

**Gerdau S.A.**

Financial Statements Together with  
Report of Independent Public Accountants

December 31, 1999 and 1998

## Report of Independent Public Accountants

(Translation of the report originally issued in Portuguese.  
See Note 17 to the financial statements.)

To the Board of Directors of

Gerdau S.A.:

(1) We have audited the individual (Company) and consolidated balance sheets of Gerdau S.A. (a Brazilian corporation) and subsidiaries as of December 31, 1999 and 1998, and the related statements of income, changes in shareholders' equity, and changes in financial position for the years then ended, prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

(2) Our audits were conducted in accordance with auditing standards and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and subsidiaries, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the relevant accounting practices and estimates adopted by management, as well as the presentation of the financial statements taken as a whole.

(3) In our opinion, the financial statements referred to in paragraph (1) present fairly, in all material respects, the individual and consolidated financial positions of Gerdau S.A. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations, the changes in shareholders' equity, and the changes in their financial positions for the years then ended in accordance with accounting practices emanating from Brazilian corporate law.

(4) The supplementary information contained in tables I and II, corresponding to the statements of cash flow and value added are presented to permit additional analyses and are not required as an integral part of the basic financial statements. We have examined this supplementary information in accordance with the auditing standards described in paragraph (2) above and, in our opinion, it is presented fairly, in all material respects, in relation to the financial statements taken as a whole.

Porto Alegre, February 22, 2000

ARTHUR ANDERSEN S/C

Carlos Biedermann  
Engagement Partner

**GERDAU S.A.**

**BALANCE SHEETS--DECEMBER 31**  
**(In thousands of Brazilian reais)**  
**(Translation of the original in Portuguese)**

**ASSETS**

	<u>Company</u>		<u>Consolidated</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents, and temp, cash invests.	216.716	258.210	694.862	421.861
Trade accounts receivable	301.795	144.325	587.008	260.284
Inventories	405.587	248.955	891.358	410.600
Advances to employees	12.990	6.459	15.347	10.218
Tax credits	14.696	13.798	36.276	30.509
Deferred income and social contribution taxes	7.222	-	19.743	-
Other receivables	14.668	21.436	51.242	39.863
Total current assets	<u>973.674</u>	<u>693.183</u>	<u>2.295.836</u>	<u>1.173.335</u>
<b>NONCURRENT ASSETS</b>				
Debtors	8.830	7.483	10.204	11.931
Eletrobrás loans	11.882	11.422	16.559	11.423
Deferred income and social contribution taxes	26.216	-	30.245	-
Escrow deposits and other receivables	40.394	13.995	113.926	22.041
Total noncurrent assets	<u>87.322</u>	<u>32.900</u>	<u>170.934</u>	<u>45.395</u>
<b>PERMANENT ASSETS</b>				
Investments	1.273.266	803.216	237.392	188.871
Property, plant and equipment	1.604.912	1.274.398	3.632.411	1.913.148
Deferred charges	16.786	23.338	25.145	28.146
Total permanent assets	<u>2.894.964</u>	<u>2.100.952</u>	<u>3.894.948</u>	<u>2.130.165</u>
Total assets	<u><u>3.955.960</u></u>	<u><u>2.827.035</u></u>	<u><u>6.361.718</u></u>	<u><u>3.348.895</u></u>

The accompanying notes are an integral part of these balance sheets.

**GERDAU S.A.**  
**BALANCE SHEETS--DECEMBER 31,**  
**(In thousands of Brazilian reais)**  
**(Translation of the original in Portuguese)**

