

**GERDAU S.A.**

Condensed consolidated interim financial statements

as of March 31, 2010 and 2009

Prepared in accordance with International Accounting Standard N° 34 – Interim Financial Reporting

**GERDAU S.A.**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**in thousands of Brazilian reais (R\$)**  
**(Unaudited)**

	<u>Note</u>	<u>March 31, 2010</u>	<u>December 31, 2009</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		1,843,702	2,091,944
Short-term investments			
Held for Trading	4	2,306,535	2,619,418
Available for sale	4	308,222	58,296
Trade accounts receivables, net		3,338,737	2,585,709
Inventories	5	6,220,345	5,751,593
Tax credits		656,014	788,564
Prepaid expenses		80,346	66,761
Unrealized gains on derivatives	11	5,194	5,737
Other current assets		240,230	196,664
		<u>14,999,325</u>	<u>14,164,686</u>
<b>NON-CURRENT ASSETS</b>			
Long-term investments	4	46,299	49,690
Tax credits		497,063	484,434
Deferred income taxes	6	1,447,949	1,347,036
Unrealized gains on derivatives	11	19,172	14,297
Prepaid expenses		100,547	99,097
Judicial deposits		356,435	324,678
Other non-current assets		236,854	215,251
Prepaid pension cost		532,018	516,360
Investments in associates and jointly-controlled entities		1,233,915	1,199,910
Other investments		19,874	19,635
Goodwill	8	8,535,973	8,424,341
Other intangibles		997,882	992,800
Property, plant and equipment, net	7	16,612,254	16,731,101
		<u>30,636,235</u>	<u>30,418,630</u>
<b>TOTAL ASSETS</b>		<u><u>45,635,560</u></u>	<u><u>44,583,316</u></u>

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements

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**in thousands of Brazilian reais (R\$)**  
**(Unaudited)**

	<u>Note</u>	<u>March 31, 2010</u>	<u>December 31, 2009</u>
<b>CURRENT LIABILITIES</b>			
Trade accounts payable		2,180,287	1,705,058
Short-term debt	9	1,351,920	1,356,781
Taxes payable		712,407	675,681
Payroll and related liabilities		332,336	354,518
Dividends payable		121,736	365,811
Unrealized losses on derivatives	11	2,330	2,483
Environmental liabilities		8,236	9,835
Other current liabilities		304,635	348,354
		<u>5,013,887</u>	<u>4,818,521</u>
<b>NON-CURRENT LIABILITIES</b>			
Long-term debt	9	12,653,674	12,563,155
Debentures	10	624,981	600,979
Deferred income taxes	6	2,270,434	2,273,759
Unrealized losses on derivatives	11	107,086	90,377
Provision for tax, civil and labor liabilities	12	506,045	447,171
Environmental liabilities		68,770	66,642
Employee benefits		946,463	961,300
Put options on minority interest	11-f	495,674	518,096
Other non-current liabilities		294,207	238,523
		<u>17,967,334</u>	<u>17,760,002</u>
<b>EQUITY</b>			
Capital	14	14,184,805	14,184,805
Treasury stocks		(167,482)	(124,685)
Legal reserve		200,205	200,205
Stock options		11,596	9,018
Retained earnings		6,049,772	5,578,045
Other reserves		(1,243,093)	(1,339,915)
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		<u>19,035,803</u>	<u>18,507,473</u>
<b>NON-CONTROLLING INTERESTS</b>		<u>3,618,536</u>	<u>3,497,320</u>
<b>EQUITY</b>		<u>22,654,339</u>	<u>22,004,793</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>45,635,560</u>	<u>44,583,316</u>

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**GERDAU S.A.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
in thousands of Brazilian reais (R\$)  
(Unaudited)

	Note	For the Three months period ended	
		March 31, 2010	March 31, 2009
<b>NET SALES</b>		7,107,586	6,967,785
Cost of sales	18	(5,700,279)	(6,226,538)
<b>GROSS PROFIT</b>		1,407,307	741,247
Selling expenses	18	(121,225)	(106,165)
General and administrative expenses	18	(382,061)	(492,201)
Other operating income	18	38,608	82,091
Other operating expenses	18	(16,451)	(35,421)
Equity in earnings of unconsolidated companies		15,302	(64,963)
<b>INCOME BEFORE FINANCIAL INCOME (EXPENSES) AND TAXES</b>		941,480	124,588
Financial income	19	75,802	99,372
Financial expenses	19	(253,202)	(393,034)
Exchange variations, net	19	(70,845)	148,850
Gain and losses on derivatives, net	19	1,449	(33,048)
<b>INCOME BEFORE TAXES</b>		694,684	(53,272)
Income and social contribution taxes			
Current	6	(185,964)	55,694
Deferred	6	64,024	32,577
<b>NET INCOME FOR THE PERIOD</b>		572,744	34,999
<b>ATTRIBUTED TO:</b>			
Owners of the parent		504,265	88,432
Non-controlling interests		68,479	(53,433)
		572,744	34,999
Basic earnings per share - preferred and common	15	0.36	0.06
Diluted earnings per share - preferred and common	15	0.35	0.06

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements

GERDAU S.A.  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
in thousands of Brazilian reais (R\$)  
(Unaudited)

	<b>For the Three months period ended</b>	
	<b>March 31, 2010</b>	<b>March 31, 2009</b>
<b>Net income for the period</b>	572,744	34,999
Net unrealized Losses on defined benefit pension plan, gross of tax of R\$ (11,514)	-	(33,445)
Cumulative translation difference	184,711	(458,044)
Unrealized Gains (Losses) on net investment hedge	(59,700)	32,700
Cash flow hedges		
Unrealized (Losses) Gains, gross of tax of R\$ (12,995) and R\$ 28,860, respectively	(33,929)	75,430
Reduced by: reclassification adjustments of gains included in net income, gross of tax of R\$ 295	893	-
Unrealized (Losses) Gains on available for sale securities, gross of tax of R\$ (86) and R\$ 5,540, respectively	(280)	16,788
Income tax relating to components of other comprehensive income	12,786	(22,886)
<b>Total comprehensive income for the period, net of tax</b>	<u>677,225</u>	<u>(354,458)</u>
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	601,087	(159,812)
Non-controlling interests	76,138	(194,646)
	<u>677,225</u>	<u>(354,458)</u>

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GERDAU S.A.  
CONDENSED STATEMENTS OF CHANGES IN EQUITY  
in thousands of Brazilian reais (R\$)  
(Unaudited)

	Attributed to parent company's interest					Other reserves				Total parent company's interest	Non-controlling interests	Total Shareholder's Equity
	Capital	Treasury stock	Legal reserve	Stock option	Retained earnings	Gains and losses on available for sale securities	Gains and losses on net investment hedge	Gains and losses on derivatives	Cumulative translation difference			
<b>Balance as of January 1, 2009</b>	14,184,805	(122,820)	144,062	1,426	4,841,602	(9,452)	(634,050)	(117,063)	1,877,992	20,166,502	4,877,076	25,043,578
<b>2009 Changes in Equity</b>												
Net income for the period	-	-	-	-	88,432	-	-	-	-	88,432	(53,433)	34,999
Other comprehensive income recognized in the period	-	-	-	-	(14,128)	10,580	32,700	13,411	(290,807)	(248,244)	(141,213)	(389,457)
Total comprehensive income recognized in the period	-	-	-	-	74,304	10,580	32,700	13,411	(290,807)	(159,812)	(194,646)	(354,458)
Stock option expenses recognized in the period	-	-	-	2,086	-	-	-	-	-	2,086	-	2,086
Stock option exercised during the period	-	767	-	(238)	-	-	-	-	-	529	-	529
Dividends/interest on capital	-	-	-	-	(56,816)	-	-	-	-	(56,816)	(7,122)	(63,938)
Effects over fair value allocation	-	-	-	-	-	-	-	-	-	-	(7)	(7)
Non-controlling interest on consolidated entities	-	-	-	-	54	-	-	-	-	54	(116,746)	(116,692)
Effect of IAS 29 - Hyperinflationary economies adoption	-	-	-	-	31,264	-	-	-	-	31,264	612	31,876
Put options	-	-	-	-	-	-	-	-	-	-	1,639	1,639
<b>Balance as of March 31, 2009</b>	14,184,805	(122,053)	144,062	3,274	4,890,408	1,128	(601,350)	(103,652)	1,587,185	19,983,807	4,560,806	24,544,613
<b>Balance as of January 01, 2010</b>	14,184,805	(124,685)	200,205	9,018	5,578,045	1,952	259,650	(22,147)	(1,579,370)	18,507,473	3,497,320	22,004,793
Net income for the period	-	-	-	-	504,265	-	-	-	-	504,265	68,479	572,744
Other comprehensive income recognized in the period	-	-	-	-	-	(188)	(59,700)	(13,259)	169,969	96,822	7,659	104,481
Total comprehensive income recognized in the period	-	-	-	-	504,265	(188)	(59,700)	(13,259)	169,969	601,087	76,138	677,225
Stock option expenses recognized in the period	-	-	-	3,130	-	-	-	-	-	3,130	-	3,130
Stock option exercised during the period	-	1,823	-	(552)	-	-	-	-	-	1,271	-	1,271
Dividends/interest on capital	-	-	-	-	-	-	-	-	-	-	(8,313)	(8,313)
Non-controlling interest on consolidated entities	-	-	-	-	(5,182)	-	-	-	-	(5,182)	28,740	23,558
Effect of IAS 21 - Changes in foreign exchange rates	-	-	-	-	(27,356)	-	-	-	-	(27,356)	(505)	(27,861)
Put options	-	-	-	-	-	-	-	-	-	-	25,156	25,156
Treasury stock	-	(44,620)	-	-	-	-	-	-	-	(44,620)	-	(44,620)
<b>Balance as of March 31, 2010</b>	14,184,805	(167,482)	200,205	11,596	6,049,772	1,764	199,950	(35,406)	(1,409,401)	19,035,803	3,618,536	22,654,339

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**GERDAU S.A.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
in thousands of Brazilian reais (R\$)  
(Unaudited)

	Note	For the Three months period ended March 31, 2010	March 31, 2009
<b>Cash flows from operating activities</b>			
Net income for the period		572,744	34,999
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	18	459,754	474,386
Equity in earnings of unconsolidated companies	17	(15,302)	64,963
Exchange variation on, net	19	70,845	(148,850)
Gains and losses on derivatives, net	19	(1,449)	33,048
Post-employment benefits		(4,506)	26,517
Stock based remuneration		4,901	(2,320)
Income tax		121,940	(88,271)
Gain on disposal of property, plant and equipment and investments	6	(1,275)	(10,891)
(Reversal) Allowance for doubtful accounts		(2)	13,900
Provision for tax, labor and civil claims		58,443	8,644
Interest income and other financial incomes		(61,360)	(78,822)
Interest expense	19	218,657	315,604
Reversal of net realisable value adjustment in inventory		(25,717)	(56,175)
		<u>1,397,673</u>	<u>586,732</u>
<b>Changes in assets and liabilities:</b>			
(Increase) Decrease in trade accounts receivable		(702,852)	163,030
(Increase) Decrease in inventories		(396,320)	2,090,762
Increase (Decrease) in trade accounts payable		439,337	(610,340)
(Increase) Decrease in other receivables		(99,315)	31,684
Decrease in other payables		(12,001)	(342,723)
Distributions from joint-controlled entities		28,055	-
Purchases of trading securities		(2,432)	(41,685)
Proceeds from maturities and sales of trading securities		395,831	291,707
<b>Cash provided by operating activities</b>		<u>1,047,976</u>	<u>2,169,167</u>
Interest paid on loans and financing		(145,923)	(306,831)
Income and social contribution taxes paid		(126,793)	(47,604)
<b>Net cash provided by operating activities</b>		<u>775,260</u>	<u>1,814,732</u>
<b>Cash flows from investing activities</b>			
Additions to property, plant and equipment		(233,302)	(501,853)
Proceeds from sales of property, plant and equipment, investments and other intangibles		2,482	22,595
Additions to other intangibles		(5,250)	(6,023)
Purchases of available for sale securities		(300,027)	(624,382)
Proceeds from sales of available for sale securities		54,717	342,145
Interest received on cash investments		276	2,499
<b>Net cash used in investing activities</b>		<u>(481,104)</u>	<u>(765,019)</u>
<b>Cash flows from financing activities</b>			
Purchase of own shares		(44,620)	-
Dividends and interest on capital paid		(282,464)	(106,879)
Payment of loans and financing fees		(2,650)	-
Proceeds from loans and financing		134,331	320,761
Repayment of loans and financing		(375,752)	(1,012,889)
Intercompany loans, net		4,183	17,406
<b>Net cash used in financing activities</b>		<u>(566,972)</u>	<u>(781,601)</u>
Exchange variation on cash and cash equivalents		24,574	(44,204)
(Decrease) Increase in cash and cash equivalents		(248,242)	223,908
Cash and cash equivalents at beginning of period		<u>2,091,944</u>	<u>2,026,609</u>
<b>Cash and cash equivalents at end of period</b>		<u>1,843,702</u>	<u>2,250,517</u>

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements

**GERDAU S.A.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**as of March 31, 2010 and 2009**  
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**(Unaudited)**

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**NOTE 1 - GENERAL INFORMATION**

Gerdau S.A. is a publicly traded corporation (*sociedade anônima*) with its corporate domicile in the city of Rio de Janeiro, Brazil, and is a holding company in the Gerdau Group, which comprises subsidiaries, associates and jointly-controlled entities engaged in the production and sale of steel products from plants located in Brazil, Argentina, Chile, Colombia, Guatemala, Mexico, Peru, Dominican Republic, Uruguay, Venezuela, United States, Canada, Spain, and India. The Gerdau Group started its path of expansion over a century ago and it is one of the main players in the process of consolidating the global steel industry. The Company produces common long steel, special steels and flat steels, mainly through the production process in electric furnaces using scrap and pig iron that are mostly purchased in the region in which each plant operates (mini-mill concept), and also produces steel from iron ore (through blast furnaces and direct reduction). Its products serve the sectors of civil construction, industry, automotive and agriculture.

