GERDAU SA
Form 20-F
June 30, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR (G)

OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (D)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003

Commission file number 1-14878

GERDAU S.A.
(Exact Name of Registrant as Specified in its Charter)

Federative Republic of Brazil
(Jurisdiction of Incorporation or Organization)

N/A
(Translation of Registrant's name into English)

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

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, 2003 was:

51,468,224 Common Shares, no par value per share
96,885,787 Preferred Shares, no par value per share

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 such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark which financial statement item the Registrant has elected to follow Item 17 Item 18 X.

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INTRODUCTION

Unless otherwise indicated, all references herein (i) to the "Company" or to "Gerdau" are references to Gerdau S.A., a corporation organized under the laws of the Federative Republic of Brazil ("Brazil") and its consolidated subsidiaries, (ii) to "Acominas" are to Aco Minas Gerais S.A. - Acominas prior to November 2003 when the same company underwent a corporate reorganization, receiving all of Gerdau's Brazilian operating assets and liabilities and being renamed Gerdau Acominas S.A., (iii) to "Gerdau Acominas" are to Gerdau Acominas S.A. after November 2003 and to Acominas before such date, (iii) to "Preferred Shares" and "Common Shares" refer to the Company's authorized and outstanding preferred stock and common stock, designated as acoes preferenciais and acoes ordinarias, 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", "U.S.$" or "$" are to United States dollars, (ii) "Canadian dollars" or "Cdn$" are to Canadian dollars (iii) "billions" are to thousands of millions, (iii) "km" are to kilometers, and (iv) "tons" are to metric tons.

The Company has prepared the consolidated financial statements included herein in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The investments in Sipar Aceros S.A. in Argentina (in which a 38% stake is held), in Gallatin Steel Co., Bradley Steel Processor and MRM Guide Rail in the United States, 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 and the investment in Dona Francisca Energetica S.A, in Brazil, in which the Company holds a 51.82% stake, are consolidated using the equity method of accounting.

Unless otherwise indicated, all information in this Annual Report is stated as of December 31, 2003. Subsequent developments are discussed in Item 8 - Significant Changes.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Statements made in this Annual Report with respect to the Company's current plans, estimates, strategies, beliefs and other statements that are not historical facts are forward-looking statements about the Company's future performance. Forward-looking statements include but are not limited to those using words such as "believe", "expect", "plans", "strategy", "prospects", "forecast", "estimate", "project", "anticipate", "may" or "might" and words of similar meaning in connection with a discussion of future operations or financial performance. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on management's assumptions and beliefs in light of the information currently available to it. The Company cautions potential investors that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, so that you should not place undue reliance on them. Potential investors should not rely on any obligation on the part of the Company to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, with the Company disclaiming any such obligation. Risks and uncertainties that might affect the Company include, but are not limited to: (i) general economic conditions in the Company's markets, particularly levels of spending; (ii) exchange rates, particularly between the real and the U.S. dollar, and other currencies in which the Company realizes significant sales or in which its assets and liabilities are denominated; and (iii) the outcome of contingencies.

PART I

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

U.S. GAAP PRESENTATION

The selected financial information for the Company included in the following table should be read in conjunction with, and is qualified in its entirety by, the U.S. GAAP financial statements of the Company and "Operating and Financial Review and Prospects" appearing elsewhere herein. The consolidated financial data for the Company as of December 31, 2003, 2002, 2001, 2000 and 1999 are derived from the U.S. GAAP financial statements.

	FOR THE YEARS ENDED DECEMB		
	(EXPRESSED IN THOUSANDS OF U.S		
INCOME STATEMENT	2003	2002	2001
Net sales	4,530,969	3,264,926	2,401,138
Cost of sales	(3,445,564)	(2,349,636)	(1,722,228)
Gross profit	1,085,405	915,290	678,910
Sales and marketing expenses	(146,388)	(112,645)	(105,801)
General and administrative expenses	(241,854)	(221,895)	(181,108)
Operating income	697,163	580,750	392,001
Interest expense and exchange (gain) loss, net	(254,763)	(424,147)	(238,269)
Interest income	62,036	100,350	55,002
Other non-operating income (expense)	(824)	(18,178)	(7,853)
Equity in earnings (losses) of unconsolidated companies, net	22,062	(10,057)	18,324
Income before income taxes and minority interest	525,674	228,718	219,205
Income taxes benefit (expense)			
Current	(87,812)	(27,065)	(40,981)
Deferred	121,925	20,507	(13,666)
Income before minority interest	559,787	222,160	164,558
Minority interest	(49,623)	9,667	2,795
Net income available to common and preferred shareholders	510,164	231,827	167,353
Basic income per share (i)			
Common	1.72	0.78	0.53
Preferred	1.72	0.78	0.59
Diluted income per share (i)			
Common	1.72	0.78	0.53
Preferred	1.72	0.78	0.59
Cash dividends declared per share (i)			
Common	0.40	0.26	0.23
Preferred	0.40	0.26	0.25

Number of common shares outstanding at year end (ii)	102,936,448	102,936,448	102,393,253
Number of preferred shares outstanding at year end (ii)	193,771,574	193,771,574	193,685,184

(i) Per share information has been retroactively restated to reflect for all periods the effect of: (a) the 2 for 1 stock split approved in April 2000, (b) the stock bonus of 10 shares for 3 shares held, approved in April

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2003, (c) the reverse stock split of 1 share for 1,000 shares held, as approved in April 2003, and (d) the stock bonus of 1 share for every share held approved in April 2004;

(ii) The information on numbers of shares presented above relates to the end of each year, and is retroactively restated to reflect changes in numbers of shares due to the transactions described in (i) above.

AS OF DECEMBER 31,

(EXPRESSED IN THOUSANDS OF U.S. DOLL

BALANCE SHEET	2003	2002	2001	20
Cash	92,504	40,457	27,832	
Restricted cash	1,935	15,001	-	
Short-term investments	236,137	367,748	306,065	
Net working capital (1)	300,670	(63,579)	250,636	
Property, plant and equipment	2,304,158	2,084,895	1,384,463	1,
Total assets	4,770,834	4,000,301	2,952,677	3,
Short term debt	798,496	1,104,793	567,491	
Long term debt, less current portion	1,132,429	794,571	630,636	
Long term parent company	-	-	461	
Debentures - short term	1,048	-	2,018	
Debentures - long term	155,420	200,766	94,204	
Shareholders' equity	1,403,063	865,010	1,032,720	1,
Capital	982,601	843,959	838,214	

(1) Total current assets less total current liabilities

DIVIDENDS

The Company's total authorized capital stock is composed of Common and Preferred Shares. As of December 31, 2003, the Company had 51,468,224 Common Shares and 96,885,787 Preferred Shares issued and outstanding.

The following table details dividends paid to holders of Common Shares and Preferred Shares since 1999. The figures are expressed in reais and converted to U.S. dollars on the date of payment. Dividend per share figures have been retroactively adjusted for all periods to reflect: (a) a 2-for-1 share split for each share held, approved in 2000, (b) a bonus issue of 3 shares for each share held, approved in April 2003, (c) a reverse stock split of 1 share for each 1,000 shares held, approved in April 2003 and (d) a bonus issue of 1 share for each share held, approved in April 2004.

PERIOD	DATE OF PAYMENT	R$ PER SHARE (2) COMMON SHARES	R$ PER SHARE (2) PREFERRED SHARES	$ PER SHARE (COMMON SHARE
1st Half 1999 (1)	Aug. 03, 1999	0.1212	0.1333	0.0636
2nd Half 1999 (1)	Feb. 29, 2000	0.1906	0.2096	0.1078
1st Half 2000 (1)	Aug. 15, 2000	0.1435	0.1578	0.0795
2nd Half 2000 (1)	Feb. 15, 2001	0.2546	0.2801	0.1285
1st Half 2001 (1)	Aug. 15, 2001	0.1531	0.1684	0.0612
2nd Half 2001(1)	Feb. 19, 2002	0.3692	0.4062	0.1523
1st Half 2002 (1)	Aug. 15, 2002	0.2692	0.2692	0.0844
2nd Half 2002 (1)	Feb. 18, 2003	0.6269	0.6269	0.1747
1st Quarter 2003 (1)	May 15, 2003	0.2500	0.2500	0.0853
2nd Quarter 2003 (1)	Aug. 14, 2003	0.1700	0.1700	0.0564
3rd Quarter 2003 (1)	Nov. 18, 2003	0.2550	0.2555	0.0867
4th Quarter 2003 (1)	Feb. 17, 2004	0.5100	0.5100	0.1751
1st Quarter 2004 (1)	May. 18, 2004	0.3200	0.3200	0.1027

(1) Corresponds to payment of interest on shareholders' equity.

(2) From April 2003 onwards, and as result of the reverse stock split of 1 share for 1,000 shares held, approved in April 2003, dividends are quoted on a per share basis (rather than a per thousand shares basis, as was the case prior to this date)

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Law No. 9,249, of December 1995 establishes that a company may, at its sole discretion, pay interest on stockholders' equity in addition to or instead of dividends (See "Item 8 - Interest on Stockholders' Equity"). A Brazilian corporation is entitled to pay its shareholders (considering such payment as part of the Mandatory Dividend for each fiscal year) interest on stockholders' equity up to the limit calculated as the TJLP rate (Long-Term Interest Rate) on its stockholders' equity or 50% of the income for the fiscal year, whichever is greater. The payment of interest on stockholders' equity as described herein is subject to a 15% withholding income tax. See "Item 10 - Taxation"

B. CAPITALIZATION AND DEBT

Not required.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not required.

D. RISK FACTORS

The steel industry is cyclical and has experienced a series of crises over the last few years. In the United States, where a significant portion of Gerdau's productive assets are located, the steel sector has undergone an extensive process of reorganization, including buyouts, bankruptcies and Chapter 11 filings. In Brazil, this cyclicality is less pronounced, with risks in that country relating to domestic market conditions and government decisions.

The relevant risk factors for Gerdau S.A.'s operations relate to scrap, iron ore, energy and imports, where these exist, as well as Gerdau Ameristeel's efforts (in North America) to incorporate the productive assets of the former Co-Steel. There are also political risks.

RISK FACTORS RELATING TO THE COMPANY AND THE STEEL SECTOR

CHANGES IN STEEL SCRAP PRICES AND A REDUCTION IN SUPPLY WOULD AFFECT THE COMPANY'S PRODUCTION COSTS AND OPERATING MARGINS

The main metallic input for Gerdau's mini-mills is the scrap used in electric arc furnaces, corresponding to 67.7% of total crude steel output in 2003. Other important raw materials include pig iron, iron ore (used in blast furnaces and in the DRI plant), and ferroalloys. Brazilian mills normally use a mixture of scrap and pig iron due to the lower yield of steel scrap in Brazil. In North America, by contrast, mini-mills normally use 100% steel scrap.

Although international steel scrap prices are essentially determined by the U.S. domestic market (since the United States is the main exporter of scrap) scrap prices in the Brazilian market are determined by internal supply and demand. The price of steel scrap in Brazil varies from region to region, and reflects regional demand and transportation costs. Gerdau Acominas is the largest consumer of steel scrap in Brazil, sourcing it from more than 4,000 suppliers. An increase in steel scrap prices and the consequent reduction in the supply of scrap to Gerdau's units would affect the Company's production costs and reduce its operating margins. "See Item 4 - Business Overview".

AN INCREASE IN IRON ORE PRICES AND A SUPPLY SHORTAGE IN THE DOMESTIC MARKET WOULD ADVERSELY AFFECT THE COMPANY'S INTEGRATED PROCESS UNITS

Gerdau Acominas uses iron ore to produce pig iron at its Barao de Cocais and Divinopolis units, in the state of Minas Gerais. Iron ore is also used to produce sponge iron at its Gerdau Usiba unit, in the state of Bahia. These three units represent 12.1% of total crude steel output by Gerdau S.A. and 20% of total production by its Brazilian units.

By contrast, the Ouro Branco mill uses iron ore as its main metallic input for the production of steel, accounting for 25.3% of total crude steel output by Gerdau Acominas S.A. The iron ore used is of fine grain quality, and is transformed into sinter in a sintering unit. An increase in prices and a shortage of iron ore in the domestic market would adversely affect the steel producing capacity of Gerdau Acominas' integrated process units and could reduce profit

margins. "See Item 4 - Business Overview".

AN INTERRUPTION IN THE SUPPLY OR SHORTAGE OF ELECTRICAL POWER WOULD SERIOUSLY AFFECT THE PRODUCTION PROCESS IN THE COMPANY'S ELECTRIC ARC FURNACE

MELT SHOPS

Steel production is an energy-intensive process, especially in melt shops with electric arc furnaces. For these, electricity represents a significant cost component, as does natural gas, which is used in certain mills mainly for reheating prior to the rolling process. The interruption or the rationing of the supply of electrical power would have a seriously adverse impact on the production process in the electric arc furnace melt shops, as these have no alternative energy source. This could cause a reduction in output until such time as the power supply returned to its normal levels. "See Item 4 - Business Overview".

RESTRICTIVE MEASURES ON TRADE IN STEEL PRODUCTS MAY AFFECT GERDAU'S BUSINESS

Gerdau Acominas is a steel producer that supplies both the domestic and the international markets, exporting to many countries and thus facing competition from other steel producers, as well as certain periodic restrictions imposed by importing countries, such as quotas, ad valorem taxes or increases in import duty, any of which could adversely affect the Company's exports.

In North America, despite the increase in freight costs associated with the transport of steel bar products, Gerdau Ameristeel and other North American steel producers have experienced significant competition from cheap foreign imports. In some cases, these competitors have sold steel products at a significant discount, with this perceived as unfair competition that has adversely affected the Company's results. The U.S. Administration has responded to this disequilibrium situation with administrative measures aimed at restoring an economic balance and allowing the U.S. steel industry to recover. Future changes in or the elimination of the same measures may adversely affect the operations of our subsidiaries in North America.

The U.S. dollar has recently devalued relative to certain European and Asian currencies. This has acted as a deterrent to what were previously cheap imports.

THE COMPANY MAY EXPERIENCE DIFFICULTIES IN INTEGRATING ACQUIRED COMPANIES

During the last few years Gerdau S.A. has expanded through significant acquisitions, buying Ameristeel in 1999, the Cartersville mill in 2001, a controlling interest in Acominas in 2002 and completing a reverse takeover, at the end of 2002, of Co-Steel of Canada, an operation that was limited to an exchange of shares.

The integration of these businesses and their associated opportunities also carry risks, including problems in integrating the same businesses, their management, operations, products, and services with the Company's existing businesses, as well as related costs which may include unplanned expenses that are necessary for the achievement of such integration. The completion of these transactions and the integration process are making significant demands on management's time. The diversion of management's attention from existing businesses, as well as problems that may arise in connection with the integration of the same operations, may have an impact on the revenues and results of the operations mentioned above.

COMPLIANCE COSTS RELATED TO ENVIRONMENTAL REGULATION MAY INCREASE IF REQUIREMENTS BECOME MORE STRINGENT

The Company's industrial plants are required to comply with a number of laws and regulations regarding the environment and the operation of mills at federal, state and municipal levels in all the countries in which it operates.

If legislation becomes more demanding in the future, expenditure on fixed assets and the costs of compliance may rise, adversely affecting the Company's financial condition and the steel sector as a whole. All of Gerdau's units are currently in compliance with local legislation.

INCREASES IN BRAZILIAN INTEREST RATES AND INFLATION MAY AFFECT THE COMPANY'S OPERATING RESULTS

Within Brazil, the economic variables that most significantly impact the Company's financial results are interest rates and inflation. In an environment of single digit inflation and steadily declining interest rates, economic risks to its

operations are reduced, whereas high levels of interest rates or inflation have an adverse impact on the same operations, due to the increased cost of servicing the debt of its Brazilian operating subsidiaries and the likely reduction in economic activity arising from higher interest rates and inflation. To date, the government has succeeded in meeting its inflation targets.

CHANGES IN TAX POLICIES, MARKET REGULATION AND THE POLITICAL ENVIRONMENT MAY AFFECT THE COMPANY'S OPERATIONS

Changes in the tariff policies of utilities, exchange controls, regulatory policies and taxation in the countries where the Company operates could adversely affect the Company's business and financial results, as could inflation, devaluation, social instability and other political, economic or diplomatic developments. "See Item 10 D - Exchange Controls"

ITEM 4. COMPANY INFORMATION

A. HISTORY AND DEVELOPMENT

Gerdau S.A. is a Brazilian company that was incorporated on November 11, 1961. Its main executive office is located at Av. Farrapos, 1811, Porto Alegre RS - Brazil, with telephone number: 00-55 (51) 3323 2000.

Gerdau began operating in 1901, with the Pontas de Paris nail factory in Porto Alegre, Brazil. In 1969, the company changed its name to Metalurgica Gerdau S.A., and is today a holding company that controls Gerdau S.A. In 103 years of activity, the Gerdau Group has made a seminal contribution to Brazilian industry.

IMPORTANT EVENTS IN THE DEVELOPMENT OF THE COMPANY'S BUSINESS

In order to compensate for the potential shortage of raw material immediately after the end of World War II, Gerdau acquired Siderurgica Riograndense S.A., a steel producer also located in Porto Alegre. In February 1948, the Gerdau Group initiated its steel operations, which foreshadowed the successful mini-mill model of producing steel in electric arc furnaces (EAF), using steel scrap as its main raw material. The Company also adopted a regional sales strategy to ensure more competitive operating costs. Growth in its markets led the Company to install a second Riograndense unit in the city of Sapucaia do Sul (in the state of Rio Grande do Sul) in 1957, consolidating the Group's vocation for producing steel. In 1962, steady growth in the production of nails led to the construction of a larger and more advanced factory in Passo Fundo (in the state of Rio Grande do Sul). Gerdau is currently the world's largest nail manufacturer, with more than 1,000 items available to customers through 100,000 sales outlets.

In 1967, the Company expanded into the state of Sao Paulo, in the Southeast of Brazil, purchasing Fabrica de Arames Sao Judas Tadeu, a producer of nails and wires. It was later renamed Comercial Gerdau and became the Brazilian distribution channel for the Company's steel products, with 68 branches and 5 flat steel service centers strategically located throughout the country.

In June 1969, Gerdau expanded into the Northeast of Brazil, producing steel at Siderurgica Aconorte in the state of Pernambuco. In 1971 it began to build the Cosigua mill in Rio de Janeiro, initially as a joint venture with the German group, August Thyssen Huette. Eight years later, Gerdau became the major shareholder of Cosigua, which currently operates the largest mini-mill in Latin America. In December 1971, Gerdau acquired control of Siderurgica Guaira, a pioneer steel producer in the state of Parana. It also established a new company, Seiva S.A. Florestas e Industrias, to produce lumber on a sustainable basis for the furniture, cellulose and steel industries. Since then, Gerdau has expanded throughout Brazil with a series of acquisitions and new operations, currently owning 10 steel mills within the country.

In addition to its industrial units and warehouses, Gerdau operates 11 rebar fabricating facilities in Brazil. In January 2003, the Group became the major shareholder in the Dona Francisca hydroelectric plant (in the state of Rio Grande do Sul) taking a 51.8% stake in the overall capital of Dona Francisca Energetica S.A.

Gerdau began to expand internationally in 1980, with the acquisition of the Laisa mill in Uruguay, continuing in 1989 with the acquisition of the Canadian company, Gerdau Ameristeel Cambridge (formerly Courtice Steel), located in Cambridge, Ontario. In 1992, Gerdau acquired control of Indac and AZA, in Chile, merging these into a single company, Gerdau AZA, shortly afterwards. Over time, Gerdau increased its international presence by acquiring units in Argentina and most notably, in North America - Gerdau Ameristeel MRM Special Sections and Ameristeel. In October 2002, Gerdau carried out a reverse takeover, merging its North American assets with those of the Canadian Co-Steel to create Gerdau Ameristeel, which is currently the second largest long steel producer in North America.

After this merger between Gerdau's North American assets and Co-Steel, the business names of the companies in that region were changed.

On November 28, 2003, Gerdau S.A. transferred its directly and indirectly controlled operations in Brazil to Acominas, which was renamed Gerdau Acominas S.A., albeit while maintaining its headquarters in Ouro Branco (in the state of Minas Gerais). As of the above date, all Gerdau Group steel activities within Brazil were carried out by Gerdau Acominas, which remains a privately held company. Gerdau S.A remains a publicly traded company with a controlling stake in Gerdau Acominas, Gerdau Ameristeel, the two subsidiaries in Uruguay and Chile, and a 38% stake in the Argentine company, Sipar.

Also in 2003, via its subsidiary Gerdau Acominas S.A., Gerdau S.A. signed an agreement to acquire the entire capital stock of Margusa - Maranhao Gusa S.A., located in Bacabeira (in the state of Maranhao), which has an installed capacity of 200,000 metric tons of pig iron. The acquisition is part of Gerdau's strategy for supplying pig iron to its mills in the Northeast of

Brazil and exporting any excess output to its North American units. This investment provides Gerdau with a presence in the important iron ore production center of Carajas, a strategic source of pig iron with excellent logistics for supplying both its domestic and its export markets.

Gerdau also owns 11 manufacturing plants in Brazil (Armafer), 6 downstream operations and 8 scrap yards. In South America it owns 3 fabricating plants in Chile and Uruguay and has a minority interest in a plant in Argentina. In North America, it has 14 rebar fabricating plants, as well as 12 units that manufacture higher value-added products and special sections such as super light beams, elevator guide rails and epoxy coated steel. It also operates 13 steel scrap recycling operations in North America.

Gerdau began a corporate restructuring in 1995, which it completed in 1997. In this process, the 28 Gerdau group companies were merged, with its six publicly listed companies consolidated into two: Gerdau S.A. and Metalurgica Gerdau S.A., resulting in greater stock market transparency.

Gerdau S.A. has been a publicly listed company in Brazil since 1980, listing its ADRs on the New York Stock Exchange (NYSE) in March 1999. In June 2001, Gerdau joined the Sao Paulo Stock Exchange's Corporate Governance Program (Level 1). In December of 2002 it was listed on the Latibex section of the Madrid Stock Exchange devoted to Latin American companies, with its stock traded in Euros. Gerdau Ameristeel is listed in Canada on the Toronto Stock Exchange.

This steady growth process, which began in Brazil in 1901, has made the Gerdau Group the 14th largest steel producer in the world in 2003 (according to Metal Bulletin).

PRINCIPAL CAPITAL EXPENDITURES SINCE 2001

2001 - TOTAL CAPITAL EXPENDITURES: U.S.$ 244.0 MILLION

MAIN INVESTMENTS

The Group's presence in the United States was strengthened with the purchase of a fifth mill, entailing investments of $ 48.8 million. This plant is located in Cartersville, Georgia, and has production capacity of 725,000 metric tons of steel per year, complementing Gerdau Ameristeel's product line. Gerdau Ameristeel has also increased its range of services to the manufacturing industry by acquiring an 80% stake in a new downstream unit, Ameristeel Bright Bar, in Orrville, Ohio, investing some $ 10 million in this acquisition.

Gerdau also constructed three new rebar fabricating plants, at the cost of $ 6.3 million, enlarging a system that adds value to and increases the productivity of civil construction.

The main highlights in the field of information technology were the development of global data consolidation systems, and the e-procurement website for suppliers. A pilot Management Execution System (MES) was installed at the Cosigua mill for the management of production processes.

The Company's investments in reforestation activities, through its affiliate Seiva S.A. Florestas e Industrias and its subsidiaries, amounted to $ 11.9 million.

MODERNIZATION AND UPGRADING OF INDUSTRIAL PLANTS

Investment in the modernization of industrial plants, which concentrated on improving melt shops and rolling mills and upgrading environmental management equipment, amounted to $ 171 million during this year. Of this total, the Company invested $ 130.8 million in its Brazilian subsidiaries, and $ 40.2 million in its foreign subsidiaries, mainly those in the United States and Canada.

BRAZIL

Gerdau Cosigua has carried out a series of investments in order to complete its product line, including improvements to the continuous casting system to permit the production of 160 x 160 mm billets rather than 130 x 130 mm billets, a new exit for wire rod coils on rolling mill number 2, the addition of equipment to rolling mill number 3 for the production of light profiles and the installation of a new small profile rolling mill. These improvements at Gerdau Cosigua represented total investments of $ 20 million.

Other capital expenditures by the Company included the upgrading of the Gerdau Aconorte rolling mill, at a cost of some $ 10 million, aiding to improve the performance of the same and reducing its operating costs, investments of $ 8.5 million in improving Gerdau Riograndense's melt shop and rolling mill in order to improve operating safety, reduce metal loss and increase productivity, as well as the construction of a new rolling mill for Gerdau Acos Finos Piratini, at a cost of $ 7 million. In addition, investments in its sales network amounted to $ 5.2 million in 2001. Other domestic capital expenditures related to improvements in other Brazilian mills.

CHILE AND URUGUAY

At Gerdau AZA's plant in Chile, a new ladle furnace was added to the melt shop. The profile rolling mill was also modernized in order to broaden its product line, standardize the use of 130 x 130 mm billets and reduce operating costs. In Uruguay, Gerdau Laisa installed a Thermex controlled bar cooling system to add value to its rolled products. Investments in Chilean, Uruguayan and Argentine subsidiaries amounted to approximately $ 9 million.

CANADA AND THE UNITED STATES

In addition to the investments in the United States mentioned before, the Jacksonville mill completed improvements to its cooling bed and installed equipment to improve the quality of its wire rod coils. At the Company's West Tennessee unit, principal investments included the expansion of the melt shop water cooling system, new rolling mill equipment and the expansion of the warehouse. Investments in industrial units in the United States amounted to approximately $ 24 million.

In Canada, Gerdau Ameristeel Cambridge's rolling mill increased its range of products, initiating production of 2 1/2 inch channels, aimed at the manufacturing and construction industries. Gerdau Ameristeel MRM Special Sections installed a new de-scaling system. Investments in Canadian subsidiaries during the year amounted to $ 7 million.

2002 - TOTAL CAPITAL EXPENDITURES: U.S.$ 598.0 MILLION

MAIN INVESTMENTS

Gerdau's investment policy has mainly consisted of expanding through the acquisition of financially distressed companies, albeit with quality operations. The merger of its North American operations with the former Co-Steel Corp.

in 2002, reflected this policy and resulted in the creation of the new company, Gerdau Ameristeel, which is the second largest long steel producer in the region.

In 2002, the Group invested a total of $ 598.0 million, of which 68.9% in acquisitions of holdings and 31.1% in the modernization of units and the acquisition of new permanent assets.

The Group became the majority shareholder in Acominas by acquiring sufficient voting shares to command a qualified majority under the terms of the stockholders' agreement. At an auction realized in February by Central Bank of Brazil, the Company purchased a 16.12% stake in the capital of Agropecuaria Senhor do Bonfim, a company controlled by Banco Economico, for a consideration of $ 179.0 million. In the same month, The Company concluded an agreement with Natsteel, a corporate member of the controlling block of Acominas, to purchase an additional 24.8% stake for $ 226.7 million, which it paid in October. With these two investments, the Group's stake in Acominas increased to 78.9%, giving Gerdau important competitive advantages due to operating flexibility and the privileged location of the mill in Ouro Branco (in the state of Minas Gerais).

The Company also invested in the energy sector, acquiring a 22% minority stake in the company Dona Francisca Energetica S.A. in December 2002 for approximately $ 6 million. Dona Francisca Energetica S.A. owns the Dona Francisca hydroelectric plant, which started operations in 2001. Located in the municipalities of Agudo and Nova Palma in the state of Rio Grande do Sul, it has power generating capacity of 125 MW.

In order to service the civil construction market, the Group has invested in the expansion of technologies for boosting on-site productivity, expanding rebar fabrication services in Brazil, Uruguay and Chile, where it also began to produce welded wire mesh.

Through its affiliate Seiva S.A. Florestas e Industrias and its subsidiaries, the Company invested a total of $ 7.8 million in reforestation activities.

MODERNIZATION AND UPGRADING OF INDUSTRIAL PLANTS

BRAZIL

A rolling mill for heavy structural shapes with an annual capacity of 440,000 metric tons was installed at the Gerdau Acominas Ouro Branco mill, where the Company also completed the installation of a turbo-generator that will use the excess gases from the blast furnace production process to generate energy. In 2002, investments at Gerdau Acominas Ouro Branco mill amounted to $ 66.3 million.

At Gerdau Acos Finos Piratini, the modernization of rolling mill 1 was concluded at a cost of $ 13.1 million, increasing the surface and the dimensional quality of medium and heavy bars with gauges over 45 mm and exceeding the requirements of the German DIN standard.

The improvements at Gerdau Riograndense's rolling mills, entailing investments of $ 8.2 million, resulted in increased metallic yield and efficiency of equipment.

Gerdau Cosigua increased its range of products with the manufacture of light structural shapes for steel structures and roofing. In addition, new exits were installed in rolling mills 1 and 2 to increase both productivity and product quality. Galvanization output was also expanded in order to increase production of agricultural products. Capital expenditures at Gerdau Cosigua amounted to $20.8 million.

At Gerdau Divinopolis, the drive and electronic control system for the medium bar rolling mill was upgraded at a cost of $ 2.2 million, improving equipment performance from 2003 onwards.

In the Northeast of Brazil, the Company invested in (i) the installation of new equipment at Gerdau Aconorte, upgrading the technology of its welded mesh factory in order to increase installed capacity and productivity, and (ii) the installation of a new continuous casting unit at Gerdau Usiba, to be completed in 2004. This unit is expected to increase the installed capacity of the melt shop by 20%, as well as improving product quality and reducing operating costs. Investment in the two units during 2002 amounted to $ 9.4 million.

CHILE AND URUGUAY

In Chile, investments in Gerdau AZA were primarily aimed at optimizing the productivity of rolling mills, reducing costs and improving product quality. Improvements in warehouses and product loading ramps optimized operations and improved customer service. Capital expenditures in Chile during 2002 amounted to $ 8.4 million.

In Uruguay, investments in Gerdau Laisa, included the refurbishing of the continuous casting unit, at a cost of $ 2.4 million, to produce larger section billets (100 X 100 mm to 120 X 120 mm) and improve the productivity of the melt shop and rolling mill.

CANADA AND THE UNITED STATES

In 2002, capital investment in Gerdau Ameristeel amounted to $29.5 million, relating principally to the improvement of its mills. The most significant investments in its United States units were (i) in the Cartersville mill, where the new automated packaging and rolled products inventory area improved logistics; (ii) in the Charlotte and Knoxville units, where the implementation of new drive and electronic control systems improved both productivity and product quality; and (iii) at the Jackson mill, where the complete refurbishing of the continuous casting unit reduced losses and improved product quality.

In the Canadian units of Gerdau Ameristeel, the most significant investment was the installation of a new gantry crane at the Cambridge unit, which expanded the operating performance of the melt shop.

2003 - TOTAL CAPITAL EXPENDITURES: U.S.$ 312.5 MILLION

MAIN INVESTMENTS

The Company initiated new programs for upgrading technology to meet domestic demand, most notably at Gerdau Riograndense, Gerdau Acos Finos Piratini (both in the state of Rio Grande do Sul) and Gerdau Usiba (state of Bahia). Over the next four years, such investments will boost the production capacity of Gerdau Acos Finos Piratini from 300,000 to 500,000 metric tons per year. By 2007, Gerdau Usiba will expand its steel production capacity by 20% to 600,000 metric tons per year, and its rolled products capacity by 25% to 500,000 metric tons per year. Production of sponge iron, one of the main raw materials in the steelmaking process, will be increased by 33% to 600,000 metric tons per year.

The Company is upgrading data processing systems at its Brazilian plants by adding several new functions. This new technology should improve reliability and service for its customers and suppliers, as well as access to data such as inventory levels and shipping schedules along the whole of the supply chain.