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	<b>Company</b>		<b>Consolidated</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
<b>CURRENT LIABILITIES</b>				
Trade accounts payable	77.987	44.145	310.384	101.146
Loans and financing	392.217	204.988	1.290.633	326.285
Debentures	4.481	4.237	4.481	4.237
Taxes and social contribution	52.072	36.589	67.864	57.171
Deferred income and social contribution taxes	6.204	-	6.365	-
Salaries payable	35.107	22.739	72.014	28.077
Creditors	4.968	-	11.599	11.124
Proposed dividends / Interest on capital	52.768	28.337	52.768	28.337
Other payables	19.175	12.894	87.654	33.187
Total current liabilities	<u>644.979</u>	<u>353.929</u>	<u>1.903.762</u>	<u>589.564</u>
<b>LONG-TERM LIABILITIES</b>				
Loans and financing	813.634	199.262	1.454.186	274.278
Associated companies	51.962	120.140	52.018	248.368
Debentures	146.006	209.078	146.006	209.078
Reserve for contingencies	139.014	95.421	148.808	107.040
Deferred income and social contribution taxes	38.366	-	251.423	-
Other payables	58.901	36.946	177.475	91.185
Total long-term liabilities	<u>1.247.883</u>	<u>660.847</u>	<u>2.229.916</u>	<u>929.949</u>
<b>DEFERRED INCOME</b>	-	-	52.247	-
<b>NON-CONTROLLING SHAREHOLDERS' INTEREST</b>	-	-	112.695	17.123
<b>SHAREHOLDERS' EQUITY</b>				
Capital stock	1.316.881	1.316.880	1.316.881	1.316.880
Capital reserve	186.849	154.248	186.849	154.248
Profit reserve	559.368	341.131	559.368	341.131
Total shareholders' equity	<u>2.063.098</u>	<u>1.812.259</u>	<u>2.063.098</u>	<u>1.812.259</u>
<b>SHAREHOLDERS' EQUITY INCLUDING NON-CONTROLLING SHAREHOLDERS</b>	-	-	2.175.793	1.829.382
Total liabilities and shareholders' equity	<u>3.955.960</u>	<u>2.827.035</u>	<u>6.361.718</u>	<u>3.348.895</u>

The accompanying notes are an integral part of these balance sheets.

GERDAU S.A.

STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31  
(In thousands of Brazilian reais)  
(Translation of the original in Portuguese)

	Company		Consolidated	
	1999	1998	1999	1998
GROSS SALES REVENUE	2.760.000	1.902.385	4.048.519	2.751.177
Taxes on sales	(522.344)	(337.013)	(591.210)	(447.285)
Freight and discounts	(89.069)	(91.612)	(147.291)	(126.155)
<b>NET SALES REVENUE</b>	<b>2.148.587</b>	<b>1.473.760</b>	<b>3.310.018</b>	<b>2.177.737</b>
COST OF SALES	(1.366.645)	(1.023.774)	(2.229.744)	(1.530.319)
<b>GROSS PROFIT</b>	<b>781.942</b>	<b>449.986</b>	<b>1.080.274</b>	<b>647.418</b>
SELLING EXPENSES	(118.693)	(99.941)	(152.661)	(117.623)
FINANCIAL EXPENSES	(446.065)	(161.285)	(543.521)	(186.984)
FINANCIAL INCOME	89.773	88.822	112.819	98.328
GENERAL AND ADMINISTRATIVE EXPENSES				
Management compensation	(4.866)	(4.549)	(5.985)	(6.517)
General expenses	(196.853)	(116.843)	(284.351)	(203.943)
EQUITY IN SUBSIDIARIES	254.343	60.958	185.973	1.250
OTHER OPERATING INCOME	10.443	5.110	13.428	8.972
<b>INCOME FROM OPERATIONS</b>	<b>370.024</b>	<b>222.258</b>	<b>405.976</b>	<b>240.901</b>
NONOPERATING INCOME (EXPENSE)	(5.922)	2.257	(11.669)	3.911
<b>INCOME BEFORE TAXES AND INTEREST</b>	<b>364.102</b>	<b>224.515</b>	<b>394.307</b>	<b>244.812</b>
PROVISION FOR INCOME AND SOCIAL CONTRIBUTION TAXES				
Current	(19.193)	(29.673)	(39.425)	(48.990)
Deferred	12.708	-	1.639	-
DIRECTORS' INTEREST	(4.866)	(4.549)	(4.866)	(4.549)
<b>NET INCOME</b>	<b>352.751</b>	<b>190.293</b>	<b>351.655</b>	<b>191.273</b>
NON-CONTROLLING SHAREHOLDERS'				
INTEREST	-	-	(1.096)	980
CONTROLLING SHAREHOLDERS'				
INTEREST	-	-	352.751	190.293
Earnings per thousand shares - R\$	6,22	3,37		
Book value per thousand shares - R\$	36,36	32,07		

The accompanying notes are an integral part of these statements.

