCS to Gerdau Ameristeel, for the established price and also after 5 years from the date of transaction. The established price was set as the EBITDAs average for the 5 last years ended before the option exercise, multiplied proportionally by 5 in the first two years and 6.75 in the last three years. If Gerdau Ameristeel does not exercise the call option, then the minority shareholders are entitled to exercise the option to sell their remaining interest to Gerdau Ameristeel. In case the call/put option is exercised, the other party is obligated to sell/purchase the remaining stake. As established by IAS 32 - Financial Instruments: Presentation, the Company performed the reclassification of the exercise value of the put option from the account Non-controlling interests to non-current liabilities under the account Put options on non-controlling interest. By the end of the term established in the put and call option and in case none of the involved parties exercise it, the reclassification will be reversed and the amount of the stake held by PCS minority shareholders, on the date of the Consolidated Financial Statements, will be recognized as non-controlling interests. As of December 31, 2010 the amount recorded as potential obligation is R\$ 40,341 (R\$ 56,483 as of December 31, 2009).

The Company has a call option of 7.25% of Sipar Gerdau Inversões S.A. and the non-controlling shareholders of this entity have the option to sell its 7.25% of its remaining interest to the Company. The option can be exercised either by the Company or the non-controlling shareholders as from 2010, being this interest must necessarily be acquired by 2015. The contract establishes the amount of US\$ 6.900, equivalent to R\$ 11,497 as of December 31, 2010 (R\$ 12,014 as of December 31, 2009), adjusted by the fluctuation in the sales level by 10% up or down until the option be exercised.

**g) Net investment hedge**

Based on IFRIC Interpretation 16 issued in July 2008, and substantiated by IAS 39, the Company, on September 30, 2008, opted to designate as hedge of part of its net investments in subsidiaries abroad the operations of Ten Year Bonds, contracted by the subsidiary GTL Trade Finance Inc., in the amount of US\$ 1,500,000 (R\$ 2,499,300 as of December 31, 2010), and by the subsidiary Gerdau Trade Inc., in the amount of US\$ 1,250,000 (R\$ 2,082,750 as of December 31, 2010), which were made in order to provide part of the resources for these investments acquisitions abroad. Based on the standard and interpretation of standard mentioned above, the Company demonstrated high effectiveness of the hedge as from the debt hiring for acquisition of these companies abroad, whose effects were measured and recognized directly in Equity account as from October 1, 2008.

The objective of the hedge is to protect, during the existence of the debt, the amount of part of the Company's investment in the subsidiaries mentioned above against positive and negative oscillations in the exchange rate. This objective is consistent with the Company's risk management strategy.

The Company performed retrospective and prospective effectiveness tests on December 31, 2010 in compliance with regulation IAS 39 and demonstrated high effectiveness for the net investment hedge. As a result of this operation, the Company recognized an unrealized gain of R\$ 130,750 in 2010 (gain of R\$ 893,700 as of December 31, 2009) in the statement of comprehensive income.

#### **h) Fair value measurement**

IFRS 7 defines fair value as the price that would be received for an asset or paid for transferring a liability (exit price) in the principal or most advantageous market for the asset or liability in a regular transaction between market participants on the day of calculation. IFRS 7 also establishes a hierarchy of three levels for the fair value, which prioritizes information when measuring the fair value by the company, to maximize the use of observable information and minimize the use of non-observable information. IFRS 7 describes the three levels of information to be used to measure fair value:

Level 1 - Quoted prices (not adjusted) in active markets for identical assets and liabilities.



Table of Contents

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

Level 2 Other data available, except those include on the Level 1, where (non-adjusted) quoted prices are for similar assets and liabilities in non-active markets, or other data that is available or may be corroborated by market data for substantially the full term of the asset or liability.

Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs) because market activity is insignificant or does not exist.

As of December 31, 2010, the Company had some assets which the fair value measurement is required on a recurring basis. These assets include investments in private securities and derivative instruments.