In the United States, Gerdau Ameristeel increased its output of higher value added products during the fourth quarter of 2003. It also acquired the assets of Potter Form & Tie Co., a leading supplier of fabricated rebar and other materials to the reinforced concrete industry in its region for over thirty years. This investment adds six units to Gerdau Ameristeel in the United States: in Belvidere, Urbana and Decatur (Illinois), Madison and Appleton (Wisconsin) and Eldridge (Iowa).

In January 2003, Gerdau acquired an additional interest in Dona Francisca Energetica S.A. (DFESA), for a consideration of $ 5.7 million, increasing its total stake in this company to 51.8%.

MODERNIZATION AND UPGRADING OF INDUSTRIAL PLANTS

BRAZIL

In addition to its wire rod rolling mill, the Gerdau Acominas Ouro Branco mill also invested in the production of high quality steel: the KR plant, which reduces sulfur levels in pig iron, reached full capacity in 2003, improving quality and reducing costs. The Company is also implementing its dephosphorization project to reduce the level of phosphorus in its steel products. At the primary rolling mill, the Company is close to completing the new billet inspection line, which aims to guarantee surface quality. Investments during 2003 at the Ouro Branco mill amounted to $ 80 million.

Other investments by Gerdau Acominas in its units, which amounted to $151.9 million, included the following:

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- Gerdau Acos Finos Piratini concluded the modernization of its medium and heavy bar rolling mill, increasing quality and exceeding the most demanding standards of the market. The modernization of the electric arc furnace in the melt shop, which started in 2003, was completed early in 2004.

- Gerdau Cosigua invested in improving the efficiency of the mill's electric arc furnace, increasing its production by 10%.

- Gerdau Divinopolis initiated the construction of a new blast furnace which will have annual production capacity of 190,000 metric tons and will replace one of the existing older blast furnaces. The new equipment is scheduled to begin operating in 2005.

- The Company completed the upgrading of the main equipment of Gerdau

Riograndense's melt shop and bar rolling mill. It also began upgrading technology at the drawing mill and wire galvanizing areas with a view to improving product quality even further.

- In the Sao Jose dos Campos unit, the new welded wire mesh factory began operating in the first quarter of 2004, to service the civil construction sector. The expansion of the welding products factory will also be completed at the start of 2004, with improvements in technology and increased output of MIG wire.

CHILE AND URUGUAY

At the Renca unit of its Chilean subsidiary, the Company is extending the automation of industrial processes to the profile finishing area. A new stock and loading warehouse will also optimize product delivery during 2004. The paving of the scrap yard at the Colina unit has significantly improved the performance of trucks and equipment, with a consequent reduction in raw material unloading times. Rebar storage conditions were also improved, maintaining product quality, reducing costs and increasing loading speed. Investments in Chilean and Uruguayan subsidiaries amounted to $ 6.9 million.

CANADA AND THE UNITED STATES

Investments in Gerdau's North American subsidiaries amounted $ 59 million in 2003. The most significant investments in North America were:

- Installation of new automated lubrication system for Gerdau Ameristeel Cambridge's rolling mill guides, leading to increased productivity and reduced losses in the production process.

- Completion of the first phase of the replacement of the high voltage system at Gerdau Ameristeel MRM Special Sections and the installation of a new scrap shearing press.

- At the Cartersville mill, new technologies were installed in the melt shop: electricity conductor arms and improvements to the injection system that boosted the performance of the electric arc furnace. Another important initiative was the implementation of a new stock and packaging area, improving logistics and customer service.

- Installation of rolling mill drives and control systems at Charlotte, Knoxville and Whitby units, to increase equipment performance.

- Improvements in the melt shop at the Jackson unit, reducing costs by expanding the casting area. Investments in backup rolling mill stands increased equipment efficiency.

- At the Jacksonville unit, investments were made in the carbon and oxygen injection system, the replacement of the dome roof of the electric arc furnace in the melt shop and the construction of a new administrative building.

- The modernization of the continuous casting process at the Perth Amboy plant, starting in 2003, to improve melt shop operating performance.

- Improvements in the Cartersville rolling mill reheating furnace improved productivity and product quality.

PRINCIPAL CAPITAL EXPENDITURE CURRENTLY IN PROGRESS

As part of the Gerdau Group's long-term strategy to ensure the growth of its Brazilian subsidiary, Gerdau Acominas has signed an agreement with the

Votorantim Group, whereby Gerdau Acominas will purchase the real estate and mining rights of Companhia Paraibuna de Metais, a company with mines in the state of Minas Gerais. The assets involved in this transaction include 15 extraction concessions located over a total area of 7,000 hectares. According to partial surveys, these mineral reserves should guarantee the supply of iron ore to the Ouro Branco steel mill at currently planned production rates for approximately 100 years. The mines have a privileged location within the iron belt of Minas Gerais, are close to the Ouro Branco mill and will contribute to the consolidation of the unit's long-term competitive position. This purchase should not alter current supply structure, which relies on more than ten regional iron ore

suppliers. The agreed price for the purchase of the real estate and mineral rights described above is $ 30 million, with $ 7.5 million paid at the signing of the agreement, 25% paid upon completion of the due diligence process concluded in May and the remaining 50% due in July 2004.

B. BUSINESS OVERVIEW

Comments in this section are structured in the following order: Brazil, South America and North America.

Gerdau's strategy concentrates on the decentralized production of long steel using electric arc furnace (EAF) mini-mills that employ continuous casting technology. Gerdau Acominas also has four integrated mills. Plants are sized and located to meet the needs of local markets and provide efficient access to customers. This strategy is a response to the geographical dimensions of Brazil and the United States, in the light of high transportation and freight costs. Gerdau is thus in a position to supply its customers and source raw materials locally. From 1970 to 1990, Gerdau concentrated on increasing its market share in Brazil by increasing its installed capacity and by acquiring existing mills, typically seeking mills with management problems where the Company's main contribution would be management skills rather than capital. Gerdau Acominas is currently the third largest crude steel producer in Brazil, accordingly to the IBS (Brazilian Steel Institute).

Outside Brazil, and notably in North America, Gerdau Ameristeel has increased its market share by acquiring mills which, like their Brazilian counterparts, required administrative adjustments rather than capital. Gerdau has progressively increased its share of the North American market and is currently the second largest North American long steel producer with nominal capacities of 5.9 million tons of crude steel per year and 5.5 million tons of rolled products per year, according to Company statistics. Gerdau's industrial units are distributed across North America to supply local markets along the East Coast of the United States. and the East and Center of Canada. Following the merger with Co-Steel, completed in October 2002, Gerdau Ameristeel has 10 long steel units.

Gerdau also owns three mills in Argentina, Uruguay and Chile. Of these, the Argentine mill is a joint venture that does not produce crude steel, in which Gerdau holds a minority stake. The other two mills in Chile and Uruguay have a combined output of 510,000 tons of crude steel per year. Although these units make only a minor contribution to consolidated results, they are highly profitable and efficient.

MAIN CATEGORIES OF PRODUCTS

Gerdau provides its customers with a wide range of products within the following major lines:

SLABS, BLOOMS AND BILLETS

Products such as billets, blooms and slabs have relatively low added value. Billets are Gerdau Acominas' main products, with blooms and slabs produced in smaller quantities.

Billets: Billets are square section, long steel bars which serve as inputs for the production of wire rod, rebars, merchant bars, shapes, etc.

Blooms: Blooms, which are also square in shape, are wider but shorter than billets, and are used to manufacture products such as springs, forged parts, shapes and seamless tubes.

Slabs: Slabs are short, narrow bars, similar to billets in length that are used to produce hot and cold coils, heavy slabs, profiling and oxy-cutting, etc.

These products may be cast using different processes, such as continuous casting, mechanical cutting or oxy-cutting, or may be cooled in molds using a conventional casting system that employs cooling beds. Although this conventional system is not widely used in Brazil, it is still employed at Gerdau Acominas' Ouro Branco mill. This may represent a competitive advantage, since Gerdau Acominas is the only company manufacturing these products and thus has captive customers.

COMMON LONG ROLLED PRODUCTS

Rolled products represent a major portion of Gerdau's production. In 2003, common steel rolled products accounted for 66.4% of the Group's consolidated sales (41.5% by non-Brazilian companies and the remaining 24.9% by Gerdau Acominas, with 16.0% going to the domestic market and 8.9% to exports). The main rolled products include rebars, merchant bars and profiles.

DRAWN PRODUCTS

Drawn items represent higher added value products with higher margins. Drawn products include barbed and barbless fence wires, galvanized wires, fences, concrete reinforcing wire mesh, nails and clamps. Drawn products account for 5.8% of the Company's consolidated sales. These products are not exported and are usually sold to the industrial, civil construction and agricultural sectors.

SPECIALTY STEEL

Specialty or high-alloy steel requires advanced manufacturing processes and normally includes some degree of customization. Gerdau produces specialty and stainless steel used in tools and machinery (e.g. cold, hot and high-speed steels), chains, fasteners, railroad spikes and special coil steel at its Gerdau Acos Finos Piratini plant.

In the United States, Gerdau Ameristeel MRM Special Sections produces special section profiles such as grader blades, smelter bars, light rails, super light I-beams and elevator guide rails with direct applications in the production line of its clients at lower operating costs.

FLAT PRODUCTS

The Gerdau Acominas Ouro Branco mill (formerly Acominas) produces slabs, the input for flat steel coils, and other flat steel products. In 2003, flat steel products accounted for 7.5% of this mill's total production. Gerdau Acominas' retail division, Comercial Gerdau, resells flat steel products manufactured by other Brazilian steel producers, also adding value through additional processing for flat steel clients at its 5 flat steel service centers.

With the incorporation of the former Co-Steel mills and its joint venture (Gallatin, Kentucky), Gerdau Ameristeel acquired the ability to supply flat steel to its customers. The Gallatin mill is a 50%-50% joint venture with Dofasco, Canada, a leading flat steel producer, and has nominal installed capacity of 1.4 million metric tons of flat steel per year.

LIST OF PRODUCTS

CIVIL CONSTRUCTION

GG-50, CA-60 and CA-25 concrete reinforcing bars (rebar) Annealed wire Ribbed reinforced concrete Transfer bars POP prefabricated light columns and meshes Truss reinforcing for concrete beams Stirrups Fabricated rebar Prefabricated footing

INDUSTRIAL PRODUCTS Hot rolled flat, round and square bars
Cold drawn round, square and hexagonal bars
Blooms
Angles
Channel, I-beams, T-Shapes and W-beams
Ribbed T profile
Elevator guide rails

Star profiles
Slabs
Tribar
Wire rod
Billets
Prefabricated warehouse
Structural shapes

SPECIAL SECTION PROFILES (MANUFACTURED IN CANADA)
Grader blades
Smelter bars
Light rails
Superlight I-beams
Elevator guide rails

METALLURGY

Complete line of wires for industrial applications, welding and wire ropes

AGRICULTURAL PRODUCTS
Oval-shaped wire and barbed wire
Gripple joiner and tensioner
Staples for fences
Cercafix post-spacing wire
Wire and posts for electrified fences
Wire rope for corrals Wire and wire rope for agricultural products
Galvanized wire
Plastic-coated galvanized wire
Arcorfix and tutor - products for fruit crops
Steel post
Nails
Bulk nails - construction
Bulk nails - carpentry
Bulk nails - packaging

SPECIALTY STEEL
Round and square rolled bars
Wire rod
Forged bars
Cold-finished products
With or without heat treatment
Tools Steel
Forged bars and blooms
Round, square and flat rolled bars

STAINLESS STEELS
Round and square rolled bars
Wire rod
Forged bars
Cold-finished

PRINCIPAL MARKETS IN WHICH THE COMPANY COMPETES

The three main markets in which Gerdau operates are: (i) construction, to which it supplies rebars, merchant bars, nails and meshes; (ii) manufacturing, to which it supplies products for machinery and agricultural implements, tools and other industrial products; and (iii) other markets, to which it supplies wires and posts for agricultural facilities and reforestation projects. In North America, Gerdau Ameristeel MRM Special Sections also supplies customers with special

sections, including elevator guide rails and super light beams. Gerdau provides its customers with higher added value products at 28 rebar fabricating facilities (11 Armafer service centers in Brazil, 3 in South America and 14 Fabshops in North America) and flat steel service centers (5 in Brazil).

SEASONALITY OF THE COMPANY'S MAIN BUSINESS

The Company's sales are not subject to significant seasonal variation. Its performance is more dependent on the development of the segments that compose the Gross Domestic Product of countries in which Gerdau operates. Within Brazil, second and third quarter shipments tend to be stronger than those in the other two quarters. In North America, demand is influenced by the winter, 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, decreased construction activity and hence lower Company sales.

SOURCES AND AVAILABILITY

Gerdau's production processes are mainly based on the mini-mill concept, with mills equipped with electric arc furnaces that can melt steel scrap and adapt the same to the specifications of the required steel product. The principal raw material used at these mills is essentially steel scrap (100% in the US) and a mixture of pig iron and steel scrap in the Company's Brazilian mills that may be varied in accordance with price and availability at the time of production so as to optimize raw material costs. In this way, the ratio of steel scrap to pig iron may be varied from 60%-40% to 90%-10%.

As mentioned above, The Company's mills in the United States use 100% steel scrap. With steel scrap prices exceeding acceptable levels however, these mills are seeking alternative sources of inputs. One of these is the pig iron from the recently acquired Margusa, a pig iron producer in the Northeast of Brazil located close to the coast and the local sea port with installed plant capacity of 200,000 metric tons of pig iron per year. Gerdau intends to use Margusa's output to supply its plants in the Northeast of Brazil, with the balance to be exported to Gerdau Ameristeel plants in the United States.

The Company's Brazilian mills use scrap and pig iron purchased from local suppliers. The Company believes that this strategy minimizes transportation costs. Gerdau Acominas has a network of 4,000 scrap suppliers that deliver their materials to the Company's yards and believes that it is the largest buyer of scrap in Brazil. The pig iron used in the electric arc furnaces is produced at Gerdau Acominas's pig iron mill, located in Contagem, in the state of Minas Gerais, part of which is sourced from other companies. In 2003, Gerdau Acominas produced 32% of its pig iron requirements internally.

Due to the nature of the raw materials employed, Gerdau Acominas does not use long term supplier contracts. Its mini-mills purchase their scrap directly on a demand basis using mainly obsolescence scrap. Scrap and other raw materials are priced in reais so that input prices are not directly affected by currency fluctuations.

Due to its size, Gerdau Acominas' Ouro Branco mill has a different strategy for sourcing raw materials, establishing long-term contracts to ensure supply. The unit's main raw materials include: (i) coal, imported from Canada, Australia and the United States; (ii) ferroalloys, of which at least 90% is purchased in the domestic market; and (iii) iron ore, the most strategic raw material, which is sourced both from large mining companies and from small and medium suppliers strategically located close to the plant. These three inputs account for more than 60% of all purchases by the plant.

In South America, Gerdau AZA, like Gerdau's other mills in Brazil, does not maintain long-term contracts with suppliers and is thus exposed to market fluctuations. There are approximately 300 steel scrap suppliers in Chile. In Uruguay, Laisa purchases all of its steel scrap in the domestic market, and is the only significant buyer of steel scrap in Uruguay, purchasing 48,000 tons of scrap in 2003.

Gerdau Ameristeel has consistently obtained adequate supplies of raw materials at competitive market prices, permitting efficient mill operations. Gerdau Ameristeel is not dependent on any one supplier as a source for any particular material and believes there are adequate alternate suppliers in the marketplace, in the event that it needs to replace an existing one. Gerdau Ameristeel operations also include 13 scrap recycling operations that provide flexibility in sourcing scrap.

METALLIC INPUTS

Gerdau's main metallic input is steel scrap, which is used in electric arc furnaces. Pig iron, iron ore (used in blast furnaces and in one DRI plant), and ferroalloys are also important. Its Brazilian mills use a mixture of scrap and pig iron, due to the low yield of steel scrap in Brazil. In North America, by contrast, mini-mills normally use 100% steel scrap.

Although international steel scrap prices are determined by the U.S. domestic market (as the United States is the main exporter of scrap), the price of steel scrap in Brazil varies from region to region and is influenced by regional demand and transportation costs. Gerdau Acominas is the largest consumer of steel scrap in Brazil with over 4,000 scrap suppliers.

SCRAP

There are two broad categories of steel scrap: (i) obsolescence scrap representing steel from various sources, ranging from tin foil cans to car bodies and white goods and (ii) industrial scrap representing factory steel cookie cutouts, steel turnings, and even scrap generated by the Company's own production processes. Gerdau Acominas mainly uses obsolescence scrap. By contrast, North American plants use mainly industrial scrap.

In Brazil, the highest proportion of the steel scrap consumed by Gerdau Acominas is sourced in the state of Sao Paulo, the balance being evenly distributed among the other areas in which the Company mills are located. Obsolescence scrap is delivered directly to mills by scrap suppliers. In regions where it does not have a steel mill, the Company has yards where scrap is collected and compacted for transportation by third parties. The price of scrap in Brazil varies by region, depending upon local supply and demand and transportation costs. Each month, on the basis of market conditions, the Company's purchasing officer sets the maximum price for scrap (by type of scrap and region) to be paid by Company representatives. Due to the large number of consumers and thus fierce strong competition between them, prices tend to be higher in the Southeast, the most industrialized region of Brazil. Given that the Company's facilities are evenly distributed throughout Brazil, however, Gerdau Acominas is able to take advantage of lower prices in other regions without incurring high transportation costs.

A leader in steel scrap recycling in Latin America, Gerdau Metalicos, the business unit that collects and supplies scrap to industrial units, reutilizes millions of tons of Brazilian scrap every year, accounting for significant gains through process optimization, reduced energy consumption, increased productivity and increasingly competitive operating costs. It should be noted that a ton of steel produced from scrap requires only one third of the power needed to generate one ton of steel from iron ore. Gerdau Metalicos purchases scrap directly from companies across Brazil, through a network of over 4,000 suppliers that generates thousands of jobs. Gerdau Metalicos has stowage yards (collection points) for scrap in strategic locations throughout Brazil and uses several moving presses that travel around Brazil, preparing scrap for transportation to its mills. Every Gerdau Metalicos industrial unit has a recycling yard with state-of-the-art equipment to process scrap using presses and stationary and mobile shears. The Company also has two shredders, including the megashredder at Gerdau Cosigua, in Rio de Janeiro, capable of processing 300 cars per hour.

The price of scrap in Chile varies according to demand, transportation costs and by region. Gerdau AZA is the largest scrap consumer in Chile, using some 70% of the scrap generated in the country. The scrap used by Gerdau Laisa in Uruguay is 90% obsolescence scrap delivered to the mill by scrap dealers.

Steel scrap is Gerdau Ameristeel's primary raw material and represents around 40% of its cost of sales, depending on the mill and product mix. Scrap is a commodity whose availability varies with price, and is a major constraint on the company's operations. Gerdau Ameristeel's Jackson and Jacksonville mills both have on-site dedicated scrap processing facilities that supply a significant proportion of their requirements. Gerdau Ameristeel MRM Special Sections receives a significant amount of its scrap from the Mandak and Porter scrap collection and processing yards. Gerdau Ameristeel has a total of 13 scrap recycling locations, although since not all of the scrap that it consumes is sourced from its own scrap yards, it buys its residual requirements in the market either directly or through dealers who source and aggregate scrap.

All of Gerdau Ameristeel's production facilities in North America are mini-mills whose operating results are closely linked to the cost of steel scrap and scrap substitutes, the primary input for the mini-mill facilities. Steel scrap prices are relatively higher during winter months due to the impact of weather on collection and supply efforts. Realized selling prices for end products cannot always be adjusted on a short-term basis to recover the cost of increases in steel scrap prices, but generally reflect increases or decreases in these prices. Approximately half of all steel products in North America are currently made in electric arc furnaces using steel scrap. The increasing rate of steel scrap consumption has

placed upward pressure on the price of steel scrap. The availability and prices of scrap are subject to market forces and government regulation that are largely beyond the company's control, including demand from North American and international steel producers.

PIG IRON AND SPONGE IRON

Brazil is a net 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, is mixed with scrap due to the low quality of the existing scrap supply. Mills in the U.S. operate with 100% scrap loads. In Brazil, the price of pig iron is related to the cost of charcoal, an important input and the most volatile cost item in the production of pig iron. When the price of charcoal is seasonally high, coking coal can be used as a substitute which, although more expensive, provides a higher yield in pig iron production. Iron ore, the main component of pig iron, is widely available in Brazil, which is among the world's leading producers and exporters of iron ore. Approximately 68% of Gerdau Acominas' pig iron requirements for the electric arc furnaces (EAF) are purchased from other companies, with the Company seeking to preserve the flexibility resulting from a large number of suppliers in order to avoid excessive dependence on a small number of large suppliers.

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 directly in the spot market to agree amounts and delivery conditions. The price of pig iron may fluctuate in line with its international market price, given that approximately 60% of production is exported.

In Chile, Gerdau AZA sources pig iron from Compania Siderurgica Huachipato, located 550 km to the south of Santiago, in accordance with its needs and the specifications of the steel to be produced.

IRON ORE

Gerdau Acominas uses iron ore to produce pig iron at its Barao de Cocais and Divinopolis mills, in the state of Minas Gerais, and sponge iron at its Gerdau Usiba mill, in Bahia.

By contrast, its Ouro Branco mill uses fine grain quality iron ore as its main metallic input for steel production, transforming this ore into sinter at a sintering unit. Ore lump is directly loaded into the blast furnace and pre-reduced iron ore pellets are added to increase productivity. These raw materials are purchased from suppliers located close to the mill to reduce transportation and stowage costs. In 2003, the consumption of these three inputs (sinter, ore lump and pellets) amounted to 1.6 tons per ton of pig iron produced. The molten pig iron produced in the blast furnace was the main raw material used in the melt shop in 2003, representing 84 % of metallic inputs, with steel scrap representing 11% of inputs, and cold pig iron 5 %.

OTHER INPUTS

In addition to scrap, pig iron, sponge iron and iron ore, Gerdau Acominas uses other inputs in steel production, 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, used at blast furnace mills, and natural gas, used at the DRI unit.

At the Ouro Branco mill, important raw materials and inputs also include coal, iron ore and pellets. Coal is employed in the production of coking coal, the main agent in the reduction of sinter, which is injected directly into the blast furnace in powdered form to reduce consumption of the same and consequently the cost of pig iron production. Iron ore and pellets are also employed in pig iron production.

Ferroalloys are used to produce steel with special properties for use in specific applications. Oxygen, nitrogen, and argon are also used in some production processes and are sourced from an on-site supplier. In addition, gases generated in the production of coking coal, pig iron, and steel are cleaned and used to generate electric power at the Ouro Branco mill.

In Chile, some inputs, such as electrodes, refractories, ferroalloys and limestone are imported, mainly from Brazil and Argentina. Other materials, such as oxygen, nitrogen and natural gas are purchased in the local market.

The Company's North American operations also use additional inputs. Various domestic and foreign firms supply other important raw materials or operating supplies required for the business, including refractories, ferroalloys and carbon electrodes that are readily available in the open market. In the past, Gerdau Ameristeel has obtained adequate quantities of these raw materials and supplies at competitive market prices that have permitted efficient mill operations. 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 arises to replace an existing one.

ENERGY

Steel production is an energy intensive process, especially in EAF mills. Power and the natural gas used in some mills is a significant component of steel production costs.

With the exception of the Ouro Branco mill, Gerdau Acominas' mills purchase power and natural gas through long term supply contracts between each of the 9 units in Brazil and the authorized public utility in their respective regions, of which they are captive customers. Demand and consumption is agreed by the parties on an annual basis. The Brazilian Federal Government, through its agency ANEEL (National Electric Energy Agency), determines the tariffs that each authorized public utility company may charge, which vary according to consumer class (commercial, industrial, residential) and level of demand (tension and volume). Following the passage of Law No. 9,074 on July 7, 1995, consumers with demand levels that exceed 3,000 KW (kilowatts) and tensions of over 69 KV (kilovolt) may buy electric power from concessionaires in other regions. Any interruption in the supply of electricity to Gerdau may have a negative impact on the Company's business.

In the event electricity is interrupted, no alternate energy options are available at most Gerdau mills due to the high volume and tension required for the operation of these plants. In such cases (as occurred in 2001 in Brazil, when consumption targets were defined by the federal government), the events and their consequences are discussed with the respective energy concessionaires, with operating capacity kept at emergency levels to protect staff and equipment.

In the event of rationing, decisions and norms will be implemented by the Government's regulatory agency and may have a materially adverse impact on the Company's results, with a consequent reduction in production in accordance with the availability of electricity and readjustments in the delivery schedule. Although these problems are not common in Brazil, some small units of Gerdau Acominas may choose, as an alternative, to use generators to compensate for the energy shortage. In 2001, during the period of electric power rationing, Gerdau overcame the crisis by reallocating production among several industrial units, and by rationalizing the use of electricity. These measures resulted in efficiency and productivity gains, and were incorporated into the production process even after the end of the critical period.

By contrast, Gerdau's Ouro Branco mill is practically self-sufficient in power, with internal generation, including the output of its three turbo-generators and the blast furnace's top rotor shaft, supplying 76% of the power requirements of the unit.

In Chile, Chilectra Metropolitana S.A. is the current supplier of Gerdau AZA on a long-term contract basis. In 2003, electricity accounted for approximately 12% of production costs. Another important energy input is the natural gas supplied by Metrogas S.A., also on the basis of long-term contracts. In Uruguay there is only one power supplier, and since Gerdau Laisa is the largest consumer in that country it is able to negotiate fair prices for the energy it purchases. In 2004 Gerdau Laisa will replace fuel oil with natural gas.

Electricity and natural gas together represented approximately 20% of Gerdau Ameristeel's conversion costs (excluding raw material expenses). Free access to competitively priced electric power and natural gas represents an important competitive cost advantage to a mini mill. Although deregulation of both natural gas and wholesale electricity may provide opportunities for lower costs resulting from competitive market forces, the prices of both of these energy inputs have recently become more volatile and may remain so.

INFORMATION ON THE EXTENT OF THE COMPANY'S DEPENDENCE

The Company is not dependent on patents or licenses, industrial, commercial or financial contracts (including contracts with customers or suppliers) or new manufacturing processes that are material to the Company's business or profitability.

The Company has a policy of diversifying its suppliers, so that it can replace these in the event of breach of contract without affecting the Company's operations.

Gerdau S.A. holds contracts with a series of electricity suppliers and is not dependent on any single contract. (Regarding energy supply, see Item 4B - Business Overview). In addition, all of Gerdau's industrial units in Brazil, have energy supply contracts in which they qualify as "Captive Consumers" including them within the "Energy Regulation Mechanism" which, in event of a supply shortage by the original supplier, provides for supply by other utilities included in the "Brazilian Interconnected System" without any extra charges to the consumer.

MARKETING CHANNELS

Gerdau S.A. sells its products in various markets, including construction, manufacturing industry and other products. Sales by its Brazilian operations include both domestic and export sales. Most of the sales by its business operations in North and South America are aimed at their respective local markets.

CONSOLIDATED NET SALES REVENUE BY MARKET

In thousands of U.S. Dollars

	2003	2002	2001
CONSTRUCTION	1,539,278	1,469,217	1,137,081
MANUFACTURING INDUSTRY	2,911,496	1,567,164	1,065,753
OTHER	80,195	228,545	198,304
TOTAL	4,530,969	3,264,926	2,401,138

CONSOLIDATED SHIPMENTS BY REGION
In thousands of tons

	2003	2002	2001
TOTAL	11,453	8,971	6,839

BRAZIL	6,639	5,778	4,206
Domestic	3,376	3,874	3,416
Exports	3,263	1,904	790
NORTH AMERICA	4,466	2,884	2,294
SOUTH AMERICA	348	309	339

BRAZILIAN OPERATIONS

In 2003, the Company's Brazilian operations through Gerdau Acominas, accounted for 58% of overall group shipments. Brazilian sales amounted to 6.6 million tons, of which 3.4 million tons to the domestic market and 3.2 million tons to the export market.

The Company's segment operations in Brazil consist of: Long Steel, Gerdau Acominas and Specialty Steel. Each segment operation is divided into Business Units, which are defined by product line or market characteristics, with the aim of establishing commercial strategies for the domestic market. Its Brazilian Long Steel operation consists of the following Business Units:

GERDAU CONSTRUCAO CIVIL (GC) - CIVIL CONSTRUCTION
GERDAU INDUSTRIA (GI) - INDUSTRIAL
GERDAU PRODUTOS AGROPECUARIOS (GPA) - AGRICULTURAL PRODUCTS
GERDAU PREGOS (GP) - NAILS
GERDAU PRODUTOS METALURGICOS (GPM) - METALLURGICAL PRODUCTS
GERDAU EXPORTACAO (GEX) - EXPORTS
COMERCIAL GERDAU (CG) - RETAIL

Each Business Unit (Area de Negocios) has national coverage with a unified sales policy and local execution. Business Units with the most sales to a particular customer are allocated responsibility for Company relations with that customer. Approximately 25% of the production negotiated by Business Units is distributed through Comercial Gerdau, its largest distribution channel with 68 stores all over Brazil, which serviced 135,000 customers in 2003. This network is also supported by 6,000 independent distributors, resulting in comprehensive national coverage. Sales through its distribution network and to final industrial and construction consumers are channeled through Company employees and authorized representatives working on a commission basis. The Company provides these representatives with product catalogs and computer terminals linked to Gerdau's information system (Internet and SAP R/3), as well as fax and telephone equipment.

In order to minimize delays, Gerdau Acominas delivers its products directly to customers, through third-party companies under the supervision of the Gerdau team. Sales trends in both the domestic and export markets are forecast monthly on the basis of historical data for the three preceding months. Gerdau Acominas uses its own information system to remain informed of market developments so that it can respond swiftly to fluctuations in demand. Gerdau considers its flexibility in shifting between markets and its ability to monitor and adapt to changes in demand, so as to maintain minimum inventory levels, as keys to its success.

The Ouro Branco mill has some specific characteristics relating to its operations that arise from the fact that its products are normally sold to rolling mills and other companies that use slabs, blooms and billets as raw material for manufacturing finished products such as springs, structural and forge products. Clients of this unit are thus larger than other customers serviced by Gerdau Acominas units, except for those of Gerdau Acos Finos Piratini. The Ouro Branco mill delivers its products directly to its costumers.

The Specialty Steel segment represents the operations of the Gerdau Acos Finos Piratini mill, whose sales and production are independent of the Brazilian Long Steel operation. The segment concentrates on specialty steel for mechanical construction, tools and stainless steel products. 80% of its output is used in the automotive segment. In order to meet the continuous need for innovation, Gerdau Acos Finos Piratini is constantly developing new products in partnership with its customers, such as high cleanliness steels for application in bearings, steel for off-shore cables, and stampable steel for screws.

Within the Brazilian market, 49.4% of sales were made to the Southeast, including the most economically developed states of Sao Paulo and Rio de Janeiro. The South of Brazil, where Gerdau Riograndense and Gerdau Acos Finos Piratini are located, accounted for 28.7% of Gerdau Acominas' domestic sales in 2003. Sales to the South, Southeast and Northeast represented 91.4% of domestic sales by the Group's Brazilian operations.

RETAIL

Through Comercial Gerdau, and its network of 68 stores and 5 flat steel service centers, Gerdau Acominas sells its products throughout Brazil. In addition to Gerdau products, Comercial Gerdau resells flat products of third-party producers. In 2003, domestic market sales of flat steel products amounted to 322,600 tons.

EXPORTS

In the past, Gerdau has only exported its surplus output, on the basis of its policy of giving priority to local markets. Since 2003, due to the consolidation of its Brazilian operations and a decline in the domestic market together with better international prices, this has changed. Last year, exports accounted for 49% of Gerdau Acominas' total shipments. The Company's export marketing activities are coordinated by the Business Unit responsible for selling the Company's exportable products and are conducted (i) primarily on a FOB (Free on Board) basis, (ii) on a cash basis against letters of credit from customers in more than 30 countries and (iii) directly to clients in neighboring countries and indirectly through trading companies.