The Condensed Consolidated Interim Financial Statements of Gerdau S.A and subsidiaries (collectively referred to as the “Company”) were approved by the Board of Directors on May 5, 2010.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES**

**2.1 - Basis of Presentation**

The Company's Condensed Consolidated Interim Financial Statements for the three-month periods ended March 31, 2010 have been prepared in accordance with the International Accounting Standard (IAS) N° 34, that establishes the content of a condensed interim financial statement. These Condensed Consolidated Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements of Gerdau S.A., as of December 31, 2009, which were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by IASB..

The preparation of the Condensed Consolidated Interim Financial Statements in accordance with IAS 34 requires Management to make accounting estimates. The Condensed Consolidated Interim Financial Statements have been prepared using the historical cost as its basis, except for the valuation of certain non-current assets and financial instruments.

The same accounting policies and methods of calculation were used in these Condensed Consolidated Interim Financial Statements as they were applied in the Consolidated Financial Statements as of December 31, 2009, except for the impact of the adoption of standards and interpretations of rules described below.

**2.2 – New IFRS and Interpretations of the IFRIC (International Financial Reporting Interpretations Committee)**

Some new IASB accounting procedures and IFRIC interpretations were issued and/or reviewed and have their optional or mandatory adoption for the period beginning on January 1, 2010. The Company's assessment on the impact of these new procedures and interpretations is as follows:

**Standards and Interpretations in force and or adopted in advance**

**IAS 27 – Consolidated and Separate Financial Statements**

In January 2008, the IASB issued a revised version of IAS 27, whose changes are related, primarily, to accounting for non-controlling interests and the loss of control of a subsidiary. This amended Standard must be applied to years beginning on or after July 1, 2009. The revised Standard has resulted in changes in the Company's accounting policies regarding increases or decreases in ownership interests in its subsidiaries. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under IAS 27 (2008), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss. When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date that control is lost. A gain or loss on loss of control is recognised in

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profit or loss as the difference between the proceeds, if any, and these adjustments. The adoption of this amendment is expected to affect the accounting for changes in ownership interest in future accounting periods, but the impact will only be determined once the detail of future transactions is known.

**IFRS 3 – Business Combinations**

In January 2008, the IASB issued a revised version of the IFRS 3, which deals with the recognition and measurement in the financial statements of acquired assets, assumes liabilities and non-controlling interests, despite the goodwill originated in a business combination and disclosures related to the subject. These changes are effective for years beginning on or after July 1, 2009. The adoption of this amendment is also expected to affect the accounting for business combinations in future accounting periods, but the impact will only be determined once the detail of future business combination transactions is known.

**IAS 39 – Financial Instruments: Recognition and Measurement**

In July 2008, the IASB issued a revised version of IAS 39 which deals with items eligible for hedge. The changes are effective for years beginning on or after July 1, 2009. The adoption of this amendment did not have an impact in the Company's Consolidated Financial Statements.

**IAS 39 e IFRIC 9 - Embedded Derivatives**

In March 2009, the IASB revised IAS 39 and IFRIC 9, which deal with aspects related to the recognition of derivatives. The entity is required to implement these changes for years beginning on or after June 30, 2009. The adoption of these changes did not have an impact in the Company's Consolidated Financial Statements.

**IFRS Annual improvements of April 2009**

In April 2009, the IASB revised various standards and interpretations as follows: IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 e IFRIC 16. The changes in the standards IFRS 2 and IAS 38 and interpretations IFRIC 9 and IFRIC 16 are effective for years beginning on or after July 01, 2009. The other changes in standards are effective for years beginning on or after January 1, 2010. The adoption of these regulations did not have an impact in the Company's Consolidated Financial Statements.

**IFRS 2 – Share-based Payment**

In June 2009, the IASB revised rule IFRS 2, which deals with share based payments settled in cash or other assets, or by the issuance of equity instruments. This change is effective for years beginning on or after January 01, 2010. The adoption of this revised rule did not have an impact in the Company's Consolidated Financial Statements.

**IFRS 1 – Additional Exemptions for First-time adopters**

In July 2009, the IASB revised standard IFRS 1, which deals with additional exemptions for first-time IFRS' adopters. This change is effective for years beginning on or after January 01, 2010. Because the Company has already adopted the IFRS, the change of this standard did not have an impact in the Company's Consolidated Financial Statements.

**IAS 32 – IFRS Classification of Rights Issues: Amendment to IAS 32**

In October 2009, the IASB revised IAS 32, which deals with contracts that will or may be settled in the entity's own equity instruments and establish that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments. This change is effective for years beginning on or after February 01, 2010. The adoption of this revised standard did not have an impact in the Company's Consolidated Financial Statements.

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**IFRIC 17 – Distributions of Non-cash Assets to Owners**

In November 2008, the IFRIC issued Interpretation 17, which deals with the distributions of non-cash assets to the owners. The entity is required to implement this Interpretation for years that begin on or after July 1, 2009, but earlier adoption is permitted. The adoption of this Interpretation did not have an impact in the Company's Consolidated Financial Statements.

**IFRIC 18 – Transfers of Assets from Customers**

In January 2009, the IFRIC issued Interpretation 18, which deals with the transfer of assets from customers to the Company. The entity is required to prospectively implement this Interpretation for assets received from customers on or after July 1, 2009 and earlier adoption is permitted. The adoption of this Interpretation did not have an impact in the Company's Consolidated Financial Statements.

**Standards and Interpretations of standards not yet in force**

**IFRS 1 and IFRS 7– Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters**

In January 2010, the IASB amended IFRS 1 and IFRS 7, which deal with aspects of comparative information disclosure of financial instruments. These changes are effective for years beginning on or after July 01, 2010. The adoption of these changes will not have an impact in the Company's Consolidated Financial Statements.

**IFRS 9 – Financial Instruments**

In November 2009, the IASB issued the standard IFRS 9, which has the objective of replacing the standard IAS 39 – Financial Instruments: Recognition and measurement, in three phases. This standard represents the first part of phase 1 of replacement of IAS 39 and addresses the classification and measurement of financial assets. This standard is effective for years beginning on or after January 01, 2013. The Company is evaluating the effects related to the adoption of this standard and eventual difference in relation to IAS 39.

**IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments**

In November 2009, the IFRIC issued the interpretation IFRIC 19, which deals with the issuance of equity instruments by an entity to its creditor with the objective of settling financial liabilities. This interpretation is effective for years beginning on or after July 01, 2010. The adoption of this interpretation will not have an impact in the Company's Consolidated Financial Statements.

**IFRIC 14 – Prepayments of a Minimum Funding requirement – Amendments to IFRIC 14**

In November 2009, the IFRIC amended interpretation IFRIC 14, which is applied in limited circumstances when an entity is subject to minimum funding requirements and performs a payment of contributions in advance to cover these requirements. These changes are effective for years beginning on or after January 01, 2011. The adoption of these changes will not have an impact in the Company's Consolidated Financial Statements.

**IAS 24 –Related Party Disclosures**

In November 2009, the IASB revised IAS 24, which deals with disclosures of transactions with related parties and relationships between parents and subsidiaries. This change is effective for years beginning on or after January 01, 2011. The adoption of this revised standard will not have an impact in the Company's Consolidated Financial Statements.

**NOTE 3 – CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The Condensed Consolidated Interim Financial Statements includes Gerdau S.A. and its subsidiaries in which it holds controlling interest.

**3.1 - Subsidiaries**

**GERDAU S.A.**  
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**(Unaudited)**

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The Company did not have material changes of participation in controlled companies during the period ended March 31, 2010.

### **3.2 - Jointly-Controlled Entities**

The Company did not have material changes of participation in jointly-controlled entities during the period ended March 31, 2010.

### **3.3 – Associate companies**

The Company did not have material changes of participation in associate companies during the period ended March 31, 2010.

## **NOTE 4 - SHORT AND LONG-TERM INVESTMENTS**

### **Held for trading**

Held for trading securities include Bank Deposit Certificates and marketable securities investments, which are stated at their fair value. Income generated by these investments is recorded as financial income. On March 31, 2010 the Company held R\$ 2,306,535 (R\$ 2,619,418 as of December 31, 2009) in trading securities.

### **Available for sale securities**

As of March 31, 2010 the Company held R\$ 308,222 (R\$ 58,296 as of December 31, 2009) in available for sale securities in current assets and R\$ 46,299 (R\$ 49,690 as of December 31, 2009) in non-current assets, net of provision for losses.

### **Gerdau Ameristeel**

The subsidiary Gerdau Ameristeel invests its excess of cash in highly liquid securities classified as available for sale and which are recorded at fair value. On March 31, 2010 R\$ 293,677 had been invested in these types of securities.

In previous years, the subsidiary Gerdau Ameristeel invested its excess of cash in variable interest rate bonds and graded as investment grade, called “Auction Rate Securities” which are recognized as available for sale securities. On March 31, 2010 Gerdau Ameristeel had US\$ 26 million (R\$ 46.3 million) in investments of this nature. These securities could not be sold over the past few months because sales orders exceeded purchase orders. As a result of this, Gerdau Ameristeel is not able to sell these investments until a future auction is successful, the issuer decides to redeem these securities, or if the securities reach their redemption date in 2025. Even though Gerdau Ameristeel intends to sell these investments as soon as market liquidity returns, Gerdau Ameristeel reclassified these investments from current to non-current assets. Gerdau Ameristeel uses appraisal methods that include projected cash flow and similar transactions due to the lack of similar market transactions for measuring the value of this investment. On March 31, 2010, as a result of such analysis and other factors related to impairment of assets, Gerdau Ameristeel did not recognize any loss in the “Financial expense” account, compared to the same period of 2009. These securities will keep being analyzed each quarter so that possible new deterioration can be recognized as well as to ensure a correct classification in the balance sheet.

### **Other available for sale securities**

As of March 31, 2010 other available-for-sale securities totaled R\$ 14,545, which were recorded at their fair value and referred principally to short-term investments held by Gerdau MacSteel North America Inc. (Money Market Funds) in the amount of US\$ 4.7 million (R\$ 8,372). These investments are valued based on market quotations and the Company does not intend to hold these securities as permanent investments.

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**NOTE 5 - INVENTORIES**

	<u>March 31, 2010</u>	<u>December 31, 2009</u>
Finished products	2,127,560	1,975,003
Work in progress	1,391,032	1,258,384
Raw materials	1,388,490	1,213,984
Storeroom supplies	1,070,310	1,058,746
Advances to suppliers	192,278	214,467
Imports in transit	178,531	181,330
(-) Provision for market value adjustment	(127,856)	(150,321)
	<u>6,220,345</u>	<u>5,751,593</u>

The changes in the provision for adjustment to market value are as follows:

Balance as of December 31, 2008	(354,431)
Write-offs	136,211
Provision for the year	(80,036)
Exchange rate variation	3,856
Balance as of March 31, 2009	<u>(294,400)</u>
Balance as of December 31, 2008	(354,431)
Write-offs	196,981
Provision for the year	(36,459)
Exchange rate variation	43,588
Balance as of December 31, 2009	<u>(150,321)</u>
Write-offs	29,952
Provision for the year	(4,235)
Exchange rate variation	(3,252)
Balance as of March 31, 2010	<u>(127,856)</u>

Inventories are insured against fire and flooding. The insurance coverage is based on the amounts and risks involved.