Financial assets and liabilities of the Company, measured at fair value and subject to disclosure requirements of IFRS 7 as of December 31, 2010, are as follows:

	Fair Value Measurements at Reporting Date Using			
	2010	Quoted Prices Active Markets for Identical Assets (Level 1)	Quoted Prices in Non-Active Markets for Similar Assets (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Current assets</b>				
Short-term investments				
Trading	1,105,902	724,902	381,000	
Available for sale	9,559	9,559		
Derivatives	783		783	
Non-current assets				
Long-term investments				
Available for sale	26,797			26,797
Derivatives	5,529		5,529	
	1,148,570	734,461	387,312	26,797
<b>Current liabilities</b>				
Derivatives				
<b>Non-current liabilities</b>				
Derivatives	92,476		92,476	
Put options on minority interest				
Sidenor	464,868			464,868

Edgar Filing: GERDAU S.A. - Form 20-F

PCS	40,341			40,341
Sipar	11,497			11,497
	609,182		92,476	516,706
	1,757,752	734,461	479,788	543,503

F-57

---

Table of Contents

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

	Fair Value Measurements at Reporting Date Using			Significant Unobservable Inputs (Level 3)
	2009	Quoted Prices Active Markets for Identical Assets (Level 1)	Quoted Prices in Non-Active Markets for Similar Assets (Level 2)	
<b>Current assets</b>				
Short-term investments				
Trading	2,619,418	2,471,136	148,282	
Available for sale	58,296	14,766	43,530	
Derivatives	5,737		5,737	
<b>Non-current assets</b>				
Long-term investments				
Available for sale	49,690			49,690
Derivatives	14,297		14,297	
	2,747,438	2,485,902	211,846	49,690
<b>Current liabilities</b>				
Derivatives				
	2,483		2,483	
<b>Non-current liabilities</b>				
Derivatives				
	90,377		90,377	
Put options on minority interest				
Sidenor	449,599			449,599
PCS	56,483			56,483
Sipar	12,014			12,014
	610,956		92,860	518,096
	3,358,394	2,485,902	304,706	567,786

Changes in the measurements using significant unobservable inputs (Level 3):

	Assets
Balance as of December 31, 2009	49,690
(-) Interests and other contractual obligations	(9,896)
(-) Gains and losses on conversion	(2,140)
(-) Sales of investments	(10,857)
Balance as of December 31, 2010	26,797

Edgar Filing: GERDAU S.A. - Form 20-F

**Liabilities**

Balance as of December 31, 2009	518,096
(-) Interests and other contractual obligations	54,022
(-) Gains and losses on conversion	(55,412)
Balance as of December 31, 2010	516,706
	543,503

**Assets**

Balance as of December 31, 2008	77,563
(-) Interests and other contractual obligations	(8,098)
(-) Gains and losses on conversion	(6,028)
(-) Sales of investments	(13,747)
Balance as of December 31, 2009	49,690

**Liabilities**

Balance as of December 31, 2008	698,321
(-) Interests and other contractual obligations	(49,067)
(-) Gains and losses on conversion	(143,172)
(+) Additions on put options on minority interest	12,014
Balance as of December 31, 2009	518,096
	567,786

Table of Contents

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

## NOTE 17 TAXES PAYABLE

	2010	2009
Income tax and social contribution taxes	57,376	124,759
Payroll charges	130,369	89,171
ICMS (state VAT)	79,831	70,251
COFINS (tax on revenue)	14,404	28,143
IPI (federal VAT)	4,010	5,197
PIS (tax on revenue)	2,842	6,108
Withholding income tax	36,090	76,983
Taxes in installments	107,441	176,374
IVA (value-added tax) and others	92,604	98,695
	524,967	675,681

## NOTE 18 PROVISIONS FOR TAX, LABOR AND CLAIMS

The Company and its subsidiaries are parties to judicial and administrative proceedings involving labor, civil and tax matters. Based on the opinion of its legal counsel, the Management believes that the Provisions recorded for these judicial and administrative proceedings is sufficient to cover probable and reasonably estimable losses from unfavorable court decisions, and that the final decisions will not have significant effects on the financial-economic position, operational results and liquidity of the Company and its subsidiaries as of December 31, 2010.

The provisions were made considering the management and their legal advisors judgment for proceedings with probable expectation of losses, considering that amount of provisions enough to cover expected losses. There is no expectation for impacts in the Consolidated Financial Statements in higher amounts than the provision recognized and described below. The provisions balances are as follows.