Although Gerdau Acominas deals primarily in commodity products such as rebars, it is aware of the importance of quality control. In order to ensure the satisfaction of final users around the world with products purchased indirectly from Gerdau Acominas, the Company's technicians visit clients on an occasional basis to check the quality of the products that it ships.

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Due to its emphasis on exports, Gerdau Acominas Ouro Branco mill sells its output in the form of billets, blooms and slabs and since 2002, heavy structural shapes. Billet sales in 2003 amounted to 1,888,000 tons, while slab sales amounted to 179,600 tons, bloom sales to 92,300 tons and structural products to 33,300 tons. A significant portion of the output of the Ouro Branco mill is assigned to Asian markets. Even after the temporary imposition of tariffs on steel imports as a safeguard measure under Section 201, the Company continued to supply the U.S. market, since no tariffs were imposed on the import of billets and the quotas established for flat steel were sufficient to ensure the maintenance of supply. Most of Gerdau Acominas' Ouro Branco mill sales to foreign markets are made directly (approximately 80% of overall shipments by this unit).

FOREIGN OPERATIONS

Within South America, Gerdau AZA sold 292,600 tons of finished products in 2003, representing a 10.2% increase compared to 2002. In the merchant bar segment, Gerdau AZA has a market share of more than 50%. Rebar sales to the construction sector increased in 2003, with the Company holding a 50% share of this market. In 2003, rebar demand increased by 7.4%, due to important investments in infrastructure. Since the end of 2000, Gerdau AZA has 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 now follow their orders on the Internet, together with product inventories, credit and payment status. They can also access their purchase records, generate quality certificates and place orders.

Gerdau Laisa, in Uruguay, has 300 registered customers that may be classified as retail, wholesale and consumers, which distribute Laisa's products all over the country. Uruguayan customers may also use an e-business channel.

Among Gerdau's South American subsidiaries, Gerdau AZA in Chile uses a network of 150 independent distributors to sell its products. Gerdau Laisa, in Uruguay, sells its products directly to small-consumers at varying retail prices.

Gerdau's foreign operations are intended to supply their respective domestic markets, with the exception of the Canadian operations, which sell most of their production in the United States.

In general, employees of the Tampa sales office centralize and process sales of mill-finished products to U.S. customers, while employees in the Whitby sales office centralize and process sales to Canadian customers. Gerdau Ameristeel also has sales offices in Perth Amboy, which process sales of rods, and Selkirk, which process sales of special sections.

The relevant sales offices are responsible for booking orders, mill scheduling and inventory management. Gerdau Ameristeel has about 50 employees dedicated to marketing and sales, a quarter of which are located in the field, near its customers. Every Gerdau Ameristeel sales representative has immediate access to inventory and production schedules at all mills, enabling them to provide customers with `one-stop shopping', as well as to service the needs of customers from the most convenient and/or cost effective source within the company.

In general, sales representatives at the relevant facilities of Gerdau Ameristeel process sales of cold drawn, rod and super light beam products. The fabricated rebar and elevator guide rails are sold through a bidding process in which employees at the facilities work closely with each customer to establish their product requirements, shipping schedule and price.

TERMS OF SALES

Gerdau Acominas' Brazilian domestic sales are usually made for 21-day settlement, on a CIF (Cost Insurance and Freight) basis. Domestic customers making purchases in excess of a certain monthly limit are subject to a centralized credit approval process. As a result of these policies, the Company's bad debt write-offs (which are made after 12 months) are an insignificant percentage of its consolidated accounts receivable. At Gerdau Acominas Ouro Branco mill, payment of domestic purchases is on a cash basis (or within 7 days) on account of its specific business characteristics. Deferred payment through bank draft is also accepted. Sales to foreign markets are settled using letters of credit.

Gerdau Ameristeel's credit terms to customers are generally based on market conditions and customary practices. Gerdau Ameristeel's business is seasonal with orders in the June and September quarters tending to be stronger

than those of the March and December quarters, due primarily to weather-related slowdowns in construction activity.

All Gerdau companies (in Brazil and abroad) accept both immediate and deferred payment for purchases of their products, the latter in accordance with ordinary commercial terms used in each region, determined on a seasonal basis.

COMPETITIVE POSITION

Shipping, freight and demurrage costs are a major barrier to imports, and since Gerdau Acominas operates primarily in the common long rolled product business where profit margins are relatively small, the incentive for foreign competitors to enter the Brazilian market is low. In the domestic market, no single company competes against Gerdau Acominas across all its product range. Gerdau Acominas believes that its business diversification and decentralization provide a competitive edge over its major competitors whose operations are more centralized.

Gerdau is the largest Brazilian long steel producer with a 49.6% share of the market, according to the IBS (Brazilian Steel Institute). Belgo Mineira is the second largest producer in Brazil. Belgo Mineira was originally an integrated steel company, but now it also has mini-mill plants. Gerdau Acominas' strategy focuses on the decentralized production of long steel using electric arc furnace (EAF) mini-mills that employ continuous casting technology. Gerdau Acominas also has four integrated mills located near steel scrap suppliers, port facilities, and the markets they serve, which thus have low freight costs.

By contrast, Gerdau Acominas Ouro Branco mill supplies blooms and billets almost exclusively to a well-defined domestic market and a loyal customer base. The slab market is more competitive due to the presence of CST (Companhia Siderurgica de Tubarao), and more recently, of Cosipa (Companhia Siderurgica Paulista). In foreign markets, the Ouro Branco mill faces strong competition in high quality products from Eastern European suppliers (mainly from Russia and Ukraine), Italy and Japan. The Company's unit is nevertheless highly competitive due to its long experience and high product quality, its guaranteed delivery schedules and technical assistance to customers. The Ouro Branco mill thus has a diversified client list, relying on traditional customers in all of markets in which it operates.

In South America, the main barriers faced by Gerdau AZA sales are freight and transportation costs and the availability of products relative to imports. Gerdau AZA has a 50% share of the Chilean domestic construction market and CAP - Compania Acero Del Pacifico a 45% share, with imports accounting for the remaining 5% of total sales.

In Uruguay, Gerdau Laisa's main competitors are two local rolling mills, in addition to imports from Brazil, Argentina and Eastern Europe.

Gerdau Ameristeel's geographic market covers the eastern half of Canada and the United States, predominantly the Eastern Seaboard, the Southeast and the Midwest. Gerdau Ameristeel has encountered substantial competition in each of its product lines from numerous competitors in its markets. Rebar, merchant bars, and structural shapes are commodity steel products for which price is the primary competitive factor. Due to the high cost of freight relative to the value of steel products, competition from non-regional producers is limited. Proximity of product inventories to customers, together with competitive freight costs and low-cost manufacturing processes, are key factors in maintaining margins on rebar and merchant bar products. Rebar deliveries are generally concentrated within a 350 mile radius of mills and merchant bar deliveries within a 500 mile radius. Some products, such as special sections produced by the Selkirk mill, are shipped over greater distances, or even exported.

Except in unusual circumstances, the customer's delivery costs are limited to freight charges from the nearest competitive mill, with the supplier absorbing any incremental freight charges.

Gerdau Ameristeel believes that its principal competitors in Canada include Ispat Sidbec Inc., Stelco Inc. and Ivaco Inc.; and in the United States, Bayou Steel Corporation, Commercial Metals Corporation, Marion Steel Company, NorthStar Steel Company, Nucor Corporation, Roanoke Electric Steel Corporation, Sheffield Steel Corporation, and Steel Dynamics Inc. The Gallatin joint venture competes with numerous other integrated and mini-mill flat steel producers.

Despite the commodity characteristics of the rebar, merchant bar and structural markets, the Company believes that it distinguishes itself from competitors by its large product range, product quality, consistent delivery performance, capacity to service large orders and ability to fill most orders quickly from inventory. Gerdau Ameristeel believes that it produces one of the largest ranges of bar products and shapes east of the Mississippi River. Product diversity is an

important competitive advantage in a market in which the customers are looking to fulfill most of their requirements from a few key suppliers.

MATERIAL EFFECTS OF GOVERNMENT REGULATIONS

Besides government regulations that apply to industry in general, the Company's business is not subject to any specific regulation.

C. ORGANIZATIONAL STRUCTURE

GERDAU GROUP

Gerdau S.A. is a non-operational holding company (since November, 2003 when Gerdau S.A. integrated its assets in Brazil with Acominas, creating Gerdau Acominas S.A.) controlled by a holding Company, Metalurgica Gerdau S.A. Gerdau S.A. consolidates the results of 5 operating companies: Seiva S.A., Gerdau Acominas S.A., Gerdau Ameristeel Corp, and the operations of Gerdau AZA in Chile and Gerdau Laisa in Uruguay.

The Company's investments in Sipar Aceros S.A. in Argentina (in which it holds a 38% stake), those in Gallatin Steel Co., Bradley Steel Processor and MRM Guide Rail in the United States, in which Gerdau Ameristeel holds a 50% stake in the total capital, the investments in Armacero Industrial Y Comercial Limitada in Chile, in which the Company owns a 50% stake, and the investment in Dona Francisca Energetica S.A., in which the Company owns a 51.82% stake, are consolidated in the Company's financial statements using the equity method of accounting.

DISTRIBUTION OF SHARES

(% stake in total capital as of April 30, 2004)

SHAREHOLDER	ORDINARY SHARES	PREFERRED SHARES	TOT SHAR
Metalurgica Gerdau and other Gerdau Companies	90.78%	30.46%	51.3
Brazilian Institutional Investors	0.05%	15.26%	9.9
Foreign Institutional Investors	0.27%	32.67%	21.4
Public	8.90%	20.80%	16.6
Treasury Stock	-	0.81%	0.5

The above table presents the distribution of shares in Gerdau S.A. as of April 30, 2004. Of the Company's total equity, 31.4% was held by institutional investors, of which 10.0% were Brazilian investors. Foreign institutional investors held a 21.4% stake and small investors, 16.7%. Gerdau S.A. is controlled by the Gerdau family through the holding company Metalurgica Gerdau S.A. and other companies. In April 2004, Metalurgica Gerdau S.A. held 44.1% of Gerdau S.A., while Santa Felicidade Comercio, Importacao e Exportacao de Produtos Siderurgicos Ltda. and other Gerdau companies held the remaining 7.3% of the 51.4% controlling block.

SIGNIFICANT SUBSIDIARIES

The table below shows the main companies and investments maintained directly or indirectly by Gerdau as of December 31, 2003:

COMPANY	COUNTRY	STAKE IN VOTING CAPIT
Aceros COX S.A.	Chile	100%
Armafer Servicos de Construcao Ltda.	Brazil	100%
Gerdau Ameristeel Corp. and subsidiaries	Canada	69%
Ameristeel Bright Bar Inc.	USA	69%
Gerdau Ameristeel MRM Special Sections Inc.	Canada	69%
Gerdau Ameristeel Perth Ameboy Inc.	USA	69%
Gerdau Ameristeel Sayreville Inc.	USA	69%
Gerdau Ameristeel US Inc. (a)	USA	69%
Gerdau Acominas S.A. (b)	Brazil	92%
Gerdau AZA S.A.	Chile	100%
Gerdau Internacional Empreendimentos Ltda. and its subsidiary,	Brazil	100%

Gerdau GTL Spain S.L. and subsidiaries	Spain (GTL)	
Gerdau Laisa S.A.	Uruguay	100%
Seiva S.A. - Florestas e Industrias and subsidiaries	Brazil	97%

(a) Formerly AmeriSteel Corp.
(b) As described on Note 4.1, Gerdau Acominas was formerly known as Aco Minas Gerais S.A. ("Acominas")

Gerdau S.A. is a non-operating company that consolidates the results of various operating companies, or accounts for its investments using the equity method. The most important operating companies that are fully consolidated or consolidated on an equity basis in the financial statements of Gerdau S.A. are described below:

GERDAU ACOMINAS S.A.

Gerdau Acominas has 10 mills in Brazil, distributed throughout the country. In the state of Rio Grande do Sul, Gerdau owns the Gerdau Acos Finos Piratini and the Gerdau Riograndense units. In the state of Parana, Gerdau owns Gerdau Guaira; in the state of Rio de Janeiro, Gerdau Cosigua; in the state of Minas Gerais, the units of Barao de Cocais, Divinopolis and the Ouro Branco mill; in the state of Bahia, Gerdau Usiba; in the state of Pernambuco, Gerdau Aconorte; and in the state of Ceara, Gerdau Cearense. In addition to the industrial units, Gerdau also owns Comercial Gerdau, a network that distributes its steel products and resells flat products from other manufacturers. Comercial Gerdau has 68 stores and 5 flat steel service centers. Gerdau also has 11 Armafer rebar fabricating facilities and 6 downstream operations.

ARMAFER

Armafer Servicos de Construcao Ltda. was acquired in March 1993 and is currently a subsidiary of Gerdau Acominas S.A., providing cutting and bending services for long steel products for the civil construction sector. It has 11 branches throughout the country.

GERDAU LAISA

In 1980, the Company acquired the Laisa mini-mill, in Uruguay. Gerdau Laisa has been profitable in past years, and is the only long steel producer in Uruguay. Gerdau Laisa has annual production capacity of 70,000 tons of crude steel and 72,000 thousand tons of rolled products. Production statistics are based on Gerdau Laisa's sales plus Uruguayan imports. Gerdau Laisa claims to supply 93% of rebar demand in Uruguay.

GERDAU AZA

In 1992, the Company acquired the AZA mini-mill in Chile, with Gerdau AZA's second mill beginning operations in January 1999. The two units, Renca and Colina, have combined annual production capacity of 440,000 tons of crude steel and 465,000 tons of rolled steel. The difference in the output of crude steel and long rolled products is due to the fact that Gerdau AZA still operates an old profile rolling mill equipment at the Renca unit, which was not decommissioned following the start-up of the new plant in 1999. Although no official statistics are available in Chile, Gerdau AZA believes its share of the domestic long steel market of rebars to be around 50%.

SIPAR

In December 1997, Gerdau entered the Argentinean market through Sipsa, a rolling mill with production capacity of 68,700 tons per year. In May 1998, Gerdau signed an agreement to acquire one third of the total equity of Sipar, another Argentinean rolling mill, in exchange for one third of Sipsa's capital stock. Gerdau has two rolling mills in Argentina, holding a 71.8% stake in Sipsa and a 38.2% stake in Sipar. More recently, Gerdau carried out a financial and corporate restructuring of its operations in Argentina to adapt these to the new economic environment in that country. Gerdau currently holds a 38.2% stake in Sipar, of which Sipsa is now a full subsidiary. The Company expects that these measures will maximize business opportunities, improve results and minimize the impact of the fluctuation of the Argentine peso against other currencies.

GERDAU AMERISTEEL

In September 1999 Gerdau acquired 75% of Ameristeel (Florida) from Kyoei Steel Ltd. of Japan. At that point, Ameristeel operated 4 mills on the East Coast: one unit in Florida, two in Tennessee, and one in North Carolina. In 2000,

Gerdau acquired an additional 12% stake from Kyoei, increasing its stake in Ameristeel to 87%. In December 2001, Ameristeel acquired a steel mill located in Cartersville, Georgia.

In October 2002 Gerdau merged its North American assets, i.e. Ameristeel and its two Canadian units with Co-Steel, to create Gerdau Ameristeel.

Gerdau Ameristeel has nominal annual capacity of 5.9 million tons of crude steel and 5.5 million tons of rolled products and is the second largest producer of long steel in North America. Since the completion of the operation, Gerdau Ameristeel's shares have been traded on the Toronto Stock Exchange under the ticker symbol GNA.TO. This transaction combined complementary operations, resulting in an improved product mix and a consistent growth platform that allows the Company to compete for a leading position in the North American steel industry.

OTHER BUSINESSES

SEIVA S.A. - FLORESTAS E INDUSTRIAS

Seiva was incorporated on December 29, 1971 to implement reforestation projects in accordance with Decree No. 1,134/70. Seiva's 55 employees (as of December 2003) carry out the development, implementation, and maintenance of reforestation projects. The Company also owns pine forests.

DONA FRANCISCA ENERGETICA S.A.

Dona Francisca Energetica S.A. (DFESA) consists of an operational hydroelectric power station with nominal capacity of 125 MW, located in the center of the state of Rio Grande do Sul.

DFESA aims to meet the demands of Dona Francisca shareholders with regard to the operation, maintenance and optimal use of energy potential of the Dona Francisca Hydroelectric Plant.

Together with the state utility Companhia Estadual de Energia Eletrica - CEEE, Dona Francisca shareholders participate in a consortium (Consorcio Dona Francisca) formed in accordance with the contract CEEE/9700295 of March 13, 1997. Following Gerdau S.A.'s acquisition of an additional stake in early 2003, Dona Francisca Energetica S.A. has the following shareholders: Gerdau S.A. (51.8%), Companhia Paranaense de Energia - COPEL (23.0%), Celesc (23.0%), and Engevix (2.2%).

BRADLEY STEEL PROCESSORS INC.

A 50% joint venture with Buhler Industries Inc., which processes super light beams.

SSS/MRM GUIDE RAIL

A 50% joint venture with Monteferro S.p.A., which processes MRM's guide rail sections for elevator manufacturers.

GALLATIN STEEL

Gallatin Steel's plant is located in Gallatin County, Kentucky, 40 miles southwest of Cincinnati, on a fully-owned 1,000-acre site that is conveniently located for barge, rail, and highway transportation. Gallatin operates a direct current twin-shell electric arc furnace with a ladle arc refining unit, a thin slab caster, a high-speed tandem rolling mill and a cut-to-length operation. Gallatin is a 50% joint venture with Canadian steel maker Dofasco, and is the only Gerdau Ameristeel mill that produces flat rolled sheet, used in the construction, automotive, appliance, machinery, equipment and packaging industries.

MINING RIGHTS

The acquisition of the land and mining rights of Companhia Paraibuna de Metais by Gerdau Acominas has added 15 mining concessions covering 7,000 hectares. These mines are located at Miguel Bournier, Varzea do Lopes and Gongo Soco, in the state of Minas Gerais. According to preliminary survey results, these mineral reserves hold an estimate 500 million tons of ore. The mines in question are intended to supply the Ouro Branco mill, with reserves

representing at least 100 years of potential supply of iron ore. The privileged location of these mines within the iron belt in the state of Minas Gerais, in the vicinity of the Ouro Branco mill, are expected to contribute to the long-term competitiveness of this unit.

MARGUSA

Margusa - Maranhao Gusa S.A. has installed capacity of 200,000 metric tons of pig iron. The mill is located 50 km from Sao Luis and 48 km from a coastal port. The acquisition forms part of the Company's strategy for ensuring the supply of pig iron to its mills in the Northeast of Brazil and for exporting any excess output to the North American units. This investment has guaranteed Gerdau's presence in the important iron ore production center of Carajas, a strategic pig iron source with excellent logistics for supplying both domestic and export markets.

D. PROPERTY, PLANT AND EQUIPMENT

MATERIAL PLANS TO CONSTRUCT, EXPAND OR IMPROVE FACILITIES

GERDAU SAO PAULO PLANT

In February 2001, Gerdau announced plans to build a 1 million metric ton greenfield project in the state of Sao Paulo, to be built in two 500,000 ton modules.

Conceived as a supplier to the markets of Sao Paulo, Mato Grosso do Sul and Parana, the Sao Paulo plant, will be installed in the municipality of Aracariguama, at Km 54 on the Castelo Branco Highway. A project with the features of a market mill - a plant that purchases raw material in the same region where it sells its products, Gerdau Sao Paulo will make the state of Sao Paulo self-sufficient in steel, in addition to servicing the States of Mato Grosso do Sul and Parana.

Total capital expenditures (including the amount already invested) for the project are budgeted at R$ 420 million in the first phase, and R$ 400 million in the second phase. Half of these resources should be provided from internally generated funds, with the remaining 50% expected to be financed by suppliers' credits and by the BNDES/Finame (Development Bank of Brazil and its dedicated equipment financing division).

It is expected that the 32,000 m2 plant will create 3,300 new direct and indirect jobs, with a projected increase in annual production capacity of 1.1 million tons of crude steel and 1 million tons of rolled products.

The Company acquired the land and some existing steel production equipment from the original owner, a cement company. In February 2001, the Company announced that it would continue work to complete the construction of the mill, but halted construction due to electricity rationing in 2002 and the consequent downturn of the economy. The Company plans to announce the resumption of the project sometime this year.

ENVIRONMENTAL ISSUES

Gerdau S.A is in compliance with governmental regulations on environmental issues. The Company believes that there are no environmental issues that might affect its utilization of the fixed assets described below.

MATERIAL TANGIBLE FIXED ASSETS

The principal properties of Gerdau consist of installations for the production of steel, rolled products and drawn products. The following is a list identifying the location, capacity and type of installation, as well as the types of products manufactured:

LOCATION OF PLANTS, CAPACITY, EQUIPMENT AND PRODUCTS
(thousand tons/year)

	CAPACITY FOR	CAPACITY	CAPACITY	CAPACITY FOR

LOCATION OF PLANTS	PIG IRON AND SPONGE IRON	FOR CRUDE STEEL	FOR ROLLED PRODUCTS	DRAWN PRODUCTS	
Aconorte	-	250	240	85	EAF mini-mill, and clamp fact
Agua Funda			215	-	Rolling Mill
Barao de Cocais (1)	330	350	200	-	Integrated/bla rolling mill
Cearense	-	130	110	-	EAF mini-mill,
Cosigua	-	1,400	1,320	290	EAF mini-mill, and clamp fact
Divinopolis (1)	360	600	550	-	Integrated/bla rolling mill
Guaira	-	510	130	-	EAF mini-mill,
Gerdau Acominas (1) (Ouro Branco)	2,800	3,000	655	-	Integrated wit
Piratini	-	375	390	-	EAF mini-mill,
Riograndense	-	440	400	130	EAF mini-mill, and clamp fact
Usiba (1)	450	520	430	30	Integrated wi mill, drawing
Contagem	240	-	-	-	Blast furnace
Margusa	200	-	-	-	Blast furnace
Cotia	-	-	-	55	Drawing mill
Cumbica	-	-	-	100	Mesh factory a
Sao Jose dos Campos	-	-	-	140	Drawing mill
BRAZIL	4,380	7,575	4,640	830	-
AZA	-	440	465	-	EAF mini-mill,
Laisa	-	70	72	-	EAF mini-mill,
SOUTH AMERICA	-	510	537	-	-
Whitby	-	871	998	-	EAF mini-mill,
Cambridge	-	327	295	-	EAF mini-mill,
MRM Special Sections	-	349	299	-	EAF mini-mill,
Cartersville	-	780	544	-	EAF mini-mill,
Charlotte	-	417	363	-	EAF mini-mill,
Jackson	-	608	544	-	EAF mini-mill,
Jacksonville	-	581	558	-	EAF mini-mill,
Knoxville	-	413	454	-	EAF mini-mill,
Perth Amboy	-	816	907	-	EAF mini-mill,
Sayerville	-	726	544	-	EAF mini-mill,
NORTH AMERICA	-	5,888	5,506	-	-
GERDAU TOTAL	4,380	13,973	10,683	830	-

Table Continued

LOCATION OF PLANTS	PRODUCTS
Aconorte	Rebar, merchant bars, wire rod, drawn products and nails
Agua Funda	Rebar and merchant bars.
Barao de Cocais (1)	Rebar, merchant bar
Cearense	Rebar, merchant bar
Cosigua	Rebar, merchant bars, wire rod, drawn products and nails
Divinopolis (1)	Rebar, merchant bar
Guaira	Billet, rebar, merchant bar

Gerdau Acominas (1) (Ouro Branco)	Billets, blooms, slabs, rebar, merchant bars and heavy structural shapes
Piratini	Specialty steels
Riograndense	Rebar, merchant bars, wire rod, drawn products and nails
Usiba (1)	Rebar, merchant bars, wire rod, drawn products
Contagem	Pig iron
Margusa	Pig iron
Cotia	Wire
Cumbica	Welded mesh and wire
Sao Jose dos Campos	Wire
BRAZIL	-
AZA	Rebar, merchant bar
Laisa	Rebar, merchant bar
SOUTH AMERICA	-
Whitby	Rebar, merchant bar and profiles
Cambridge	Rebar, merchant bar
MRM Special Sections	Special sections
Carterville	Merchant bar
Charlotte	Rebar, merchant bar
Jackson	Rebar, merchant bar
Jacksonville	Rebar and wire rod
Knoxville	Rebar
Perth Amboy	Wire rod products
Sayerville	Rebar, merchant bar
NORTH AMERICA	-
GERDAU TOTAL	-

Notes: EAF: Electric arc furnace - electric arc furnace mills produce crude steel from raw materials such as steel scrap or pig iron
(1) a mill with a blast furnace or "DRI" (direct reduction iron) is also capable of producing pig iron or sponge iron for use in the production of crude steel, using iron ore and natural gas as the main raw materials.

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A .OPERATING RESULTS

SIGNIFICANT FACTORS MATERIALLY AFFECTING THE COMPANY'S RESULTS

MATERIAL CHANGES IN FINANCIAL STATEMENTS

During 2003 the results of operations of Gerdau were positively impacted by a series of events that resulted in an improvement in net income for the year relative to 2002. Some of the most relevant events are:

- The consolidation of the former Co-Steel Inc. operations for the full year 2003 compared to the consolidation of results in 2002 for only that part of the year subsequent to October 22, 2002, when the operations were acquired in conjunction with the integration of the Gerdau units in North America with those of former Co-Steel Inc., Canada.

- The consolidation of Gerdau Acominas for the full year 2003 compared to the consolidation of results in 2002 for only that part of the year subsequent to the acquisition in February 2002 of shares that provided the Company with a controlling interest.

- The Ouro Branco Mill operated at full capacity throughout the year of 2003, achieving total output of 3.1 million metric tons of liquid steel. In 2002, production suffered a temporary interruption due to an accident in one of its three air re-heaters (calpers) at the end of March, and did not return to normal levels until September, 2002.

- Increases in international market prices and demand for steel products that allowed Gerdau to establish a new tonnage record for exports in 2003, when exports from Brazil through Gerdau Acominas amounted to 3.2 million metric tons (+69.9%), and generated revenues of some $ 787.3 million (+125.0%), representing an increase of 30.9% in the average export price.

- The provision for income tax and social contribution in fiscal year 2003 represented a credit of $ 34.1 million due to the recognition of $137.3 million in fiscal credits arising from tax losses generated in previous years.

IMPACT OF INFLATION AND FLUCTUATIONS IN EXCHANGE RATES

Gerdau's results and its financial condition depend on Brazil's general economic situation, most notably on (i) economic growth and its impact on steel demand, (ii) financing costs and the availability of financing, and (iii) exchange rates between Brazilian and foreign currencies.

For many years, Brazil experienced high rates of inflation that progressively eroded the purchasing power of the vast majority of the Brazilian population. During periods of high inflation, effective salaries and wages tend to fall because the frequency and size of salary and wage adjustments for inflation usually do not offset the actual rate of inflation. Since the introduction of the real in July 1994, the inflation rate in Brazil has decreased dramatically. In addition, there has been economic growth after the implementation of the Real Plan with Brazilian GDP increasing by 0.8% in 1999, 4.4% in 2000, 1.4% in 2001, 1.5% in 2002 and decreasing by 0.2% in 2003.

The following table presents Brazilian inflation and the devaluation of Brazilian currency against the U.S. dollar for the periods shown. For a discussion of the Central Bank's decision, in January 1999, to allow the real to float freely in the foreign exchange markets and its subsequent devaluation, see "Item 10.D. Exchange Controls - Exchange Rates."

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	January to May	Year ended December 31			
	2004	2003	2002	2001	2000
Inflation (INPC base)*	2.63%	10.38%	14.74%	9.44%	5.27%
Inflation (IGP-M)	5.33%	8.69%	25.30%	10.37%	9.96%
Foreign Exchange Rate (R$ vs. US$)	7.82%	-18.23%	52.27%	18.67%	9.30%

The appreciation of the real against the U.S. dollar throughout 2003 resulted from the positive domestic economic environment, some social improvements in addition to the reform of the social security system, tax reform and consistent monetary and fiscal policies. These measures have led to a significant improvement in the perception of Brazil's country risk and a gradual reduction in interest rates.

At the end of 2002 and beginning of 2003, higher levels of inflation generated a divergence in frequencies and sizes of adjustment factors between prices and wages, resulting in an erosion of purchasing power. This gap was significantly reduced by the recent low inflation indices and increased consumer demand.

A portion of Gerdau S.A.'s trade accounts receivable, trade accounts payable and debt is denominated in foreign currencies, mainly in U.S. dollars, causing the Company's financial position and operating results to be affected by changes in exchange rates. In 2003, Gerdau's operating results were strongly affected by the appreciation of the Brazilian real versus the U.S. dollar, generating losses in its U.S. dollar-denominated trade accounts receivable from exports, which rose significantly relative to 2002, and generating gains on the U.S. dollar denominated trade accounts payable and on debt balances denominated in foreign currencies, which remained stable relative to 2002. The significant appreciation of the real, together with the increase in the balances of trade accounts receivable and trade accounts payable and the maintenance of debt balances at similar levels to 2002, generated the foreign exchange gains recorded in the income statement. The financial statements of Gerdau are also presented in U.S. dollars with transactions in currencies other than the U.S. dollar translated into U.S. dollars in accordance with the criteria established in SFAS No. 52 "Foreign Currency Translations". Changes in the exchange rate between the functional currency of the Company's operations, such as the Brazilian real, and the U.S. dollar, affect the reported amounts of revenues and expenses in its consolidated statements, translated into U.S. dollars. For instance, a devaluation of the Brazilian real from one period to another causes the same amount of revenue expressed in Brazilian reais to represent a smaller amount in U.S. dollars when translated into the latter currency.

OPERATING RESULTS

The table below contains U.S. GAAP information for various income statement items, expressed as a percentage of net sales for the following years:

	Fiscal year ending December 31,		
	2003	2002	
Net Sales	100.0%	100.0%	1
Cost of Sales	(76.0%)	(71.9%)	(7
Gross Profit	23.9%	28.0%	
Sales and Marketing Expenses	(3.2%)	(3.5%)	(
General and Administrative Expenses	(5.3%)	(6.8%)	(
Operating Income	15.4%	17.8%	
Net Income	11.3%	7.1%	

The following table shows cost of goods sold, excluding freight costs, in 2002, 2001 and 2000 expressed as a percentage of net sales revenue:

	Breakdown of Costs of Goods Sold		
	2003	2002	
Raw materials	60%	53%	
Direct labor costs	9%	13%	
Total direct costs	69%	66%	
Indirect labor costs	3%	5%	
Third party services	4%	7%	
Depreciation	7%	9%	
Power and electricity	9%	10%	
Other	8%	3%	
Total indirect costs	31%	34%	
Total costs	100%	100%	1

FISCAL YEAR ENDED DECEMBER 31, 2003 COMPARED TO FISCAL YEAR ENDED DECEMBER 31, 2002

Results for the year 2003 reflect the consolidation of Acominas and of the Co-Steel for the full year, whereas in 2002 the results of Acominas were only consolidated from February 2002 onwards, and Co-Steel from October 2002 onwards. Other factors that contributed to the performance during the year were the improved level of activity at Ouro Branco mill, following the accident in March 2002 which disrupted production until September 2002, and the increase in international prices and demand.

NET SALES

Net sales in 2003 amounted to $ 4,530.9 million ($ 3,264.9 million in 2002), representing an increase of 38.8% relative to 2002, mainly due to the Company's strong export performance, with export revenues of $ 787.3 million (+125% over the previous year), the merging of the nine North American units in October 2002, and the utilization of full production capacity at Gerdau Acominas. The average net price was $ 395.6/ton, which increased from $ 363.9/ton in 2002.