During the three-month periods ended on March 31, 2010 and March 31, 2009 the amounts of R\$ 5,700,279 and R\$ 6,226,538, were recognized, respectively, as cost of sales and freight. As of March 31, 2010, the cost of sales include the amounts of R\$ 29,952 (R\$ 136,211 as of March 31, 2009) related to inventories permanently written off and R\$ 4,235 (R\$ 80,036 as of March 31, 2009) related to the recognition of a provision for obsolescence and adjustment to market value.

**NOTE 6 – INCOME AND SOCIAL CONTRIBUTION TAXES**

The Company's subsidiaries in Brazil received R\$ 10,911 as of March 31, 2010 (R\$ 6,895 as of March 31, 2009) of tax incentives in the form of income tax credits, related to technological innovation, funds for the rights of children and adolescents, PAT (Workers' Meal Program), and cultural and artistic activities. The units of the subsidiary Gerdaу Aços Longos S.A., located in the northeast region of Brazil, will receive until 2013, a 75% reduction in income tax on operating profit, which represented R\$ 7,051 as of March 31, 2010 (R\$ 8,476 as of March 31, 2009). The respective tax incentives were recorded directly in the income and social contribution tax account in the statement of income.

As of March 31, 2010, the Company had total tax loss carryforwards arising from its operations in Brazil of R\$ 441,878 for income tax (R\$ 340,248 as of December 31, 2009) and R\$ 546,801 for social contribution tax (R\$ 418,285 as of December 31, 2009), representing a deferred tax asset of R\$ 159,681 (R\$ 122,708 as of December 31, 2009). The Company believes that the amounts will be realized based on future taxable income. In addition to these deferred tax assets, the Company has not recorded a portion of the tax asset of R\$ 33,176 (R\$ 26,496 as of December 31, 2009), due to the lack of opportunity to use the tax loss carryforwards in one of its subsidiaries. Notwithstanding, these tax loss carryforwards do not have an expiration date.

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As of March 31, 2010, the subsidiary Gerdau Ameristeel had R\$ 144,973 (R\$ 139,992 as of December 31, 2009) tax losses on capital losses that were not recognized in the condensed consolidated interim balance sheets. These losses relate primarily to the write-off of the subsidiary's long-term investments and currently have no expiration date. The subsidiary had various state tax losses totaling R\$ 242,928 (R\$ 237,674 as of December 31, 2009), which expire on varying dates between 2010 and 2029. The subsidiary also had R\$ 58,773 (R\$ 57,460 as of December 31, 2009) state tax credits that were not recognized in the subsidiary's condensed consolidated interim balance sheet. These credits will expire on varying dates between 2015 and 2018 except for a portion of R\$ 12,111 (R\$ 11,840 as of December 31, 2009), which has no expiration date.

Reconciliation of income tax (IR) and social contribution (CS) adjustments on the net income for the three-month periods ended:

	<b>March 31, 2010</b>	<b>March 31, 2009</b>
	<b>Total</b>	<b>Total</b>
Income before income taxes	694,684	(53,272)
Statutory tax rates	34%	34%
Income and social contribution taxes at statutory rates	(236,192)	18,112
Tax adjustment with respect to:		
- difference in tax rates in foreign companies	23,788	(38,883)
- equity in subsidiaries	5,203	(22,087)
- interest on equity	2,378	-
- tax incentives	17,962	15,370
- tax deductible goodwill recorded in statutory books	74,428	71,931
- permanent differences (net)	(9,507)	43,828
Income and social contribution taxes	(121,940)	88,271
Current	(185,964)	55,694
Deferred	64,024	32,577

**NOTE 7 – PROPERTY, PLANT AND EQUIPMENT**

**a) Summary of changes in property, plant and equipment** – during the three-month period ended March 31, 2010, acquisitions amounted to R\$ 233,302 (R\$ 479,265 as of March 31, 2009), and disposals amounted to R\$ 1,213 (R\$ 14,201 as of March 31, 2009).

**b) Capitalized borrowing costs** – borrowing costs capitalized during the three-month period ended March 31, 2010 amounted to R\$ 15,956 (R\$ 25,489 as of March 31, 2009).

**c) Guarantees** – property, plant and equipment have been pledged as collateral for loans and financing in the amount of R\$ 164,815 as of March 31, 2010 (R\$ 218,833 as of December 31, 2009).

**NOTE 8 – GOODWILL**

The changes in goodwill are as follows:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Initial Balance	8,424,341	11,294,102
(+/-) Exchange variation	111,632	(2,591,426)
(+) Additions	-	26,111
(-) Write-off / Impairment	-	(304,446)
Final Balance	8,535,973	8,424,341

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The amount of goodwill by segment is as follows:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Brazil	376,322	376,322
Specialty Steels	1,956,989	1,933,685
Latin American	645,337	682,998
North America	5,557,325	5,431,336
	<b>8,535,973</b>	<b>8,424,341</b>

**NOTE 9 – LOANS AND FINANCING**

Loans and financing are as follows:

	<b>Annual charges <sup>(*)</sup></b>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>Short term financing in Brazilian reais</b>			
Working capital	6.89%	132,573	130,830
Financing of investment	8.78%	194,359	259,722
<b>Short term financing in foreign currency</b>			
Working capital (US\$)	3.67%	127,635	124,894
Working capital (€)	3.75%	19,649	93,247
Working capital (Clp\$)	1.10%	22,054	18,404
Working capital (Cop\$)	8.62%	117,449	92,738
Working capital (PA\$)	14.33%	352	472
Working capital (Mxn\$)	5.80%	8,731	7,276
Financing of property, plant and equipment and others (US\$)	2.67%	6,692	7,614
		<b>629,494</b>	<b>735,197</b>
Plus current portion of long-term financing		<b>722,426</b>	<b>621,584</b>
Short term financing plus current portion of long-term financing		<b>1,351,920</b>	<b>1,356,781</b>
<b>Long-term financing in Brazilian reais</b>			
Working capital	2.76%	96,489	103,604
Financing of property, plant and equipment	8.22%	1,980,697	1,749,301
<b>Long-term financing in foreign currency</b>			
Working capital (US\$)	7.89%	1,158,285	1,141,440
Working capital (€)	3.75%	111,391	149,126
Working capital (Mxn\$)	5.80%	11,075	12,041
Working capital (COP\$)	8.62%	310,340	300,440
Bearer bonds (Perpetual bonds) (US\$)	10.14%	1,070,708	1,046,780
Ten Year Bonds (US\$)	7.14%	5,038,808	4,840,778
Term Loan Facility (US\$)	2.49%	3,009,890	2,942,628
Advances on export contracts (US\$)	5.64%	197,817	514,015
Financing of investment (US\$)	3.18%	83,351	81,488
Financing of property, plant and equipment and others (US\$)	6.97%	307,249	303,098
		<b>13,376,100</b>	<b>13,184,739</b>
Less: current portion		<b>(722,426)</b>	<b>(621,584)</b>
Long term financing minus current portion		<b>12,653,674</b>	<b>12,563,155</b>
Total financing		<b>14,005,594</b>	<b>13,919,936</b>

<sup>(\*)</sup> Weighted average effective interest costs on March 31, 2010.

Loans and financing denominated in Brazilian reais are indexed to the TJLP (long-term interest rate, which is established quarterly by the Federal Government for adjusting long-term loans granted by the BNDES - National Bank for Economic and Social Development), or to the IGP-M (general market price index, a Brazilian inflation rate measured by Fundação Getúlio Vargas).

Summary of loans and financing by currency:

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	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Brazilian Real (R\$)	2,404,118	2,243,457
U.S. Dollar (US\$)	11,000,435	11,002,735
Euro (€)	131,040	242,373
Colombian Peso (Cop\$)	427,789	393,178
Argentine Peso (PA\$)	352	472
Chilean Peso (Clp\$)	22,054	18,404
Mexican Peso (Mxn\$)	19,806	19,317
	<u>14,005,594</u>	<u>13,919,936</u>

Timeline of installments payments of long term loans and financing is as follows:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
2011	529,259	677,664
2012	2,689,331	2,650,655
2013	2,360,724	2,305,967
2014	381,673	378,255
After 2015	6,692,687	6,550,614
	<u>12,653,674</u>	<u>12,563,155</u>

#### **Covenants**

As a way of monitoring the financial condition of the Company, the banks involved in certain of the financing agreements use restrictive covenants.

In the second quarter of 2009 the Company's management, based on projections which took into account the economic crisis and its impacts on the steel market worldwide, concluded that there was a possibility that the Company would temporarily be in default of certain covenants in some debt agreements at the end of the third or fourth quarters of 2009.

Therefore, as a proactive initiative, the Company worked on a proposal for a temporary reset of the financial covenants and, during the second quarter of 2009, presented the proposal to its creditors involved in debt facilities subject to financial covenants. On June 22, 2009 the Company obtained approval from 100% of the affected creditors, representing 43 banks and a portion of US\$ 3.7 billion of the Company's total indebtedness.

The covenant reset would be in place in case of a covenant breach, which was the case on September 30, 2009.

Below are brief descriptions of both the financial covenants originally required in the Company's debt agreements as well as the temporary reset financial covenants.

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

I) Consolidated Interest Coverage Ratio – measures the interest expense payment capacity in relation to EBITDA (Earnings before Interest, Taxes, Depreciation, Amortization and Impairment). The contractual ratio indicates that the EBITDA for the last 12 months should represent at least 3 times of the interest expense of the same period. As of March 31, 2010 such covenant was 3.8 times;

II) Consolidated Leverage Ratio – measures the level of gross debt in relation to EBITDA. The contractual ratio indicates that the gross debt should not surpass 4 times the EBITDA for the last 12 months. As of March 31, 2010 such covenant was 3.2 times;

III) Required Minimum Net Worth – measures the minimum net worth required in financial agreements. The contractual ratio indicates that the Net Worth must be greater than R\$ 3,759,200. As of March 31, 2010 such level was R\$ 22,654,339; and

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IV) Current Ratio – measures the company’s ability in fulfilling its short term obligations. The contractual terms indicates that the ratio of Current Assets divided by Current Liabilities must be greater than 0.8 times. As of March 31, 2010 the current ratio was 3.0 times.

Due to non-compliance of the original financial covenant described on item I above, comes into force, starting September 30, 2009, the temporary covenant reset, valid up to September 30, 2010, where the covenants described in the items I and II above are temporarily replaced by the covenants described below:

- a) Consolidated Interest Coverage Ratio – EBITDA for the last twelve months should represent at least 2.5 times of the net interest expense (interest expense minus interest income) of the same period. As of March 31, 2010 such covenant was 5.8 times;
- b) Consolidated Leverage Ratio – Net debt (gross debt minus cash and cash equivalents) should not surpass 5 times EBITDA for the last 12 months. As of March 31, 2010 such covenant was 2.2 times;
- c) Maximum Gross Debt of US\$ 11 billion. As of March 31, 2010 such debt was US\$ 8.0 billion.

Pursuant to the financial agreements, the penalty for non-compliance with such financial covenants is the possibility of declaration of default by the creditors and loans having its maturity accelerated. The Company expects not to have the original covenants breached after September 30, 2010 and for the year ending December 31, 2010.

**NOTE 10 - DEBENTURES**

Issuance	General Meeting	Quantity as of March 31, 2010		Maturity	Annual Charges (*)	March 31, 2010	December 31, 2009
		Issued On	Portfolio				
3ª - A e B	May 27, 1982	144,000	65,188	June 1, 2011	CDI	117,445	115,844
7ª	July 14, 1982	68,400	58,860	July 1, 2012	CDI	33,770	33,838
8ª	November 11, 1982	179,964	47,015	May 2, 2013	CDI	328,557	313,986
9ª	June 10, 1983	125,640	37,750	September 1, 2014	CDI	47,588	42,380
11ª - A e B	June 29, 1990	150,000	122,776	June 1, 2020	CDI	97,621	94,931
						<u>624,981</u>	<u>600,979</u>
						624,981	600,979

Non-current

(\*) CDI - Interbank Deposit Certificate and DI - Interbank Deposit

**NOTE 11 - FINANCIAL INSTRUMENTS**

a) **General considerations** - Gerdau S.A. and its subsidiaries enter into transactions with financial instruments whose risks are managed by means of strategies and exposure limit controls. All financial instruments are recorded in the accounting books and consist mainly of cash and cash equivalents, short-term investments, trade accounts receivable, imports financing, prepayment financing, senior notes, perpetual bonds, Ten Years bonds, other financing, debentures, related-party transactions, unrealized gains on derivatives, unrealized losses on derivatives, other accounts receivable, other accounts payable and put options on minority interests. These operations are non-speculative in nature and are intended to protect the company against exchange rate fluctuations on foreign currency loans and against interest rate fluctuations.