GERDAU S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARES ENDED DECEMBER 31  
(In thousands of Brazilian reais)  
(Translation of the original in Portuguese)

	Capital reserve				Profit reserve			Retained earnings	Total shareholders' equity	
	Capital stock	Capital restatement	Investment grants	Special Law No. 8,200/91	Other	Legal	Unrealized profit			Investments and working capital
Balances December 31, 1997	1.316.880	314	108.099	21.487	4.892	20.660	27.545	162.587	-	1.662.464
Investment grants	-	-	19.456	-	-	-	-	-	-	19.456
Repurchase of shares	-	-	-	-	-	-	-	(602)	-	(602)
Net income	-	-	-	-	-	-	-	-	190.293	190.293
Realization and reversal of reserves	-	-	-	-	-	-	(33)	-	33	-
Allocations proposed to the Shareholders' Meeting:										
Legal reserve	-	-	-	-	-	9.515	-	-	(9.515)	-
Investment and working capital reserve	-	-	-	-	-	-	-	121.459	(121.459)	-
Interest on capital - first six-month period										
R\$ 0,450 per thousand 0 common shares	-	-	-	-	-	-	-	-	(8.861)	(8.861)
R\$ 0,495 per thousand 0 preferred shares	-	-	-	-	-	-	-	-	(18.22)	(18.22)

7) 7)

Interest on equity – second six-month period

R\$ 0,536 per thousand

0 common shares

- - - - - - - - (10.55) (10.55)

4) 4)

R\$ 0,589 per thousand

6 preferred shares

- - - - - - - - (21.71) (21.71)

0) 0)

Balances

December 31, 1998

1.316.880 314 127.555 21.487 4.892 30.175 27.512 283.444 - 1.812.259

Initial deferred income tax adjustment

- - - - - - - (27.512) (12.211) - (39.723)

Capital increase due to company merger

1 - - - - - - - - - 1

Investment grants

- - 21.209 - 8.387 - - - - 29.596

Sale of treasury shares

- - - - - - - 3.147 - 3.147

Gain on sale of treasury shares

- - - - 3.005 - - - - 3.005

Net income

- - - - - - - - 352.751 352.751

Allocations proposed to the Shareholders' Meeting:

Legal reserve

- - - - - 17.637 - - (17.637) -

7)

Unrealized profit reserve

- - - - - - - 28.667 - (28.667) -

7)

Investment and working capital reserve

- - - - - - - - 208.509 (208.509) -

09)

Interest on capital - first six-month period

R\$ 0,630 per thousand

0 common shares

- - - - - - - - (12.405) (12.405)

5) 5)

R\$ 0,693 per thousand 0 preferred shares	-	-	-	-	-	-	-	-	-	(25.62 5)	(25.62 5)
Interest on capital – second six- month period											
R\$ 0,991 per thousand 0 common shares	-	-	-	-	-	-	-	-	-	(19.51 4)	(19.51 4)
R\$ 1,090 per thousand 1 preferred shares	-	-	-	-	-	-	-	-	-	(40.39 4)	(40.39 4)
Balances											
December 31, 1999	1.316.88 1	314	148.76 4	21.487	16.284	47.812	28.667	482.889	-	2.063. 098	

The accompanying notes are an integral part of these statements.

**STATEMENTS OF CHANGES IN FINANCIAL POSITION  
FOR THE YEARS ENDED DECEMBER 31  
(In thousands of Brazilian reais)**

(Translation of the original in Portuguese)

	Company		Consolidated	
	1999	1998	1999	1998
<b>SOURCE OF FUNDS</b>				
From operations:				
Net income				
	352.751	190.293	351.655	191.273
Expenses/revenues not affecting working capital:				
Depreciation and amortization	120.517	101.559	198.199	124.163
Cost of permanent assets disposal	16.858	50.414	21.201	66.116
Equity in subsidiaries	(254.343)	(60.958)	(185.973)	(1.250)
Monetary variations on long-term liabilities	153.815	74.308	154.784	73.659
Monetary variation on noncurrent assets	(5.252)	(163)	(5.844)	(1.636)
Total from operations	<u>384.346</u>	<u>355.453</u>	<u>534.022</u>	<u>452.325</u>
From third parties:				
Capital increase /sale of treasury shares	6.153	(602)	6.153	(602)
Contributions received for capital reserve	29.596	19.456	29.605	19.819
Increase (decrease) in long-term liabilities	331.948	(14.812)	519.369	107.397
Working capital of merged company	94.792	-	-	-
Working capital of consolidated companies	-	-	27.163	(574)
Effect of exchange on working capital of companies abroad	-	-	(19.720)	-
Dividends not included in income	17.160	-	-	-
Total sources	<u>863.995</u>	<u>359.495</u>	<u>1.096.592</u>	<u>578.365</u>
<b>USE OF FUNDS</b>				
In investments	354.138	124.098	610.949	137.742
In property, plant and equipment	399.086	204.524	571.885	370.880
In deferred charges	-	243	1.889	2.604
Increase in noncurrent assets	23.392	5.317	5.628	12.739
Dividends / interest on capital	97.938	59.352	97.938	59.434
Total uses	<u>874.554</u>	<u>393.534</u>	<u>1.288.289</u>	<u>583.399</u>
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b>	<u>(10.559)</u>	<u>(34.039)</u>	<u>(191.697)</u>	<u>(5.034)</u>
Working capital:				
Beginning of year	339.254	373.293	583.771	588.805
End of year	<u>328.695</u>	<u>339.254</u>	<u>392.074</u>	<u>583.771</u>
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b>	<u>(10.559)</u>	<u>(34.039)</u>	<u>(191.697)</u>	<u>(5.034)</u>