Of total net sales, Brazilian operations accounted for $ 2,433.5 million, a 12.8% increase relative to the fiscal year 2002. Sales by South American operations increased by 49.7% to $ 169.6 million, while the net revenues of the Gerdau Ameristeel operation increased by 94% from $ 994 million to $ 1,927.8 million over the same period, as the result of the full consolidation of its nine North American operations, a significant increase in regional prices and an improvement in market conditions.

COST OF SALES AND GROSS PROFIT

Cost of sales as percentage of net revenues increased to 76.0%, in 2003 from 71.9% in 2002, representing an increase of 46.6% in absolute terms against a 38.8% increase in net revenues, which caused a decline in gross margin for 2003 to 23.9% from 28.0% in the previous year, due, in particular, to the increased cost of scrap and pig iron in Brazil, and of scrap, electricity and natural gas in the United States. In 2003, gross profit rose 18.6% in 2003 to $ 1,085.4 million.

OPERATING INCOME

Operating expenses (sales, general and administrative expenses) rose 16.1% in 2003 to $ 388.2 million. Even with this increase, however, operating expenses fell as a percentage of net sales to 8.5% in 2003, from 10.2% in 2002. In 2003, operating income rose 20.0% relative to the preceding year, to $ 697.2

million, although the increase in cost of sales led to a fall in operating margin over the same period from 17.8% to 15.4%.

FINANCIAL EXPENSES AND FINANCIAL INCOME

In 2003, net financial expenses amounted to $ 192.7 million, a figure 40.5% below that of the previous year. This figure represents financial expenses of $ 417.0 million, a positive foreign exchange adjustment of $ 162.2 million and financial income of $ 62.0 million. The reduction in net financial expenses in 2003 was principally due to the foreign exchange adjustment that arose from the appreciation of the Brazilian real against the U.S. dollar, affecting the balance of trade accounts receivable, which were also heavily influenced by increased exports. The appreciation of the real also affected the balances of debt and trade accounts payable in foreign currencies.

EQUITY INCOME (LOSSES) FROM UNCONSOLIDATED COMPANIES, NET

Equity income of $ 22.1 million in 2003 resulted from earnings of unconsolidated companies in Argentina, Chile, the United States and Brazil. Most of this figure was due to Gallatin Steel and Dona Francisca Energetica S.A. In 2003, equity income included Gallatin Steel's net income for the full period of 12 months, whereas in 2002, equity income for these operations was only calculated for a two month period following the integration of the Company's North American operations. Dona Francisca Energetica S.A., generated losses in 2002, with a material effect on the equity income for that year, while in 2003 its operations generated net income.

PROVISION FOR INCOME TAX

Income tax payable is calculated separately for Gerdau and each of its subsidiaries, as required by the tax laws of the countries in which Gerdau and its subsidiaries operate. The Company recognized a credit of $ 34.1 million for the year due to the reversal of a valuation allowance of $ 137.3 million in the light of the improvement in profitability following its corporate reorganization in November 2003. This figure relates to tax losses generated in prior years at the former Acominas plant that the company was permitted to set against taxable income generated by its Brazilian steel operations, including those formerly owned by Gerdau S.A. and transferred to Gerdau Acominas.

NET INCOME

Due to higher sales, lower operating expenses, lower net financial expenses and the income tax credit, 2003 net income amounted to $ 510.2 million in 2003, increasing 120.1% relative to the previous year. Net margin rose to 11.3% from 7.1% in 2002.

FISCAL YEAR ENDED DECEMBER 31, 2002 COMPARED TO FISCAL YEAR ENDED DECEMBER 31, 2001

Results for 2002 reflected the consolidation of Gerdau Acominas and the Co-Steel operations from their respective dates of acquisition onwards. Other factors that contributed to the performance for the year were the improved level of activity at Acominas after the accident in March that disrupted production until September, improved conditions in the Chilean market and increased exports.

NET SALES

Net consolidated sales in 2002 amounted to $ 3,264.9 million against $ 2,401.1 million in 2001, representing growth of 35.9%, and resulted from an increase of 37.7% in physical sales and a decrease of 1.8% in average prices. The Company's average net sales price was $ 363.9/ton in 2002, which rose from $ 351.1/ton in 2001. Around 66% of net revenue derived from the Company's Brazilian operations and 34% from its foreign operations. The consolidation of Acominas and Co-steel represented 22.6% of consolidated sales volume.

COST OF SALES AND GROSS PROFITS

The Company's efforts to cut costs and improve productivity offset increases in the prices of certain raw materials during the year, most notably scrap and pig iron. This resulted in 2002 gross margins of 28.0%, compared to 28.3% in 2001. Gross profit rose to $ 915.3 million in 2002 from $ 678.9 million in 2001, an increase of 34.8%. During 2002, some North American subsidiaries reassessed the useful life of certain assets, reducing depreciation expenses by approximately $ 3.2 million.

OPERATING INCOME

Lower operating expenses (sales and marketing expenses, general and administrative expenses) resulted in operating income for 2002 of $ 580.8 million, a figure 48.2% higher than that of 2001. Over the same period, operating margin rose to 17.8% from 16.3%.

FINANCIAL EXPENSES AND FINANCIAL REVENUE

Net financial expenses increased 76.7% to $ 323.7 million, due to the higher net foreign exchange loss for the period ($ 131.7 million in 2002 against $ 71.8 million in 2001), due principally to the sharp devaluation of the real, as well as higher debt levels arising from the consolidation of the Co-Steel operations and the purchase of a stake in Acominas.

EQUITY IN EARNINGS (LOSSES) OF UNCONSOLIDATED COMPANIES, NET

Negative equity income of $ 10.1 million in 2002 was largely due to losses in Dona Francisca Energetica S.A. and Sipar Aceros S.A.

PROVISION FOR INCOME TAX

In 2002, the income tax provision of $ 6.6 million represents a reduction of $ 48.1 million with respect to the loss recorded in 2001, mainly as a result of increased tax benefits from the distribution of interest on stockholders' equity, the recognition of deferred tax income through the reversal of a valuation allowance at Acominas and higher levels of non-taxable income.

NET INCOME

2002 consolidated net income amounted to $ 231.8 million, a 38.5% increase relative to the previous year, with a corresponding increase in net margin to 7.10% from 6.96% in 2001. It should be noted that the Company's Brazilian operations accounted for $ 209.7 million of this figure, its North American operations for $ 11.1 million and its South American operations for $ 11.0 million.

B. LIQUIDITY AND CAPITAL RESOURCES

Net cash generated by operating activities amounted to $ 395.4 million, $ 350.5 million and $ 468.5 million for the years ended December 31, 2001, 2002 and 2003 respectively, giving a cumulative total for the three years of $ 1,214.4 million. Net cash generated by operating activities was one of the main sources of liquidity utilized by the Company. Cumulative short and long-term financing agreements amounted to $ 3,561.7 million for the period, providing $ 377.6 million in 2001, $ 1,186.1 million in 2002 and $ 1,998 million in 2003, toward the Company's liquidity needs. Disposals of fixed assets generated cumulative proceeds of $ 19.8 million for the years 2001, 2002 and 2003.

In 2003, the main uses of capital resources were: $ 297.8 million for investment in fixed assets, $ 2,126.5 million for short and long-term debt payments and $ 122.3 million for payment of dividends. In 2002, the main uses of capital resources were: $ 185.9 million for investment in fixed assets, $ 824.9 million for short and long-term debt payments and $ 74.3 million for payment of dividends. In 2001, the main uses of capital resources were: $ 244.0 million for investment in fixed assets, $ 436.6 million for short and long-term

debt payments and $ 64.4 million for payment of dividends. Resources invested in fixed assets from 2001 to 2003 ($ 727.7 million) were used to modernize the Company's industrial plants and subsidiaries and to upgrade their technology.

Between December 31, 2002 and December 31, 2003, net working capital (current assets less current liabilities) increased by $ 364.2 million, from ($ 63.6) million in 2002 to $ 300.7 million in 2003. Between December 31, 2001 and December 31, 2002 net working capital decreased by $ 314.2 million, from $ 250.6 million in 2001 to ($ 63.6) million in 2002. The increase in 2003 was primarily due to a reduction in current liabilities, mainly in short-term debt due to the lengthening of the debt profile of Gerdau Ameristeel and Gerdau Acominas.

DEBT AND FINANCIAL STRATEGY

The Company's borrowings are intended to finance investments in fixed assets, both in the modernization and technological upgrading of its plants and in the expansion of installed capacity, as well as working capital, the purchase of stakes in other companies, and, depending on market conditions, short-term financial investments.

The Company's loan balance (total debt less debentures and parent company) stood at $ 1,930.9 million and $1,899.4 million as of December 31, 2003 and 2002, respectively. On the same dates, balances of short-term financial investments and cash stood at $ 330.6 million and $ 423.2 million, respectively.

Total debt amounted to $ 2,088.6 million in 2003, down from $ 2,100.1 million in 2002. Net debt increased from $ 1,667.2 million in 2002, to $ 1,758.0 million in 2003 due to a reduction in short-term financial investments and cash.

In 2003 and 2002, net financial expenses amounted to $ 192.7 million and $ 323.8 million, respectively. The reduction in net financial expenses principally reflected the foreign exchange gain in 2003 that resulted from the appreciation of the Brazilian real, which affected U.S. dollar denominated assets and liabilities, most notably trade accounts receivable, debt and trade accounts payable.

The following table profiles the Company's debt as of December 31, 2003 and 2002 (in thousands of U.S. dollars):

SHORT TERM:
SHORT-TERM DEBT:
Debt denominated in reais
Debt denominated in foreign currency
TOTAL SHORT TERM DEBT
CURRENT PORTION OF LONG-TERM DEBT:
Debt denominated in reais
Debt denominated in foreign currency
TOTAL CURRENT PORTION OF LONG-TERM DEBT
Debentures(a)
Short-term debt, parent company(a)
SHORT-TERM DEBT PLUS CURRENT PORTION OF LONG-TERM DEBT, DEBENTURES AND PARENT COMPANY
LONG TERM:
LONG-TERM DEBT, LESS CURRENT PORTION:
Debt denominated in reais
Debt denominated in foreign currency
TOTAL LONG TERM DEBT
Debentures
LONG-TERM DEBT PLUS DEBENTURES
TOTAL DEBT PLUS DEBENTURES, CURRENT PORTION OF LONG-TERM DEBT AND PARENT COMPANY
Short-term investments, restricted cash and cash
NET DEBT PLUS DEBENTURES, CURRENT PORTION OF LONG-TERM DEBT AND PARENT COMPANY

(a) Recorded under "other current liabilities".

On December 31, 2003 the Company's debt was subject to the following terms and conditions:

On December 31, 2003, the Company's total debt plus debentures, current portion of long term debt and parent company amounted to $ 2,088.6 million. Of this balance, $ 318.9 million (15.3%) was denominated in Brazilian reais and $ 1,769.7 million (84.7%) in U.S. dollars.

SHORT TERM

As of December 31, 2003, the Company's short-term debt amounted to $ 479.6 million. Of this total, $ 29.5 million related to financing in reais and $ 450.1 million to financing in foreign currencies. The current portion of the Company's long-term debt and debentures amounted to $ 318.9 million, of which $ 49.5 million in reais and $ 269.4 million in foreign currencies. In 2003, short-term debt plus the current portion of long-term debt, debentures and financing with the parent company amounted to $ 800.7 million, representing a reduction of 27.5% relative to 2002, due to the lengthening of debt profile by Gerdau Ameristeel and Gerdau Acominas.

The main sources of short-term financing used by Gerdau are trade finance credit lines, commercial paper (in U.S. dollars and Euros), suppliers' credits and specific credit lines provided by the Brazilian Development Bank (BNDES).

LONG TERM

Long-term debt including debentures amounted to $ 1,287.8 million as of December 31, 2003. Of this total, $ 1,132.4 represented loans from financial institutions, of which $ 160.5 million denominated in reais and $ 971.9 million in foreign currency. Of total long-term debt, $ 155.4 million represents debentures, of which $ 77.2 million denominated in U.S. dollars and $ 78.2 million in reais.

Of the $1,691.4 million of loans denominated in foreign currency, approximately 46.0% were contracted by the Company and its Brazilian subsidiaries and 54.0% by the Company's foreign subsidiaries.

Information about the terms of long-term debt cost is presented in Note 14 to the Financial Statements - `Long-term debt and debentures'. For additional information, see Item 11 - Quantitative and qualitative disclosures about market risks.

In January 1999, the Company assumed $ 130.0 million of debt relating to the Eurobonds issued by Metalurgica Gerdau maturing on May 26, 2004 that were partially redeemed on May 26, 1999 and fully retired at maturity in May 2004.

The Company is subject to limitations on debt levels, the granting of encumbrances on its properties and the payment of dividends under certain circumstances, in accordance with the terms of its debentures, its loans from the Banco Nacional de Desenvolvimento Economico e Social - BNDES ("BNDES"), and the refinancing agreement for Gerdau Ameristeel.

With the exception of the 13th debenture issue, the terms of the Company's public debentures prohibit the payment of dividends in excess of 30% of net profit, if such distributions cause the Company's long-term liabilities to exceed its net worth by a factor of more than 50% and its current assets to fall below its current liabilities.

The 13th debenture issue limits the Company's consolidated financial debt to no more than four times Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA of the last twelve months, defined as gross profit minus general, sales and administrative expenses plus depreciation and amortization). This instrument also requires consolidated EBITDA to be more than double net interest expenses for the last twelve months, excluding monetary and foreign exchange variations.

The terms of the Company's BNDES debt require that the current liquidity ratio (consisting of current assets divided by current liabilities) is least 1.3 and that financial debt divided by Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA defined as gross profit minus general, sales and marketing and administrative expenses plus depreciation and amortization) is less than 5. These agreements also contain negative covenants, subject to customary exceptions.

The Gerdau Ameristeel Senior Secured Credit Facility contains restrictive covenants that limit the Company's ability to engage in specified types of transactions without the consent of the lenders. Limitations apply to incurring additional debt, issuing redeemable stock and preferred stock, paying dividends on its common shares, selling or otherwise disposing of certain assets and entering into mergers or consolidations. The indenture governing the Senior Notes permits Gerdau Ameristeel and its restricted subsidiaries to incur additional indebtedness, including secured indebtedness, subject to certain limitations.

The Company agrees to furnish a copy of the debt instruments described herein to the Securities and Exchange Commission upon request.

All covenants described above are based on (i) the financial statements prepared according to Brazilian Corporate Law for the operations contracted by the companies in Brazil and (ii) financial statements prepared in accordance with U.S. GAAP for Gerdau Ameristeel. As of December 31, 2003, management believes that the Company was in full compliance regarding such debt covenants and other conditions of the debt described above.

In order to protect itself from fluctuations in the Brazilian currency against the U.S. dollar and changes in interest rates on its foreign currency debt incurred in Brazil, Gerdau entered into cross-currency interest rate swaps through which it receives U.S. dollars, generally accruing interest at fixed rates, and pays Brazilian reais accruing interest at rates based on the CDI (Brazilian Interbank deposit rates). As of December 2003, the total amount swapped was $ 555.3 million (notional amount) of which $ 95.6 million has been treated, pursuant to EITF No. 02-02 on a combined basis as if the loans had been originally denominated in reais. Part of the Company's cash flow from operations is denominated in Brazilian reais and part in U.S. dollars. See Note 20 to the financial statements - Derivatives Instruments. Such cash flows from operations may be utilized to service this debt. There can, however, be no assurance that cash flows from operations will be sufficient to service foreign currency debt obligations, denominated principally in U.S. dollars. It is thus possible that exchange rate fluctuations may have a material adverse effect on the Company's business, financial condition and results of operations. See Item 10.D - Exchange Controls.

The Company's long-term debt with financial institutions, including debentures, will be amortized as follows:

	$ million
2005	191.9
2006	136.2
2007	153.7
2008	175.7
2009 and thereafter	630.3
TOTAL	1,287.8

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

Due to its specialized business, Gerdau Acos Finos Piratini, which is active in the automotive segment, is the only unit that has been investing without interruption in technological upgrading and in research and development (R&D). This unit maintains an R&D department responsible for new products and the optimization of existing processes. These product development projects are led by specialists who use tools such as `6 Sigma', a set of statistical measurements that allow for an improved assessment of results, and `Quality Function Deployment', a process in which the technicians identify the needs of customers' processes. In the other plants, production and quality teams are responsible for developing new products, to meet the needs of its customers and the market.

As is usual for mini-mill steel makers, Gerdau usually acquires technology in the market, since steel-making technology is readily available for purchase.

Most sophisticated production equipment used by the Company is supplied by international machinery builders and steel technology companies. Such suppliers generally enter into technology transfer agreements with the purchaser and provide extensive technical support and staff training in connection with the installation and commissioning of the same equipment. Gerdau has entered into technology transfer agreements with Nippon Steel, Sumitomo Steel, Thyssen, Daido Steel and BSW.

D. TREND INFORMATION

Gerdau's business is focused on the production of long steel and the distribution of steel products in general, with operations in North and South America. One of the strategies adopted by the Company in the development of its business is the regional concentration of its efforts with the aim of satisfying its raw materials needs and selling its production to clients close to its operating units. For this model, availability of the inputs used by the Company, such as scrap and electric power, and local demand are very important factors in the performance of the operating unit, although these do not necessarily compromise consolidated performance. The steel business, especially the long steel segment, regardless of the country in which a company operates, is strongly influenced by global and regional macroeconomic issues, which Gerdau analyzes in order to develop its own view of its likely performance in forthcoming quarters.

In Brazil, where all Gerdau's steel operations are concentrated in Gerdau Acominas, the Company believes that it can achieve growth in domestic demand by the end of 2004, making three basic assumptions that were confirmed in results for the first quarter of 2004: (i) IBS (Brazilian Steel Institute) forecasts indicate that long steel domestic sales will increase by 10.2% in 2004, relative to 2003; (ii) domestic demand increased by some 7.7% in the first quarter of 2004, with demand from manufacturing industry and for agricultural products significant but not as strong as expected, and (iii) the partial recovery in demand, which was slack in 2003, by some 13%.

Based on the expectation of domestic market growth over the next few quarters, Gerdau, which gives priority to domestic sales, may witness a reduction in its export volumes. In the first quarter of 2004, Brazilian exports fell by 18%, although due to international prices, which are expected to remain high, exports may remain an important part of the Company's revenues during the next quarter and for the year as a whole.

The Company believes that the prices of inputs used in its production process such as scrap, pig iron, coal and iron ore, are likely to decline from current levels, based on the information that some of these inputs have been negotiated in the international market at lower prices due to (i) a reduction in purchases by China and (ii) a reduction of investments in that country, in conjunction with current high levels of inventory. Despite the fact that it purchases its main inputs in the domestic market, the Company believes that prices in Brazil will follow this trend, albeit while admitting the possibility of an increase in the price of inputs until the end of the year, in the event that Chinese demand returns to the level of the first quarter.

At a macroeconomic level, Gerdau believes that movements in exchange rates will offset inflation for the year and that conditions exist that favor additional cuts in interest rates.

Its North American operations showed a strong improvement in first quarter results due to the recovery of the American economy and, hence, to the increase in sales volume for the period. Sales volumes for the first quarter of 2004 increased by 7.3% compared to the last quarter of 2003, with highly favorable prices that generated good operating margins in that market. The steel industry as a whole expects that these prices will be maintained for at least another quarter due to the strong demand, which, together with reduced pressure on input prices, point to a positive outlook for the rest of the year.

With higher demand, imports to the United States are also increasing, albeit unlike in previous years, products are traded at market prices. The Company believes this fact will not affect its businesses adversely, since if demand returns to lower levels, these imports will be redirected to other markets on account of a weakening of the U.S. dollar American currency, high international prices and freight costs.

Due to the higher capacity utilization rates in the North American mills (all working at over 95% of capacity) and the reduction of scrap prices in that region, the Company estimates that its costs may also fall, on account of factors such as lower yield loss costs.

The outlook for the Company's South American operations is also positive. In Uruguay estimates for the economy are being revised with positive GDP growth forecasts for 2004. In Chile, the most stable country in the region where Gerdau operates, GDP is expected to grow, resulting in increasing demand for steel products.

E. OFF-BALANCE SHEET ARRANGEMENTS

The Registrant does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources other than the ones described below.

As detailed in Note 25 to the consolidated financial statements (Item 19), Gerdau has guaranteed 51.82% of the debt of Dona Francisca Energetica S.A., a non-public corporation which owns and operates a hydroelectric power plant, known as Usina Hidroeletrica Dona Francisca, amounting to R$ 103.452 million (equivalent to $ 35.806 million at the year-end exchange rate). The percentage of this guarantee corresponds to Gerdau's 51.82% stake in Dona Francisca Energetica, corresponding to the extent to which the Company has issued guarantees to the creditors. There is no indication to date that this guarantee will be executed by lenders, which would occur in the event of default by Dona Francisca Energetica S.A. In addition, the Company has issued guarantees to Banco Gerdau S.A. for $ 13.891 million relating to loans by Banco Gerdau S.A. to the Company's customers which were used to purchase the Company's products.

F. DISCLOSURE OF CONTRACTUAL OBLIGATIONS

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD			
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5
Long-Term Debt Obligations including Debentures	1,607,807	319,958	328,127	
Operating Lease Obligations	66,449	9,248	13,914	
Total	1,674,256	329,206	342,041	3

Purchase obligations correspond to payments that the Company has undertaken to make as result of the following transactions: (a) its acquisition of Margusa - Maranhao Gusa S.A., for which it undertook to pay a total consideration of $ 18,000, that was subsequently reduced to $ 16,163, following adjustments for due diligence, with $ 13,929 of this amount remaining unpaid as of December 31, 2003, and (b) its acquisition of certain real estate and mining rights located in Miguel Bournier, Varzea do Lopes and Gongo Soco in the state of Minas Gerais, Brazil, for which it undertook to pay a total consideration of $ 30,000, of which $ 22,500 remained unpaid as of December 31, 2003.

G. SAFE HARBOR

See "Cautionary Statement with Respect to Forward-Looking Statements".

H. CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are both (1) important to the portrayal of the financial condition and results of the Company and (2) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex. In connection with the preparation of the financial statements included in this annual report, the Company's management has relied on variables and assumptions derived from historical experience and various other factors that it deems reasonable and relevant. Although these estimates and assumptions are reviewed by management in the ordinary course of business, the portrayal of the financial condition and results of operation often requires it to make judgments regarding the effects of inherently uncertain matters on the carrying value of the Company's assets and liabilities. Actual results may differ from those estimated using different variables, assumptions or conditions. In order to provide an understanding of how management forms its judgments about future events, including the variables and assumptions underlying the estimates, comments have been included that relate to each critical accounting policy, described as follows:

- revenue recognition and allowance for doubtful accounts;
- deferred income taxes;
- pension and post-retirement benefits;
- environmental liabilities; and
- derivative financial instruments

The consolidated financial statements presented in this annual report were prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of the financial statements included in this annual report necessarily involves certain assumptions derived from historical experience and various other factors deemed reasonable and relevant. Although management reviews these estimates and assumptions in the ordinary course of business, the portrayal of the financial condition and results of operation of the Company often requires it to make judgments regarding the effects on the financial condition and results of operations of matters that are inherently uncertain. Actual results may differ from those estimated under different variables, assumptions or conditions.

REVENUE RECOGNITION AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company recognizes revenues from sales and the allowance for estimated costs associated with returns from these sales when the product is shipped and title transferred to the buyer. Provisions are made for estimated product returns and customer claims based on estimates and actual historical experience. If the historical data used in the estimates does not reflect future returns and claim trends, additional provisions may be necessary. An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of customers to make required payments. If the financial condition of customers deteriorates, resulting in losses or the impairment of their ability to make payments, additional allowances may be required.

DEFERRED INCOME TAXES

The liability method of accounting for income taxes is used for deferred income taxes generated by temporary differences between the book value of assets and liabilities and their respective tax values. Deferred income tax assets and liabilities are measured using tax rates applicable to taxable income in the years in which those temporary differences are expected to be realized. A valuation allowance is recorded to the extent that the recoverability of the future income tax assets is considered more likely than not. Future taxable income may be higher or lower than estimates made when determining whether it is necessary to make provisions for devaluation, as well as the amount of the same.

PENSION AND POST-RETIREMENT BENEFITS

The Company accrues its obligations relating to employee benefit plans and their related costs, net of plan assets, adopting the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated for service and management's best estimate of expected investment performance for funded plans, growth in salaries, retirement ages of employees and expected health care costs. The discount rate used for determining the liability for future benefits is an estimate of the current interest rate at the balance sheet date on high quality fixed income investments with maturities that match the expected maturity of obligations
- Pension assets are valued at fair market value
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment
- The net actuarial gain or loss that exceeds 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees
- A plan curtailment will result if there has been a significant reduction in the expected future service of present employees. A net curtailment loss is recognized when the event is probable and can be estimated, a net curtailment gain is deferred until realized.

In accounting for pension and post-retirement benefits, several statistical and other factors, which attempt to anticipate future events, are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, expected return on plan assets, future increases in health-care costs and rate of future compensation increases. In addition, actuarial consultants also use subjective factors such as withdrawal, turnover and mortality rates to estimate these factors. The actuarial assumptions used by the Company may differ materially from actual results due to changing market and economic conditions, regulatory events, judicial rulings, higher or lower withdrawal rates or longer or shorter life spans of participants.

ENVIRONMENTAL LIABILITIES

The Company has made provisions for potential environmental liabilities based on the best estimates of potential clean-up and compensation estimates for known environmental sites. The Company employs a staff of environmental experts to manage all phases of its environmental programs, and uses outside experts where needed. These professionals develop estimates of potential liabilities at these sites based on projected and known remediation costs. This analysis requires the Company to make significant estimates, with changes in facts and circumstances possibly resulting in material changes in environmental provisions.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company applies SFAS No. 33, "Accounting for Derivative Instruments and Hedging Activities" as amended and interpreted.

Derivative financial instruments include cross-currency interest rate swaps entered into by the companies operating in Brazil mainly for swapping fixed-rate debt denominated or indexed in U.S. dollars into variable rate debt in reais. These swaps are recognized on the balance sheet at fair value and adjustments to fair value are recorded through income. Such cross-currency interest rate swaps are not traded derivatives and have been agreed with various financial institutions in Brazil. The Company values such instruments considering quotations obtained from market participants and following an internally developed methodology that considers the forward rate of exchange of the real against the U.S. dollar and interest rates in Brazilian reais prevailing on the date of measurement. The Company understands that quotations obtained are reasonable when compared with information on similar financial instruments traded on the Sao Paulo Futures and Commodities Exchange (BM&F), that the internally developed valuation methodology is consistent with methodologies used by other participants in the swap market in Brazil and that its results reasonably reflect the amount that would be paid or received to settle the swap on the valuation date. Intense volatility in the

foreign exchange and interest rate markets in Brazil observed during 2003 has nevertheless caused significant changes in forward rates and interest rates over very short periods of time, generating significant changes in the fair value of such cross-currency interest rate swaps over similarly short periods of time. The fair value recognized in our financial statements may not, therefore, necessarily represent the amount of cash that the Company would receive or pay, as per the case, if it settled the transaction on December 31, 2003. As of December 31, 2003 the unrealized gain on cross-currency interest rate swaps amounted to $ 9.685 million and the unrealized loss to $ 40.938 million.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following is a brief biography of each of the Company Directors and Executive Officers:

JORGE GERDAU JOHANNPETER (68) has been working for the Gerdau Group since 1954. He and his brothers, Germano, Klaus and Frederico, started as apprentices. Jorge Johannpeter became an Executive Officer in 1971 and a member of the Board of Directors in 1973. In 1983 he became Chairman of the Board of Directors and President of the Company. Since 2002, after the implementation of the new Corporate Governance structure, he also became the President of the Gerdau Executive Committee. He holds a degree in Law from the Federal University of Rio Grande do Sul.

GERMANO HUGO GERDAU JOHANNPETER (72) has been working for the Gerdau Group since 1951. He became an Executive Officer in 1971 and has been a member of the Board of Directors since 1973. In 2002, under the new Corporate Governance structure, he became a Vice Chairman of the Board of Directors. He holds a degree in Business Administration from the Getulio Vargas Foundation.

KLAUS GERDAU JOHANNPETER (69) has been working for the Gerdau Group since 1954. He became an Executive Officer in 1971 and has been a member of the Board of Directors since 1973. In 2002, under the new Corporate Governance structure, he became a Vice Chairman of the Board of Directors. He holds a degree in Civil, Electrical and Mechanical Engineering from the Federal University of Rio Grande do Sul.

FREDERICO CARLOS GERDAU JOHANNPETER (62) has been working for the Gerdau Group since 1961. He became an Executive Officer in 1971 and has been a member of the Board of Directors since 1973. Under the new Corporate Governance structure he also became Senior Vice President of the Gerdau Executive Committee. He holds a degree in Business Administration from the Federal University of Rio Grande do Sul and a Masters degree in Business, Finance, Costs and Investments from the University of Cologne, Germany.

ANDRE PINHEIRO DE LARA RESENDE (53) was elected Independent Board Member in 2002. He graduated in Economics from the Pontifical Catholic University in Rio de Janeiro (PUC), and holds a masters degree from the Postgraduate School of Economics of the Getulio Vargas Foundation and a PhD from the Massachusetts Institute of Technology in Cambridge, Massachusetts, USA. Andre Pinheiro de Lara Resende is also a member of the Board of Alps Funds. He was formerly President of the Brazilian Development Bank (BNDES), Special Advisor to the President of Brazil, Managing Partner of Banco Matrix S.A., Brazil's Chief Foreign Debt Negotiator, Executive President of Companhia Siderurgica Tubarao (CST), Executive Vice President and member of the Board of Unibanco - Uniao de Bancos Brasileiros S.A., Director of Brasil Warrant Administracao de Bens e Empresas Ltda., a member of the Board of Directors of Cia. Ferro Brasileiro S.A., a member of the Board of Directors of Lojas Americanas S.A., Managing Partner of Banco de Investimento Garantia and Manager of Public Debt and Open Market of the Brazilian Central Bank.

AFFONSO CELSO PASTORE (65) was elected Independent Board Member in 2002. He holds a degree in Economics from the University of Sao Paulo and a PhD in Economics from the same University. Affonso Celso Pastore is also Professor at the Getulio Vargas Foundation in Rio de Janeiro and an independent economics advisor. He was the Secretary of the Sao Paulo Treasury Department and President of the Brazilian Central Bank.

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OSCAR DE PAULA BERNARDES NETO (58) was elected Independent Board Member in 2002. He holds a degree in Chemical Engineering from the Federal University of Rio de Janeiro and a degree in Business Administration from the State University of Rio de Janeiro. Oscar de Paula Bernardes Neto is the owner and director of LID - Latin America Internet Development Group and a member of the consultive board of Telesystem International Wireless (TIW) in Brazil. He is also member of the boards of Bunge Alimentos, Seara and Serrana, all companies of the Bunge Group, and board member of RBS (media network), CheckForte, Satipel and Alcoa in Brasil, and Delphi Corp. in the United States.

CARLOS JOAO PETRY (63) has been working for the Gerdau Group since 1965. He became an executive officer in 1974 and was appointed to the Board of Directors in 1983. Under the new Corporate Governance structure he also became Senior Vice

President of the Gerdau Executive Committee. He holds a degree in Philosophy from the Federal University of Rio Grande do Sul.

ANDRE BIER JOHANNPETER (41) has been working for the Gerdau Group since 1980. He was recently given the position of Executive Vice President of the Gerdau Executive Committee, and is responsible for its North American operations and Information Technology processes. He holds a degree in Business Administration from the Pontifical Catholic University of Rio Grande do Sul.