Therefore, some of them are considered hedge instruments under hedge accounting and are recorded at their market values.

b) **Market value** – the market value of the aforementioned financial instruments is as follows:

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	March 31, 2010		December 31, 2009	
	Book Value	Market Value	Book Value	Market Value
Cash and cash equivalents	1,843,702	1,843,702	2,091,944	2,091,944
Short-term investments	2,661,056	2,661,056	2,727,404	2,727,404
Trade accounts receivable	3,338,737	3,338,737	2,585,709	2,585,709
Trade accounts payable	2,180,287	2,180,287	1,705,058	1,705,058
Imports financing	1,250,148	1,250,148	1,222,211	1,222,211
Prepayment financing	195,226	195,226	511,316	511,316
Perpetual bonds	1,068,600	1,084,629	1,044,720	1,069,271
Ten Years Bonds	5,038,808	5,376,797	4,840,778	5,047,889
Other financing	6,452,812	6,452,812	6,300,911	6,300,911
Debentures	624,981	624,981	600,979	600,979
Related parties (assets)	44,727	44,727	49,154	49,154
Related parties (liabilities)	-	-	822	822
Unrealized gains on derivatives	24,366	24,366	20,034	20,034
Unrealized losses on derivatives	109,416	109,416	92,860	92,860
Other accounts receivable	432,357	432,357	362,761	362,761
Other accounts payable	598,842	598,842	586,055	586,055
Long-term incentive plan	-	63,969	-	48,914
Put options on minority interest	495,674	495,674	518,096	518,096

The market value of Ten-Year bond Securities and Perpetual bonds are based on quotations in the secondary market for these securities.

All other financial instruments, which are recognized in the Consolidated Financial Statements at their carrying amount, are substantially similar to those that would be obtained if they were traded in the market. However, because there is no active market for these instruments, differences could exist if they were settled in advance.

**c) Risk factors that could affect the Company's and its subsidiaries' businesses:**

**Price risk of commodities:** this risk is related to the possibility of changes in prices of the products sold by subsidiaries of the Company or in prices of raw materials and other inputs used in the productive process. Since the subsidiaries operate in a commodity market, their sales revenues and cost of sales may be affected by changes in the international prices of their products or materials. In order to minimize this risk, the subsidiaries constantly monitor the price variations in the domestic and international markets.

**Interest rate risk:** this risk arises from the possibility of losses (or gains) due to fluctuations in interest rates applied to the Company's liabilities or assets (investments) in the market. To minimize possible impacts from interest rate fluctuations, the Company adopts a diversification policy, alternating from variable (such as LIBOR and CDI) to fixed rates when contracting debts and hedges and periodically renegotiating contracts to adjust them to market.

**Exchange rate risk:** this risk is related to the possibility of fluctuations in exchange rates affecting financial expenses (or income) and the liability (or asset) balance of contracts denominated in foreign currency. The Company assesses its exposure to the exchange rate by subtracting its liabilities from its assets in dollars, having in this way the net exchange rate exposure basis, which is the basis subject to effects in a change in the foreign currency. Therefore, along with accounts receivable originated from exports and investments abroad that in economic terms result in a natural hedge, the Company assesses using hedge operation, more commonly swap operations, if the Company has more liabilities in dollars than assets.

**Credit risk:** this risk arises from the possibility of the subsidiaries not receiving amounts arising from sales to customers or investments made with financial institutions. In order to minimize this risk, the subsidiaries adopt the procedure of analyzing in detail the financial position of their customers, establishing a credit limit and constantly monitoring their balances. In relation to cash investments, the Company invests solely in financial institutions with low credit risk, as assessed by rating agencies. In addition, each financial institution has a maximum limit for investment, determined by the Company's Credit Committee.

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**Capital management risk:** this risk comes from the Company's choice in adopting a financing structure for its operations. The Company manages its capital structure, which consists of a ratio between the financial debts and its own capital (Equity, retained earnings, and profit reserves) based on internal policies and benchmarks. The BSC (Balance Scorecard) methodology has been used in the last 6 years to elaborate strategic maps with objectives and indicators of the main processes. The KPIs (Key Performance Indicators) related to the objective "Capital Structure Management" are: WACC (Weighted Average Cost of Capital), Total Indebtedness/EBITDA, Interest Coverage Ratio, and Indebtedness/Equity Ratio. The Total Debt is composed of loans and financing (note 9) and debentures (note 10). The Company can change its capital structure depending on economic-financial conditions in order to optimize its financial leverage and its debt management. At the same time, the Company tries to improve its ROCE (Return on Capital Employed) by implementing a working capital management process and an efficient fixed asset investment program.

The Company seeks to remain between the following parameters:

WACC	between 10% to 13% a year
Gross debt/EBITDA	between 2 and 3 times
Interest Coverage Ratio	greater than 5 times
Debt/Equity Ratio	between 40%-60% and 60%-40%

These key indicators are used for the objectives described above and may not be used as indicators for other purposes, such as impairment tests.

**Liquidity risk:** the Company's management policy of indebtedness and cash on hand is based on using the committed lines and the currently available credit lines with or without a guarantee in export receivables for maintaining adequate levels of short, medium, and long-term liquidity. The maturity of long-term loans, financing, and debentures are presented in Notes 9 and 10, respectively.

The Company performed sensitivity analysis, which can be summarized as follows:

Premise	Impact in the net income and statement of comprehensive income	
	Variation	March 31, 2010
Changes in foreign currency	5%	202,780
Changes in interest rates	0.10	68,228
Changes in sales price of goods and raw materials	1%	31,932
<i>Interest rate Swaps</i>	0.10	4,863
<i>Currency Swaps and NDF's (Non Deliverable Forwards):</i>	5%	5,200

**Foreign currency sensitivity analysis:** the Company is exposed to variations in foreign currency, especially in loans and financing. The sensitivity analysis made by the Company considers the effects of an increase or a reduction of 5% between the Brazilian real and the foreign currencies on such outstanding loans and financing on the date of the Condensed Consolidated Interim Financial Statements. The impact calculated considering such variation in the foreign exchange rate totals R\$ 202,780 as of March 31, 2010 (R\$ 199,427 as of December 31, 2009). The Company believes that the dollar appreciation against the Brazilian Real for the year 2010 will be 1.05%.

The net amounts of accounts receivable and accounts payable denominated in foreign currency do not present relevant risks of impacts from the oscillation of the exchange rate.

**Interest rate sensitivity analysis:** the Company is exposed to interest rate risks in its loans and financing and debentures. The sensitivity analysis made by the Company considers the effects of an increase or reduction of 0.1% on outstanding loans and financing and debentures on the date of the Condensed Consolidated Interim Financial Statements. The impact calculated considering this variation in the interest rate totals R\$ 68,228 as of March 31, 2010 (R\$ 66,858 as of December 31, 2009). Because of strong reductions in international interest rates, such as Libor, which occurred around the world because of the crisis, the Company believes that in the long term, the curves of interest rates can increase again with the economic recovery.

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**Sensitivity analysis of changes in sales price of products and price of raw materials and other inputs used in production:** the Company is exposed to changes in the price of its products. This exposure is associated with the fluctuation of the sales price of the Company's products and the price of raw materials and other inputs used in the production process, especially because the Company operates in a commodities market. The sensitivity analysis made by the Company considers the effects of an increase or of a reduction of 1% on both prices. The impact measured considering this variation in the price of products sold and raw materials and other inputs totals R\$ 31,932 as of March 31, 2010 (R\$ 25,514 as of March 31, 2009). The company and its subsidiaries do not have hedges for commodities.

**Sensitivity analysis of interest rate swaps:** the Company has an interest rate swaps exposure for some of its loans and financing. The sensitivity analysis calculated by the Company considers the effects of either an increase or a decrease of 0.10% in the interest curve (Libor), and its impacts in the swaps mark to market. The calculated impact considering this interest rate variation is approximately R\$ 4,863 (R\$ 9,040 as of December 31, 2009) which represents an increase or a decrease in these swaps mark to market. As of March 31, 2010, these effects would be recognized in net income and in the statement of comprehensive income, in the amounts of R\$ 784 and R\$ 4,079, respectively (R\$ 2,075 and R\$ 6,965 as of December 31, 2009).

**Sensitivity analysis of currency swaps and NDF's (Non Deliverable Forwards):** the Company has currency swaps (*cross currency swaps*) and NDF's exposure to some of its assets and liabilities. The sensitivity analysis calculated by the Company considers an effect of a 5% Real depreciation or appreciation against these currencies and its effects on these derivatives mark to market. The calculated impact considering this currency rate variation is, as of March 31, 2010, approximately R\$ 5,200 (R\$ 2,960 as of December, 31 2009), which represents an increase or a decrease in these swaps mark to market. These effects would be recognized in the statement of comprehensive income.

**d) Financial Instruments per Category**

Summary of the financial instruments per category:

March 31, 2010	Loans and receivables	Financial assets at fair value through profit and loss	Assets at fair value with gains and losses recognized in		Total
			Equity	Available for sale	
Short and long-term investments	-	2,306,535	46,299	308,222	2,661,056
Unrealized gains on derivatives	-	24,366	-	-	24,366
Trade accounts receivable	3,338,737	-	-	-	3,338,737
Related parties	44,727	-	-	-	44,727
Other accounts receivable	432,357	-	-	-	432,357
Cash and cash equivalents	1,843,702	-	-	-	1,843,702
<b>Total</b>	<b>5,659,523</b>	<b>2,330,901</b>	<b>46,299</b>	<b>308,222</b>	<b>8,344,945</b>

  

Liabilities	Liabilities at market value with gains and losses recognized in the income	Liabilities at fair value with gains and losses recognized in the income	Equity	Other financial liabilities at amortized cost	Total
Trade accounts payable	-	-	-	2,180,287	2,180,287
Imports financing	-	-	-	1,250,148	1,250,148
Prepayment financing	-	-	-	195,226	195,226
Perpetual bonds	-	-	-	1,068,600	1,068,600
Ten Years Bonds	-	-	-	5,038,808	5,038,808
Other financing	-	-	-	6,452,812	6,452,812
Debentures	-	-	-	624,981	624,981
Other accounts payable	-	-	-	598,842	598,842
Put options on minority interest	495,674	-	-	-	495,674
Unrealized losses on derivatives	77,400	-	32,016	-	109,416
<b>Total</b>	<b>573,074</b>	<b>32,016</b>	<b>32,016</b>	<b>17,409,704</b>	<b>18,014,794</b>

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December 31, 2009	Loans and receivables	Financial assets at fair value through profit and loss	Assets at fair value with gains and losses recognized in Equity	Available for sale	Total
<b>Assets</b>					
Short and long-term investments	-	2,619,418	49,690	58,296	2,727,404
Unrealized gains on derivatives	-	20,034	-	-	20,034
Trade accounts receivable	2,585,709	-	-	-	2,585,709
Related parties	49,154	-	-	-	49,154
Other accounts receivable	362,761	-	-	-	362,761
Cash and cash equivalents	2,091,944	-	-	-	2,091,944
<b>Total</b>	<b>5,089,568</b>	<b>2,639,452</b>	<b>49,690</b>	<b>58,296</b>	<b>7,837,006</b>
		<b>Liabilities at market value with gains and losses recognized in the income</b>	<b>Liabilities at fair value with gains and losses recognized in Equity</b>	<b>Other financial liabilities at amortized cost</b>	<b>Total</b>
<b>Liabilities</b>					
Trade accounts payable	-	-	-	1,705,058	1,705,058
Imports financing	-	-	-	1,222,211	1,222,211
Prepayment financing	-	-	-	511,316	511,316
Ten Years Bonds	-	-	-	4,840,778	4,840,778
Perpetual bonds	-	-	-	1,044,720	1,044,720
Other financing	-	-	-	6,300,911	6,300,911
Debentures	-	-	-	600,979	600,979
Related parties	-	-	-	822	822
Other accounts payable	-	-	-	586,055	586,055
Put options on minority interest	518,096	-	-	-	518,096
Unrealized losses on derivatives	81,180	-	11,680	-	92,860
<b>Total</b>	<b>599,276</b>	<b>11,680</b>	<b>11,680</b>	<b>16,812,850</b>	<b>17,423,806</b>

Except for an instrument classified as cash flow hedge, whose effectiveness can be measured and that has its unrealized losses and/or gains classified directly in Equity, all derivative financial instruments are interest rate swaps and NDFs (Non Deliverable Forwards). These instruments were recorded at fair value and the realized and unrealized losses and/or gains were presented in the account "Gains and losses on derivatives, net" in the consolidated statement of income.