The accompanying notes are an integral part of these statements

**GERDAU S.A.**

**STATEMENTS OF CASH FLOW  
FOR THE YEARS ENDED DECEMBER 31**

(In thousands of Brazilian reais)

(Translation of the original in Portuguese)

	<b>Consolidated</b>	
	<b>1999</b>	<b>1998</b>
Net income	351.655	191.273
Income and social contribution taxes	37.786	48.990
Depreciation and amortization	198.199	124.163
Interest and non-cash monetary variations	151.950	83.708
Working capital variation	(198.965)	(37.995)
	<hr/>	<hr/>
Net cash from operating activities	540.625	410.139
	<hr/>	<hr/>
Purchase/disposal of property, plant and equipment	(557.133)	(370.880)
Increase in deferred charges	(1.889)	(2.604)
Purchase of investments	(610.949)	(50.832)
	<hr/>	<hr/>
Use of cash in investments	(1.169.971)	(424.316)
	<hr/>	<hr/>
Working capital financing	141.173	88.860
Long-term cash investments	1.134.527	349.871
Amortization of long-term financing	(319.366)	(277.644)
Treasury shares	6.152	(602)
Payment of dividends/interest and participation	(69.440)	(59.964)
	<hr/>	<hr/>
Net cash from financing activities	893.046	100.521
	<hr/>	<hr/>
Change in cash balance	263.700	86.344
	<hr/> <hr/>	<hr/> <hr/>
Cash - beginning of year	421.861	335.517
Beginning cash of companies consolidated during the year	9.301	-
Cash - end of year	694.862	421.861

The accompanying notes are an integral part of these statements.

**GERDAU S.A**  
**STATEMENT OF VALUE ADDED**  
**FOR THE YEARS ENDED DECEMBER 31**  
**(In thousands of Brazilian reais)**

(Translation of the original in Portuguese)						
			Company			
			1999	%	1998	%
<b>INFLOW</b>						
Sales of products and services			2.748.851		1.909.752	
Financial income			89.773		88.822	
<b>OUTFLOW</b>						
Raw materials and products			(1.082.705)		(743.519)	
Outside services			(221.395)		(220.787)	
<b>GROSS VALUE ADDED</b>			<b>1.534.524</b>		<b>1.034.268</b>	
<b>(-) DEPRECIATION/AMORTIZATION</b>			<b>(120.517)</b>		<b>(101.559)</b>	
<b>NET VALUE ADDED</b>			<b>1.414.007</b>		<b>932.709</b>	
<b>VALUE ADDED FROM TRANSFERS</b>						
Equity in subsidiaries			72.637		49.828	
<b>UNDISTRIBUTED VALUE ADDED</b>			<b>1.486.644</b>	<b>100%</b>	<b>982.537</b>	<b>100%</b>
<b>DISTRIBUTION OF VALUE ADDED</b>						
Taxes			<b>548.788</b>	<b>36,9%</b>	<b>373.056</b>	<b>38,0%</b>
Federal			229.367	15,4%	161.070	16,4%
State			312.554	21,0%	205.616	20,9%
Municipal			6.867	0,5%	6.370	0,7%
Human Resources			<b>320.746</b>	<b>21,6%</b>	<b>269.033</b>	<b>27,4%</b>
Salaries			194.921	13,1%	155.830	15,9%
Payroll charges			91.999	6,2%	95.457	9,7%
Training			3.930	0,3%	790	0,1%
Profit sharing			29.896	2,0%	16.956	1,7%
Interest			264.359	17,8%	150.155	15,3%
Reinvested profits			254.813	17,1%	130.941	13,3%
Interest on capital			97.938	6,6%	59.352	6,0%
<b>TOTAL</b>			<b>1.486.644</b>		<b>982.537</b>	

The accompanying notes are an integral part of these statements.