CLAUDIO JOHANNPETER (41) joined the Company in 1982. He became Executive Officer in 1997, and is currently an Executive Vice President of the Gerdau Executive Committee, responsible for the Ouro Branco mill and specialty steel, as well as for industrial processes in Brazil and abroad. He was awarded a degree in Metallurgical Engineering from the Federal University of Rio Grande do Sul in 1990.

OSVALDO BURGOS SCHIRMER (54) joined the Company in 1986 and was named Financial Executive Officer in 1987. He has also been responsible for Gerdau Bank (Banco Gerdau) since 1994 and was recently promoted to the position of Executive Vice President of the Gerdau Executive Committee, while retaining the positions of CFO and Investor Relations Director of Gerdau S.A. He is also responsible for the South American operations of Gerdau S.A. Osvaldo Burgos Schirmer graduated in Business Administration from the Federal University of Rio Grande do Sul in 1973, and holds an MBA from Illinois University. He has also held a position as a director at the Iochpe-Maxion Group, a holding company for companies in the auto parts and railroad equipment sectors.

DOMINGOS SOMMA (60) joined the Company in 1980 and became an Executive Officer in 1988. He is currently the Executive Vice President of the Gerdau Executive Committee, responsible for the Group's Brazilian Long Steel operations. He graduated in Economics from Mackenzie University in 1968.

EXPEDITO LUZ (52) has been working for Gerdau since 1976 and, in 1989 became an Executive Officer of the Legal Department. He was appointed to the Board of Directors in 2001 and under the new Corporate Governance structure he is now Secretary-General of the Board of Directors and the Gerdau Executive Committee. Expedito Luz graduated in Law from the Federal University of Rio Grande do Sul in 1975 and holds a Masters Degree in Law from the Columbia Law School in New York, in 1980.

PAULO FERNANDO BINS DE VASCONCELLOS (59) joined the Company in 1972. In 2002 he was appointed Executive Vice President of the Gerdau Executive Committee. In 2003 he was transferred to North America as Vice President of North Eastern Steel Operations. He holds a degree in Metallurgical Engineering.

FRANCESCO SAVERIO MERLINI (62) joined the Company in 1977 and became an Executive Officer in 1998. He graduated in Electromechanical Engineering from the Cuyo National University of Argentina in 1970.

ELIAS PEDRO VIEIRA MANNA (49) joined the Company in 1988 and became an Executive Officer in 2000. He graduated in Operational Mechanical Engineering, Mechanical Engineering and Civil Engineering, from the Pontifical Catholic University of Rio Grande do Sul in 1977, 1981 and 1982 respectively. He also received a Masters degree in Materials Engineering from the Federal University of Santa Catarina in 1982.

FAMILY RELATIONSHIP

Jorge Gerdau Johannpeter, Germano Hugo Gerdau Johannpeter, Klaus Gerdau Johannpeter and Frederico Carlos Gerdau Johannpeter are brothers. Andre Bier Johannpeter is Jorge Gerdau Johannpeter's son and Claudio Johannpeter is Klaus Gerdau Johannpeter's son.

ARRANGEMENTS

Gerdau has no agreement of any kind with shareholders, clients, suppliers or other parties regarding the election of its managers. There are no pending legal proceedings to which any Board Member or Executive Officer of the Company is a party against to the Company.

B. COMPENSATION

The employees' compensation system is based on two variables: a fixed salary and a variable portion linked to specific targets.

The fixed portion of the compensation is constantly monitored and compared to market benchmarks in order to maintain parity with the best market practices as adopted by other companies. The variable portion of the compensation package incorporates the accomplishment of short and long term goals. These are measured against clearly specified standards that are intended to motivate individuals and teams.

The Human Resources policy consists of the acknowledgement and the recognition of co-workers as strategic for the business. An example of this policy is the participative program which, during 2003, implemented 1,369 development projects, supported by 3,996 staff in 1,001 working groups. These projects secured important savings for the Company which duly compensated its workers.

In order to track the managerial skills of its executives, the Company conducts evaluations based on several different methodologies, including the `360 degree evaluation'. These evaluations aim to identify the degree of alignment of executives with the Company's strategies and business management and monitor individual development.

In 2003, Gerdau S.A. paid a total of $ 19.8 million to its executive officers in salaries and variable remuneration. The variable remuneration for executives is based on the overall performance of Gerdau S.A., on the basis of realized EBTDA (as defined for purposes of computation of variable remuneration) versus planned EBTDA (as defined for purposes of computation of variable remuneration), on the performance of the unit to which the executive is related, and on personal performance. Each of these factors corresponds to one third of the variable remuneration.

The Company and other related companies in the Group co-sponsor pension plans (the "Brazilian Plans") covering substantially all employees based in Brazil, including Gerdau Acominas since its consolidation. The Brazilian Plans consists of a plan for the employees of Gerdau and its subsidiaries ("Gerdau Plan") and a plan for employees of the former Acominas and its subsidiaries ("Gerdau Acominas Plan"). The Brazilian Plans are mainly defined benefit plans with certain limited defined contributions. Theal Company's Canadian and American subsidiaries, including Gerdau Ameristeel, also sponsor defined benefit plans (the "North American Plans") that cover the majority of their employees. Contributions to the Brazilian Plans and the North American Plans are based on actuarially determined amounts.

Gerdau's contributions to the Gerdau Plan during 2003 amounted to $ 13.4 million (Basic income program) and an additional $ 38.1 million to the supplementary fund. This sum refers only to that portion of contributions for executives who do not currently receive retirement benefits form the Company. These benefits are in no way different from those offered to the other employees of the Company.

On April 30th, 2003, the Gerdau S.A. shareholders approved a new compensation program for executives with strategic positions within the Company, the Long term Incentive Program. This new compensation consists of call options on the Company's preferred shares, granted on a yearly basis, representing 20% of the annual base salary of each executive. This program aims to attract and secure the long-term commitment of executives by allowing these to share in the growth of the Company, thereby

enhancing the feeling of partnership in the business. (See Item 10.B - "Memorandum and Articles of Association")

On the same date the shareholders' meeting authorized the granting by the Management, as of January 1, 2003, of 683,936 options at an exercise price of R$ 23.88 per share, of which 280,785 for the regular program with a five-year (5) mandatory vesting period and, exceptionally in the first year, 403,151 additional options with a (3) three-year mandatory vesting period. As part of this compensation program, on November 17, the Board of Directors authorized the acquisition of Company shares to be held in treasury for future resale or cancellation. 786,600 shares (345,000 through December 2003) were bought at an average price of R$ 55.93 per share for eventual use in the Long Term Compensation Program mentioned above. In February 2004, the Board authorized the granting of 173,556 options at a price of R$ 61.00 as part of the regular program, with a five-year (5) mandatory vesting period.

Considering the stock bonus of 1 share for each share held, which was approved by the General Shareholders' meeting held on April 29, 2004, the number of options granted was modified to (i) 1,367,872 options at an exercise price of R$ 11.94, relating to the grant of 2003, and (ii) 347,112 options at an exercise price of R$ 30.50, relating to the grant of 2004. The April 29 meeting also changed the conditions of the "Long Term Incentive Plan", authorizing the granting to directors or executive officers, when elected for the first time, of a three-year (3) mandatory vesting period option in addition to the regular program option. Additional information on the Long Term Incentive Program is available in the Exhibits listed in the end of this Form.

C. BOARD PRACTICES

Gerdau announced its new corporate governance structure on July 8, 2002 aimed at broadening the Group's management skills, meeting the demands resulting from growth and greater global competitiveness, guaranteeing the succession process without losing accumulated experience, and increasing disclosure to shareholders and capital markets. The General Shareholders' Meeting, held on July 26, 2002, approved the changes in the Company's By-Laws to formalize its new corporate governance structure.

With a view to building on its relationship with the market and keeping up with the best practices in corporate governance, the Gerdau Executive Committee is now responsible for coordinating the activities of the executive officers and managing the Company's business. This major change in the Company's management structure provides an administrative link between the Board of Directors and the Company's business operations.

BOARD OF DIRECTORS: The Board of Directors is responsible for determining the broad direction of the Group's business, and may have up to ten members. Three independent members will participate in the Group's decision-making process.

CHAIRMAN
Jorge Gerdau Johannpeter

VICE CHAIRMEN
Germano Hugo Gerdau Johannpeter
Klaus Gerdau Johannpeter
Frederico Carlos Gerdau Johannpeter

INDEPENDENT MEMBERS
Andre Pinheiro de Lara Resende
Affonso Celso Pastore
Oscar de Paula Bernardes Neto

SECRETARY-GENERAL
Expedito Luz

COMPENSATION AND SUCCESSION COMMITTEE: With the new corporate governance structure introduced in 2002, Gerdau has established a Compensation and Succession Committee, which guides executive remuneration practices and consists of:

MEMBERS

Frederico Carlos Gerdau Johannpeter
Carlos Joao Petry
Affonso Celso Pastore
Oscar de Paula Bernardes Neto

SECRETARY

Joao Aparecido de Lima

GERDAU EXECUTIVE COMMITTEE: This body represents the link between the Board of Directors and the Group's operations. Its activities are divided into five business operations (BOs), defined by product line and/or geographical location: BO - Brazil Long Steel Products, BO - Specialty Steel Products, BO - Gerdau Acominas (Ouro Branco mill), BO Gerdau Ameristeel and BO - South American operations. The Gerdau Executive Committee is also responsible for the main functional processes that operate vertically throughout the Group, such as finance, accounting, human resources and planning. Committee members work together to encourage a greater synergy among operations, and individually with a focus on the management of each business and functional processes, in order to maximize results.

PRESIDENT
Jorge Gerdau Johannpeter

VICE PRESIDENTS
Frederico Carlos Gerdau Johannpeter
Carlos Joao Petry
Andre Bier Johannpeter

Claudio Johannpeter
Osvaldo Burgos Schirmer
Domingos Somma

SECRETARY-GENERAL
Expedito Luz

STRATEGY AND EXCELLENCE COMMITTEES: The Strategy Committee has been installed to provide strategic support to the Executive Committee, and consists of executives who contribute to the achievement of growing levels of operating performance. The committee analyzes the Group's current situation and growth opportunities, and defines its long-term business focus. The Excellence Committees provide support for functional processes, aiming at developing best management practices and encouraging the exchange of know-how among the Group's units.

PROCESSES: The Processes consist of Operational Processes and Support Processes. Operational Processes are those directly connected with the final results of the business, such as Marketing and Sales, Industrial Processes, Purchasing, Logistics and Transport and Scrap Purchasing. Support Processes are those which provide backup for the range of processes involved in running the business as a whole: Strategic Planning - Corporate and Operations, Corporate Communications and Community Relations, Human Resources and Organizational Development, Legal, Finance and Investor Relations, Holdings, Accounting and Auditing, Quality Management Systems and Information Technology.

BUSINESS OPERATIONS: The Business Operations are managed by executive officers under the coordination of the Gerdau Executive Committee and are structured as follows: BO - Brazil Long Steel Products, BO - Specialty Steel Products, BO - Gerdau Acominas (Ouro Branco mill), BO - Gerdau Ameristeel and BO South American operations.

On November 28, 2003, the shareholders of Gerdau S.A. and Aco Minas Gerais S.A. - Acominas approved the integration of the operating assets of both companies into a single company. This transaction consisted of the transfer of all steel operations and complementary assets of Gerdau S.A. in Brazil to Acominas and the change in name of the latter to Gerdau Acominas S.A. This new structure led to the transfer of most executive officers of Gerdau S.A. to Gerdau Acominas S.A., which since then has been the Gerdau Group's sole steel manufacturing company in Brazil.

BOARD OF AUDITORS

Gerdau S.A. does not have an audit committee, but has elected a board of auditors (conselho fiscal) with the aims of improving its relationship with the capital markets and shareholders and complying with the Brazilian Corporate Law No. 6,404/76. This board exists to monitor and verify the actions of directors and their legal duties, to provide opinions and official statements on management's annual report, to provide opinions concerning the proposals of board members, to denounce errors or fraud, to call meetings whenever necessary and to analyze financial statements. The Gerdau S.A. board of auditors has three members, one of whom is elected by minority holders of the Company's common shares.

The Board of Auditors elected at the Shareholder's Meeting of 2003 had the following members:

EFFECTIVE
Jose Antonio Cruz de Modena
Peter Wilm Rosenfeld
Jose Bernardo de Medeiros Neto
(elected by minority shareholders)

SUBSTITUTES
Rudolfo Teodoro Tanscheit
Tranquilo Paravizi
Alfredo Tostes Bello da Silva
(elected by minority shareholders)

Members of the Board of Auditors are elected at the ordinary shareholders' meeting for one-year terms, and may be re-elected. In accordance with the Brazilian Corporate Law, the board of auditors may, at the request of any of its members, ask independent auditors to provide explanations or information and investigate specific facts.

All members of the Board of Directors and the Gerdau Executive Committee, as well as the executive officers, are elected for one-year terms, with re-election or re-appointment permitted. Members of the Board of Directors are appointed at the General Meeting of Shareholders while members of the Gerdau Executive Committee and executive officers are elected at meetings of the Board of Directors.

D. EMPLOYEES

The following table presents information on the geographical distribution of Gerdau's employees:

DIRECT	BRAZIL	ABROAD	TOTAL
1998	8,639	1,172	9,811
1999	8,495	3,361	11,856
2000	8,436	3,654	12,090
2001	8,631	3,565	12,196
2002	12,978	5,048	18,026
2003	14,263	5,334	19,597

OUTSOURCED*	BRAZIL	ABROAD	TOTAL
2003	8,609	243	8,852

* `Outsourced employees' refers to individuals hired by other companies to develop or exercise activities that are not the core business of the Company.

As of December 31, 2003, the Company had 19,597 employees in its industrial units excluding the two joint ventures, Sipar and Gallatin Steel. Of this total, 73% are based in Brazil and the remainder in units in South and North America, which have 472 and 4,862 employees, respectively. The number of employees in Brazil grew considerably in 2002 due to the full consolidation of the Acominas plant. In North America, the number of employees increased in 2002 as a result of the incorporation of employees of the former Co-Steel into Gerdau Ameristeel Corp.

As unions in Brazil are organized on a regional rather than a national basis, the Company has no nationally applicable agreements with its workers. Gerdau believes that its employee pay and benefit structure is comparable to general market rates. Gerdau also provides its employees with fringe benefits such as health and child care.

Gerdau Acominas seeks to maintain good working conditions at its plants and as a consequence has what it believes to be a comparatively low employee turnover rate. Due to a strong emphasis on employee training, the Company attempts to manage any necessary production curtailments through the timing of vacations, rather than workforce reductions.

Gerdau Ameristeel Corp. has been and continues to be proactive in establishing and maintaining a climate of good employee relations. Ongoing initiatives include organizational development skills training, team-building programs, opportunities for participation in employee involvement teams, and an `open book' system of management. Gerdau Ameristeel Corp. believes that a high level of employee involvement is a key factor in the success of its operations. Compensation programs are designed to bring the financial interests of employees into line with those of Gerdau Ameristeel's shareholders.

Gerdau Ameristeel currently has 4,862 employees. Of this total, approximately 1,000 are represented by unions in a number of collective bargaining agreements. Agreements with the mill employees expire on various dates, beginning in February 2004. The first negotiation of contracts was successfully completed at the Whitby, Ontario facility in Canada, and should form the basis for subsequent negotiations with the remaining mills (two in Canada and two in the United States).

E. SHARE OWNERSHIP

The following chart indicates the individual holdings of Preferred and Common shares of Gerdau S.A. by each director and executive officer, as of December 31, 2003. None of the directors or executive officers indicated below own more than 1% or more of the company's capital for each class of share.

SHAREHOLDER	COMMON SHARES	%	PREFERRED SHARES	%
Jorge G. Johannpeter *	57	0.00%	2,295	0
Frederico C. G. Johannpeter *	58	0.00%	7,073	0
Germano G. Johannpeter *	95	0.00%	44,737	0
Klaus G. Johannpeter *	111	0.00%	369	0
Affonso Celso Pastore	-	0.00%	1	0
Oscar de Paula Bernardes Neto	-	0.00%	1,810	0

Andre Lara Resende	-	0.00%	1	0

Carlos Joao Petry	409	0.00%	-	0
Paulo F. B. Vasconcellos	4	0.00%	355	0
Domingos Somma	31	0.00%	2,431	0
Osvaldo B. Schirmer	-	0.00%	8,008	0
Expedito Luz	-	0.00%	78	0
Elias Pedro V. Manna	-	0.00%	78	0
Claudio Johannpeter	3,510	0.01%	31,894	0
Andre Bier Johannpeter	3,622	0.01%	13,697	0
Francesco Saverio Merlini	-	0.00%	78	0
TOTAL	7,897	0.02%	112,905	0

* The Gerdau family controls Metalurgica Gerdau S.A. through the holding companies, Indac - Industria, Administracao e Comercio S.A., Grupo Gerdau Empreendimentos Ltda. and Gersul Empreendimentos Imobiliarios Ltda., holding, collectively, 68.83% of the voting capital and 22.95% of the total capital of Metalurgica Gerdau S.A.. Individually, Indac - Industria, Administracao e Comercio S.A. holds 29.33% of the voting capital and 9.78% of the total capital of Metalurgica Gerdau S.A., Grupo Gerdau Empreendimentos Ltda. holds 25.57% of the voting capital and 8.53% of the total capital of Metalurgica Gerdau S.A., and Gersul Empreendimentos Imobiliarios Ltda. holds 13.93% of the voting capital and 4.64% of the total capital of Metalurgica Gerdau S.A..

ITEM 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

As of December 31, 2003, the Company had 51,468,224 Common Shares and 96,885,787 Preferred Shares outstanding. Of the two kinds of share traded in the market, only the Common Shares carry voting rights. Under the terms of the Company's By-Laws, however, specific rights are assured to the non-voting Preferred Shares. See the By-Laws of Gerdau S.A. in the exhibits in the end of this form.

The table below presents certain information as of December 31, 2003, regarding (i) any person known to the Company as the owner of more than 5% of the company's outstanding Common Shares, (ii) any person known to the Company as the owner of more than 5% of the company's outstanding Preferred Shares and (iii) the total amount of the Company's Common Shares and Preferred Shares owned by the Board of Directors and executive officers of the Company as a group.

SHAREHOLDER	COMMON SHARES	%	PREFERRED SHARES
Metalurgica Gerdau S.A.	42,897,208	83.35	22,509,988
BNDES Participacoes S.A. - BNDESPAR	3,801,058	7.39	1,971,391
Santa Felicidade Com. Imp. Exp. Prod. Sid. Ltda. *	1,218,034	2.37	4,913,618
Gersul Empreendimentos Imobiliarios S.A. *	971,379	1.89	-
Grupo Gerdau Empreendimentos Ltda. *	712,148	1.38	12,261
Members of the Board of Directors and Executive Officers as a group (16 members)	7,897	0.02	112,905

* Controlled by or affiliated with Metalurgica Gerdau S.A.

Metalurgica Gerdau S.A. and its subsidiaries hold 90.78% of the voting capital of Gerdau S.A. and thus have the ability to control the Company's Board of Directors as well as its management and operations.

B. RELATED-PARTY TRANSACTIONS

Transactions of the Company with related parties consist of (i) loans and (ii) commercial operations with subsidiaries and related parties.

(i) Gerdau S.A. maintains loans with some of its subsidiaries and other affiliates by means of loan contracts, which are repaid under conditions similar to those prevailing in the open market. Contracts between related parties and subsidiaries in Brazil incur interest at the average market rate Contracts with the Group's foreign companies incur interest at LIBOR + 3%/year and are subject to indexation based on variations in the exchange rate.

(ii) Commercial operations between Gerdau S.A. and its subsidiaries or related parties basically consist of transactions involving the purchase and sale of inputs and products. These transactions are carried out under the same conditions and terms as those of transactions with non-related third parties. The commercial operations also include payments for the use of the Gerdau brand and payments relating to loan guarantees.

On April 16th, 2004, Gerdau Ameristeel sold 26,800,000 common shares to its majority shareholder, Gerdau S.A. at a price of Cdn$ 4.90 per share, the closing price of the Company's common shares on the Toronto Stock Exchange on March 31, 2004. As a result of the transaction, Gerdau increased its stake in Gerdau Ameristeel from 68.6% to 72.3%.

Gerdau Ameristeel intends to use the total net proceeds of approximately US$100 million for general corporate purposes, which may include funding capital equipment or working capital and repayment of debt.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

The Company's financial statements are included in Item 18.

LEGAL PROCEEDINGS

Like other Brazilian company's, Gerdau S.A. is a party to claims with respect to tax, labor and civil law, most of them arising in the regular course of business. Management believes, based in part on advice from legal counsel, that the reserve for contingencies is sufficient to meet probable and reasonably estimable losses in the event of unfavorable rulings, and that the ultimate resolution will not have a significant effect on its consolidated financial position as of December 31, 2003. The most significant legal and administrative disputes (involving amounts exceeding $ 5 million) are detailed below. For further information on the reserve for contingencies, see the notes to the financial statements.

All figures presented in this analysis are stated in thousands of U.S. dollars.

I) TAX CONTINGENCIES

Part of the total balance of the contingency reserve refers to tax claims. The most significant contingent liabilities accounted for are as follows:

- The Company recognized in its contingency reserve, as of December 31, 2003, a provision of $ 17,464 relating to `compulsory loans' that all consumers are obliged to make to Eletrobras ("Emprestimo Compulsorio Eletrobras sobre Energia Eletrica"), the government-owned energy company. The Company has, along with other electricity consumers, challenged the constitutionality of these loans.

  In March 1995, the Supreme Court ruled against the interests of the consumers. Some of the Company's cases are still awaiting a ruling in the Higher Courts, but the outcome can be predicted in the light of previous decisions. The Company has established a provision relating to these `compulsory loans', since: (i) even though the payment to Eletrobras was in the form of a loan, the Company will be repaid in Eletrobras shares, and (ii) the conversion to Eletrobras shares will be based on their book value. (iii) based on currently available information, the market value of Eletrobras shares is well below their book value.

- The Company has made a contingent provision relating to the Social Contribution on Income (Contribuicao Social Sobre o Lucro). The balance of the provision, which amounts to $ 14,106, refers to (i) a claim for $ 10,958 relating to social contribution compensated in excess of the 30% limit on the reduction of net earnings by the subsidiary Gerdau Acominas S.A, a matter that is currently in progress with the Regional Federal Court for the 1st Region, for which the Company has made judicial deposits for the total amount of the claim, and (ii) law suits challenging the constitutionality of the contributions collected in 1989, 1990 and 1992. Some of these claims are still awaiting judgment, with the majority in Higher Courts.

- Of the total balance of the contingency reserve, $35,004 relates to corporate income tax (Imposto de Renda de Pessoa Juridica) ("IRPJ").With regard to this issue, the Company has made a judicial deposit of $27,996, corresponding to the portion that subsidiary Gerdau Acominas will be required to pay in IRPJ after compensating tax losses, without observing the limit for using tax losses of 30% of net income.

- The Company has made a contingent provision for social security contributions (INSS), amounting to $6,013. These claims refer mainly to the abrogation of liabilities, and are under review in the First Federal Court of Rio de Janeiro. Its subsidiary, Gerdau Acominas, has also filed other suits that challenge the INSS' decision to charge social security contributions on profit sharing payments, as well as services provided by work cooperatives. The Company has nevertheless made judicial deposits that substantially cover the whole of the contingent liability.

- The Company has challenged the constitutionality of charging a total of $ 5,511, relating to the Emergency Capacity Charge (Encargo de Capacidade Emergencial - ECE) and the Extraordinary Tariff Readjustment (Recomposicao Tarifaria Extraordinaria - RTE), which represent tariffs charged for supplying energy to the Company's industrial units. Management believes that these tariffs represent taxes and are thus incompatible with the National Tax System, as described in the Federal Constitution. The claims are currently under review in the Lower Federal Courts of the states of Pernambuco, Ceara, Minas Gerais, Rio de Janeiro, Sao Paulo, Parana, Rio Grande do Sul, as well as in the Regional Federal Courts of the 1st and 2nd Regions. The Company has made escrow deposits equivalent to the total amount of these claims.

- Judicial deposits, which represent restricted assets of the Company, refer to amounts held in judicial escrow accounts until the final decision of the corresponding legal issues. As of December 31, 2003, the balance of such deposits stood at $ 62,140.

Other contingent liabilities with only a small possibility of loss, involve great uncertainty regarding their applicability, and are thus not recognized among contingent provisions. These include:

- Law suits filed by the State Government of Minas Gerais to collect presumed value added tax (ICMS) credits, based mainly on sales by exporting companies, with claims amounting to $ 10,788. Management understands that this tax is not applicable, since sales of products for export purposes are exempt from value added tax. The Company thus has not recognized any provision related to these issues.

- The Company and its subsidiary, Gerdau Acominas S.A. are defendants in tax claims filed by the State Government of Minas Gerais for value added (ICMS) tax credits on exports of industrialized semi-finished products. The total amount of this contingency is $ 59,139. The Company has not made a provision for such claims, as its management believes that this tax is not applicable, since its products do not fit the definition of industrialized semi-finished products, as established in federal law, so that these are not subject to value added tax.

- The Federal Revenue Service has submitted claims for $ 18,954, relating to operations of the Company's subsidiary, Gerdau Acominas S.A. under the drawback concession act issued by DECEX, the Department of Foreign Trade. The Federal Revenue Service understands that this concession is not in accordance with the law. Gerdau Acominas is awaiting judgment of its previous administrative defense, which claims that the operation is legal. Since the tax credit has not yet been definitely constituted, and considering that the operation that generated the demand fits the requirements of concession and also, that the concession was sustained after analysis by the competent administrative authority, the Company believes that it faces only a remote chance of losing this case and has not, therefore, provisioned for this contingent liability.

Management believes that it may be able to realize certain contingent assets. Contingent but unprovisioned tax assets include:

- $ 9,200 relating to an ordinary action against the State Government of Rio de Janeiro, for breaching the "Mutual Contract of Periodic Execution in Cash", a tax incentive program signed as part of the Special Industrial Development Program - PRODI, which established payments to be made by the State Government of Rio de Janeiro to the Company. Due to the insolvency of the State Government of Rio de Janeiro, as well as the lack of implementation by it of Constitutional

Amendment 30/00, which granted the state government a 10 year moratorium for payment of non-food judicial debts (precatorios nao-alimentares), there is no expectation that this credit will be realized in 2004.

- The Company and its subsidiaries are plaintiffs in many ordinary actions challenging changes in the basis for calculating PIS defined by Complementary Law No. 7/70, and based on the unconstitutionality rulings on Decrees Nos. 2,445/88 and 2,449/88, expect to recover tax credits relating to the payment of the difference. Management believes the total amount of tax credits claimed to be $ 37,718.

- Based on previous court decisions on preliminary judgments, the Company and its subsidiary Gerdau Acominas S.A. expect to recover IPI tax credits. Gerdau S.A. has filed administrative requests for reimbursement, and is awaiting judgment of these requests. In the case of subsidiary, Gerdau Acominas S.A., the claim has been filed in court, where an unfavorable ruling was given, with the company currently awaiting an appeal, estimating that the amount reimbursable is $ 136,371.

II) LABOR CONTINGENCIES

The Company is also a party to a number of lawsuits by ex-employees. As of December 31, 2003, the Company had made provisions of $10,248 relating to such lawsuits. None of these individual actions entail significant amounts, and disputes mainly involve claims of overtime, health and danger bonuses. As of December 31, 2003, balances of escrow deposits relating to labor contingencies, amounted to $3,546.

III) CIVIL CONTINGENCIES

The Company is involved in a number of lawsuits with only a remote likelihood of loss, and great uncertainty with regard to their applicability, for which it has not, therefore, made contingency provisions. These include:

- Antitrust proceedings pending against Gerdau S.A, relating to a complaint brought by two construction unions in Sao Paulo which alleging that Gerdau S.A. and other Brazilian long steel producers in Brazil were dividing clients among themselves and thus violating antitrust laws. Following investigations conducted by the Department of Economic Rights (Secretaria de Direito Economico) "(SDE)" and based on a number of public hearings, the Department decided that a cartel existed. This conclusion was also supported by a previous ruling by the Department of Economic Monitoring (Secretaria de Acompanhamento Economico) "(SEAE)". The case will now proceed to its final stage at the Administrative Council for Economic Defence (Conselho Administrativo de Defesa Economica) "(CADE)", the Treasury Department agency responsible for ruling on competition issues, which will decide the case.

The Company denies any anticompetitive conduct and its directors believe, on the basis of available information, including the opinion of its legal counsel, that the administrative case has so far displayed many irregularities, some of which are inadmissible.

For example, the SDE investigations did not follow the due process of law with representatives of the Department advising some witnesses in the case. The SDE also issued its ruling before Gerdau S.A. was able to respond to final allegations, indicating partiality on the SDE's part. The same considerations apply to the ruling by the SEAE, which does not consider the economic aspects of the case and is based solely on statements by witnesses.

These irregularities, which do not respect the relevant terms of the constitution, will undoubtedly affect an administrative decision based on the conclusions presented so far by antitrust authorities. Gerdau S.A. has identified and opposed all of these irregularities and will continue to reject the allegations against itself, as well as the irregular procedures of the administrative process,

believing that it will ultimately be successful, if not in the administrative case, then possibly in a court of law.

The Company has thus made no provisions in this case. According to applicable Brazilian law, the Company may be fined up to 30% of gross sales revenue of previous fiscal years and, if the personal responsibility of an executive can be proven, such an individual could be fined between 10-50% of the fine applied to the Company. There is no precedent within Brazil for fines of more than 4% of gross sales revenues. In a similar case involving plain steel companies, the fines were approximately equal to 1% of gross sales revenues.

o A claim against Gerdau Acominas S.A., relating to the rescinding of a contract for the supply of slag and indemnification for losses. As of December 31, 2003, this claim amounted to approximately $12,460.

Gerdau Acominas S.A. has contested all claims and filed a counterclaim requesting that the plaintiff rescinds the contract and indemnifies it for breach of the same contract.

The court ruled that the contract be rescinded, since the request was common to both parties, while denying the request for indemnification on grounds of reciprocal guilt.

This ruling was sustained by the Jurisdictional Court of Minas Gerais, and is based on expert opinion and interpretation of the contract. The process is currently under appeal in the Superior Court of Justice.

Gerdau Acominas S.A. expects that there is only a remote possibility of loss, since it is unlikely that the previous ruling will be changed.

- A civil action filed by the insurer, Sul America Cia Nacional de Seguros against Gerdau Acominas S.A. and the New York branch of Westdeutsche Landesbank Girozentrale (WestLB), regarding the payment into escrow of $ 11,900, to settle the indemnity owed by the insurance company for an insurable event. Sul America alleges that it has no certainty as to whom it should pay. The Bank has challenged this allegation, claiming that it has no rights to the amount deposited, as well as by the Company, which alleges that the amount owed by Sul America is higher than the amount deposited. The case is currently in its initial phase. The Company's expectation, based on the opinion of its legal counsel, is that it stands only a remote chance of losing the case and that the court will rule that the amount of the indemnity claimed by the Insurance Company is not the correct one.

  This law suit relates to the accident of March 23, 2002, in the regenerators of the blast furnace plant of Presidente Arthur Bernardes mill, which caused the shutdown of various activities, material damages to the mill's equipment and financial losses. The equipment, as well as the consequent losses, were covered by insurance policy. A report on the event, as well as a loss claim was filed with IRB - Brasil Resseguros S.A., and the Company received an advance payment of $ 21,460, in 2002.

NO MATERIAL EFFECT

Management believes that the probability of losses as a consequence of other contingencies is remote, and that were these to arise, they would not have a materially adverse effect on the consolidated financial position of the Company.