**e) Operations with derivative financial instruments**

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

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

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

**Policy for use of derivatives:** according to internal policy, the financial result must stem from the generation of cash from its business and not gains from the financial market. It, therefore, considers that the use of derivatives should be for non-speculative purposes and intended to hedge the Company from possible exposure to risks. The contracting of a derivative must have as corresponding hedged item an uncovered asset or liability, provided as the position is not leveraged.

Criteria adopted for defining the notional amount of derivative financial instruments are linked to the amount of debt and or assets.

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**Policy for determining fair value:** The criterion for determining the fair value of derivative financial instruments is based on the utilization of market curves for each derivative discounted to present value as of the calculation date. Methods and assumptions take into consideration the interpolation of curves, such as in the case of LIBOR, and each market where the company has exposure. Swaps, both on the asset and the liability side, are estimated in separate and discounted to present value and the difference in the result between extremities generates the swap's market value.

Values are calculated based on models and price quotes available in the market and which take into consideration both present and future market conditions. Amounts are gross before taxes.

Due to changes in market rates, these amounts can change up to the maturity or in situations of anticipated settlement of transactions.

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

**Non Deliverable Forwards:** The subsidiary Aços Villares S.A. has sale of NDFs designated as cash flow hedge with a notional value of US\$ 68.6 million, equivalent to R\$ 122,177 as of March 31, 2010 that takes on the average PTAX from the month before it is due and the bank adopts a fixed US dollar rate for the maturity date. The total is distributed into tranches in order to cover income from exporting rolls and the last one is due on January 1, 2011. The fair value of this contract on March 31, 2010 is a net gain of R\$ 5,194. Changes in the fair value of the effective portion of the hedging instrument were recognized in a specific account of Equity in the amount of R\$ 26,212 (net of taxes). Counterparts to this transaction include the banks Banco Itaú S.A., UBS Pactual, and Unibanco S.A.

Subsidiary Cleary Holdings settled NDF's (Non Deliverable Forwards), which were designated as cash flow hedges with maturity date on February 5, 2010. This operation was conducted to hedge the exchange exposure of its agreements of coal selling in the external market, which are in US dollars. As of March 31, 2010, the effects of this NDF in the net income of the period was a loss of R\$ 151 and it was registered in the account "Gains and losses on derivatives, net". Counterpart to this transaction is Banco de Bogotá.

## **Swap Contracts**

### ***Interest rate swap***

The subsidiary Aços Villares S.A. has swaps in the amount of US\$ 32.18 million (R\$ 57,313 as of March 31, 2010) in which the financial charges for export pre-payment contracts equivalent to LIBOR plus a spread are swapped for prefixed interest rates. The fair value adjustment of this contract as of March 31, 2010, results in a net loss of R\$ 2,330. Counterparties for these transactions include Unibanco and ABN Amro Bank.

The Company through its subsidiary GTL Equity Investments Corp. contracted exchange swaps based on the LIBOR with the bank JP Morgan with maturity dates between September 21, 2010 and December 21, 2011. The nominal values of these contracts together were US\$ 300 million (R\$ 534,300 as of March 31, 2010). This operation was entered into in order to take advantage of the difference between the internal interest rate (exchange coupon) and the external interest rate (LIBOR). Because of this, the Company increases its exposure to the Brazil's risk, however, this risk is related to its business. The fair value adjustment of these contracts as of March 31, 2010 results in a loss of R\$ 18,983 and a gain of R\$ 19,172, generating a net gain of R\$ 189.

Also through its subsidiary GTL Equity Investments Corp., the Company has an interest rate swap, with the bank Calyon, with maturity date on August 15, 2012. The nominal value of this contract is US\$ 7.5 million (R\$ 13,358 as of March 31, 2010). This swap was contracted in order to minimize the interest rate variation risk (LIBOR) since the Company took on debts in dollars at floating rates. The fair value adjustment of these contracts as of March 31, 2010 results in a net loss of R\$ 665.

The subsidiary Siderúrgica del Perú S.A.A. - Siderperú entered into an interest rate swap contract whereby it receives a variable interest rate based on LIBOR and pays a fixed interest rate in US dollars. This contract has a nominal value of US\$ 60.71 million, equivalent to R\$ 108,125 as of March 31, 2010 and maturity date on April 30, 2014. This swap was contracted in order to minimize the risk of interest rate fluctuations (LIBOR) since the Company took on debt in dollars at

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floating rates for an amount greater than the swap. The fair value adjustment of this contract as of March 31, 2010 results in a net loss of R\$ 7,153. The counterparty to this transaction is Banco Bilbao Vizcaya -BBVA.

The subsidiary Gerdau Ameristeel Corp. entered into an interest rate swap contract qualified as a cash flow hedge in order to reduce its exposure to the variation in LIBOR for the Term Loan Facility. Since the Term Loan Facility was contracted at floating LIBOR rates, the Company chose to exchange it for fixed rates, thereby improving cash flow predictability, as well as eliminating the floating LIBOR risk. The contracts have a nominal value of US\$ 1 billion, which was the equivalent of R\$ 1,781 million as of March 31, 2010. Fixed rates for these swaps are between 3.3005% and 3.7070% and they mature from March 2012 to September 2013. If added to the spread on LIBOR related to tranche B of the Term Loan Facility, the interest rate on these swaps would be between 4.5505% and 4.9570%. The fair value of these swaps as of March 31, 2010, results in a net loss adjustment of R\$ 80,285, which generates an effect net of taxes of R\$ 58,228 in an specific account of Equity. The counterparties to this transaction are ABN Amro Bank, HSBC, and JP Morgan.

### Guarantee Margins

The Company has derivatives financial instruments contracts, which states the possibility of constitution of deposits and/or guarantee margins when the mark to market value of these instruments exceeds the limits established in each contract. As of March 31, 2010, there were no margin calls for any of the above contracts.

The derivatives instruments can be summarized and categorized as follows:

Contracts for Asset Protection	Position	Reference Value		Net income - three months period ending on		Recognized value				Fair value	
		March 31, 2010	December 31, 2009	March 31, 2010	March 31, 2009	Shareholder's equity		Amount receivable		Amount payable	
		March 31, 2010	December 31, 2009	March 31, 2010	March 31, 2009	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
<b>Forward</b>											
Aços Villares S.A.		US\$ 68.6 million	US\$ 89.1 million	779	(11,894)	26,212	27,185	5,194	6,181	-	-
Diacon S.A.		-	-	-	3,873	-	-	-	-	-	-
Siderúrgica del Perú S.A.A. - Siderperú		-	-	-	(27)	-	-	-	-	-	-
Clery Holdings		-	US\$ 14.17 million	(151)	-	-	(584)	-	-	-	(584)
				628	(8,048)	26,212	26,601	5,194	6,181	-	(584)
<b>Swap contracts</b>											
<b>Interest rate swap</b>											
Aços Villares S.A.	receivable edge	Libor 6M + 1.94%	US\$ 32.18 million	US\$ 39.18 million	(268)	(787)	-	-	-	(2,330)	(2,476)
	payable edge	6.95%	-	-	-	-	-	-	-	-	-
Gerdau Açominas S.A.	receivable edge	-	-	-	254	-	-	-	-	-	-
	payable edge	-	-	-	-	-	-	-	-	-	-
Siderúrgica del Perú S.A.A. - Siderperú	receivable edge	Libor 6M + 0.90%	US\$ 60.71 million	US\$ 64.29 million	(1,095)	(8,182)	-	-	-	(7,153)	(7,196)
	payable edge	5.50%	-	-	-	-	-	-	-	-	-
Gerdau Ameristeel Corp.	receivable edge	Libor 6M + 1.37%	US\$ 1 billion	US\$ 1 billion	-	-	(58,228)	(38,281)	-	(80,285)	(65,856)
	payable edge	3.48%	-	-	-	-	-	-	-	-	-
GTL Equity Investments Corp.	receivable edge	Libor 6M	US\$ 7.5 million	US\$ 7.5 million	(155)	(884)	-	-	-	(665)	(680)
	payable edge	3.48%	-	-	-	-	-	-	-	-	-
GTL Equity Investments Corp.	receivable edge	4.51% a.a.	US\$ 300 million	US\$ 300 million	2,339	35,496	-	19,172	13,853	(18,983)	(16,068)
	payable edge	3.51% a.a.	-	-	-	-	-	-	-	-	-
					821	35,892	(58,228)	(38,281)	19,172	13,853	(109,416)
<b>Cross currency swap</b>											
Gerdau Açominas S.A.	receivable edge	-	-	-	(2,591)	-	-	-	-	-	-
	payable edge	-	-	-	-	-	-	-	-	-	-
Gerdau Açominas S.A.	receivable edge	-	-	-	(48,306)	-	-	-	-	-	-
	payable edge	-	-	-	-	-	-	-	-	-	-
					1,440	(80,897)	(32,016)	(11,680)	24,366	20,034	(109,416)

The fair value effects was classified in the Balance sheet as follows:

	March 31, 2010	December 31, 2009
<b>Unrealized gains on derivatives</b>		
Current assets	5,194	5,737
Non-current assets	19,172	14,297
	24,366	20,034
<b>Unrealized losses on derivatives</b>		
Current liabilities	(2,330)	(2,483)
Non-current liabilities	(107,086)	(90,377)
	(109,416)	(92,860)
<b>Net effect</b>	(85,050)	(72,826)

### f) Put options on minority interest

On January 10, 2006, the Company completed its acquisition of 40% of Corporación Sidor S.A. ("Sidor"), a Spanish steel producer with operations in Spain and Brazil. The Santander Group, Spanish financial conglomerate, purchased simultaneously 40% of Sidor. The acquisition price of 100% of Sidor consists of a fixed installment of € 443,820 thousand plus a contingent variable installment to be paid only by the Company. The fixed price paid by the Company on January 10, 2006 for its stake of 40% in Sidor was € 165,828 thousand (R\$ 432,577). The Santander Group has the option to sell its interest in Sidor to the Company 5 years after the purchase at a fixed price with a fixed interest rate, and Sidor has the right of preference to purchase these shares and also may, at any time during the period of the put option validity require the Santander Group to exercise the put option before the expiration date. Furthermore, the Company guaranteed to pay to Santander Group an agreed amount (the same as the fixed price of the put option mentioned above plus interest accrued using the same fixed interest rate) at any time up to 6 years after exercising the option in the event that Santander Group has not sold the shares acquired up to that date. In this case, if the Santander Group requires payment of

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the guarantee, the Company has the right to acquire Sidenor's shares or to indicate a third party to acquire the shares. The amount received for the sale of shares and dividends paid by Sidenor to the Santander Group should be reimbursed to the Company. The potential commitment of the Company to purchase from the Santander Group its 40% interest in Sidenor was recorded as a non-current liability under "Put options on minority interest". As a result of the recognition of this potential obligation, the Company has recognized Sidenor as a consolidated subsidiary since its acquisition. As of March 31, 2010, such potential obligation totaled R\$ 434,413 (R\$ 449,599 as of December 31, 2009).

Gerdau Ameristeel has the call option for 16% of the remaining stake in Pacific Coast Steel (PCS), which can be exercised after 5 years from the purchase date, which took place on November 1, 2006. Additionally, the minority shareholders also have the option to sell the remaining 16% interest in PCS to Gerdau Ameristeel, for the established price and also after 5 years from the date of transaction. The established price was set as the EBITDAs average for the 5 last years ended before the option exercise, multiplied proportionally by 5 in the first two years and 6.75 in the last three years. If Gerdau Ameristeel does not exercise the call option, then the minority shareholders are entitled to exercise the option to sell their remaining interest to Gerdau Ameristeel. In case the call/put option is exercised, the other party is obligated to sell/purchase the remaining stake. As established by IAS 32 - Financial Instruments: Presentation, the Company performed the reclassification of the exercise value of the put option from the account "Non-controlling interests" to non-current liabilities under the account "Put options on minority interest". By the end of the term established in the put and call option and in case none of the involved parties exercise it, the reclassification will be reversed and the amount of the stake held by PCS minority shareholders, on the date of the Consolidated Financial Statements, will be recognized as non-controlling interests. As of March 31, 2010 the amount recorded as potential obligation is R\$ 48,972 (R\$ 56,483 as of December 31, 2009).