**GERDAU S.A.**

**NOTES TO THE FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 1999 AND 1998**

**(Amounts in thousands of Brazilian reais)**

**(Translation of the original in Portuguese)**

**NOTE 1 – PRESENTATION OF FINANCIAL STATEMENTS**

The financial statements were prepared in accordance with accounting practices emanating from Brazilian corporate law, amended by articles 4 and 5 of Law No. 9,249/95 and in conformity with CVM (Brazilian Securities Commission) Instruction No. 248/96.

Permanent assets and shareholders' equity are restated from the month of their recording and inception through December 31, 1995. From that date on, they are stated at historical rates. All other components were maintained at their original amounts since they were in constant currency as of December 31, 1999.

We are presenting, as supplementary information to permit additional analyses, the consolidated statement of cash flow, prepared based on the indirect method and the statement of value added - Company.

**NOTE 2 – SIGNIFICANT ACCOUNTING PRACTICES**

- a) **Cash and temporary cash investments** – temporary cash investments are stated at cost plus interest accrued through the balance sheet date, at interest rates agreed upon with the financial institutions.
- b) **Allowance for doubtful accounts**– calculated based on the analysis of credit risks, which considers loss history, the individual situation of customers, and the evaluation by the legal counselors, and considered sufficient to cover possible losses on the realization of receivables.
- c) **Inventories** – stated at the lower of market and production cost or average purchase price.
- d) **Eletrobrás** – Eletrobrás loans less provision for probable losses on their realization.
- e) **Investments in subsidiaries** – carried under the equity method. The results of this equity pickup are recorded in income as an operating item. Investments in subsidiaries are stated in “Attachment to Note 2e”.
- f) **Property, plant and equipment** – stated at cost less respective depreciation. Depreciation is calculated under the straight-line method at the rates stated in Note 8, based on the estimated useful lives of the assets.

- g) **Deferred charges** – amortization is calculated under the straight line method on cost, at rates determined based on production of implemented projects in relation to installed capacity.
- h) **Income and social contribution taxes** – income and social contribution taxes were determined as established by the law in force. Deferred income and social contribution taxes were determined based on CVM Resolution 273 of 8/20/98.
- i) **Other current and long-term liabilities** – stated at known or determinable amounts plus corresponding charges and monetary variations, whenever applicable.

### NOTE 3 – CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the financial statements as of December 31, 1999 of Gerdau S.A. and its direct and indirect subsidiaries, listed below:

Florestal Itacambira S.A. ( 100%), Itaguaí Com. Imp. e Exp Ltda. (99%), Gerim Reflorestamento Ltda. (100%), Seiva S.A. - Florestas e Indústrias (93%), Gerdau Laisa S.A. (99%), Gerdau Aza S.A. (99%), Indústria Del Aciero S.A. Indac (99%), Gerdau Chile Inversiones Ltda. (99%), Axol S.A. (100%), Gerdau MRM Steel Inc. (100%), Gerdau Courtice Steel Inc. (100%), Gerdau Steel Inc. (100%), GTL Trade Corp (99%), Oruscom S.A. (100%), Gerdau MRM Holdings Inc. (100%), Sociedad Industrial Puntana S.A. – SIPSA (67%), Sipar Aceros S.A. (33%), Turia S.A. (100%), AmeriSteel Corporation (74%), Gerdau USA Inc. (100%), Aço Minas Gerais S.A. (37%), Armafer Serviços de Construção Ltda. (100%), Prontofer Serviços de Construção Ltda. (100%), Agropecuária Oriente Ltda. (99%), Gerdau Participações Ltda. (99%), Gerdau Internacional Empreendimentos Ltda. - Gerdau Group (99%) and Laminadora do Sul S.A. (90%).

Following are the principal practices used in preparing the consolidated financial statements:

- a) Gerdau S.A. and its subsidiaries adopt consistent accounting practices in recording their operations and appraising their assets and liabilities. The financial statements of companies located abroad were translated at the exchange rate prevailing on the balance sheet date;
- b) The balances of the balance sheet accounts resulting from operations between consolidated companies have been eliminated;
- c) Non-controlling shareholders' interest in subsidiaries is separately identified.