## I) Provisions

		2010	2009
a) Tax provisions			
ICMS (state VAT)	(a.1)	48,946	55,448
CSLL (social contribution tax)	(a.2)	64,179	53,259
IRPJ - Corporate Income Tax	(a.3)	699	

Edgar Filing: GERDAU S.A. - Form 20-F

INSS (social security contribution)	(a.4)	20,531	35,698
ECE (Emergency Capacity Charge)	(a.5)	33,832	33,996
RTE (Extraordinary Tariff Adjustment)	(a.5)	22,026	21,895
II (import tax)/IPI (excise tax) Drawback	(a.6)	1,070	921
PIS (financing of social integration program)/COFINS (social security financing)	(a.7)	268,383	78,950
Other tax provisions	(a.8)	13,213	15,483
		472,879	295,650
b) Labor provisions	(b)	160,026	141,507
c) Civil provisions	(c)	12,470	10,014
		645,375	447,171

---

**(a) Tax Provisions**

**(a.1)** ICMS (state VAT) proceedings, the majority of which relating to credit rights. Most of the proceedings are under judgment by the Finance Departments of the states and by the State Courts.

**(a.2)** This lawsuit refers to the constitutionality of the tax and the tax basis. Provisions were updated as required by law.

**(a.3)** Discussion related to Corporate Income Tax (IRPJ), being discussed in the administrative level.

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**(a.4)** Discussion related to social securities contributions.

**(a.5)** Emergency Capacity Charge (ECE) and Extraordinary Tariff Recomposition (RTE) are charges required in the electricity bills of industrial units. The Supreme Court declared the constitutionality of the ECE (emergency capacity charge), which is the contingency will be reversed as the process are finished, with the consequent conversion of the deposit into income. For the RTE (extraordinary tariff adjustments), the Company believes that the charge is a tax nature, and, as such, are incompatible with the National Tax System and for this reason the constitutionality of these charges is being challenged in court. Lawsuits are in progress in the Federal, Regional, and Superior Courts of Justice. The Company has fully deposited in court the amounts of the charges under discussion.

**(a.6)** Provision related to discussion about the tax credit right.

**(a.7)** Provision related to PIS credit compensations, discussions related to the deduction of State VAT (ICMS) from the Social Integration Program Tax on Revenue (PIS), Social Security Funding Tax on Revenue (COFINS) tax basis. The Company has fully deposited in court the amounts under discussions.

**(a.8)** The provision was recorded, considering the legal counsel's and management's opinion, for lawsuits assessed as probable loss, in an amount sufficient to cover expected losses.

**(b) Labor Provision**

The Company and its subsidiaries are party to labor claims. None of these claims involve significant amounts and refer mainly to overtime pay, health hazard premium, and hazardous duty premium, among others.

**(c) Civil Provision**

## Edgar Filing: GERDAU S.A. - Form 20-F

The Company and its subsidiaries are also a party to civil lawsuits arising in the normal course of its business, which totaled as of December 31, 2010 the amount shown as provision liabilities.

The changes in the tax, labor and civil provisions are shown below:

	2010	2009	2008
Balance at the beginning of the year	447,171	467,076	489,103
(+) Amounts accrued against expense	382,507	112,203	105,035
(-) Reversal of amounts against income	(183,415)	(128,243)	(144,037)
(+) Foreign exchange effect on provisions in foreign currency	(888)	(3,865)	4,034
(+) Company acquisitions			12,941
Balance at the end of the year	645,375	447,171	467,076

### II) Non accrued contingent liabilities

#### a) Tax contingencies

**a.1)** The Company is a defendant in a tax collection action filed by the state of Minas Gerais demanding ICMS tax payments mainly on sales of products to commercial exporters. The updated amount of the action is R\$ 56,227. The Company did not record any provision since it considers the tax undue because products for export are exempted from ICMS (state VAT).

**a.2)** The Company is the defendant in tax collection proceedings seeking ICMS tax payments on the export of semi-finished manufactured products. The total amount is currently R\$ 111,497. The Company did not record any provision since it believes that this tax is not owed because its products cannot be considered semi-finished manufactured products. In addition, management with the assistance of its legal advisors considers the changes of loss as being possible, but not probable.