The Company has a call option of 7.25% of Sipar Gerdau Inversões S.A. and the non-controlling shareholders of this entity have the option to sell its 7.25% of its remaining interest to the Company. The option can be exercised either by the Company or the non-controlling shareholders as from 2010, being this interest must necessarily be acquired by 2015. The contract establishes the amount of US\$ 6.9 million (R\$ 12,289 as of March 31, 2010), adjusted by the fluctuation in the sales level by 10% up or down until the option be exercised.

**g) Net investment hedge**

Based on IFRIC Interpretation 16 issued in July 2008, and substantiated by IAS 39, the Company, on September 30, 2008, opted to designate as hedge of part of its net investments in subsidiaries abroad the operations of Ten Year Bonds in the amount of US\$ 1.5 billion, which were made in order to provide part of the resources for the acquisition of Chaparral Steel Company and Gerdau MacSteel Inc. Based on the standard and interpretation of standard mentioned above, the Company demonstrated high effectivity of the hedge as from the debt hiring for acquisition of these companies abroad, whose effects were measured and recognized directly in Equity account as from October 1, 2008.

The objective of the hedge is to protect, during the existence of the debt, the amount of part of the Company's investment in the subsidiaries mentioned above against positive and negative oscillations in the exchange rate. This objective is consistent with the Company's risk management strategy.

The Company performed retrospective and prospective effectiveness tests on March 31, 2010 in compliance with regulation IAS 39 and demonstrated high effectiveness for the net investment hedge. As a result of this operation, the Company recognized in the statement of comprehensive income on March 31, 2010 an unrealized loss of R\$ 59,700 (gain of R\$ 32,700 on March 31, 2009).

**h) Measurement of fair value:**

IFRS 7 defines fair value as the price that would be received for an asset or paid for transferring a liability (exit price) in the principal or most advantageous market for the asset or liability in a regular transaction between market participants on the day of calculation. IFRS 7 also establishes a hierarchy of three levels for the fair value, which prioritizes information when measuring the fair value by the company, to maximize the use of observable information and minimize the use of non-observable information. This IFRS describes the three levels of information to be used to measure fair value:

Level 1 - quoted prices (not adjusted) in active markets for identical assets and liabilities.

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Level 2 - Inputs other than quoted prices included in Level 1 available, where (non-adjusted) quoted prices are for similar assets and liabilities in non-active markets, or other data that is available or may be corroborated by market data for substantially the full term of the asset or liability.

Level 3 – Inputs for the asset or liability that are not based on observable market data, because market activity is insignificant or does not exist.

As of March 31, 2010, the Company had some assets which the fair value measurement is required on a recurring basis. These assets include investments in private securities and derivative instruments.

Financial assets and liabilities of the Company, measured at fair value on a recurring basis and subject to disclosure requirements of IFRS 7 as of March 31, 2010, are as follows:

	<b>Fair value measurement</b>			
	<b>March 31, 2010</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Current assets</b>				
Short-term investments				
Held for Trading	2,306,535	2,230,474	76,061	-
Available for sale	308,222	14,546	293,676	-
Derivatives	5,194	-	5,194	-
<b>Non-current assets</b>				
Long-term investments				
Available for sale	46,299	-	-	46,299
Derivatives	19,172	-	19,172	-
<b>Current Liabilities</b>				
Derivatives	2,330	-	2,330	-
<b>Non-current liabilities</b>				
Derivatives	107,086	-	107,086	-
Put options on minority interest				
Sidenor	434,413	-	-	434,413
PCS	48,972	-	-	48,972
Sipar	12,289	-	-	12,289
	<b>3,290,512</b>	<b>2,245,020</b>	<b>503,519</b>	<b>541,973</b>

Changes in the measurements using significant unobservable inputs (Level 3):

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	<u>Assets</u>
Balance as of December 31, 2009	<u>49,690</u>
(-) Interests and other contractual obligations	4,502
(-) Gains and losses on conversion	1,137
(-) Sales of investments	<u>(9,030)</u>
Balance as of March 31, 2010	<u>46,299</u>
	<u>Liabilities</u>
Balance as of December 31, 2009	<u>518,096</u>
(-) Interests and other contractual obligations	3,611
(-) Gains and losses on conversion	<u>(26,033)</u>
Balance as of March 31, 2010	<u>495,674</u>
	<u>541,973</u>

**NOTE 12 – PROVISIONS FOR TAX, LABOR AND CLAIMS**

The Company and its subsidiaries are parties to judicial and administrative proceedings involving tax, labor and civil matters. Based on the opinion of its legal counsel, Management believes that the Provisions recorded for these judicial and administrative proceedings is sufficient to cover probable and reasonably estimable losses from unfavorable court decisions, and that the final decisions will not have significant effects on the financial position of the Company and its subsidiaries as of March 31, 2010.

The balances of the provisions are as follows:

	<u>March 31, 2010</u>	<u>December 31, 2009</u>
a) Tax provisions		
ICMS (state VAT)	55,700	55,448
CSLL (social contribution tax)	56,082	53,259
IRPJ (corporate income tax)	757	-
INSS (social security contribution)	21,381	35,698
ECE (emergency capacity charge)	33,996	33,996
RTE (extraordinary tariff adjustment)	21,895	21,895
II (import tax)/IPI (excise tax) Drawback	2,570	921
PIS (financing of social integration program)/COFINS (social security financing)	138,520	78,950
Other tax provisions	<u>13,906</u>	<u>15,483</u>
	344,807	295,650
b) Labor provisions	150,483	141,507
c) Civil provisions	10,755	10,014
	<u>506,045</u>	<u>447,171</u>

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**NOTE 13 - RELATED-PARTY TRANSACTIONS**

**a) Intercompany loans**

	<u>March 31, 2010</u>	<u>December 31, 2009</u>
<b>Assets</b>		
<b>Associate Companies</b>		
Armacero Ind. Com. Ltda.	2,762	3,019
<b>Controlling shareholders</b>		
Metalúrgica Gerdau S.A.	1,545	-
<b>Others</b>		
Fundação Gerdau	39,988	45,942
Others	432	193
	<u>44,727</u>	<u>49,154</u>
<b>Liabilities</b>		
<b>Controlling shareholders</b>		
Metalúrgica Gerdau S.A.	-	(822)
	<u>44,727</u>	<u>48,332</u>
Loans and advances to executives officers	<u>323</u>	<u>323</u>
	<b>Three months period ended</b>	
	<u>March 31, 2010</u>	<u>March 31, 2009</u>
Net financial income (expenses)	<u>(877)</u>	<u>3,129</u>

**b) Commercial transactions**

	<b>Income (expenses)</b>	
	<b>Three months period ended</b>	
	<u>March 31, 2010</u>	<u>March 31, 2009</u>
<b>Owners</b>		
Indac - Ind. Adm. e Comércio S.A. (*)	(5,953)	(5,321)

(\*) Guarantees granted of loans

**c) Guarantees granted**

The Company is guaranteed the financing contract of the subsidiary Gerdau Açominas S.A. in the amount of R\$ 1,250,148 as of March 31, 2010.

The Company is a guarantor for the subsidiary Empresa Siderúrgica del Perú S.A.A. - Siderperú for a secured loan of up to US\$ 150 million (R\$ 267,150 as of March 31, 2010). The Company is also the guarantor for a credit facility of US\$ 70 million (R\$ 124,670 as of March 31, 2010).

The Company is a guarantor of associate company Industrias Nacionales C. por A. in an agreement with BNP Paribas to finance constructions and auxiliary equipment totaling US\$ 25 million (R\$ 44,525 as of March 31, 2010).

The Company is the guarantor of the associate company Dona Francisca S.A. for financing contracts totaling R\$ 46,196 as of March 31, 2010, corresponding to a joint liability of 51.82% of the amount.

The Company and the subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Açominas S.A., Gerdau Comercial de Aços S.A., Gerdau Açominas Overseas Ltd. and Gerdau Ameristeel Corporation are the guarantors to

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the subsidiary GNA Partners in financing agreement in the current amount of US\$ 2.75 billion (R\$ 3,009,890 as of March 31, 2010).

The Company and the subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Açominas S.A. and Gerdau Comercial de Aços S.A are guarantors of GTL Trade Finance Inc. regarding the Ten Years Bonds in the amount of up to US\$ 1.5 billion (R\$ 2,671,500 as of March 31, 2010).

The Company and its subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Açominas S.A. and Gerdau Comercial de Aços S.A. are guarantors for Gerdau MacSteel Inc. for the financing called Term and Revolving Credit Agreement in the amount of up to US\$ 1 billion (R\$ 178,181 as of March 31, 2010).

The Company provides guarantee for the obligations taken on by the company Diaco S.A. through a loan made with BBVA Colombia bank in the amount of COP\$ 61.5 billion (R\$ 62,335 as of March 31, 2010).

The Company provides guarantee for loans and for the opening of letter of credit for the acquisition of equipment by the company Estructurales Corsa, S.A.P.I. de C.V. in the amount of US\$ 104 million (R\$ 185,685 as of March 31, 2010).

The Company provides guarantee for its subsidiary Gerdau Aços Especiais S.A. in a purchase contract of electric energy in the total amount of US\$ 518 thousand in the first year (R\$ 1,652 as of March 31, 2010).

The Company provides guarantee for the loan contracted by the company Gerdau Açominas S.A with the Inter-American Development Bank in the total amount of US\$ 200 million (R\$ 356,200 as of March 31, 2010).

The Company provides guarantee to the subsidiary Gerdau Açominas S.A. in a loan agreement with Banco Bradeso S.A. in the amount of US\$ 150 million (R\$ 267,150 as of March 31, 2010).

The Company and the subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Açominas S.A and Gerdau Comercial de Aços S.A are guarantors for Gerdau Holdings Inc. for the issuance of bonus with a maturity of 10 years (Ten Years Bond) totaling US\$ 1.25 billion (R\$ 2,226,250 as of March 31, 2010).

**NOTE 14 – EQUITY – PARENT COMPANY GERDAU S.A.**

**a) Capital** – The Board of Directors may, without need to change the bylaws, issue new shares (authorized capital), including the capitalization of profits and reserves up to the authorized limit of 1,500,000,000 common shares and 3,000,000,000 preferred shares, all without par value. In the case of capital increase by subscription of new shares, the right of preference shall be exercised before the deadline of 30 days, except in the case of a public offering, when the deadline shall not be less than 10 days.

As of March 31, 2010 and December, 31 2009, 496,586,494 common shares and 934,793,732 preferred shares are subscribed and paid up, totaling a paid up capital of R\$ 14,184,805. The shares are distributed as follows:

Shareholders	Shareholders											
	March 31, 2010										December 31, 2009	
	Common	%	Pref.	%	Total	%	Common	%	Pref.	%	Total	%
Metalúrgica Gerdau S.A.	378,218,185	76.2	271,353,662	29.0	649,571,847	45.4	378,218,185	76.2	271,353,662	29.0	649,571,847	45.4
Brazilian institutional investors	21,059,485	4.2	139,051,219	14.9	160,110,704	11.2	20,810,696	4.2	136,854,752	14.6	157,665,448	11.0
Foreign institutional investors	23,175,295	4.7	313,909,407	33.6	337,084,702	23.5	24,749,272	5.0	328,887,708	35.2	353,636,980	24.7
Other shareholders	72,435,991	14.6	199,818,676	21.4	272,254,667	19.0	71,110,803	14.3	188,613,613	20.2	259,724,416	18.1
Treasury stock	1,697,538	0.3	10,660,768	1.1	12,358,306	0.9	1,697,538	0.3	9,083,997	1.0	10,781,535	0.8
	496,586,494	100.0	934,793,732	100.0	1,431,380,226	100.0	496,586,494	100.0	934,793,732	100.0	1,431,380,226	100.0

Preferred shares do not have voting rights and cannot be redeemed but have the same rights as common shares in the distribution of dividends.

**b) Treasury stock**

Changes in treasury stocks are as follows:

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	March, 31 2010				December, 31 2009			
	Common	R\$	Preferred shares	R\$	Common	R\$	Preferred shares	R\$
<b>Opening balance</b>	1,697,538	557	9,083,997	124,128	1,697,538	557	9,274,401	122,263
Repurchases	-	-	1,700,000	44,620	-	-	500,000	11,071
Exercise of stock option	-	-	(123,229)	(1,823)	-	-	(690,404)	(9,206)
<b>Closing balance</b>	<u>1,697,538</u>	<u>557</u>	<u>10,660,768</u>	<u>166,925</u>	<u>1,697,538</u>	<u>557</u>	<u>9,083,997</u>	<u>124,128</u>

On January 25, 2010 and February 26, 2010, the Board of Directors authorized a buyback program of 1,200,000 and 500,000, respectively, of preferred shares to meet the Long-term Incentive Program of the Company. The acquisition average cost of these shares was R\$ 26.24.

