GERDAU S.A.
Form 20-F
June 02, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2010**
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
o	**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

(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**

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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.

x Yes o 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.

o Yes o 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.

x Yes o 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).

o Yes x 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 x	Accelerated filer o	Non-accelerated filer o

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

U.S. GAAP o	International Financial Reporting Standards as issued by the International Accounting Standards Board x	Other o

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.

o Item 17 o 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).

o Yes x No

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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 o 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;

(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.

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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;

- 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.

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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

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	(Expressed in thousands of Brazilian Reais - R$ except quantity of shares andamounts per share)				
	2010	**2009**	**2008**	**2007**	**2006**
NET SALES	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)
GROSS PROFIT	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
INCOME BEFORE FINANCIAL INCOME (EXPENSES) AND TAXES	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
INCOME BEFORE TAXES	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
NET INCOME	2,457,379	1,004,508	4,944,898	4,302,966	4,261,478
ATRIBUTABLE TO:					
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)
Weighetd 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.

(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
Balance sheet selected information					
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.

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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

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

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(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

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.

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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,

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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.

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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.

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

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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 futures 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 sources. 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.

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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 CO2 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 green house 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 CO2 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 Police 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 green house 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 coalitions 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

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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 loses 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;

- 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.

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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

Gerdau 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 Guaíra, 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

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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 Automotive 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).

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In May 2007, Gerdau acquired an interest of 30.45% in Multisteel Business Holdings Corp., a holding of Indústrias 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.

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 parenty 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.

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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
World	**1,395**	**28.7%**	**71.3%**
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

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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%

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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 tones 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 tones.

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

(*) Preliminary figures

Source: IABr - Instituto Aço Brasil

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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: wordlsteel/Short Rage Outlook

Production and Apparent Demand for Long Steel (million tonnes)

Source: wordlsteel/Short Rage 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 conutries, 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.

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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

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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 sings 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.

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.

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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 Cyclicality 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.

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

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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,**		
(1,000 tonnes)	**2010**	**2009**	**2008**
TOTAL	**17,363**	**13,987**	**19,118**
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,**		
(R$ million)	**2010**	**2009**	**2008**
TOTAL	**31,393**	**26,540**	**41,908**
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

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.

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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

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,

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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 tones 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:

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Gerdau S.A. Consolidated	Year ended December 31,		
Exports by Destination	**2010**	**2009**	**2008**
Total including shipments to subsidiaries (1,000 tonnes)	**3,022**	**1,858**	**2,315**
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.

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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.

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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

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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.

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, Guaíra, 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: Araçariguama, 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 holds 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

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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 Republican 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 Cientro) 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 Sidenor units in Spain and at the MacSteel units in the United States.

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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 manufactur