**a.3)** The Company and its subsidiaries Gerdau Aços Longos S.A. and Gerdau Comercial de Aços S.A. have other lawsuits related to the ICMS (state VAT) which are mostly related to credit rights and rate differences, whose demands reach a total



Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

of R\$ 117,893. An accounting provision was not made for these demands since they were considered as possible loss, but not probable, by management with the assistance of its legal advisors.

**a.4)** The subsidiary Gerdau Internacional Empreendimentos Ltda. has a discussion related to IRPJ Corporate Income Tax and CSLL Social Contribution Tax in a update amount of R\$ 232,414, related to profits abroad. An accounting provision was not made for these demands since its probability to loss is classified as possible, but not probable, by management with the assistance of its legal advisors.

**a.5)** The Company and its subsidiaries Gerdau Açominas S.A. e Gerdau Aços Longos S.A. are parties to the lawsuits relating to other taxes. The total amount of these lawsuits is R\$ 96,968. No provision has been recorded for these lawsuits since they were assessed as possible loss by management with the assistance of its legal advisors.

**b) Civil contingencies**

**b.1)** A lawsuit arising from the representation of two civil construction unions in the state of São Paulo alleging that Gerdau S.A. and other long steel producers in Brazil share customers, thus, violating the antitrust legislation. After investigations carried out by the Economic Law Department (SDE), their final opinion was that a cartel exists. The lawsuit was therefore forwarded to the Administrative Council for Economic Defense (CADE) for judgment.

In May 2004, Gerdau S.A. filed a new lawsuit with the purpose of annulling the administrative proceeding grounded on formal irregularities found in its discovery.

CADE, regardless of the request for submission of negative evidence of cartel made by Gerdau S.A., judged the merits of the administrative proceedings on September 23, 2005 and, by a majority of votes, fined the Company and other long steel producers an amount equivalent to 7% of gross revenues in the year before the Administrative Proceeding was commenced, excluding taxes, for formation of a cartel.

Despite the CADE decision, the legal action filed by Gerdau S.A. follows its normal course and, at present, awaits judgment in the lower court. In the event the procedure irregularities alleged by Gerdau are recognized by the court, the CADE decision may be annulled.

Furthermore, to reverse the terms of the decision by CADE, Gerdau appealed to the Judiciary on July 26, 2006 by bringing a new ordinary suit that not only ratifies the terms of the first suit, but also points out the irregularities found during the course of the administrative proceeding. On August 30, 2006, Gerdau was successful in obtaining legal protection in order to suspend the effects of CADE's decision until the Judge's final decision. The judicial guarantee was performed by a bank guarantee corresponding to 7% on the gross income before taxes calculated in 1999 (R\$ 245,070).

It should be noted that just prior to the CADE decision, the Public Prosecution Office of the state of Minas Gerais filed a Public Civil Action, based on the above-mentioned SDE decision, and, without mentioning any new elements, alleged that the Company was involved in activities which violated the antitrust legislation. Gerdau S.A. contested this allegation on July 22, 2005.

The Company denies having been part of any type of anti-competitive conduct and believes based on information available, including the opinion of its legal counsel, which the administrative proceeding until now includes irregularities, some of which are impossible to resolve. In relation to the merit, Gerdau is sure that it did not practice the alleged conduct and, supported by the opinion of renowned experts, believes that it is more likely than not to reverse its conviction.

**b.2)** Civil lawsuit filed by Sul América Seguradora against Gerdau Açominas S.A. and a third party to require acceptance of payment of R\$ 34,383 to settle an indemnity claim. The insurance company pleaded doubt in relation to whom payment should be made and alleged that the Company is resisting receiving the payment and settling the matter. These doubts were refuted in the defense and the consigned amount was demonstrated to be insufficient. This was raised in December 2004 and the legal action continues in order to calculate the actual amount due.

Based on the opinion of its legal advisors, the Company's expectation for loss is remote. It also expects that the ruling will declare the amount payable to be the amount stated in the appeal filed by the Company. Prior to this lawsuit, Gerdau Açominas S.A. filed a collection lawsuit for the amounts recognized by the insurance company for which it also expects a favorable outcome.