During the year, R\$ 104 million were invested at Açominas, increasing the interest in that company from 18% to 36.63%. On 9/30/99, 73.92% of AmeriSteel Corporation's capital stock were purchased for R\$ 505 million.

Thus, in accordance with art. 32 of CVM Instruction No. 247, during the year, the jointly-controlled subsidiary Aço Minas Gerais S.A.- Açominas was consolidated proportionally to the 36.63% indirect interest of the parent company on its capital stock, and also a portion of AmeriSteel Corporation's net income based on the date of its recording as permanent investment (9/30/99), as per article No. 28 of said instruction.

Jointly-controlled subsidiary Sipar Aceros S.A was also consolidated in the year.

The amounts of the principal assets, liabilities and income groups of these companies are stated as follows:

	<u>Açominas</u>	<u>Ameristeel</u>	<u>Sipar</u>
	<u>1999</u>	<u>1999</u>	<u>1999</u>
<b>Assets</b>			
Current assets	360,24	410,824	99,70
	2		8
Noncurrent assets	162,574	36	-
Permanent assets	<u>2,615,057</u>	<u>627,053</u>	<u>30,388</u>
Total assets	<u>3,137,873</u>	<u>1,037,913</u>	<u>130,096</u>
<b>Liabilities and shareholders' equity</b>			
Current liabilities	550,095	275,982	40,746
Long-term liabilities	553,805	366,535	13,192
Shareholders' equity	<u>2,033,973</u>	<u>395,396</u>	<u>76,158</u>
Total liabilities and shareholders' equity	<u>3,137,873</u>	<u>1,037,913</u>	<u>130,096</u>
<b>Statement of income</b>			
	<u>1999</u>	<u>4<sup>th</sup> quarter</u>	<u>1999</u>
Net sales revenues	786,404	291,902	102,030
Cost of sales	(571,547)	(243,790)	(86,418)
Selling expenses	(26,834)	(3,505)	(6,163)
General and administrative expenses	(57,373)	(12,646)	(3,742)
Financial income (expenses)	(330,554)	(7,233)	(1,918)
Equity in subsidiaries	(9,208)	-	-
Other operating income (expenses)	21,290	(1,964)	887
Nonoperating income (expense)	(224)	(4,159)	-
Provision for income and social contribution taxes	-	(9,832)	(1,637)
Net income (loss)	<u>(188,046)</u>	<u>8,773</u>	<u>3,039</u>

Through its direct or indirect subsidiaries, the Company has goodwill and negative goodwill that are amortized in accordance with the realization of the assets which gave rise to them or based on the realization of future income projections, as follows:

	<u>1999</u>
Goodwill on the investments line	216,24
	9
Goodwill on the property, plant and equipment line	243,90
	5
Negative goodwill on the property, plant and equipment line	388,73
	0
Negative goodwill on the deferred income line	52,247

In 1999, goodwill of R\$ 363,163,000 on AmeriSteel Corporation was recognized. On Açominas a negative goodwill of R\$ 440,977,000 was recognized.

The equity in subsidiaries amount in the consolidated statement of income refers, basically, to the effect of currency devaluation on foreign investments, which were not eliminated.

#### NOTE 4 – CASH AND CASH EQUIVALENTS, AND TEMPORARY CASH INVESTMENTS

	<u>Company</u>		<u>Consolidated</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
Cash and cash equivalents	5,953	10,007	18,014	12,197
Investment fund	210,763	177,636	266,222	194,271
Fixed income securities	-	41,628	337,428	155,308
Variable income securities	-	-	73,198	31,146
Federal government securities	-	28,939	-	28,939
	<u>216,716</u>	<u>258,210</u>	<u>694,862</u>	<u>421,861</u>

#### NOTE 5 - CUSTOMERS

	<u>Company</u>		<u>Consolidated</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
Domestic market	279,774	131,311	294,842	192,908
Foreign market	35,982	21,545	57,539	21,154
Customers of companies abroad	-	-	250,626	57,929
Allowance for doubtful accounts	(13,961)	(8,531)	(15,999)	(11,707)
	<u>301,795</u>	<u>144,325</u>	<u>587,008</u>	<u>260,284</u>

The receivables from foreign market customers are restated based on the exchange rates in effect at the balance sheet date. The Company also has R\$ 35,998,000 ( R\$ 20,653,000 - 1998 ) in vendor operations with Banco Gerdau S.A.