DIVIDEND DISTRIBUTION POLICY

Brazilian Corporate Law generally requires the By-Laws of each Brazilian corporation to specify a minimum percentage of the profits for each fiscal year that must be distributed to shareholders as dividends.

The law requires a minimum payout of 25% of adjusted net income. Under the Company's By-Laws, this percentage has been fixed at no less than 30% of the adjusted net income for distribution for each fiscal year (See Item 10.A - "Dividend Policy").

Dividends for a given fiscal year are payable from (i) retained earnings from prior periods and (ii) after tax income for the same period, after the allocation of income to the legal reserve and to other reserves ("Adjusted Net Income"). In order to convert the dividends paid by the Company from reais into dollars, the Custodian will use the relevant commercial market exchange rate on the date that these dividends are made available to shareholders in Brazil. Under Brazilian Corporate Law, a Brazilian company is required to maintain a legal reserve, to which it must allocate 5% of net income determined in accordance with Brazilian Corporate Law for each fiscal year until such reserve reaches an amount equal to 20% of the company's paid-in capital. On

December 31, 2003, in accordance with Brazilian GAAP, Gerdau S.A.'s legal reserve amounted to R$ 184.4 million ($ 63.8 million, using the year-end exchange rate) or 10.6% of total paid-in capital of R$ 1,735.7 million ($ 600.7 million, using the year-end exchange rate).

According to Law No. 9,457, holders of preferred shares in a Brazilian corporation are entitled to dividends at least 10% greater than the dividends paid on common shares, unless one of three exceptions described in the Law holds. Gerdau S.A.'s executive directors presented a proposal at the 2002 shareholders' meeting, to grant both Common Shares and Preferred Shares 100% tag-along rights. Shareholders approved this measure and the right was extended to all shareholders, even though the new Brazilian Corporate Law only required that such rights be granted to the minority holders of Common Shares (and only for 80% of the consideration paid to the controlling shareholders).

Under the recent amendments to the Brazilian Corporate Law, by extending the tag along right to minority shareholders the Company no longer needs to comply with the requirement to pay an additional 10% premium on dividends paid to preferred shareholders. Following the approval and implementation of the amendments to the Company's By-Laws to provide for the tag-along as described above, the Company pays the stated minimum dividend of 30% of Adjusted Net Profit to all shareholders, and no premium to preferred shareholders. As a result, dividends on net income paid from January 1, 2002 onwards were not subject to the requirement to pay holders of Preferred Shares least 10% more than holders of Common Shares.

As a general requirement, shareholders who are non-resident in Brazil must have their Brazilian company investment registered with the Central Bank in order to be eligible for conversion into foreign currency of dividends, sales proceeds or other amounts related to their shares for remittance outside Brazil. Preferred Shares underlying the ADRs will be held in Brazil by the Custodian as agent for the Depositary. The holder of Preferred Shares will be the registered holder recorded in the Register of Preferred Shares.

Payments of cash dividends and distributions, if any, will be made in Brazilian currency to the Custodian, on behalf of the Depositary, which will then convert such proceeds into U.S. dollars and deliver the same U.S. dollars to the Depositary for distribution to holders of ADRs. If the Custodian is unable to convert the Brazilian currency received as dividends into U.S. dollars immediately, the amount of U.S. dollars payable to holders of ADRs may be adversely affected by any devaluation or depreciation of the Brazilian currency relative to the U.S. dollar that may occur before such dividends are converted and remitted. Dividends in lieu of the Preferred Shares paid to holders who are not resident in Brazil, including holders of ADRs, are not subject to Brazilian withholding tax.

INTEREST ON STOCKHOLDERS' EQUITY

Law No. 9,249, of December 1995, provides that a company may, at its sole discretion, pay interest on stockholders' equity in addition to or instead of dividends. A Brazilian corporation is entitled to pay its shareholders interest on stockholders' equity up to the limit of an amount computed as the TJLP (Long-Term Interest Rate) rate of return on its stockholders' equity or 50% of the net income for the fiscal year, whichever is the larger. The payment of interest as described here is subject to a 15% withholding income tax. See "Item 10 - Taxation"

DIVIDEND POLICY

The Company currently intends to pay dividends on its outstanding Preferred Shares at its mandatory distribution rates for any particular fiscal year, subject to any determination by the Board of Directors that such distributions would be inadvisable in view of the Company's financial condition. Although not required to do so by its By-Laws, the Company has paid dividends twice a year in the form of interest on stockholders' equity. As of March 31, 2003, the Board of Directors approved a new policy for paying dividends and interest on stockholders' equity on a quarterly basis.

Since 1999, dividends have been paid to holders of the Company's Common Shares and Preferred Shares in reais and in U.S. dollars translated from reais at the commercial exchange rate on the date of payment. Relevant amounts are described in Item 3 - "Selected Financial Data".

B. SIGNIFICANT CHANGES

GERDAU ANNOUNCED THE SECOND TRANCHE OF ITS SECURED EXPORT NOTES PROGRAM

On June 3, 2004, Gerdau Acominas S.A. placed the second U.S.$ 128 million tranche of its Export Receivables Notes program, with a final maturity of 8 years (April 2012) and a coupon of 7.321% per year. The notes have a quarterly amortization schedule starting in July 2006. The operation was concluded in parallel with a U.S. Treasury Lock derivative, yielding Gerdau an effective final cost of 6.798% per year. At the time of pricing (May 24, 2004), this represented a coupon 488 basis points below that of the Brazilian Sovereign bond of equivalent average maturity, and 292 basis points above the yield on the five-year U.S. Treasury bond, corresponding to the average duration of this tranche. The operation was granted a "BBB-" rating by Fitch, on the basis of receivables to be generated by sales of steel products of Gerdau Acominas.

DIRECTORS

At the Board of Directors meeting on April 29, 2004, Dirceu Tarcisio Togni was elected executive officer of Gerdau S.A. He joined the Company in 1974 and became executive officer in 2002. Mr. Togni holds a degree in Mechanical Engineering.

STOCK BONUS

In accordance with the proposal presented by the Board of Directors, a capital stock increase was approved on April 29, 2004 by the General, Ordinary and Extraordinary Meetings of Gerdau S.A. and will result in the issuance of new shares through the capitalization of reserves. Gerdau S.A.'s paid-in capital was increased from R$ 1,735,656,174.86 to R$ 3,471,312,349.01 through the incorporation of reserves and the issue of 1 (one) bonus share for each share existing on the date of the Shareholders' Meeting.

ACQUISITION OF POTTER FORM & TIE CO.

On February 16, 2004, Gerdau S.A. announced that its North American subsidiary, Gerdau Ameristeel Corporation, had signed an agreement to acquire the assets of Potter Form & Tie Co., of Belvidere, Illinois. Potter has units in Belvidere, Urbana and Decatur (Illinois), Madison and Appleton (Wisconsin) and Eldridge (Iowa).

Approved by the regulatory authorities, the operation was finalized by the end of March, 2004. Together with Gerdau Ameristeel's 16 rebar fabricating facilities, the purchase of Potter Form & Tie will provide experience in engineering, operations and sales processes, as well as geographical expansion into the heavily populated Midwest corridor.

GERDAU ACOMINAS' NEW WIRE ROD ROLLING MILL BEGAN OPERATIONS

The new Gerdau Acominas rolling mill produced its first coils of wire rod. Located in Ouro Branco, in the state of Minas Gerais, the US$ 66 million rolling mill is the most modern wire rod production facility in the Americas, with annual production capacity of 550,000 metric tons. Wire rod is a raw material for the production of wire for civil construction, agriculture and general industry.

The rolling mill uses modern technology to produce special quality wire rod, which has been produced since the first quarter of 2004 to meet the strong export demand.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

PRICE INFORMATION

The following table presents high and low market prices in Brazilian reais for Gerdau S.A. Preferred Shares (GGBR4) on the Sao Paulo Stock Exchange (BOVESPA) for the indicated periods, as well as the high and low market prices in U.S. dollars (converted at the PTAX exchange rate) for the same period.

CLOSING PRICES GGBR4 - ANNUAL BASIS
Adjusted for dividends

YEAR	BRAZILIAN REAIS PER SHARE		US DOLLARS
	HIGH (R$)	LOW (R$)	HIGH (US$)
1999	7.15	1.06	3.91
2000	8.46	4.17	4.72
2001	7.57	4.03	3.67
2002	12.49	7.15	4.73
2003	30.17	10.49	10.44

Source: Economatica

CLOSING PRICES GGBR4 - QUARTERLY BASIS
Adjusted for dividends

YEAR	BRAZILIAN REAIS PER SHARE		US DOLLARS
	HIGH (R$)	LOW (R$)	HIGH (US$)

2002			
1st Quarter	9.85	7.15	4.20
2nd Quarter	11.32	8.92	4.73
3rd Quarter	11.57	8.76	3.83
4th Quarter	12.49	8.76	3.53
2003			
1st Quarter	12.10	10.49	3.57
2nd Quarter	16.36	10.68	5.72
3rd Quarter	22.63	15.11	7.81
4th Quarter	30.17	20.03	10.44
2004			
1st Quarter	34.17	26.25	12.00

Source: Economatica

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CLOSING PRICES GGBR4 - MONTHLY BASIS
Adjusted for dividends

YEAR	BRAZILIAN REAIS PER SHARE		US DOLLARS
	HIGH (R$)	LOW (R$)	HIGH (US$)
2003			
January	12.10	10.49	3.57
February	12.07	10.70	3.37
March	12.10	10.68	3.44
April	13.31	10.68	4.61
May	15.23	12.87	5.32
June	16.36	13.83	5.72
July	17.02	15.12	5.89
August	22.15	15.76	7.45
September	22.63	18.73	7.81
October	22.62	20.08	7.90
November	23.86	20.03	8.09
December	30.17	23.64	10.44
2004			
January	34.17	28.73	11.99
February	30.96	26.25	10.66
March	33.73	29.23	11.71
April	35.28	29.77	12.21
May	34.00	25.25	11.08

Source: Economatica

In the above tables, share prices have been retroactively adjusted for all periods to reflect: (a) a share split approved in 2000 of 2 shares for each share held, (b) a share bonus approved in April 2003 of 3 shares for each share held and (c) a reverse stock split approved in April 2004 of 1 share for 1,000 shares held.

The following table presents high and low market prices for Gerdau S.A. ADRs as negotiated on the New York Stock Exchange (NYSE) since March 10, 1999, when the company upgraded its ADRs to level II.

CLOSING PRICES GGB - ANNUAL BASIS
Adjusted for dividends

YEAR	US Dollars per Share	
	HIGH (US$)	LOW (US$)
1999 (from March 10, 1999)	5.19	1.62
2000	5.77	3.03
2001	3.77	1.80
2002	5.38	2.65
2003	9.76	3.39

Source: Bloomberg

CLOSING PRICES GGB - QUARTERLY BASIS
Adjusted for dividends

YEAR	US Dollars per Share	
	HIGH (US$)	LOW (US$)
2002		
1st Quarter	4.78	3.67
2nd Quarter	5.38	3.56
3rd Quarter	4.20	2.65
4th Quarter	3.83	2.67
2003		
1st Quarter	3.80	3.11
2nd Quarter	5.90	3.42
3rd Quarter	8.03	5.46
4th Quarter	10.23	7.14
2004		
1st Quarter	11.83	9.45

Source: Bloomberg

CLOSING PRICES GGB - MONTHLY BASIS
Adjusted for dividends

YEAR	US Dollars per Share	
	HIGH (US$)	LOW (US$)
2003		

January	3.80	3.11
February	3.58	3.21
March	3.71	3.39
April	4.68	3.42
May	5.48	4.71
June	5.90	4.92
July	6.02	5.70
August	7.50	5.45
September	8.03	6.87
October	8.00	7.28
November	8.24	7.14
December	10.23	8.46
2004		
January	11.83	10.46
February	10.80	9.45
March	11.67	10.17
April	12.25	10.33
May	10.80	7.96

Source: Bloomberg

The above tables show the lowest and highest market prices of Gerdau's shares since 1999. Share prices have been retroactively adjusted for all periods to reflect: (a) a share split approved in 2000 of 2 shares for each share held, (b) a share bonus approved in April 2003 of 3 shares for each share held and (c) a reverse stock split approved in April 2004 of 1 share for 1,000 shares held.

B. DISTRIBUTION PLAN
Not required.

C. MARKETS

SAO PAULO STOCK EXCHANGE - BRASIL

The Sao Paulo Stock Exchange - BOVESPA is a non-profit association owned by its member brokerage firms. Trading on the BOVESPA is limited to member brokerage firms and a limited number of authorized non-members. The BOVESPA currently has two open outcry trading sessions each business day, from 10:00 a.m. to 5:00 p.m. Trading is also conducted between 10:00 a.m. and 5:00 p.m. on the BOVESPA automated system. There is also trading on the so-called After-Market, a system that allows for evening trading through an electronic trading system. Trades are made by entering orders in the Mega Bolsa electronic trading system, created and operated by BOVESPA. The system limits individual orders to R$ 100,000 and price variations are limited to 2% (above or below) the closing quote of the day.

Since March 17, 2003 market maker activities have been allowed on the BOVESPA, although there are no specialists or market makers for the Company's shares on this exchange. The Brazilian Securities Commission (Comissao de Valores Mobilarios) (CVM) and the BOVESPA have discretionary authority to suspend trading in shares of a particular issuer under certain circumstances. Trading in securities listed on the BOVESPA may be effected off the exchange under certain circumstances, although such trading is very limited.

Although any of the outstanding shares of a listed company may trade on the BOVESPA, in most cases less than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling shareholders that rarely trade their shares. For this reason, data showing the total market capitalization of the BOVESPA tend to overstate the liquidity of the Brazilian equity securities market, which is relatively small and illiquid compared to major world markets.

Settlement of transactions is effected three business days after the trade date without adjustment of the purchase price for inflation. Payment for shares is made through the facilities of a separate clearing house, the Brazilian Clearing and Depository Corporation (Companhia Brasileira de Liquidacao e Custodia) (CBLC), which maintains accounts for member brokerage firms. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date. The CBLC is controlled by clearing agents such as member brokerage firms and banks, and the BOVESPA.

Trading on the BOVESPA by non-residents of Brazil is subject to certain limitations under Brazilian foreign investment legislation.

REGULATION OF BRAZILIAN SECURITIES MARKETS

The Brazilian securities markets are regulated by the Brazilian Securities Commission (CVM), which has authority over stock exchanges and the securities markets generally, and by the Brazilian Central Bank (BACEN), which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities market is governed by the Brazilian Securities Law (Law No. 6,385, dated December 7, 1976, as amended) and the Brazilian Corporate Law (Law No. 6,404, dated December 15, 1976, as amended).

Law No. 10,303 of October 31, 2001, amended Law No. 6,385/76 and Law No. 6,404/76. The most important changes were (i) the conversion of the CVM into an autonomous governmental agency linked to the Ministry of Finance, with legal independence and a separate budget, assets and liabilities; (ii) the requirement of greater disclosure by listed companies; (iii) the tag-along right for minority common shareholders in the event of transfer of control of a listed company; (iv) the right of preferred shareholders with non-voting rights or restricted voting rights representing at least 10% of the total stock of a listed company to elect one board

member and substitute (considering that until April 2005, the representative of such shareholders shall be chosen from a three-name list prepared by controlling shareholders); (v) the right of the minority common shareholders to elect one board member; and (vi) the condition that preferred shares shall only be traded on the stock market if they have at least one of the rights mentioned below: (a) priority over dividends corresponding to at least 3% of the shares' net worth based on the company's last approved balance sheet; (b) the right to receive dividends at least 10% higher than the dividend assigned to each common share; or (c) the tag-along right in the event of transfer of control of the company.

Under the Brazilian Corporate Law, a company is either listed, such as Gerdau S.A., or not listed. All listed companies must apply for registration with the CVM and one of the Brazilian Stock Exchanges and are subject to ongoing reporting requirements. A listed company may have its securities traded either on the BOVESPA or on the Brazilian over-the-counter markets (Brazilian OTC). The shares of a listed company, including Gerdau S.A., may also be traded privately subject to certain limitations established in CVM regulations.

There are certain cases requiring disclosure of information to the CVM, the BOVESPA, or even the public. These include (i) the direct or indirect acquisition by an investor of at least 5% (five percent) of any class or type of shares representing the share capital of a listed company, (ii) the sale of shares representing the transfer of control of a listed company and (iii) the occurrence of a material event for the corporation.

On March 5, 2002, the CVM issued Regulation No. 361, which regulates tender offers if one of the following events occurs: (i) delisting of companies; (ii) an increase in the equity interest of the controlling shareholder; or (iii) the transfer of control of a listed company.

The Brazilian OTC market consists of direct trades between individuals in which a financial institution registered with the CVM serves as intermediary. No special application, other than registration with the CVM, is necessary for securities of a listed company to be traded on the Brazilian OTC. The CVM must be notified of all trades carried out on the Brazilian OTC by the company's respective intermediaries.

The trading of a company's securities on the BOVESPA may be suspended in anticipation of a material announcement. Trading may also be suspended at the initiative of the BOVESPA or the CVM on the basis of a belief that a company has provided inadequate information regarding a material event, has not provided an adequate response to the inquiries by the CVM or the exchange, or for other reasons.

The laws and regulations regarding the Brazilian Securities Market provide for disclosure requirements, restrictions on insider trading and price manipulation, and protection of minority shareholders. Although many changes and improvements have been introduced, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or those in certain other jurisdictions.

TRADING ON EXCHANGES OUTSIDE BRAZIL

In addition to the BOVESPA, Gerdau shares are traded on two other exchanges:

NEW YORK STOCK EXCHANGE

On March 10, 1999, Gerdau S.A. obtained registration for the issuance of Level II ADRs, which began trading on the New York Stock Exchange the same day. Under the GGB symbol, these Level II ADRs have been traded in virtually every session since the first day. In 2003, 23.5 million ADRs were traded, a figure 67.4% higher than in 2002, representing trading volume of U.S.$ 315.3 million, equivalent to a daily average of US$ 1.2 million.

LATIBEX - MADRID STOCK EXCHANGE

Since December 2, 2002, Gerdau S.A. preferred shares have been traded on the Latibex, the segment of the Madrid Stock Exchange devoted to Latin American companies traded in Euros. Following approval by the CVM and the Brazilian Central Bank, this date marked the beginning of the Depositary Receipts (DR)

Program for preferred shares issued by the company in Spain. The shares are traded in Spain under the symbol XGGB in the form of DRs, each corresponding to one preferred share. This participation in the Latibex boosted the Company's visibility in the European market and brought increased liquidity to its shares on the BOVESPA, as each unit traded in Madrid generates a corresponding operation on the BOVESPA. In 2003, a total of 297,700 Gerdau preferred shares were traded on the Madrid Stock Exchange (Latibex), representing trading volume of 3.1 million euros.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

The information required for this item was included in the Registration Statement in Form 20-F dated February 3, 1999 (Commission file number 0-29956) and in the subsequent annual reports in Form 20-F. The items listed below refer to significant changes to the By-Laws. The full document, with the following changes can be found as an exhibit to this annual report.

STOCK OPTION PLAN

The General Shareholders' meeting held on April 30, 2003, approved the change in Article 4 of the Company's By-Laws and included a new 2nd paragraph with the following text and consequent renumbering of the ensuing paragraphs:

Art. 4(0), ss. 2(0) - Within the limits of the authorized capital stock, the Board may, based on a program approved by the Shareholders' meeting, grant stock options to the directors, officers, employees or individuals that provide services to the Company or to companies under its control.

The shareholders' meeting also approved a stock option plan that constitutes a new form of compensation of strategic executives termed the "Long Term Incentive Program", with the document containing the policies of the program filed as an exhibit with this annual report. The meeting authorized the granting by the Management, effective as of January 1, 2003, of 683,936 options at an exercise price of R$ 23.88 (twenty-three reais and eighty-eight cents) per share (ex-stock dividend and ex-reverse split as described in Resolution Nos. 145 and 146/2003-AGE), of which 280,785 in the regular program with a five-year (5) mandatory vesting period and, exceptionally in the first year, 403,151 additional options with a (3) three-year mandatory vesting period. In February 2004, the Board authorized the granting of 173,556 options at an exercise price of R$ 61.00 (sixty-one reais) as part of the regular program, with a five-year (5) mandatory vesting period.

On account of the stock bonus of 1 share for each share held that was approved by the General Shareholders' meeting held on April 29, 2004, the terms of the options granted was modified to (i) 1,367,872 options at an exercise price of R$ 11.94 (eleven reais and ninety-four cents), relating to the grant of 2003, and (ii) 347,112 options at an exercise price of R$ 30.50 (thirty reais and fifty cents), relating to the grant of 2004. The April 29 meeting also changed the conditions of the "Long Term Incentive Plan" authorizing the granting to an individual elected as director or executive officer for the first time of a three-year (3) mandatory vesting period option in addition to a three-year (3) mandatory vesting period option.

TAG-ALONG RIGHT

The new Brazilian Corporate Law (Law No. 10,302, issued on October 31, 2001) introduced changes concerning the rights of minority shareholders. One of these changes is the obligation, in case of transfer of control, of the new controlling entity to make a public offer for the acquisition of remaining voting shares for an amount equivalent to at least 80% of the price paid for each voting share in the controlling block.

On April 30, 2002, the Company's Shareholders' Meeting approved a change to the Company's By-Laws (Art. 4, ss.5) regarding the rights of Preferred Shares. As part of this alteration, a 100% tag-along right for all shareholders was approved, whereby all non-controlling common and preferred shares now have the right to be included in a potential public offer for the transfer of control. In addition, the change guarantees that the amount to be paid to the non-controlling shares is the same as that paid for the common shares in the controlling block.

CORPORATE GOVERNANCE STRUCTURE

Gerdau announced its new corporate governance structure on July 8, 2002. The General Shareholders' Meeting, held on July 26, 2002, approved the changes to the Company's By-Laws that formalize the new structure (See By-Laws of Gerdau S.A. as an exhibit to this annual report). The major change in the Company's management structure was the creation of the Gerdau Executive Committee, which provides an administrative link between the Board of Directors and the Business' operations. The members of the Board of Directors, Gerdau Executive Committee and executive officers are presented in Item 6.A - Directors, Senior Management and Employees.

SUMMARY OF SPECIAL CONDITIONS RELATING TO DIRECTORS AND OFFICERS

Although the By-Laws do not specifically address this matter, the Company and its directors and officers are obliged to follow the provisions of Law No. 6.404/76, which regulates corporations in Brazil.

In general terms, Article 153 of the Corporate Law establishes that in exercising his duties, a company director or officer shall employ the care and diligence which an active and honest man normally employs in the administration of his own affairs.

The same Article 154, 2nd paragraph of the Corporate Law, states that directors and officers shall not: a) perform a act of liberality at the expense of the company; b) borrow money or property from the company or use company property, services or credits for his or her own advantage or for the advantage of any entity in which he, she or any third party has an interest without the prior approval of a General Shareholders' Meeting or the Board of Directors; c) by virtue of his/her position, receive any type of direct or indirect personal benefit without the authorization of the Company's By-Laws or a General Shareholders' Meeting.

In more specific terms, as outlined in the 1st paragraph of Article 156 of the same law, a director or an officer may only carry out transactions with the company under reasonable and fair conditions, identical to the conditions prevailing in the market, or in situations in which the company would contract with third parties, including occasional loan agreements between the company and its director or officers.

With regard to the financial compensation of directors and officers, as well as any benefits and representation allowances, Article 152 of the Brazilian Corporate Law states that such amounts will be established by the General

Shareholders' Meeting.

Article 146 of Law No. 6,404/76 establishes that the members of the Company's board of directors must be shareholders, and that they must own at least one share in the Company.

There is no By-Law or legal rule concerning any mandatory employment limit date or retirement age for directors and officers.

In addition to enforcing the pertinent legal provisions, the Company also observes the rules and corporate governance recommendations of the Sao Paulo Stock Exchange (see the BOVESPA's rules of corporate governance as an exhibit to this annual report.).

Adherence to these rules is consolidated in a contract in which the company and its directors and officers agree to enforce the relevant regulations, which establish that the company shall submit to the Sao Paulo Stock Exchange and disclose information on any contract established between the company and its controlled and associated companies, senior managers and the controlling shareholder; between the company

and the subsidiary or associated companies of its senior managers and the controlling shareholder; and between the company and any other companies that form a de facto or de jure group with the entities mentioned above, whenever one single contract, or a series of related contracts, with or without the same purpose, equals or exceeds two hundred thousand reais (R$ 200,000.00) within any one-year period, or equals or exceeds an amount equal to one percent (1%) of the company's net equity, whichever is higher. When submission or disclosure of information is required, the information must detail the scope of the contract, its term of effectiveness and value, the conditions for termination and early expiration and any influence that such contract may have on the company's management and business.

This issue is also covered in the Gerdau Ethical Guidelines, which outline and consolidate the rules guiding the behavior of Gerdau Group and its employees, as described in item 16B of this document, which is attached to this Form 20-F as an exhibit and is also available at www.gerdau.com.br

Gerdau officers must abide by the Gerdau Ethical Guidelines, both internally and when representing the Company. They must act in accordance with standards that reflect their personal and professional integrity and that are compatible with the bond they have established with the Company and society at large, they must carefully evaluate situations involving conflicts between personal interests and those of the Company, and carry out in the Company's best interest all activities involving Company resources, property, services or credits, reporting any private activities that may interfere or conflict with the Company's interests, disclosing the extent and nature of such activities, maintaining their loyalty to the Company, and refraining from using privileged information concerning business opportunities to their own benefit or to the benefit of others, regardless of whether these are to the advantage or the disadvantage of the Company

C. MATERIAL CONTRACTS

Gerdau S.A. has entered into financial agreements in order to fund and improve its debt profile. Although some of these contracts entail significant amounts, none exceeds 10% of the Company's consolidated total assets. The most significant financial agreements are described below, with the Company undertaking to provide a copy of the debt instruments described herein to the Securities and Exchange Commission upon request.

EURO COMMERCIAL PAPER

A Euro Commercial Paper program for a total amount of $ 300 million was announced by Gerdau S.A., with the first tranche of $ 100 million issued in the first half of October 2003. The program matures on October 15th, 2004 with the paper bearing a coupon of 4.0% per year.

EXPORT RECEIVABLES NOTES

On September 4, 2003, Gerdau Acominas S.A. concluded the placement of the first $ 105 million tranche of an Export Receivable Notes program. This program, which will total $ 400 million, represents an important tool for improving the Company's debt profile. This initial tranche was placed with a coupon of 7.37% per year, and final maturity in July 2010. The operation has a 2 year grace period and amortization will be carried out quarterly beginning in October 2005. The operation was awarded a "BBB-" rating by Fitch Ratings. The certificates are backed by receivables generated by future sales of steel products by Gerdau Acominas S.A.

On June 3, 2004, Gerdau Acominas S.A. placed the second $ 128 million tranche of its Export Receivables Notes program. This second tranche was placed with a final maturity of 8 years (April 2012) and a coupon of 7.321% per year. The notes have a quarterly amortization schedule starting in July 2006. The operation was concluded in parallel with a U.S. Treasury Lock derivative, yielding an effective final cost to Gerdau of 6.798% per year. At the time of pricing (May 24, 2004), this represented a yield 488 basis points below the Brazilian Sovereign Bond of an equivalent average maturity, and 292 basis points above that of the five-year U.S. Treasury Bond, which corresponds to the average duration of this tranche. The operation was granted a "BBB-" rating by Fitch, based on receivables to be generated by sales of steel products by Gerdau Acominas.

SENIOR NOTES AND SENIOR SECURED CREDIT FACILITY

On June 27, 2003, Gerdau Ameristeel refinanced most of its outstanding debt by issuing $ 405.0 million of 10 3/8% Senior Notes and entering into a $ 350.0 million Senior Secured Credit Facility with a syndicate of lenders.

The proceeds were used to repay existing debt under several lending arrangements and to pay costs associated with the refinancing.

Following the refinancing, the principal sources of liquidity are cash flow generated from operations and borrowings under the new Senior Secured Credit Facility.

Gerdau Ameristeel believes these sources will be sufficient to meet its cash flow requirements. The principal liquidity requirements are working capital, capital expenditures and debt service. Gerdau Ameristeel does not have any off-balance sheet financing arrangements or relationships with unconsolidated special purpose entities.

The following is a summary of existing credit facilities:

SENIOR SECURED CREDIT FACILITY: provides funding of up to $ 350.0 million. Gerdau Ameristeel will be able to borrow under the Senior Secured Credit Facility the lesser of (i) the committed amount, and (ii) the borrowing base (which is based upon a portion of inventory and accounts receivable held by most of the Company's operating units less certain reserves), minus outstanding loans, letter of credit obligations and other obligations owed under the Senior Secured Credit Facility. Since the borrowing base under the Senior Secured Credit Facility will be based on actual levels of inventory and accounts receivable, available borrowings under the facility will fluctuate. The borrowings under the Senior Secured Credit Facility are secured by the Company's inventory and accounts receivable. On December 31, 2003, the Company had approximately $ 135.0 million of outstanding borrowings and approximately $ 130.3 million available under the Senior Secured Credit Facility.

Loans under the Senior Secured Credit Facility bear interest at an annual rate equal to one of several options (LIBOR, federal funds rate, bankers' acceptance or prime rate) based on the facility chosen at the time of borrowing plus an applicable margin determined from time to time by excess availability.

Borrowings under the Senior Secured Credit Facility may be made in U.S. dollars or Canadian dollars, at the option of the Company.

SENIOR NOTES: On June 27, 2003, Gerdau Ameristeel issued $ 405.0 million in 10 3/8% Senior Notes, of which $ 35.0 million were sold to an indirect wholly owned subsidiary of Gerdau S.A. The notes mature on July 15, 2011 and were issued at 98% of face value. The notes are unsecured, are effectively junior to secured debt to the extent of the value of the assets securing such debt, rank equally with all existing and future unsecured unsubordinated debt, and are senior to any future senior subordinated or subordinated debt.

The notes carry a 10 3/8% annual coupon (10.75% effective rate) which is payable semi-annually on July 15 and January 15. At any time prior to July 15, 2006, Gerdau Ameristeel may redeem up to 35% of the original principal amount of the notes with the proceeds of one or more equity offerings of common shares at a redemption price of 110.75% of the principal amount of the notes, plus accrued and unpaid interest, if any, until the date of redemption.

The indenture governing the notes permits Gerdau Ameristeel and its restricted subsidiaries to incur additional indebtedness, including secured indebtedness, subject to certain limitations. On January 23, 2004, Gerdau Ameristeel completed the exchange of the Senior Notes. The exchanged notes have

substantially the same form and terms as the original notes issued on June 27, 2003. The exchanged notes were issued under a prospectus in Ontario, Canada, and the exchanged notes and subsidiary guarantees have been registered under the U.S. Securities Act of 1933, as amended, and are not subject to restrictions on transfer.

D. EXCHANGE CONTROLS

There are no restrictions on ownership or voting of the Company's paid-in capital by individuals or legal entities domiciled outside Brazil. The right to convert dividend payments and proceeds from the sale of the Company's paid-in capital into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally require, among other things, the prior registration of the relevant investment with the Central Bank.

In Brazil, a mechanism is available to foreign investors interested in trading directly on the Sao Paulo Stock Exchange. Until March 2000, this mechanism was known as Annex IV Regulations, in reference to the Annex IV of Resolution No. 1,289 of the National Monetary Council ("Annex IV Regulations"). Currently, this mechanism is regulated by Resolution No. 2,689, of January 26, 2000, of the National Monetary Council and by CVM Instruction No. 325, of January 27, 2000, as amended ("Regulation 2,689").