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

These lawsuits arose from an accident with the blast furnace regenerators on March 23, 2002, which resulted in loss of production, material damages, and loss of profits. In 2002 it sued for indemnities of approximately R\$ 110,000 based on the costs incurred during the period for equipment downtime and immediate expenses incurred to temporarily recover the equipment. Subsequently, new amounts were added to the dispute, as stated in the Company's plea, although not yet recorded. The case is still in the hands of the court appointed engineering and accounting experts.

Management considers that the risk of losses from other contingencies affecting the net income of operations or the consolidated financial position of the Company is not more likely than not.

**III) Contingent assets**

The Company had government titles from an ordinary lawsuit against the State of Rio de Janeiro for breach of Loan Agreement for Periodic Execution in cash, held under the Special Programme for Industrial Development - PRODI. Due to the lack of expectation for the receiving of those titles, the amounts were not being recognized in the financial statements.

With the enactment of State Law 5.647/2010/RJ, the Company used part of the government titles to pay due taxes and the consequent closure of disputes in the amount of R\$ 7,392; transferred a portion of the credit in the amount of R\$ 9,010, to its subsidiaries, and other portion in the net amount of R\$ 87,064, to third parties, using the totality of the amount.

In September 2010, the General Attorney of the State of Rio de Janeiro homologated the compensations and transfers requested by the Company referred to above, which resulted the accounting recognition of the amount of R\$ 103,466, being R\$ 42,847 in the account Other Operating Income and R\$ 59,571 in the Financial Income.

**IV) Judicial deposits**

The Company has judicial deposits related to tax, labor and civil lawsuits as listed below:

Edgar Filing: GERDAU S.A. - Form 20-F

	2010	2009
Tax	458,458	297,332
Labor	31,631	26,167
Others	3,413	1,179
	493,502	324,678

F-62

---

Table of Contents**GERDAU S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

for the years ended December 31, 2010, 2009 and 2008

(in thousands of Brazilian reais R\$, unless otherwise stated)

**NOTE 19 - RELATED-PARTY TRANSACTIONS****a) Intercompany loans**

	2010	2009
<b>Assets</b>		
<b>Associate Companies</b>		
Armacero Ind. Com. Ltda.	154	3,019
<b>Others</b>		
Fundação Gerdau	23,214	45,942
Others	127	193
	23,495	49,154
<b>Liabilities</b>		
<b>Controlling shareholders</b>		
Metalúrgica Gerdau S.A.	(710)	(822)
<b>Others</b>		
Others	(12)	
	(722)	(822)
	22,773	48,332

	2010	2009	2008
Net financial income (expenses)	145	658	(47,512)

**b) Financial transactions**

	2010	Income (expenses) 2009	2008
<b>Owners</b>			
Banco Gerdau S.A. - CDB		1,480	10,787
Indac - Ind. Adm. e Comércio S.A. (*)	(24,717)	(22,108)	(15,785)

(\*) Guarantees granted of loans.

**c) Guarantees granted**

The Company has guaranteed the financing contracts of the subsidiary Gerdau Açominas S.A. in the amounts of R\$ 1,178,314 as of December 31, 2010.

The Company is a guarantor for the subsidiary Empresa Siderúrgica del Perú S.A.A. - Siderperú for a secured loan of up to US\$ 150,000 (R\$ 249,930 as of December 31, 2010). In this date the amount used was US\$ 9 (R\$ 15). The Company is also the guarantor for a credit facility of US\$ 70,000 (R\$ 116,634 on December 31, 2010) for this same subsidiary.

The Company is a guarantor of associate company Industrias Nacionales C. por A. in an agreement with BNP Paribas to finance constructions and auxiliary equipment totaling US\$ 25,000 (R\$ 41,655 as of December 31, 2010). The Company is also guarantor of this same associate in an agreement with BNP Paribas to finance 85% of the principal equipment in the amount of US\$ 34,935 (R\$ 58,209 as of December 31, 2010). In this date the amount used was US\$ 32,878 (R\$ 54,781).

The Company is the guarantor of the associate company Dona Francisca S.A. for financing contracts totaling R\$ 30,795, corresponding to a joint liability of 51.82% of the amount.

The Company and the subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Açominas S.A., Gerdau Comercial de Aços S.A., Gerdau Açominas Overseas Ltd. and Gerdau Ameristeel Corporation are the guarantors to the subsidiary GNA Partners in financing agreement in the current amount of US\$ 1,690,000 (R\$ 2,815,878 as of December 31, 2010).

Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

The Company and the subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Açominas S.A. and Gerdau Comercial de Aços S.A are guarantors of GTL Trade Finance Inc. regarding the Ten Years Bonds in the amount of up to US\$ 1,500,000 (R\$ 2,499,300 as of December 31, 2010).

The Company and its subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Açominas S.A. and Gerdau Comercial de Aços S.A are guarantors for Gerdau MacSteel Inc. for the financing called Term and Revolving Credit Agreement in the amount of up to US\$ 100,046 (R\$ 166,697 as of December 31, 2010).

The Company provides guarantee for the obligations taken on by the company Diaco S.A. through a loan made with BBVA Colombia bank in the amount of COP\$ 61,500,000, equivalent to US\$ 35,000 (R\$ 58,317 as of December 31, 2010).

The Company provides guarantee for its subsidiary Gerdau Aços Especiais S.A. in a purchase contract of electric energy in the total amount of R\$ 1,604 in December 31, 2010.

The Company and the subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Açominas S.A and Gerdau Comercial de Aços S.A are guarantors for Gerdau Holdings Inc. for the issuance of bonus with a maturity of 10 years (Ten Years Bond) totaling US\$ 1,250,000 (R\$ 2,082,750 as of December 31, 2010).

The Company provides guarantee to the subsidiary Gerdau Trade Inc. regarding the issuance of bonus with a maturity of 10 years (Ten Years Bond) totaling US\$ 1,250,000 (R\$ 2,082.750 as of December 31, 2010).

The Company provides guarantee to a line of credit to working capital to its associate Gerdau Corsa SAPI de C.V., with BBVA bank, in the amount of US\$ 44,500 (R\$ 74,146 as of December 31, 2010).

**d) Price and charge conditions**

## Edgar Filing: GERDAU S.A. - Form 20-F

Loan agreements between Brazilian companies are adjusted by the monthly variation of the CDI (Interbank Deposit Certificate), which was 9.75% in December 31, 2010 (9.88% in December 31, 2009). The agreements with foreign companies are adjusted by contracted charges plus foreign exchange variation, when applicable.

### e) Management compensation

Gerdau S.A. paid to its management salaries and variable compensation a total amount of R\$ 42,302 in December 31, 2010 (R\$ 62,667 in December 31, 2009).

In 2010, the contributions of Gerdau S.A. to management's pension plans totaled R\$ 415 Defined benefit pension plan and R\$ 379 Defined contribution pension plan (R\$ 509 and R\$ 275 in December 31, 2009, respectively).

The stock options granted to management members is as follows:

									Accumulated stock options
Beginning of vesting period	dec/03	dec/04	dec/04	dec/05	dec/06	dec/07	dec/08	dec/09	
Exercises from	jan/09	jan/10	jan/08	jan/11	jan/12	jan/13	jan/14	jan/15	
Exercises until	dec/13	dec/14	dec/14	dec/15	dec/16	dec/17	dec/18	dec/19	
Exercise price per share (R\$)	6.78	10.58	10.58	12.86	17.50	26.19	14.91	29.12	
Total granted to Board members	659,970	570,183	266,221	1,142,605	870,045	667,738	1,243,974	677,079	6,097,815
Exercised options	27,534	25,951	28,582						82,067
Canceled options				7,076	5,512	13,651	11,091	5,935	43,265

### f) Investment funds administration

Until September 04, 2009, the Company maintained marketable securities in investment funds administered by Gerval D.T.V.M. Ltda.. Currently, these funds are managed by third parties. Such marketable securities consist of time deposits and debentures issued by the main Brazilian banks, as well as Treasury Bills issued by the Brazilian Federal Government.



Table of Contents

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2010, 2009 and 2008**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**NOTE 20 EMPLOYEE BENEFITS**

Considering all kinds of employee benefits granted by the Company and its subsidiaries, assets and liabilities as of December 31, 2010, are as follow:

	<b>2010</b>	<b>2009</b>
Actuarial assets - Defined benefit pension plan		476,701
Actuarial assets - Defined contribution pension plan	437,072	39,659
Total assets	437,072	516,360