As of March 31, 2010, the Company had 10,660,768 preferred shares in treasury, totaling R\$ 166,925. These shares will be held in treasury for subsequent cancelling or will service the long-term incentive plan of the Company. During the first quarter of 2010, 123,229 shares were delivered for the exercise of shares options with losses of R\$ 552, which were recorded in the Stock options account. The average price of these shares was R\$ 14.80, ranging from R\$ 6.78 to R\$ 26.19.

**NOTE 15 – EARNINGS PER SHARE (EPS)**

In compliance with IAS No. 33, Earnings per Share, the following tables reconcile the net income to the amounts used to calculate the basic and diluted earnings per share.

**Basic**

	Three-Month period ended March 31, 2010			Three-Month period ended March 31, 2009		
	Common	Preferred	Total	Common	Preferred	Total
	(in thousands, except share and per share data)			(in thousands, except share and per share data)		
<b>Basic numerator</b>						
Allocated net income available to Common and Preferred shareholders	175,750	328,515	504,265	30,810	57,622	88,432
<b>Basic denominator</b>						
Weighted-average outstanding shares, after deducting the average treasury shares	494,888,956	925,051,839		494,888,956	925,554,718	
Earnings per share (in R\$) – Basic	<u>0.36</u>	<u>0.36</u>		<u>0.06</u>	<u>0.06</u>	

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**Diluted**

	<b>Three-Month period ended March 31, 2010</b>	<b>Three-Month period ended March 31, 2009</b>
<b>Diluted numerator</b>		
<b>Allocated net income available to Common and Preferred shareholders</b>		
Net income allocated to preferred shareholders	328,515	57,622
Add:		
Adjustment to net income allocated to preferred shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of options granted to acquire stock of Gerdau.	370	23
	<u>328,885</u>	<u>57,645</u>
Net income allocated to common shareholders	175,750	30,810
Less:		
Adjustment to net income allocated to common shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of options granted to acquire stock of Gerdau.	(370)	(23)
	<u>175,380</u>	<u>30,787</u>
<b>Diluted denominator</b>		
<b>Weighted - average number of shares outstanding</b>		
Common Shares	494,888,956	494,888,956
Preferred Shares		
Weighted-average number of preferred shares outstanding	925,051,839	925,554,718
Potential increase in number of preferred shares outstanding in respect of stock option plan	2,995,219	1,083,192
Total	<u>928,047,058</u>	<u>926,637,910</u>
Earnings per share – Diluted (Common and Preferred Shares)	<u>0.35</u>	<u>0.06</u>

**NOTE 16 – LONG-TERM INCENTIVE PLANS**

**I) Gerdau S.A.**

The Extraordinary Shareholders' Meeting held on April 30, 2003 decided, based on a previously approved plan and within the limit of the authorized capital, to grant preferred stock options to management, employees, or people who render services to the Company or its subsidiaries, and approved the development of the Long-Term Incentive Program that represents a new method of compensation of the strategic officers of the Company. The options can be exercised in a maximum of five years after the grace period.

**a) Summary of changes in the plan:**

Year of grant	Exercise price - R\$	Vesting period	Average accrued market price	Quantity of shares				
				Initial balance on December 31, 2009	Granted	Cancelled	Exercised	End balance on March 31, 2010
2004	6.78	5 years	27.17	1,106,729	-	-	(19,126)	1,087,603
2005	10.58	3 years	27.17	426,401	-	-	(12,336)	414,065
2005	10.58	5 years	27.17	1,107,268	-	-	(82,389)	1,024,879
2006	12.86	5 years	27.17	1,682,616	-	(12,340)	(3,114)	1,667,162
2007	17.50	5 years	27.17	1,336,760	-	(9,984)	(2,656)	1,324,120
2008	26.19	5 years	27.17	1,128,810	-	(12,624)	-	1,116,186
2009	14.91	5 years	27.17	2,246,116	-	(22,763)	(3,610)	2,219,743
2010	29.12	5 years	27.17	-	1,208,576	(9,541)	-	1,199,035
				<u>9,034,700</u>	<u>1,208,576</u>	<u>(67,252)</u>	<u>(123,231)</u>	<u>10,052,793</u>

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Year of grant	Exercise price - R\$	Vesting period	Average accrued market price	Initial balance on December 31, 2008	Granted	Cancelled	Exercised	End balance on December 31, 2008
2003	2.65	5 years	20.64	62,106	-	-	(62,106)	-
2004	6.78	5 years	20.64	1,349,859	-	-	(243,130)	1,106,729
2005	10.58	3 years	20.64	470,263	-	(5,555)	(38,307)	426,401
2005	10.58	5 years	20.64	1,155,565	-	-	(48,297)	1,107,268
2006	12.86	5 years	20.64	1,839,817	-	(7,097)	(150,104)	1,682,616
2007	17.50	5 years	20.64	1,455,728	-	(12,079)	(106,889)	1,336,760
2008	26.19	5 years	20.64	1,180,300	-	(13,477)	(38,013)	1,128,810
2009	14.91	5 years	20.64	-	2,285,238	(35,529)	(3,593)	2,246,116
				7,513,638	2,285,238	(73,737)	(690,439)	9,034,700

As mentioned at Note 14, as of March 31, 2010 the Company has a total of 10,660,768 preferred shares in treasury. These shares may be used for serving this plan. The exercise of the options before the grace period end was due to retirement and/or death.

**b) Status of the plan as of March 31, 2010:**

	2004	2005	2006	2007	2008	2009	Grant 2010	Average
Total options granted	1,087,603	1,438,944	1,667,162	1,324,120	1,116,186	2,219,743	1,199,035	
Exercise price- R\$	6.78	10.58	12.86	17.50	26.19	14.91	29.12	16.36
Fair value of options on the granting date - R\$ per option (*)	1.92	1.11	4.33	7.64	10.55	6.98	13.07	6.36
Average exercise period on the grant date (years)	5.00	5.00	5.00	4.90	4.89	4.87	4.86	4.93

(\*) Calculated considering the model of Black-Scholes.

**c) Economic assumptions used to recognize costs of employee compensation:**

The Company recognizes costs of employee compensation based on the fair value of the options granted, considering their fair value on the date of granting. The Company uses the Black-Scholes model for determining the fair value of the options. To determine fair value, the Company used the following economic assumptions:

	Grant 2010	Grant 2009	Grant 2008	Grant 2007	Grant 2006	Grant 2005	Grant 2004
Dividend yield	2.08%	4.13%	2.81%	4.32%	9.99%	7.90%	7.03%
Stock price volatility	57.95%	57.81%	37.77%	38.72%	41.51%	39.00%	43.31%
Risk-free rate of return	12.73%	12.32%	14.04%	12.40%	12.80%	8.38%	8.38%
Expected period until maturity	4.9 years	4.9 years	4.9 years	4.9 years	4.9 years	4.7 years	4.9 years

The Company settles this employee benefit plan by delivering shares it has issued, which are kept in treasury until the exercise of the options by its employees.

**II) Gerdau Ameristeel Corporation – (“Gerdau Ameristeel”)**

In February 2010, the Board of Directors of Gerdau Ameristeel approved the adoption of the Equity Incentive Plan (the “EIP”), which is subject to shareholder approval. The EIP is designed to grant awards, as determined by the Human Resources Committee of the Board of Directors. Awards under the EIP may take the form of stock options, Stock Appreciation Rights (“SARs”), deferred share units (“DSUs”), restricted share units (“RSUs”), performance share units (“PSUs”), restricted shares and/or other share-based awards. Except for stock options, which must be settled in common shares, awards may be settled in cash or common shares. The maximum number of common shares issuable under the EIP is 16,000,000.

For the portion of any award that is payable in options or SARs, the exercise price of the options or SARs will be no less than the fair market value of a common share on the date of the award. The vesting period for Options and SARs is determined by the Human Resources Committee at the time of grant. Options and SARs have a maximum term of 10 years. No more than 8,000,000 common shares may be issued under the EIP as SARs granted on a stand-alone basis.

With respect to any award granted in the form of DSUs, RSUs or PSUs, the number of common shares awarded to a participant and the vesting period of the award is determined by the Human Resources Committee. Under the EIP, no more than 1,000,000 common shares may be issued as DSUs and no more than 2,500,000 common shares may be issued as PSUs.

On March 12, 2010, an award of approximately US\$ 11.8 million (R\$ 21.0 million as of March 31, 2010) was granted to participants under the EIP for 2010, subject to shareholder approval of the EIP. The Company issued 1,728,689 SARs, 277,619 RSUs, and 396,605 PSUs under this plan. This award is being accrued over the vesting periods.

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In connection with the proposed adoption of the EIP, the Company terminated the existing long-term incentive plans (“LTIP”) and no further awards will be granted under these LTIPs. All outstanding awards under LTIPs will remain outstanding until they are exercised, forfeited or expire. As of March 31, 2010, there were 3,953,099 SARs, 2,650,443 stock options, and 687,944 phantom shares outstanding under LTIPs. These awards are accrued over the vesting period.

An award valued at approximately US\$ 10.6 million (R\$ 18.9 million as of March 31, 2010) was earned by participants under the long-term incentive plan in 2008 and was granted as follows: 40% in SARs, 30% in options and 30% in phantom stock during the three months ended March 31, 2009. The Company issued 2,002,116 options as part of this award.

#### **Share Appreciation Rights (SARs)**

SARs provide the holder with the opportunity to receive either common shares or a cash payment equal to the fair market value of the Company’s common shares less the grant price. The grant price is set at the closing price of the Company’s common shares on the grant date. SARs have a vesting period of four to five years and expire ten years after the grant date. Expenses with this plan are recognized based on the fair value of the awards that are still in the vesting period and remain outstanding at the end of the reporting period. The Black-Scholes option pricing model is used to calculate an estimate of fair value. The Company has SARs that may be settled in shares or in cash. For equity-settled SARs, the fair value is estimated only on the grant date. For cash-settled SARs, the fair value is remeasured at each reporting date.

The weighted average fair value of SARs granted during the three months ended March 31, 2010 and the main assumptions used in the application of the Black-Scholes option pricing model were as follows:

	<b>2010</b>
Dividend yield	2.77%
Volatility in the share price	60.99%
Free rate of return risk	2.81%
Expected period to maturity	6.51 years

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions. The model requires the use of subjective assumptions, including expected share price volatility; historical data has been considered in the definition of assumptions.

#### **Restricted Share Units (RSUs)**

RSUs entitle their holders to receive a certain number of common shares after a determined vesting period. The RSUs have a vesting period of five years. The holders of RSUs have no voting rights, but accumulate additional units based on notional dividends paid by the Company on its common shares at each dividend payment date, which are reinvested as additional RSUs. Expenses related to RSUs are recognized over the vesting period based on the fair value of the Company’s common shares on the grant date and the awards that are expected to be granted. The fair value is calculated based on the closing price of the Company’s common shares on the NYSE on the grant date. The weighted average fair value of RSUs granted was US\$ 7.89 for the three months ended March 31, 2010.

PSUs entitle their holders to receive one common share for each unit after the vesting period. The holders of PSUs accumulate additional units based upon notional dividends paid by the Company on its common shares on each dividend payment date, which are reinvested as additional PSUs. The percentage of PSUs initially granted that vest depends upon the Company’s performance over the performance period against pre-established performance goals. Between 0% and 200% of the initial amounts can be granted for all grants.

Expenses related to each PSU grant are recognized over the performance period based upon the fair value of the Company’s common shares on the grant date and the number of units expected to be exercised. The fair value is calculated based on the closing price of the Company’s common shares on the NYSE on the date of grant. The weighted average fair value of PSUs granted was \$7.89 for the three months ended March 31, 2010.

#### **Stock Options**

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The stock options have a vesting period of four years. The maximum term of an option is 10 years from the grant date. Options under the plan are granted at the closing price of the Company's common shares on the grant date.

There were no stock options granted under the EIP during the three months ended March 31, 2010. The grant date fair value of stock options granted under the long-term incentive plans during the three months ended March 31, 2009 was US\$ 1.59. The fair value of each option granted is estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants based on the table below.

	<u>2010</u>
Dividend yield	3.10%
Volatility in the share price	62.95%
Free rate of return risk	1.99%
Expected period to maturity	6.25 years

Expected volatility is based on historical volatility of the Company's shares, as well as of other companies that operate in similar industries. The expected term (in years) is based on historical data to estimate the standards of options exercises. The expected dividend yield is based on the annualized rate of dividends during the vesting period. The interest-free risk rate is based on the rates of United States bonds, proportional to the expected term of the option granted.