Regulation 2,689, which took effect on March 31, 2000, establishes new rules for foreign investments in Brazilian equities. Such rules allow foreign investors to invest in almost all types of financial asset and to engage in almost all transactions available in the Brazilian financial and capital markets, provided that some requirements are fulfilled. In accordance with Regulation 2,689, foreign investors are defined as individuals, legal entities, mutual funds and other collective investments resident, domiciled or headquartered abroad. Regulation 2,689 prohibits the offshore transfer or assignment of the title of the securities, except in the cases of (i) corporate reorganization effected abroad by a foreign investor or (ii) inheritance.

Pursuant to Regulation 2,689, foreign investors must: (i) appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment; (ii) fill in the appropriate foreign investor registration form; (iii) obtain registration as a foreign investor with the CVM; and (iv) register the foreign investment with the Central Bank.

The securities and other financial assets held by the foreign investor pursuant to Regulation 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or by the CVM or be registered in registration, clearing and custody systems authorized by the Central Bank or by the CVM. In addition, securities trading is restricted to transactions carried out on exchanges or organized over-the-counter markets licensed by the CVM.

All investments made by a foreign investor under Regulation 2,689 will be subject to electronic registration with the Central Bank.

Resolution No. 1,927 of the National Monetary Council, which is the Amended and Restated Annex V to Resolution No. 1,289 ("Annex V Regulations"), provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. Since ADRs have been approved under the Annex V Regulations by the Central Bank and the CVM, the proceeds from the sale of the ADRs by ADR holders outside Brazil are free of Brazilian foreign investment controls and holders of the ADRs will be entitled to favorable tax treatment. According to the 2,689 Regulation, foreign investments registered under Annex V Regulations may be transferred to the new investment system created by Regulation 2,689 and vice-versa, with due regard to the conditions set forth by the Central Bank and by the CVM.

A foreign investment registration has been made in the name of The Bank of New York, as Depositary for the Preferred ADRs ("Depositary"), and is maintained by Banco Itau S.A. ("Custodian") on behalf of the Depositary. Pursuant to the registration, the Custodian and the Depositary are able to convert dividends and other distributions with respect to the Preferred Shares represented by Preferred ADRs into foreign currency and remit the proceeds abroad. In the event that a holder of Preferred ADRs exchanges Preferred ADRs for Preferred Shares, such a holder will be entitled to continue to rely on the Depositary's registration of foreign

investment for only five business days after such exchange, after which time, the same holder must seek its own registration with the Central Bank. Thereafter, unless the Preferred Shares are held pursuant to the 2,689 Regulation by a foreign investor, the same holder may not be able to convert into foreign currency and remit outside Brazil the proceeds from the disposal of, or distributions with respect to, such Preferred Shares, and will generally be subject to less favorable Brazilian tax treatment than a holder of Preferred ADRs.

Restrictions on the remittance of foreign capital abroad could hinder or prevent the Custodian, as custodian for the Preferred Shares represented by Preferred ADRs or holders who have exchanged Preferred ADRs for Preferred Shares from converting dividends, distributions or the proceeds from any sale of Preferred Shares into U.S. dollars and remitting such U.S. dollars abroad. Holders of Preferred ADRs could be adversely affected by delays in, or refusal to grant any required government approval for conversions of Brazilian currency payments and remittances abroad of the Preferred Shares underlying the Preferred ADRs.

EXCHANGE RATES

There are two legal foreign exchange markets in Brazil, the Commercial Market and the Floating Market. The Commercial Market is reserved primarily for foreign trade transactions and transactions that generally require previous approval from Brazilian monetary authorities, such as the purchase and sale of registered investments by foreign individuals and related remittances of funds abroad. Purchases of foreign exchange in the Commercial Market may only be carried out through a financial institution in Brazil authorized to buy and sell currency in that market. The Commercial Rate is the commercial exchange rate for Brazilian currency into U.S. dollars, as reported by the Central Bank. The Floating Rate is the prevailing exchange rate for Brazilian currency into U.S. dollars which is applicable to transactions to which the Commercial Rate does not apply. Prior to the implementation of the "Real Plan", the Commercial Rate and the Floating Rate have at times diverged considerably. Since the introduction of the real, the two rates have not differed significantly, although there can be no assurance that there will not be significant differences between the two rates in the future.

The Company will make all cash distributions related to the Preferred Shares in Brazilian currency. Accordingly, exchange rate fluctuations may affect the U.S. dollar amounts received by the holders of Preferred ADRs on conversion by the Depositary of such distributions. Fluctuations in the exchange rate between the real and the U.S. dollar may also affect the U.S. dollar equivalent of the price in reais of the Preferred Shares on the Brazilian stock exchanges.

E. TAXATION

The following summary contains a description of the principal Brazilian and U.S. federal income tax consequences of the ownership and disposal of a Preferred Share and Preferred ADR. It does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase those securities. In particular, this summary deals only with holders that will hold Preferred Shares or Preferred ADRs as capital assets and does not address the tax treatment of a holder that may be subject to special tax rules, like a bank, an insurance company, a dealer in securities, a person that holds Preferred Shares or Preferred ADRs in a hedging transaction or as a position in a "straddle" or "conversion transaction" for tax purposes, a person that has a "functional currency" other than the U.S. dollar, a person liable for alternative minimum tax, a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) or a person that owns or is treated as owning 10% or more of the voting shares of the company. Each prospective purchaser of a Preferred Share or Preferred ADR should consult his own tax advisers as to the personal tax consequences of his investment, which may vary for investors in different tax situations.

The summary is based upon tax laws of Brazil and the United States and applicable regulations, judicial decisions and administrative pronouncements in effect on the date hereof. The same authorities may be subject to change or new interpretations, possibly with retroactive effect. Although there is no income tax treaty between Brazil and the United States at this time, the tax authorities of the two countries have held discussions that may culminate in a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. holders of Preferred Shares or Preferred ADRs. This summary is also based upon the representations of the Depositary and on the assumption that each obligation

in the Deposit Agreement relating to the Preferred ADRs and any related documents will be performed in accordance with its terms.

BRAZILIAN TAX CONSIDERATIONS

The following discussion summarizes the material Brazilian tax consequences of the ownership and disposal of Preferred Shares or Preferred ADRs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation and, in the case of a holder of Preferred Shares that has registered its investment in such securities with the Central Bank as a U.S. dollar investment (in each case, a "non-Brazilian holder"). The following discussion does not specifically address every Brazilian tax consideration applicable to any particular non-Brazilian holder, and each non-Brazilian holder should consult his or her own tax advisor concerning the Brazilian tax consequences of an investment in this kind of security.

TAXATION OF DIVIDENDS

Dividends paid with respect to income earned since January 1, 1996, including dividends paid in kind (i) to the Depositary in respect of the Preferred Shares underlying the Preferred ADRs or (ii) to a non-Brazilian holder in respect of Preferred Shares, are not subject to any withholding tax in Brazil. The current tax legislation eliminated the then existing 15% withholding tax on dividends paid to companies, resident individuals or non-residents in Brazil. Accordingly, dividends with respect to profits generated on or after January 1, 1996 are not subject to withholding tax in Brazil. Dividends related to profits generated prior to December 31, 1993 will be subject to Brazilian withholding tax of 25%. Dividends related to profits generated between January 1, 1994 and December 31, 1995 will be subject to Brazilian withholding tax of 15%.

TAXATION OF GAINS

Gains realized outside Brazil by a non-Brazilian holder on the disposal of Preferred ADRs to another non-Brazilian holder are not subject to Brazilian tax, subject to the uncertainties to which the third paragraph below refers. The withdrawal of Preferred Shares in exchange for Preferred ADRs is not subject to Brazilian tax. On receipt of the underlying Preferred Shares, a non-Brazilian holder who qualifies under Regulation 2,689 will be entitled to register the U.S. dollar value of such shares with the Central Bank as described below. The deposit of Preferred Shares in exchange for Preferred ADRs is not subject to Brazilian tax provided that the Preferred Shares are registered by the investor or its agent under Regulation 2,689. In the event of the Preferred Shares not being so registered, the deposit of Preferred Shares in exchange for Preferred ADRs may be subject to Brazilian tax at the rate of 15%.

When Preferred Shares are registered under Regulation 2,689, a non-Brazilian holder cannot transfer or assign them abroad. As a general rule, non-Brazilian holders are subject to a withholding tax imposed at a rate of 15% on gains realized on sales or exchanges of Preferred Shares that occur off the Sao Paulo Stock Exchange. In the case of non-Brazilian holders that are residents of a tax haven - i.e., a country that does not impose income tax or imposes income tax at a rate lower than 20% -, the gains are taxed at a rate of 25%. Non-Brazilian holders are subject to withholding tax at the rate of 20% on gains realized on sales in Brazil of Preferred Shares that occur on the Sao Paulo Stock Exchange unless such a sale is made under Regulation 2,689. Gains realized arising from transactions on the Sao Paulo Stock Exchange by an investor under the Regulation 2,689 are not subject to tax - except if the investor is resident in a tax haven, in which case, gains realized are taxed at a rate of 20%. There can be no assurance that the current tax treatment under Regulation 2,689 for holders of Preferred ADRs and non-Brazilian holders of Preferred Shares that are not residents of a tax haven will be maintained in the future. The `gain realized' as a result of a transaction on the Sao Paulo Stock Exchange is the difference between the amount in Brazilian currency realized on the sale or exchange and the acquisition cost measured in Brazilian currency, without any correction for inflation, of the shares sold. The `gain realized' as a result of a transaction that occurs off the Sao Paulo Stock Exchange is the positive difference between the amount realized on the sale or exchange and the acquisition cost of the Preferred Shares, with both values to be accounted for in reais. There are grounds, however, for maintaining that the `gain realized' should be calculated on the basis of the foreign currency amount registered with the Central Bank.

Pursuant to Provisional Measure No. 135, of October 30, 2003, converted into Law No. 10,833, of December 29, 2003, gains realized on the disposal of any assets in Brazil, by residents or non-residents of Brazil, inside or outside Brazil, are subject to Brazilian income tax, which is to be paid by the relevant purchaser or, in case of a non-Brazilian purchaser, by its legal representative in Brazil. The new provision seems to simply transfer the obligation for payment of the tax from the seller to the purchaser (or its legal representative). However, in practice, before the enactment of Provisional Measure No. 135/2003, gains realized on sales of Brazilian assets that occurred abroad between two non-Brazilian residents were not subject to tax by the Brazilian tax authorities. Although there are grounds for challenging this new rule with regard to gains realized by non-Brazilian residents outside Brazil, Brazilian tax authorities may, as of February 2004, claim that even transactions between non-residents involving sales of Preferred Shares and, less probably, Preferred ADRs, are taxable.

Any exercise of preemptive rights relating to Preferred Shares will not be subject to Brazilian taxation. Any gain on the sale or assignment of preemptive rights relating to Preferred Shares by the Depositary on behalf of holders of Preferred ADRs will be subject to Brazilian income taxation at the rate of 15%, unless such sale or assignment is carried out on the Sao Paulo Stock Exchange, in which case the gains are exempt from Brazilian income tax.

Any gain on the sale or assignment of preemptive rights relating to Preferred Shares, will be subject to Brazilian income tax at the same rate applicable to the sale or disposal of Preferred Shares. The maximum rate of such tax is currently 15%.

INTEREST ON STOCKHOLDERS' EQUITY

Distributions of interest on stockholders' equity with regard to the Preferred Shares as an alternative form of payment to shareholders who are either Brazilian residents or non-Brazilian residents, including holders of ADRs, are subject to Brazilian withholding tax at the rate of 15%. In the case of non-Brazilian residents that are residents of a tax haven, the income tax rate is 25%. Currently, such payments are tax deductible by the company in determining social welfare contributions and income tax. (See item 8.A. - Interest on Stockholders' Equity).

OTHER BRAZILIAN TAXES

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposal of Preferred Shares or Preferred ADRs by a non-Brazilian holder except for gift and inheritance taxes which are levied by some states of Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil or domiciled within the state to individuals or entities resident or domiciled within such state in Brazil. There are no Brazilian stamp, issue, registration or similar taxes or duties payable by holders of Preferred Shares or Preferred ADRs. A financial transaction tax ("IOF tax") may be imposed on a variety of transactions, including the conversion of Brazilian currency into foreign currency (e.g. for purposes of paying dividends and interest). The IOF tax rate on such conversions is currently 0%, but the Minister of Finance has the legal power to increase the rate to a maximum of 25%. Any such increase will be applicable only on a prospective basis. IOF may also be levied on transactions involving bonds or securities ("IOF/Titulos") even if the transactions are effected on Brazilian stock, futures or commodities exchanges. The rate of the IOF/Titulos with respect to Preferred Shares and ADRs is currently 0%. The Minister of Finance nevertheless has the legal power to increase the rate to a maximum of 1.5% of the amount of the taxed transaction per day of the investor's holding period, but only to the extent of the gain realized on the transaction and only on a prospective basis. In addition to the IOF tax, a temporary tax applies to all fund transfers in connection with financial transactions in Brazil ("CPMF tax"). Pursuant to Law 9,311, of October 24, 1996, and Constitutional Amendment 42, of December 19, 2003, the CPMF tax will be levied at a rate of 0.38% until December 31, 2007. The CPMF tax was initially set to expire on February 1998. Its collection has nevertheless been extended for additional periods throughout the past years. Accordingly, the Brazilian Congress is discussing the possibility of converting this tax into a permanent tax. The responsibility for the collection of the CPMF tax is borne by the financial institution that carries out the relevant financial transaction. Under Constitutional Amendment 37 of June 12, 2002, when the non-Brazilian holder remits

funds exclusively in connection with the purchase, sale or assignment of Preferred Shares, the CPMF tax will not be levied.

REGISTERED CAPITAL

The amount of an investment in Preferred Shares held by a non-Brazilian holder registered with the CVM under Regulation 2,689, or in ADRs held by the Depositary representing such holder, as the case may be, is eligible for registration with the Central Bank. Such registration (the amount so registered is referred to as "Registered Capital") allows the remittance abroad of foreign currency, converted at the Commercial Market rate, acquired with the proceeds of distributions on, and amounts realized with respect to the disposal of the same Preferred Shares. The Registered Capital for Preferred Shares purchased in the form of a Preferred ADR, or purchased in Brazil and deposited with the Depositary in exchange for a Preferred ADR, will be equal to the price (in U.S. dollars) paid by the purchaser. The Registered Capital for Preferred Shares that are withdrawn upon surrender of Preferred ADRs, will be the U.S. dollar equivalent of (i) the average price of the Preferred Shares on the Sao Paulo Stock Exchange on the day of withdrawal, or (ii) if no Preferred Shares were sold on such day, the average price of Preferred Shares that were sold in the fifteen trading sessions immediately preceding the same withdrawal. The U.S. dollar value of the Preferred Shares is determined on the basis of the average Commercial Market rates quoted by the Central Bank on the same date (or, if the average price of Preferred Shares is determined under clause (ii) of the preceding sentence, the average of such average quoted rates on the same fifteen dates used to determine the average price of the Preferred Shares). A non-Brazilian holder of Preferred Shares may experience delays in effecting the registration of Registered Capital, which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder.

US FEDERAL INCOME TAX CONSIDERATIONS

As used below, a "U.S. holder" is a beneficial owner of a Preferred Share or Preferred ADR that is, for U.S. federal income tax purposes, (i) a citizen or resident alien individual of the United States, (ii) a corporation (or an entity treated as a corporation) organized under the laws of the United States, any State thereof or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust, and one or more United States persons have the authority to control all substantial decisions of the trust, or (2) the trust was in existence on August 20, 1996 and properly elected to continue to be treated as a United States person. For purposes of this discussion, a "non-US holder" is the beneficial owner of a Preferred Share or Preferred ADR that is (i) a nonresident alien individual, (ii) a corporation (or an entity treated as a corporation) created or organized in or under the law of a country other than the United States or a political subdivision thereof or (c) an estate or trust that is not a U.S. Holder.

In general, for U.S. federal income tax purposes, the owner of a Preferred ADR will be treated as the owner of the Preferred Share represented by the Preferred ADR, and a deposit or withdrawal of a Preferred Share in exchange for a Preferred ADR will not be a taxable transaction for U.S. federal income tax purposes.

TAXATION OF DIVIDENDS

U.S. holders: In general, subject to the passive foreign investment company rules discussed below, a distribution relating to a Preferred Share or Preferred ADR (including for this purpose a distribution of interest on shareholders' equity) will constitute a dividend for U.S. federal income tax purposes to the extent that it is made from the company's current or accumulated earnings and profits as determined under U.S. federal income tax principles. If a distribution exceeds the company's current and accumulated earnings and profits, it will be treated as a non-taxable reduction of basis to the extent of the U.S. holder's tax basis in the Preferred Share or Preferred ADR on which it is paid, and to the extent it exceeds that basis it will be treated as a capital gain. For purposes of this discussion, the term "dividend" means a distribution that constitutes a dividend for U.S. federal income tax purposes.

The gross amount of any dividend on a Preferred Share or Preferred ADR (which will include the amount of any Brazilian taxes withheld) will be subject to U.S. federal income tax as foreign source dividend

income. The amount of a dividend paid in Brazilian currency will be its value in U.S. dollars based on the prevailing spot market exchange rate in effect on the day that the U.S. holder receives the dividend or, in the case of a dividend received in respect of a Preferred ADR, on the date the Depositary receives it, whether or not the dividend is converted into U.S. dollars. Any gain or loss realized on a conversion or other disposal of the Brazilian currency will generally be treated as U.S. source ordinary income or loss. Any Brazilian withholding tax will be treated as a foreign income tax eligible for credit against a U.S. holder's U.S. federal income tax liability, subject to generally applicable limitations under U.S. federal income tax law. For purposes of computing those limitations separately for specific categories of income, a dividend will generally constitute foreign source "passive income" or, in the case of certain holders, "financial services income". A foreign tax credit may not be allowed for withholding tax imposed in respect of certain short-term or hedged positions in a Preferred Share or Preferred ADR. Alternatively, any Brazilian withholding tax may be taken as a deduction against taxable income. A dividend will not be eligible for deduction of corporate dividends received.

Subject to certain exceptions for short-term and hedged positions, any dividend that an individual receives on a Preferred ADR before January 1, 2009 will be subject to a maximum tax rate of 15% if the dividend is a "qualified dividend." A dividend on a Preferred ADR will be a qualified dividend if (i) the Preferred ADRs are readily tradable on an established securities market in the United States, and (ii) the company was not, in the year prior to the year the dividend was paid, and is not, in the year the dividend is paid, a passive foreign investment company ("PFIC"), a foreign personal holding company ("FPHC") or a foreign investment company ("FIC"). The Preferred ADRs are listed on the New York Stock Exchange and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on existing guidance, it is not entirely clear whether a dividend on a Preferred Share will be treated as a qualified dividend, because the Preferred Shares themselves are not listed on a U.S. exchange. Based on the company's audited financial statements and relevant market and shareholder data, the Company does not believe that it was a PFIC, FPHC or FIC for U.S. federal income tax purposes for its 2003 taxable year. In addition, based on the Company's audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, the Company does not anticipate becoming a PFIC, FPHC or FIC for its 2004 taxable year. The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of stock of non-US corporations, and intermediaries though whom such stock is held, will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because those procedures have not yet been issued, it is not clear whether the Company will be able to comply with them. Special limitations on foreign tax credits apply to dividends subject to the reduced rate of tax. Holders of Preferred ADRs and Preferred Shares should consult their own tax advisers regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

Non-U.S. holders: A dividend paid to a non-U.S. holder on a Preferred Share or Preferred ADR will not be subject to U.S. federal income tax unless the dividend is effectively connected with the conduct of trade or business by the non-U.S. holder within the United States (and is attributable to a permanent establishment or fixed base the non-U.S. holder maintains in the United States if an applicable income tax treaty so requires as a condition for the non-U.S. holder to be subject to U.S. taxation on a net income basis on income from the Preferred Share or Preferred ADR). A non-U.S. holder generally will be subject to tax on an effectively connected dividend in the same manner as a U.S. Holder. A corporate non-U.S. holder may also be subject under certain circumstances to an additional "branch profits tax," the rate of which may be reduced pursuant to an applicable income tax treaty.

TAXATION OF CAPITAL GAINS

U.S. holders. Subject to the passive foreign investment company rules discussed below, on a sale or other taxable disposal of a Preferred Share or Preferred ADR, a U.S. holder will recognize a capital gain or loss for an amount equal to the difference between the U.S. holder's adjusted basis in the Preferred Share or Preferred ADR and the amount realized on the sale or other disposal, each determined in U.S. dollars. Any gain a U.S. holder recognizes will generally be U.S. source income for U.S. foreign tax credit purposes, and, subject to certain exceptions, any loss will generally be a U.S. source loss. If a Brazilian tax is withheld on a sale or other disposal of a Preferred Share, the amount realized will include the gross amount of the proceeds

of that sale or disposal before deduction of the Brazilian tax. The generally applicable limitations under U.S. federal income tax law on crediting foreign income taxes may preclude a U.S. holder from obtaining a foreign tax credit for any Brazilian tax withheld on a sale of a Preferred Share.

In general, any adjusted net capital gain of an individual in a taxable year ending before January 1, 2009 is subject to a maximum tax rate of 15%. In subsequent years, the maximum tax rate on the net capital gain of an individual will be 20%. The deductibility of capital losses is subject to limitations.

Non-U.S. holders. A non-U.S. holder will not be subject to U.S. federal income tax on a gain recognized on a sale or other disposal of a Preferred Share or Preferred ADR unless (i) the gain is effectively connected with the conduct of trade or business by the non-U.S. holder within the United States (and is attributable to a permanent establishment or fixed base that the non-U.S. holder maintains in the United States if an applicable income tax treaty so requires as a condition for the non-U.S. holder to be subject to U.S. taxation on a net income basis on income from the Preferred Share or Preferred ADR), or (ii) in the case of a non-U.S. holder who is an individual, the holder is present in the United States for 183 or more days in the taxable year of the sale or other disposal and certain other conditions apply. Any effectively connected gain of a corporate non-U.S. holder may also be subject under certain circumstances to an additional "branch profits tax", the rate of which may be reduced pursuant to an applicable income tax treaty.

PASSIVE FOREIGN INVESTMENT COMPANY RULES

A special set of U.S. federal income tax rules applies to a foreign corporation that is a PFIC for U.S. federal income tax purposes. As noted above, based on the company's audited financial statements and relevant market and shareholder data, the Company believes it was not a PFIC for U.S. federal income tax purposes for its 2003 taxable year. In addition, based on the Company's audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, the Company does not anticipate becoming a PFIC for its 2004 taxable year.

In general, a foreign corporation is a PFIC if at least 75% of its gross income for the taxable year is passive income or if at least 50% of its assets for the taxable year produce passive income or are held for the production of passive income. In general, passive income for this purpose means, with certain designated exceptions, dividends, interest, rents, royalties (other than certain rents and royalties derived in the active conduct of trade or business), annuities, net gains from disposals of certain assets, net foreign currency gains, income equivalent to interest, income from notional principal contracts and payments in lieu of dividends. The determination of whether a foreign corporation is a PFIC is a factual determination made annually and is therefore subject to change. Subject to certain exceptions, once stock in a foreign corporation is stock in a PFIC in the hands of a particular shareholder that is a United States person, it remains stock in a PFIC in the hands of that shareholder.

If the company is treated as a PFIC, contrary to the tax consequences described in "U.S. Federal Income Tax Considerations - Taxation of Dividends" and "U.S. Federal Income Tax Considerations - Taxation of Capital Gains" above, a U.S. holder that does not make a choice described in the next two paragraphs would be subject to special rules with respect to (i) any gain realized on a sale or other disposal of a Preferred Share or Preferred ADR and (ii) any "excess distribution" by the company to the U.S. holder (generally, any distribution during a taxable year in which distributions to the U.S. holder on the Preferred Share or Preferred ADR exceed 125% of the average annual taxable distributions that the U.S. holder received on the Preferred Share or Preferred ADR during the preceding three taxable years or, if the relevant holding period of the U.S. holder is shorter, the same holding period for the Preferred Share or Preferred ADR). Under those rules, (i) the gain or excess distribution would be allocated pro-rata over the U.S. holder's holding period for the Preferred Share or Preferred ADR, (ii) the amount allocated to the taxable year in which the gain or excess distribution is realized would be taxable as ordinary income and (iii) the amount allocated to each prior year, with certain exceptions, would be subject to tax at the highest tax rate in effect for that year, and the interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such year. A U.S. holder who owns a Preferred Share or Preferred ADR during any year that the company is a PFIC must file Internal Revenue Service Form 8621.

The special PFIC rules described above will not apply to a U.S. holder if the U.S. holder makes a timely decision to treat the company as a "qualified electing fund" ("QEF") in the first taxable year in which the U.S. holder owns a Preferred Share or Preferred ADR and if the company complies with certain reporting requirements. Instead and in general, a shareholder of a QEF is currently taxed on a pro-rata share of the company's ordinary earnings and net capital gain treated as ordinary income and long-term capital gain, respectively. Neither this ordinary income nor any actual dividend from the company would qualify for the 15% maximum tax rate on dividends described above if the company is a PFIC in the taxable year that the ordinary income is realized or the dividend is paid or in the preceding taxable year. The Company has not yet determined whether, if it were a PFIC, it would make the computations necessary to supply U.S. holders with the information needed to report income and gain pursuant to a QEF election. It is, therefore, possible that U.S. holders would not be able to make or retain that election in any year that the company is a PFIC. Although a QEF election generally cannot be revoked, if a U.S. holder makes a timely QEF election for the first taxable year that it owns a Preferred Share or Preferred ADR and the company is a PFIC (or is treated as having done so pursuant to any of certain elections), the QEF election will not apply during any later taxable year in which the company fails to satisfy the qualifying criteria for a PFIC. If a QEF election is not made in that first taxable year, an election in a later year will generally require the payment of tax and interest, and in certain circumstances the election may cease to be available at a later date.

Instead of a QEF election, a U.S. holder of stock in a PFIC that is considered marketable stock could elect to mark the stock to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the stock and the U.S. holder's adjusted basis in the stock. Losses would be allowed only to the extent of the net mark-to-market gain previously included in income by the U.S. holder under the election for prior taxable years. A U.S. holder's adjusted basis in the ordinary Shares of ADRs will be adjusted to reflect the amounts included or deducted with respect to the mark-to-market election. If the mark-to-market election were made, the rules stated in the last paragraph but one would not apply for periods covered by the election. A mark-to-market election will not apply during any later taxable year in which the company does not satisfy the tests to be a PFIC. In general, the ADRs will be considered to be marketable stock if the ADRs trade, other than in de minimis quantities, on at least 15 days during each calendar quarter. There is no guarantee, however, that the Common Shares will be considered to be "marketable stock" for these purposes unless and until the Internal Revenue Service designates the Bovespa as qualified to implement the PFIC rules. There can be no assurance that the Internal Revenue Service will designate it as such.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Dividends paid on, and proceeds from the sale or other disposal of a Preferred Share or Preferred ADR to a U.S. holder may generally be subject to information reporting requirements and may be subject to backup withholding at the rate of 28% unless the U.S. holder provides an accurate taxpayer identification number or otherwise demonstrates that they are exempt. The amount of any backup withholding collected from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that certain required information is submitted to the Internal Revenue Service.

A non-U.S. holder will generally be exempt from these information reporting requirements and backup withholding tax but may be required to comply with certain certification and identification procedures in order to establish its eligibility for exemption.

F. DIVIDENDS AND PAYING AGENTS Not applicable.

G. STATEMENT BY EXPERTS Not applicable.

H. DOCUMENTS ON DISPLAY

The Company makes its filings in electronic form under the EDGAR filing system of the U.S. Securities and Exchange Commission. Its filings are available through the EDGAR system at www.sec.gov. In addition, the Company's filings are available to the public over the internet at Gerdau's website at www.gerdau.com.br. Such filings and other information on its website are not incorporated by reference in this Annual Report. Interested parties may request a copy of this filing, and any other report, at no cost, by writing to the Company at the following address: Av. Farrapos, 1811 - Porto Alegre-RS - 90.220-005 - BRASIL or contacting it by telephone on 00-55-51-33232703 or by E-mail at inform@gerdau.com.br. The Company has, in compliance with New York Stock Exchange Corporate Governance Rule 303A.11, provided on its website a summary of how its corporate governance practices differ from those followed by U.S. domestic companies under the New York Stock Exchange listing standards.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISKS

Gerdau is exposed to various market risks, mainly variations in exchange rates and interest rate volatility. Market risk is the potential loss arising from adverse changes in market rate and prices. Gerdau enters into derivatives and other financial instruments to manage and reduce the impact of fluctuations of exchange rates and interest rates. Gerdau has established policies and procedures for risk assessment and the approval, reporting and monitoring of its derivative financial activities.

Gerdau's short-term investments, which consist mainly of fixed-term private obligations and government securities, are not subject to equity risk.

FOREIGN EXCHANGE RISK

Gerdau is exposed to fluctuations in exchange rate movements since substantially all of its revenues generated outside its North American subsidiaries are in reais, while a significant portion of its debt is denominated in or indexed to U.S. dollars. Gerdau enters into derivative financial instruments to manage and reduce the impact of changes in exchange rates relating to its dollar-denominated or indexed debt. As of December 31, 2003, its derivative portfolio consisted essentially of foreign currency swaps. The table below provides information about Gerdau's significant exchange rate risk sensitive instruments as of December 31, 2003 as well as the related financial instruments acquired to mitigate such potential risk.

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The Company's estimate of the fair value of its financial instruments, including long-term debt, approximates to their recognized book value.

FINANCIAL INSTRUMENTS INDEXED TO THE U.S. DOLLAR EXCLUDING NORTH AMERICA SUBSIDIARIES

	M				
	2004	2005	2006	2007	2008 AFT

BRAZILIAN SUBSIDIARIES						
DEBT ASSOCIATED WITH CURRENCY OPERATIONS IN BRAZILIAN REAIS						
Eurobonds						
Outstanding amount	32,074	-	-	-	-	
Average interest rate	FX+11.1%					
Import financing						
Outstanding amount	140,594	20,261	11,531	9,531	6,089	
Average interest rate	FX+5.6%	FX+8.1%	FX+10.5%	FX+10.5%	FX+10.5%	F
Export financing						
Outstanding amount	207,340	44,389	74,602	19,770	21,268	
Average interest rate	FX+8.6%	FX+10.2%	FX+7.4%	FX+7.4%	FX+7.4%	
Working capital and other financing						
Outstanding amount	56,310	64,997	3,300	-	-	
Average interest rate	FX+9.7%	FX+9.7%	FX+9.5%			
Acquisition of interest in Margusa						
Outstanding amount	15,800	-	-	-	-	
Average interest rate	FX+8.0%					
CROSS-CURRENCY INTEREST RATE SWAP CONTRACTS						
Notional amount	211,146	158,718	89,820	-	-	
Average interest received in US$	FX+4.8%	FX+7.3%	FX+8.9%			
Average interest paid in R$ (% of CDI)	87.6%	100.0%	102.9%			
TOTAL BRAZILIAN DEBT INDEXED TO U.S. DOLLARS AND NET OF CROSS-CURRENCY SWAPS	240,972	(29,071)	(387)	29,301	27,357	

As of December 31, 2003, of U.S. dollar-denominated debt associated with Brazilian operations that totaled $ 774.5 million, approximately $ 459.7 million were swapped into securities denominated in reais as if these loans had originally been denominated in reais with coupons linked to the interbank interest rate (CDI).

INTEREST RATE RISK

Part of Gerdau Ameristeel's borrowings, primarily those associated with its Senior Secured Credit Facility, were negotiated at variable interest rates and expose the Company to interest rate risk. If interest rates increase, debt service obligations on its floating rate debt would increase, leading to a decrease in net income.