The table below summarizes stock options:

	<u>March 31, 2010</u>			<u>December 31, 2009</u>		
	<u>Number of shares</u>	<u>Average market price in the period</u>		<u>Number of shares</u>	<u>Average market price in the period</u>	
		<u>US\$</u>	<u>R\$</u>		<u>US\$</u>	<u>R\$</u>
Available at the beginning of the year	2,828,498	5.79	10.31	1,307,036	9.13	15.90
Options granted	-	-	-	2,002,116	3.48	6.06
Options exercised <sup>(a)</sup>	(178,055)	3.31	5.90	(108,590)	1.98	3.45
Options cancelled	-	-	-	(372,064)	6.18	10.76
Options expired	-	-	-	-	-	-
Available at the end of the year	<u>2,650,443</u>	<u>5.96</u>	<u>10.61</u>	<u>2,828,498</u>	<u>5.79</u>	<u>10.08</u>
Shares exercised	<u>1,109,192</u>			<u>665,320</u>		

(a) The weighted-average price of the subsidiary's stock at the date of exercise for stock options exercised during the three months ended March 31, 2010 and 2009 was US\$ 3.31 and US\$ 2.04, respectively.

The table below summarizes information on purchase options of Gerdau Ameristeel shares available as of March 31, 2010:

<u>Exercise price range</u>	<u>Quantity Available</u>	<u>Average period of grace (in year)</u>	<u>Average price of exercise</u>		<u>Number exercisable at March 31, 2010</u>
			<u>US\$</u>	<u>R\$</u>	
US\$ 1,38 to US\$ 3,48 (R\$ 2,46 to R\$ 6,20)	1,894,720	7.8	1.71	3.05	590,947
US\$ 9,50 to US\$ 10,90 (R\$ 16,92 to R\$ 19,41)	428,140	6.7	3.32	5.91	350,121
US\$ 15,86 (R\$ 28,25)	327,583	7.9	2.40	4.27	168,125
	<u>2,650,443</u>				<u>1,109,193</u>

During the three months ended March 31, 2010 and 2009, the compensation costs recognized by the subsidiary for all equity-settled awards were US\$ 0.8 million and US\$ 0.9 million, respectively. The subsidiary recorded expense of US\$ 0.3 million and a reversal of US\$ 1.4 million related to cash-settled awards for the three months ended March 31, 2010 and 2009, respectively.

As of March 31, 2010 and December 31, 2009, the outstanding liabilities for share-based payment transactions included in other non-current liabilities presented in the Company's condensed consolidated balance sheets was US\$ 19.5 million and US\$ 21.7 million, respectively. The total intrinsic value of share-based liabilities, which participants may exercise in cash was US\$ 4.0 million and US\$ 1.5 million as of March 31, 2010 and December 31, 2009, respectively.

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**III) Gerdau MacSteel Inc. (“Gerdau MacSteel”)**

Gerdau Macsteel Inc and its subsidiaries have long-term incentive plans that are designed to reward the Company’s senior management with bonuses based on the achievement of return on capital invested targets. Bonuses which have been earned are awarded after the end of the year in the form of cash or stock appreciation rights (“SARs”). The portion of any bonus which is payable in cash is to be paid in the form of phantom stock. The number of shares of phantom stock awarded to a participant is determined by dividing the cash bonus amount by the market value of the Gerdau S.A. Common Share at the date the award of phantom stock is made, based in the average price of Common Shares in the New York Stock Exchange. Phantom stock and SAR’s vest 25% on each of the first four anniversaries of the date of the award. Phantom Stock is paid in cash when exercised. An award of approximately US\$ 0.7 million (R\$ 1.2 million as of March 31, 2010) was earned by participants in 2009 and was granted 80% in SARs and 20% in phantom stock.

The subsidiary Gerdau MacSteel uses the Black-Scholes pricing method to determine the fair value of stock appreciation rights, recognizing the stock compensation cost as services are provided. The subsidiary used the following economic assumptions to recognize the fair value of these instruments:

Dividend yield	1.79%
Volatility in the share price	71.75%
Free rate of return risk	2.94%
Expected period to maturity	5.18 years

As of March 31, 2010 long-term incentive plan costs not yet recorded related to grants still in the grace period amounted to approximately US\$ 2.8 million (R\$ 4,939 as of March 31, 2010), and the average period for recognizing these costs was 5.18 years.

**NOTE 17 – SEGMENT REPORTING**

The Gerdau Executive Committee, which is composed of most of the senior officers of the Company, is responsible for managing the business.

Beginning the second quarter of 2009, the Board approved the proposal of the Gerdau’s Executive Committee related to the new governance of the Company, which established a new business segmentation where former segments Long Steel Brazil and Açominas Ouro Branco were combined under a single business segment, Brazil Operation. The current segments of the Company are as follows: Brazil Operation (includes operations in Brazil, except specialty steels), North America Operation (includes all operations in North America, except those of Mexico and specialty steels (Macsteel)), Latin America Operation (includes all operations in Latin America, except Brazil) and Specialty Steel Operation (including specialty steel operations in Brazil, Europe, the United States and India).

For comparison, information as of March 31, 2009 was modified with respect to the information originally presented in order to consider the same criteria established by IFRS 8 and the new business segmentation established by the Gerdau Executive Committee.

	Brazil Operation		North America Operation		Latin America Operation		Specialty Steel Operation		Eliminations and Adjustments		Business Segments Consolidated		
	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009	
Net sales	2,994,998	2,451,443	1,999,191	2,398,042	802,472	911,749	1,438,302	1,291,784	(124,737)	(121,213)	3,109,586	2,669,782	
Cost of sales	(2,211,431)	(1,873,466)	(1,806,907)	(2,207,670)	(688,181)	(683,200)	(1,138,621)	(1,112,654)	144,902	220,241	(5,700,790)	(6,226,438)	
Gross profit	783,567	577,977	192,284	190,372	114,291	228,549	299,681	179,130	21,835	99,068	1,408,796	443,344	
Selling expenses	(68,344)	(54,709)	(19,412)	(13,364)	(15,747)	(19,230)	(17,721)	(18,720)	(1)	(2)	(121,225)	(106,165)	
General and administrative expenses	(177,963)	(129,371)	(94,803)	(128,994)	(20,942)	(48,290)	(61,636)	(88,439)	(16,667)	(7,107)	(282,263)	(492,201)	
Other operating income (expenses)	(34,266)	2,741	4,695	(5,292)	3,682	161	(14,302)	7,415	62,248	41,645	22,157	46,670	
Equity in earnings of unconsolidated companies			13,869	(23,668)	2,969	(17,256)	(6,729)	(9,654)	3,190	1,616	15,302	(64,663)	
Operational (Loss) income before financial income (expenses) and taxes	503,010	342,578	96,514	70,500	76,209	(15,625)	190,814	(125,600)	69,025	1,425,599	941,488	124,508	
Financial income	29,900	35,008	749	5,443	10,557	2,999	58,895	17,878	(24,099)	38,044	75,302	99,372	
Financial expenses	(77,767)	(102,221)	(58,483)	(97,054)	(17,172)	(62,201)	(57,199)	(82,515)	(45,623)	(60,543)	(253,202)	(393,614)	
Exchange variations, net	(80,631)	(120,077)	(3,477)	6,299	10,194	(23,753)	(2,027)	6,161	5,096	40,066	(70,845)	148,850	
Gain and losses on derivatives, net		(50,643)			(1,240)	(4,371)	311	(12,681)		2,184	24,613	(13,688)	
Income before taxes	374,512	344,799	35,303	(156,258)	77,842	(34,371)	196,832	(94,621)	10,495	186,939	694,848	432,771	
Income and social contribution taxes	(98,069)	(105,549)	(7,561)	78,088	(21,312)	2,586	(60,307)	67,116	50,187	41,270	(121,940)	88,271	
Net income	276,443	239,250	27,742	(78,170)	56,530	(31,785)	136,525	(27,505)	60,682	227,809	572,908	521,042	
Supplemental information:													
Net sales between segments	492,951	405,076	48,485		159,340	32,963	8,091	62,008	20,766	115,754	2,151	720,198	436,684
Depreciation/amortization	225,765	165,804	110,652		159,340	32,963	17,421	92,028	122,349	(6,540)	9,512	491,754	474,286
Investments in associates and jointly-controlled entities	-	-	251,681		352,133	857,919	1,102,133	11,441	100,368	112,874	95,360	1,233,915	1,649,894
Total assets	13,640,973	13,375,698	13,162,546	10,758,903	4,859,060	5,929,221	10,804,377	11,012,652	2,187,604	5,827,707	45,635,560	56,104,141	
Total liabilities	5,422,991	7,108,114	6,035,679	10,694,232	1,986,379	2,205,986	5,879,647	5,941,751	4,065,255	5,671,541	22,981,123	31,591,444	

The main products by business segment are:

Brazil Operation: rebar, bars, wire rod, shapes, drawn products, billets, blooms, slabs, wire rod and structural shapes.

North America Operation: rebar, bars, wire rod, light and heavy structural shapes.

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Latin America Operation: rebar, bars and drawn products.

Specialty Steel Operation: stainless steel, round, square and flat bars, wire rod.

The column of eliminations and adjustments includes the elimination of sales between segments applicable to the Company in the context of the Condensed Consolidated Interim Financial Statements.

The Company's geographic information with revenues classified according to the geographical region where the products were shipped is as follows:

	Brazil		Latin America <sup>(1)</sup>		North America <sup>(2)</sup>		Europe		Geographic Area Consolidated	
	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009
Net sales	3,402,044	2,843,433	802,432	911,749	2,508,804	2,729,667	394,306	482,936	7,107,586	6,967,785
Total assets	21,540,092	21,972,247	4,839,060	5,929,231	17,651,244	24,313,727	2,665,164	3,928,686	45,635,560	56,104,181

<sup>(1)</sup> Does not include operations of Brazil

<sup>(2)</sup> Does not include operations of Mexico

The disclosure of the revenue by products is not presented because such information is not retained by the Company on a consolidated basis and the cost to develop it would be excessive. The Company has this information only in volumes.

#### NOTE 18 – EXPENSES BY NATURE

The Company opted to present its Consolidated Statement of Income by function. As required by IFRS, the Consolidated Statement of Income by nature is as follows:

	<b>Three-Month period ended</b>	
	<b>March 31, 2010</b>	<b>March 31, 2009</b>
Depreciation and amortization	(459,754)	(474,386)
Labor expenses	(977,305)	(1,033,197)
Raw material and consumption material	(3,909,085)	(4,408,194)
Freight	(346,467)	(250,572)
Other expenses	(488,797)	(611,885)
	<u>(6,181,408)</u>	<u>(6,778,234)</u>
Classified as:		
Cost of sales	(5,700,279)	(6,226,538)
Selling expenses	(121,225)	(106,165)
General and administrative expenses	(382,061)	(492,201)
Other operating income	38,608	82,091
Other operating expenses	(16,451)	(35,421)
	<u>(6,181,408)</u>	<u>(6,778,234)</u>

#### NOTE 19 – FINANCIAL INCOME

The amounts recorded as "Financial Income" include: income from short-term investments in the amount of R\$ 55,875 (R\$ 76,615 as of March 31, 2009) and interest income and other financial incomes in the amount of R\$ 19,927 (R\$ 22,757 as of March 31, 2009).

The amounts recorded as "Financial Expenses" include: Interest on the debt in the amount of R\$ 218,657 (R\$ 315,604 as of March 31, 2009) and monetary variation and other financial expenses in the amount of R\$ 34,545 (R\$ 77,430 as of March 31, 2009).

The amounts recorded as "Exchange Variation, net" include principally the exchange variation of export receivables, import payables, and debts in foreign currency. Net exchange variation totaled an expense of R\$ 70,845 as of March 31, 2010 (income of R\$ 148,850 as of March 31, 2009).

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The gains and losses on derivatives, net include income and expenses arising from fluctuation in the value of derivatives. As of March 31, 2010, the gains and losses with derivatives, net total an income of R\$ 1,449 (expense of R\$ 33,048 as of March 31, 2009).

**NOTE 20 - SUBSEQUENT EVENTS**

**I)** On May 3, 2010, the Company proposed to anticipate dividends to be paid on income of the three months period ended March 31, 2010, which will be calculated and credited on the shareholding interest owned on May 17, 2010, in the amount of R\$ 170,295 (R\$ 0.12 per common and preferred share), with payment scheduled for May 27, 2010. These amounts will constitute payment in advance of the minimum dividends established by the Company's bylaws, and will be submitted to the approval of the Board of Directors on May 6, 2010.

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