From time to time, the Company has entered into interest rate swaps in order to reduce interest rate risk and interest expense. The Company makes only limited use of derivative instruments for non-speculative purposes, in order to manage well-defined interest rate risks arising during the normal course of its business.

In order to reduce its exposure to changes in the fair value of its Senior Notes (See Item 10C - Material Contracts), Gerdau Ameristeel entered into interest rate swaps subsequent to the June 2003 refinancing program (See Item 5B - Liquidity and Capital Resources). These agreements have a notional value of $ 200 million, expiring on July 15, 2011. The Company receives a fixed interest rate and pays a variable interest rate based on LIBOR. The aggregate mark-to-market (fair value) of the interest rate agreements, which represents the amount that would have been received if the agreements were terminated at December 31, 2003, was approximately $ 89 million.

For information regarding the refinancing process of Gerdau Ameristeel, see Item 10.C - Material Contracts.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELIQUENCIES

Not applicable.

PART II

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

The Company has carried out an evaluation under the supervision of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance that they will achieve their control objectives. Based on and as of the date of the Company's evaluation, its Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective in providing reasonable assurance that the information which the Company was obliged to disclose in the reports that it filed and submitted under the terms of the Exchange Act would be recorded, processed, summarized and reported as and when required.

Gerdau S.A. has created a Disclosure Committee composed of the Investor

Relations Director, Osvaldo Schirmer, the Accounting Director, Geraldo Toffanello and the Legal Director of the Company, Expedito Luz. This Committee oversees and reviews all materials for which there is a legal disclosure requirement, together with all data required to support the documents mentioned above. This committee meets at regular intervals in order to review all data.

In addition, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Please see Exhibit 12.01 and 12.02 for the certifications required by this Item.

ITEM 16.

A. AUDIT COMMITTEE FINANCIAL EXPERT

The Company has not yet decided whether it will install an Audit Committee or maintain in use its current Board of Auditors (Conselho Fiscal). Under the rules of the SEC, foreign private issuers must comply with the audit committee requirements by July 2005.

B. CODE OF ETHICS

Gerdau S.A. has adopted a Code of Ethics, termed "Gerdau Ethical Guidelines", which consolidates the ethical principles and values underlying the Company's activities.

"Gerdau Ethical Guidelines" is a document applicable to all Group employees in South America, independent of their position (excepting employees of Gerdau Acominas' Ouro Branco mill and its administrative office, in Belo Horizonte, as described below). Gerdau's principal executive officer, principal financial officer, principal accounting officer and other persons performing similar functions are thus bound by the provisions of the document.

The Gerdau Ethical Guidelines document may be accessed through its internet website (www.gerdau.com.br), and is attached to this form as an exhibit.

"Gerdau Ethical Guidelines" has not yet been introduced to employees of Gerdau Acominas' Ouro Branco mill and its administrative office, in Belo Horizonte, or to employees of Gerdau Ameristeel. The Company does not, therefore, considerer these employees to be bound by the document.

Its subsidiary, Gerdau Ameristeel, has its own Code of Ethics that is perfectly compatible with Gerdau's guidelines, with the former document provided upon request by e-mail to its address: inform@gerdau.com.br. Both documents meet the definition of code of ethics, preventing wrongdoing related to business conduct, conflicts of interest, disclosure in reports and other documents, as well as compliance with legislation.

The Company is in the process of reviewing its Ethical Guidelines, and will evaluate the extension of the document to employees not currently covered, as well as its consolidation with Gerdau Ameristeel's Code.

The Company has also adhered to the BOVESPA Level 1 Corporate Governance Guidelines and has agreed to comply with all corresponding practices. These include improving quarterly disclosures, promoting compliance with disclosure rules, disclosing the existence and contents of shareholders' agreements and stock options plans as well as an annual agenda for corporate events.

C. PRINCIPAL AUDITING FEES AND SERVICES

The following table provides information on fees billed to Gerdau for professional services rendered by the independent registered public accounting firm responsible for auditing the financial statements included in this Annual Report (in U.S. dollars):

	2003	2002
Auditing fees	1,471,197	
Audit-related fees	100,000	
Tax fees	277,000	
All other fees	-	
Total	1,849,197	

Auditing fees for 2002 and 2003 related to professional services rendered in the auditing of Gerdau's consolidated financial statements, quarterly reviews of Gerdau's consolidated financial statements, statutory audits and interim reviews of certain of the Company's subsidiaries as required by the appropriate legislation, as well as of comfort letters for the issuance of securities, including private offerings.

Audit-related fees for 2002 and 2003 related to audits of employee benefit plans of several of the Company's subsidiaries, as well as consulting on accounting standards and transactions.

Tax fees for 2002 and 2003 related to services provided to subsidiaries in North America relating to tax compliance, assistance with tax audits and inquiries, and tax planning services.

D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Gerdau S.A. does not have an Audit Committee. It has, however, elected a Board of Auditors (Conselho Fiscal) in accordance with Brazilian Corporate Law No. 6,404/76, since April 2000. The role of this board is to monitor and verify the actions of directors and their legal duties, providing opinions and official statements on the annual management report and the proposals of members of the Board of Directors, denouncing errors or fraud, calling meetings whenever necessary and analyzing financial statements.

The Board of Auditors has three members who are elected at the Ordinary Shareholders' Meeting for one-year terms and who may be reelected. One of the current members was elected by minority preferred shareholders. As required by Brazilian law, members of the Board of Auditors must have held office for at least 3 years as business administrators or as members of boards of auditors. The Board of Auditors, at the request of any of its members, may ask independent auditors to provide explanations or information and to investigate specific facts.

On April 10, 2003, the SEC published its final resolution on how foreign companies with securities listed on U.S. stock exchanges should comply with the provisions of the Sarbanes-Oxley Act, in so far as it relates to audit committees. According to this Law, all companies must comply with a series of more stringent requirements.

The Company is currently evaluating the changes necessary for its current Board of Auditors to comply with the more stringent requirements of the Act. Under the rules of the SEC, foreign private issuers must comply with the audit committee requirements by July 2005.

E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On November 17, 2003, the Board of Directors of Gerdau S.A. met in accordance with statutory requirements and the terms of Instruction No. 10/80 of the Brazilian Securities Commission (CVM), deciding to authorize the acquisition of shares issued by Gerdau S.A. and to maintain the same as treasury stock for later disposal or cancellation.

These shares were acquired using cash funds backed by existing profit reserves up to the limit of 1,380,000 preferred shares, representing 2% of outstanding stock, which amounted to 69,311,014 shares on October 31, 2003.

This authorization remained in force for 90 days from that date. The operation was carried out on stock exchanges, at market prices, with the intermediation of the following brokers:

Bradesco S.A. Corretora de Titulos e Valores Mobiliarios
Itau Corretora de Valores S.A.
Merrill Lynch S.A. Corretora de Titulos Valores Mobiliarios
Unibanco Corretora de Valores Mobiliarios S.A.

PURCHASES BY THE ISSUER OF EQUITY SECURITIES

	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE (1) (IN r$)	TOTAL NUMBER OF OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PROGRAMS	MAX SH S PU
NOVEMBER (11/17/2003 - 11/30/2004)	56,700	44.82	4.1%	
DECEMBER (12/01/2003 - 12/31/2003)	288,300	50.31	25.0%	
JANUARY (01/01/2003 - 01/31/2003)	270,300	62.56	44.6%	

FEBRUARY (02/01/2003 - 02/14/2003)	171,300	58.62	57.0%
TOTAL	786,600	55.93	57.0%

(1) Price paid divided by number of shares. Does not include broker fees.

PART III

ITEM 17. FINANCIAL STATEMENTS

The Company has responded to Item 18 in lieu of responding to this item.

ITEM 18. FINANCIAL STATEMENTS

Reference is made to Item 19 for a list of all financial statements filed as part of this Annual Report.

ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS

(A) FINANCIAL STATEMENTS

Report of independent registered public accounting firm

Report of independent public accountants

Consolidated balance sheets as of December 31, 2003 and 2002

Consolidated statements of income for the years ended December 31, 2003, 2002 and 2001

Consolidated statements of comprehensive income for the years ended December 31, 2003, 2002 and 2

Consolidated statement of changes in shareholders' equity for the years ended December 31, 2003,

Consolidated statement of cash flows for the years ended December 31, 2003, 2002 and 2001

Notes to consolidated financial statements

(B) LIST OF EXHIBITS

1.01 By-Laws of Gerdau S.A.

1.02 Corporate Governance Level 1 - Bovespa

4.01 The total amount of long-term debt of the Company authorized under any instrument must not exceed 10% of the total assets of the Company and its subsidiaries, on a consolidated basis. The Company undertakes to furnish to the SEC all other instruments relating to its own long-term debt and that of its subsidiaries, whenever requested to do so by the SEC.

4.02	Policies of the Stock Option Plan
11.01	Code of Ethics – Gerdau Ethical Guidelines
12.01	Certification of the Chief Executive Officer under Item 15.
12.02	Certification of the Chief Financial Officer under Item 15.
13.01	Certification pursuant to 18 U.S.C. Section 1350.
13.02	Certification pursuant to 18 U.S.C. Section 1350

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

GERDAU S.A.

By: /s/ Jorge Gerdau Johannpeter

Name: Jorge Gerdau Johannpeter
Title: Chief Executive Officer

By: /s/ Osvaldo Burgos Schirmer

Name: Osvaldo Burgos Schirmer
Title: Chief Financial Officer

Dated: June 30, 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Shareholders of
Gerdau S.A.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of comprehensive income (loss), of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of Gerdau S.A. and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion. The financial statements of the Company for the year ended December 31, 2001, prior to the revisions described in Note 11 "Goodwill" and in Note 22 "Segment information" and the retroactive restatement of the information on earnings per share described in Note 18 "Earnings per Share", were audited by other accountants who have ceased operations. Those accountants expressed an unqualified opinion on those financial statements in their report dated January 28, 2002.

As disclosed in Note 11 "Goodwill", the Company changed the manner in which it accounts for goodwill and other intangible assets upon adoption on January 1, 2002 of the accounting guidance of Statement of Financial Accounting Standards No. 142 ("SFAS No. 142") "Goodwill and Intangible Assets". As discussed above, the financial statements of the Company for the year ended December 31, 2001 were audited by other accountants who have ceased operations. As described in the "Earnings Per Share" note and in the "Segment Information" note, these financial statements have been revised to retroactively reflect the effect in earnings per share of two stock bonuses and a reverse stock split and the change in the composition of the Company's reportable segments, respectively. As described in the "Goodwill" note, these financial statements have also been revised to include the transitional disclosures required by SFAS No. 142. We audited the adjustments described in the "Earnings Per Share" and the "Segment Information" notes that were applied to restate the 2001 financial statements. We also audited the adjustments in the transitional disclosures in the "Goodwill" note. In our opinion, all such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 financial statements of the Company other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

PricewaterhouseCoopers Auditores Independentes

Porto Alegre, Brazil

February 20, 2004, except for Note 18 and Note 26 which are dated as of April 29, 2004

The following report is a copy of a report previously issued by Arthur Andersen S/C, Porto Alegre, Brazil and has not been reissued by Arthur Andersen S/C. As discussed in the Segment Information note, subsequent to 2001 changes were introduced to the Company's operational structure which modified its reportable segments under Statement of Financial Standards ("SFAS") No. 131 "Disclosures About Segments of an Enterprise and Related Information" and the Company restated comparative information for the year ended December 31, 2001. As discussed in the Earnings Per Share Note in April 2004 the Company approved a stock bonus and in April 2003 the Company approved both a stock bonus and a reverse split and, as a result, the Company has adjusted retroactively earnings per share for the year ended December 31, 2001. Additionally, in 2002, as discussed in the Goodwill note, the Company has presented the transitional disclosures for 2001 required by SFAS No. 142. The Arthur Andersen S/C report does not extend to these adjustments to the 2001 consolidated financial statements. The adjustments to the 2001 consolidated financial statements were reported on by PricewaterhouseCoopers Auditores Independentes, Porto Alegre, Brazil as stated in their report appearing herein.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of Gerdau S.A.:

We have audited the accompanying consolidated balance sheets of Gerdau S.A. and its subsidiaries, translated into U.S. dollars, as of December 31, 2001 and 2000, and the related translated consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the translated financial statements referred to above present fairly, in all material respects, the financial position of Gerdau S.A. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Arthur Andersen S/C
Porto Alegre, Brazil

January 28, 2002 except with respect to the matters discussed in Note 24, as to which the date is March 28, 2002

GERDAU S.A.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2003 and 2002
(in thousands of U.S. Dollars, except number of shares)

ASSETS

	NOTE	2003
Current assets		
Cash and cash equivalents		92,
Restricted cash		1,
Short-term investments	5	236,
Trade accounts receivable, net	6	465,
Inventories	7	797,

Unrealized gains on derivatives	20	9,
Deferred income taxes, net	17	49,
Tax credits	8	37,
Prepaid expenses		21,
Other		46,
Total current assets		
Non-current assets		
Property, plant and equipment, net	10	2,304,
Deferred income taxes	17	231,
Judicial deposits	15.1	66,
Unrealized gains on derivatives	20	
Equity investments		153,
Investments at cost		23,
Goodwill, net	11	119,
Prepaid pension cost	12	35,
Other		77,
Total assets		4,770,

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LIABILITIES

	NOTE	2003
Current liabilities		
Short-term debt	13	479
Current portion of long-term debt	14	318
Trade accounts payable		372
Income taxes payable		27
Unrealized losses on derivatives	20	29
Deferred income taxes	17	7
Payroll and related liabilities		54
Dividends (interest on equity) payable		53
Taxes payable, other than income taxes		26
Other		89
Total current liabilities		1,459
Non-current liabilities		
Long-term debt, less current portion	14	1,132
Debentures	14	155
Deferred income taxes	17	72
Accrued pension and other post-retirement benefits obligation	12	108
Provision for contingencies	15	102
Unrealized losses on derivatives	20	11
Other		61

Total non-current liabilities		1,643
Total liabilities		3,102
COMMITMENTS AND CONTINGENCIES	15	
Minority interest		264
SHAREHOLDERS' EQUITY	16	
Preferred shares - no par value 193,771,574 shares issued at December 31, 2003 and 2002, after giving retroactive effect to the stock bonus and stock split approved on April 30, 2003 and the stock bonus approved on April 29, 2004 (Note 16.1 and Note 26(b))		653
Common shares - no par value 102,936,448 shares issued at December 31,2003 and 2002, after giving retroactive effect to the stock bonus and stock split approved on April 30, 2003 and the stock bonus approved on April 29, 2004 (Note 16.1 and Note 26(b))		329
Additional paid-in capital		3
Treasury stock - 690,000 preferred shares at December 31, 2003 after giving retroactive effect to the stock bonus approved on April 29, 2004 (Note 26(b))		(5,
Legal reserve		63
Retained earnings		1,161
Cumulative other comprehensive loss		
- Foreign currency translation adjustment		(790,
- Additional minimum pension liability		(11,
- Unrealized loss on cash flow hedge		
Total shareholders' equity		1,403
Total liabilities and shareholders' equity		4,770

The accompanying notes are an integral part of these consolidated financial statements.

GERDAU S.A.
CONSOLIDATED STATEMENTS OF INCOME
for the years ended December 31, 2003, 2002 and 2001
(in thousands of U.S. Dollars, except number of shares and per share amounts)

	NOTE	2003	2002

Sales		5,033,472	3,
Less: Federal and state excise taxes		(414,198)	(3
Less: Discounts		(88,305)	(
Net sales		4,530,969	3,
Cost of sales		(3,445,564)	(2,3
Gross profit		1,085,405	
Sales and marketing expenses		(146,388)	(1
General and administrative expenses		(241,854)	(2
Operating income		697,163	
Financial expenses		(416,953)	(2
Foreign exchange gains (losses), net		162,190	(1
Financial income		62,036	
Equity in earnings (losses) of unconsolidated companies, net		22,062	(
Other non-operating expense, net		(824)	(
Income before income taxes and minority interest		525,674	
Provision for income taxes	17		
Current		(87,812)	(
Deferred		121,925	
		34,113	
Income before minority interest		559,787	
Minority interest		(49,623)	
Net income		510,164	
PER SHARE DATA (IN US$)	18		
Basic earnings per share			
Preferred		1.72	
Common		1.72	
Diluted earnings per share			
Preferred		1.72	
Common		1.72	
Number of weighted-average common shares outstanding after giving retroactive effect to stock bonus and reverse stock split (Note 16.1 and Note 26 (b)) - Basic		102,936,448	102,
Number of weighted-average common shares outstanding after giving retroactive effect to stock bonus and reverse stock split (Note 16.1 and Note 26 (b)) - Diluted		102,936,448	102,
Number of weighted-average preferred shares outstanding after giving retroactive effect to stock bonus and reverse stock split (Note 16.1 and Note 26 (b)) - Basic		193,742,824	193,
Number of weighted-average preferred shares outstanding after giving retroactive effect to stock bonus and reverse stock split (Note 16.1 and Note 26 (b)) - Diluted		194,047,622	193,

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The accompanying notes are an integral part of these consolidated financial statements.

GERDAU S.A.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) for the years ended December 31, 2003, 2002 and 2001
(in thousands of U.S. Dollars)

	2003
NET INCOME AS REPORTED IN THE CONSOLIDATED STATEMENT OF INCOME	510,164
Foreign currency translation adjustments	144,402
Pension fund additional minimum liability	4,790
Cash flow hedge	2,310
COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	661,666

The accompanying notes are an integral part of these consolidated financial statements.

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GERDAU S.A.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY for the years ended December 31, 2003, 2002 and 2001
(in thousands of U.S. Dollars, except share data)

	NOTE	PREFERRED SHARES	COMMON SHARES	ADDITI PAID- CAPIT
BALANCES AS OF JANUARY 1(0), 2001		558,971	279,243	
Net income		-	-	
Foreign currency translation adjustment		-	-	
Dividends (interest on equity) - $0.23 per Common share				

and $0.25 per Preferred share (*)	16.4.	-	-	
Transfer to legal reserve		-	-	
BALANCES AS OF DECEMBER 31, 2001		558,971	279,243	
Capital increase by conversion of debentures		3,830	1,915	
Net income		-	-	
Foreign currency translation adjustment		-	-	
Pension fund additional minimum liability		-	-	
Unrealized loss on cash flow hedge, net of tax		-	-	
Excess of sale price over cost on treasury stock		-	-	
Dividends (interest on equity) - $0.26 per Common share and $0.26 per Preferred share (*)	16.4	-	-	
Transfer from legal reserve		-	-	
BALANCES AS OF DECEMBER 31, 2002		562,801	281,158	
Capitalization of reserves	16.4	90,543	48,099	
Net income		-	-	
Appropriation of reserves	16.2	-	-	
Purchase of treasury preferred shares	16.1			
Foreign currency translation adjustment		-	-	
Reduction of pension fund additional minimum liability		-	-	
Reversal of unrealized loss on cash flow hedge, net of tax		-	-	
Dividends (interest on equity) - $0.40 per Common share and $0.40 per Preferred share (*)	16.4	-	-	
Stock option plan expense recognized during the period	3.13	-	-	
BALANCES AS OF DECEMBER 31, 2003		653,344	329,257	

Table Continued

	RETAINED EARNINGS	OTHER COMPREHENSIVE LOSS	TOTAL
BALANCES AS OF JANUARY 1(0), 2001	676,037	(494,667)	1,065
Net income	167,353	-	167
Foreign currency translation adjustment	-	(129,395)	(129,
Dividends (interest on equity) - $0.23 per Common share and $0.25 per Preferred share (*)	(70,897)	-	(70,
Transfer to legal reserve	(9,999)	-	
BALANCES AS OF DECEMBER 31, 2001	762,494	(624,062)	1,032
Capital increase by conversion of debentures	-	-	5
Net income	231,827	-	231
Foreign currency translation adjustment	-	(311,071)	(311,
Pension fund additional minimum liability	-	(16,309)	(16,
Unrealized loss on cash flow hedge, net of tax	-	(2,310)	(2,
Excess of sale price over cost on treasury stock	-		2
Dividends (interest on equity) - $0.26 per Common share and $0.26 per Preferred share (*)	(77,678)	-	(77,
Transfer from legal reserve	19,969	-	

BALANCES AS OF DECEMBER 31, 2002	936,612	(953,752)	865,
Capitalization of reserves	(138,642)	-	
Net income	510,164	-	510,
Appropriation of reserves	(28,790)	-	
Purchase of treasury preferred shares	-		(5,9
Foreign currency translation adjustment	-	144,402	144,
Reduction of pension fund additional minimum liability	-	4,790	4,
Reversal of unrealized loss on cash flow hedge, net of tax	-	2,310	2,
Dividends (interest on equity) - $0.40 per Common share and $0.40 per Preferred share (*)	(117,817)	-	(117,8
Stock option plan expense recognized during the period	-	-	
BALANCES AS OF DECEMBER 31, 2003	1,161,527	(802,250)	1,403,

(*) After giving retroactive effect to the stock bonus and reverse stock split described in Note 16.1 and Note 26(b). Preferred treasury stock shares for the year ended December 31, 2003 are not considered to be outstanding.

The accompanying notes are an integral part of these consolidated financial statements.

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GERDAU S.A.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31, 2003, 2002 and 2001
(in thousands of U.S. Dollars)

	2003
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	510,164
Adjustments to reconcile net income to cash flows from operating activities:	
Depreciation and amortization	182,403
Equity in earnings (losses) on non-consolidated companies, net	(22,062)
Foreign exchange (gains) losses, net	(162,190)
Unrealized losses (gains) on derivative instruments	78,257
Minority interest	49,623
Deferred income taxes	(121,925)
(Gain) loss on dispositions of property, plant and equipment	(1,913)
Provision for doubtful accounts	6,714
Provision for contingencies	43,106

CHANGES IN ASSETS AND LIABILITIES:	
Increase in accounts receivable	(80,017)
Increase in inventories	(74,248)
Increase (decrease) in accounts payable and accrued liabilities	100,298
Decrease (increase) in other assets and liabilities, net	(39,733)
NET CASH PROVIDED BY OPERATING ACTIVITIES	468,477
CASH FLOWS FROM INVESTING ACTIVITIES	
Additions to property, plant and equipment	(297,755)
Proceeds from dispositions of property, plant and equipment	2,284
Acquisitions of equity and cost investments	(7,680)
Acquisition of additional interest in Gerdau Ameristeel	(7,050)
Dispositions of investments	-
Cash paid for acquisitions in 2002, mainly Acominas	-
Cash acquired in acquisitions in 2002	-
Purchases of short-term investments	(959,522)
Proceeds from maturities and sales of short-term investments	1,102,314
Cash received from joint ventures	1,692
NET CASH USED IN INVESTING ACTIVITIES	(165,717)

The accompanying notes are an integral part of these consolidated financial statements.

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GERDAU S.A.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31, 2003, 2002 and 2001
(in thousands of U.S. Dollars)

	2003
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash dividends (interest on equity) paid	(122,262)
(Purchase) sale of treasury shares	(5,920)
Decrease (increase) of restricted cash	13,593
Debt issuance	1,997,978
Repayment of debt	(2,126,520)
Net related party debt repayments	(5,956)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(249,087)
Effect of exchange rate changes on cash	(1,626)
Increase in cash	52,047
Cash at beginning of year	40,457

CASH AT END OF YEAR	92,504
SUPPLEMENTAL CASH FLOW DATA Cash paid during the year for:	
Interest (net of amounts capitalized)	127,413
Income taxes	100,305
SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCIAL ACTIVITIES:	
Purchase consideration, representing 51,503,960 Co-Steel shares at $2.51 per share	
Debentures converted into common and preferred shares	

The accompanying notes are an integral part of these consolidated financial statements.

GERDAU S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the years ended December 31, 2003, 2002 and 2001
(in thousands of U.S. Dollars, unless otherwise stated)

1 OPERATIONS

Gerdau S.A. is a sociedade anonima incorporated as a limited liability company under the laws of the Federative Republic of Brazil. The principal business of Gerdau S.A. ("Gerdau") in Brazil and of its subsidiaries in Argentina, Canada, Chile, the United States and Uruguay (collectively the "Company") comprise the production of crude steel and related long rolled products, drawn products and long specialty products. The Company produces steel based on the mini-mill concept, whereby steel is produced in electric arc furnaces from scrap and pig iron acquired mainly in the region where each mill operates. The Company also operates plants which produce steel from iron ore in blast furnaces and through the direct reduction process.

The Company manufactures steel products for use in civil constructions, manufacturing and agribusiness, as well as specialty steel products. The markets where the Company operates are located in Brazil, the United States, Canada and Chile and, to a lesser extent, Argentina and Uruguay.

2 BASIS OF PRESENTATION

2.1 STATUTORY RECORDS

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), which differ in certain aspects from the accounting practices adopted in Brazil ("Brazilian GAAP") applied by the Company in the preparation of its statutory financial statements and for other legal and regulatory purposes. The consolidated financial statements for statutory purposes are prepared in Brazilian reais.

2.2 CURRENCY REMEASUREMENT

The Company has selected the United States dollar as its reporting currency. The U.S. dollar amounts have been translated or remeasured, as appropriate, following the criteria established in Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation" from the financial statements expressed in the local currency of the countries where Gerdau and each subsidiary operates.

The Company's main operations are located in Brazil, the United States, Canada and Chile. The local currency is the functional currency for those operations. These financial statements, except for those of the subsidiaries located in the United States which already prepare their financial statements in United Stated dollars, are translated from the functional currency into the United States dollar. Assets and liabilities are translated at the exchange rate in effect at the end of each year. Average exchange rates are used for the translation of revenues, expenses, gains and losses in the statement of income. Capital contributions, treasury stock transactions and dividends are translated using the exchange rate as of the date of the transaction. Translation gains and losses resulting from the translation methodology described above are recorded directly in "Cumulative other comprehensive loss" within shareholders' equity. Gains and losses on foreign currency denominated transactions are included in the consolidated statement of income.

2.3 CONTROLLING SHAREHOLDER

As of December 31, 2003, the Company's parent, Metalurgica Gerdau S.A. ("MG", collectively with its subsidiaries and affiliates, the "Conglomerate") owned 48.22% (2002 - 48.31%) of the total capital of the Company. MG's share ownership consisted of 85.71% (2002 - 85.71%) of the Company's voting common shares and 28.31% (2002 - 28.44%) of its non-voting preferred shares.

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3 SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies adopted in the preparation of the consolidated financial statements.

3.1 CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned operational subsidiaries, as follows:

Aceros Cox S.A. (Chile)
Armafer Servicos de Construcao Ltda. (Brazil)

Gerdau AmeriSteel Corporation (Canada) and its subsidiaries:
- AmeriSteel Bright Bar Inc. (USA)
- Gerdau Ameristeel MRM Special Sections Inc. (Canada)
- Gerdau Ameristeel Cambridge Inc. (Canada) (a)
- Gerdau Ameristeel Perth Amboy Inc. (USA)
- Gerdau Ameristeel Sayreville Inc. (USA)
- Gerdau Ameristeel US Inc. (USA) (b)

Gerdau Acominas S.A. (c)
Gerdau Aza S.A. (Chile)
Gerdau Internacional Emprendimentos Ltda. (Brazil) and its wholly owned subsidiary Gerdau GTL Spain S. L. (Spain) and subsidiaries
Gerdau Laisa S.A. (Uruguay)
Seiva S.A. - Florestas e Industrias (Brazil) and subsidiaries

(a) During 2003, Gerdau Ameristeel Cambridge Inc. amalgamated with Gerdau AmeriSteel Corporation
(b) Formerly known as Ameristeel Corp.
(c) As described in Note 4.1, Gerdau Acominas was formerly known as Aco Minas Gerais S.A. ("Acominas")

The consolidated financial statements include all the companies in which the Company has a controlling financial interest through direct or indirect ownership of a majority voting interest. The consolidated financial statements include, in addition to the operational companies presented in the table above, all the other companies which meet the criteria for consolidation under US GAAP which consist of holding companies for its investments in the operating companies and for financing transactions.

The consolidated financial statements include the results of operations of Gerdau AmeriSteel Corporation (formerly known as Co-Steel Inc.) and its subsidiaries (Note 4.4) for the period from October 23, 2002 (the date of acquisition). The results of Acominas for the year ended December 31, 2002 have been accounted for following the equity method up to February 13, 2002, (the date of acquisition of a controlling interest) and have been consolidated as from such date.

All significant intercompany balances and transactions have been eliminated on consolidation.

3.2 USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include, but are not limited to, the allowance for doubtful accounts, depreciation and amortization, impairment of long-lived assets, useful lives of assets, valuation allowances for income taxes, actuarial assumptions, utilized in the calculation of employee benefit obligations, contingencies and environmental liabilities. Actual results could differ from those estimates.

3.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried at cost plus accrued interest. Cash equivalents are considered to be all highly liquid temporary cash investments, mainly deposits, with original maturity dates of three months or less.

3.4 SHORT-TERM INVESTMENTS

Short-term investments consist of bank certificates of deposit and trading securities including investments held in a fund administered by a related party for the exclusive use of the Company (Note 9). The certificates of deposit and trading securities have maturities ranging from four months to one year at the time of purchase. Certificates of deposit are stated at cost plus accrued interest. Trading securities are recorded at fair value with changes in fair value recognized in the consolidated statement of income.

3.5 TRADE ACCOUNTS RECEIVABLE

Accounts receivable are stated at estimated realizable values. Allowances are provided, when necessary, in an amount considered by management to be sufficient to meet probable future losses related to uncollectible accounts.

3.6 INVENTORIES

Inventories are valued at the lower of cost or replacement or realizable value. Cost is determined using the average cost method.

3.7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost, including capitalized interest incurred during the construction phase of major new facilities. Interest capitalized on loans denominated in reais includes the effect of indexation of principal required by certain loan agreements. Interest capitalized on foreign currency borrowings excludes the effects of foreign exchange gains and losses.

Depreciation is computed under the straight-line method at rates which take into consideration the useful lives of the related assets: 10 to 30 years for buildings and improvements, 4 to 15 years for machinery and equipment, 10 years for furniture and fixtures, and 5 years for vehicles and computer equipment. Assets under construction are not depreciated until they are in condition to be placed into service. Major renewals and improvements are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Any gain or loss on the disposal of property plant and equipment is recognized on disposal. During the year ended December 31, 2002 certain subsidiaries changed the depreciable lives of certain buildings and equipment to reflect updated estimates of their economic lives. The effect of this change in an accounting estimate reduced depreciation expense in 2002 by $ 3.2 million.

The Company periodically evaluates the carrying value of its long-lived assets for impairment. The carrying value of a long-lived asset or group of such assets is considered impaired by the Company when the anticipated undiscounted

cash flow from such asset(s) is separately identifiable and less than the carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using discounted anticipated cash flows. No impairment losses have been recorded for any of the periods presented.

3.8 EQUITY INVESTMENTS

Investments in entities where the Company owns 20% to 50% of the voting interest or where the Company has the ability to exercise significant influence are accounted for under the equity method. As of December 31, 2003, the Company's equity investments are comprised of: (a) a 38.18% (2002 - 38.18%) interest in the capital of Sipar Aceros S.A. - Sipar, (b) a 50.00% (2002 - 50.00%) interest in Gallatin Steel Company, Bradley Steel Processors and MRM Guide Rail, (c) a 50.00% (2002 - 50.00%) interest in Armacero Industrial y Comercial Limitada and (d) a 51.82% (2002 - 21.82%) interest in Dona Francisca Energetica S.A. (See Note 4.2).

3.9 INVESTMENTS AT COST

Investments at cost consists of investments in entities where the Company owns less than 20% of the voting interest including tax incentives to be utilized in government approved projects, stated at cost and reduced by valuation allowances based on management estimates of realizable values.

3.10 GOODWILL

Goodwill represents the cost of investments in excess of the fair value of net identifiable assets acquired