#### NOTE 6 – INVENTORIES

	<u>Company</u>		<u>Consolidated</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
Finished goods	86,156	73,202	329,108	136,903
Work in process	66,193	37,009	110,010	44,998
Raw materials	60,527	32,469	192,966	92,989
Storeroom materials	174,973	58,538	238,446	84,035
Advances to suppliers	17,738	47,737	20,828	51,675
	<u>405,587</u>	<u>248,955</u>	<u>891,358</u>	<u>410,600</u>

Inventories (Company and Consolidated) are insured for R\$ 23,178,000 (R\$ 17,816,000 - 1998) against fire and overflowing. Coverage is determined based on the amounts and risks involved.

## NOTE 7 – INCOME AND SOCIAL CONTRIBUTION TAXES

	Company			
	Assets		Liabilities	
	Current	Noncurrent	Current	Long-Term
Deferred income tax	6,701	18,903	5,921	35,145
Deferred social contribution tax	521	7,313	283	3,221
	<u>7,222</u>	<u>26,216</u>	<u>6,204</u>	<u>38,366</u>
	Consolidated			
	Assets		Liabilities	
	Current	Noncurrent	Current	Long-Term
Deferred income tax	19,038	21,637	6,030	247,275
Deferred social contribution tax	705	8,608	335	4,148
	<u>19,743</u>	<u>30,245</u>	<u>6,365</u>	<u>251,423</u>

Taxes are recognized on the following basis:

	Company	Consolidated
<b>Assets</b>		
Tax loss for income tax	-	8,663
Social contribution tax loss carryforward	2,357	12,599
Reserve for contingencies	99,942	132,973
<b>Liabilities</b>		
Accelerated depreciation with tax incentives	164,026	802,375
<b>Reconciliation</b>		
Income before taxes and after interest	359,236	389,441
Nominal rate	37%	37%
Income and social contribution taxes at nominal rates	(132,917)	(144,093)
Effects of taxes on:		
- rate difference at companies located abroad	-	5,580
- equity in subsidiaries	94,107	68,810
- permanent differences (net)	29,827	30,960
- other	2,498	957
Income and social contribution taxes on income	<u>(6,485)</u>	<u>(37,786)</u>
Current	(19,193)	(39,425)
Deferred	12,708	1,639

## NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

	Annual depreciation rate	Company				Consolidated	
		1999		1998		1999	1998
			%		%		
Land, buildings and constructions	0 to 4	605,562	535,444	1,464,781	690,068		
Machines, equipment and facilities	10	1,591,535	1,452,103	3,261,731	1,881,474		
Furniture and fixtures	10	40,437	48,810	51,135	63,834		
Vehicles	20	20,191	19,350	27,763	24,248		
EDP equipment	20	117,258	42,240	124,770	46,373		
Construction in progress	-	354,467	168,609	405,677	295,610		
Forestation/reforestation	-	79,512	74,085	129,247	119,917		

Accumulated depreciation	-	<u>(1,204,050)</u>	<u>(1,066,243)</u>	<u>(1,832,693)</u>	<u>(1,208,376)</u>
		<u>1,604,912</u>	<u>1,274,398</u>	<u>3,632,411</u>	<u>1,913,148</u>

Property, plant and equipment are insured for R\$ 438,887,000 – Company and R\$ 465,136,000 – Consolidated (R\$ 379,156,000 – Company and R\$ 382,323,000 - Consolidated in 1998), against fire, electrical damages and explosion. Coverage is determined based on the amounts and risks involved.

This account's movements in 1999 were as follows:

	<u>Company</u>	<u>Consolidated</u>
Balance – beginning of year	1,274,398	1,913,148
( + ) Beginning balance of companies consolidated in the year	-	1,172,437
( + ) Purchases / sales in the year	386,222	550,683
( - ) Cost of sales depreciation and amortization	(108,039)	(171,118)
( - ) Administrative depreciation and amortization	(9,685)	(27,081)
( + ) Company merger	62,016	-
( + ) Effect of exchange on fixed assets abroad	-	194,342
Balance – end of year	<u>1,604,912</u>	<u>3,632,411</u>

## NOTE 9 – DOMESTIC AND FOREIGN LOANS

Loan liabilities are as follows:

	Annual Charges (%)	<u>Company</u>		<u>Consolidated</u>	
		1999	1998	1999	1998
<b>CURRENT</b>					
Working capital loan (R\$)	TJLP + 11%	487	2,968	489	2,968
Working capital loan (US\$)	1.30% a 8.50%	89,194	23,467	598,259	134,096
Working capital loan (Can\$)	5.3%	-	-	66,323	-
Raw material loan (US\$)	11.31%	-	-	9,395	-
Current portion of long-term loan		<u>302,536</u>	<u>178,553</u>	<u>616,167</u>	<u>189,221</u>
		392,217	204,988	1,290,633	326,285
<b>LONG-TERM</b>					
Fixed asset and other loan (R\$)	TJLP + 12.50%	299,877	190,942	374,118	208,231
Fixed asset and other loan (Can\$)	2.25%	-	-	82,792	82,198
Fixed asset and other loan (US\$)	2.00% a 7.89%	-	-	180,037	43,368
Fixed asset and other loan (DM)	10.38%	2,757	3,264	2,757	3,264
Raw material and machine import loan (US\$)	10.71%	183,759	101,363	183,759	63,564
Working capital loan (US\$)	7.50% a	629,777	82,246	846,011	62,874
	11.13%				
Investments loan (US\$)	2.25%	-	-	400,879	-
(-) Current portion		<u>(302,536)</u>	<u>(178,553)</u>	<u>(616,167)</u>	<u>(189,221)</u>
		813,634	199,262	1,454,186	274,278
Total loans		<u>1,205,851</u>	<u>404,250</u>	<u>2,744,819</u>	<u>600,563</u>

The financed assets were pledged as collateral for FINAME loans. Other loans are secured by controlling shareholders' guarantees.

Eurobonus agreements include covenants limiting the financial debt to 4 times the Company's cash generating capacity (EBITDA). The same covenant is established in an agreement with the BNDES covering the financing of investments in Açominas.

The payment schedule of the long-term portion of the loans is as follows:

	<u>Company</u>	<u>Consolidat ed</u>
In 2001	324,374	608,811
In 2002	128,652	232,098
In 2003	32,424	237,048
In 2004	256,765	263,851
In 2005	18,930	19,046
After 2005	<u>52,489</u>	<u>93,332</u>
	<u>813,634</u>	<u>1,454,186</u>

#### NOTE 10 – DEBENTURES

Issue	General Shareholder s' Meeting	Number		Maturity	Annual Rate	1999	1998
		Issued	Portfolio				
3 <sup>rd</sup> - A and B	5.27.82	48,000	24,376	6.1.2011	26,63%	47,892	58,933
4 <sup>th</sup>	6.10.83	42,000	42,000	2.28.2012	26,63%	-	-
5 <sup>th</sup>	11.29.89	29,986	-	12.5.2005	TR + 8%	27,032	29,820
7 <sup>th</sup>	7.14.82	22,800	19,926	7.1.2012	26,63%	7,211	14,553
8 <sup>th</sup>	11.11.82	59,988	37,288	5.2.2013	26,63%	37,208	32,214
9 <sup>th</sup>	6.10.83	41,880	38,899	9.1.2014	26,63%	7,479	50,247
10 <sup>th</sup>	2.27.81	6,450	6,450	11.30.2015	26,63%	-	-
11 <sup>th</sup> - A and B	6.29.90	50,000	40,050	6.1.2020	26,63%	23,665	27,028
12 <sup>th</sup> – 1 <sup>st</sup> to 5 <sup>th</sup> series						-	520
						<u>150,487</u>	<u>213,315</u>
(-) Current portion						<u>(4,481)</u>	<u>(4,237)</u>
Long-term portion						<u>146,006</u>	<u>209,078</u>

#### NOTE 11 – FINANCIAL INSTRUMENTS

Loans and financing are commented on in Note No. 9. Investments and intercompany loans are commented on and presented in Note No. 2e and in the investments table (attachment to the same Note), respectively.

Temporary cash investments are recorded at their redemption value on the balance sheet date. The Company and its subsidiaries have no transactions in the derivatives market.

## NOTE 12 – SHAREHOLDERS’ EQUITY

- a) **Capital stock** - the authorized capital stock is represented by 40,000,000,000 common shares (40,000,000,000 - 1998) and 80,000,000,000 preferred shares (80,000,000,000 - 1998) without par value.

On February 26, 1999, subsidiary Comercial Gerdau Ltda. was merged, resulting in a capital increase of R\$ 1,000, and the issuance of 29,270 preferred shares.

As of December 31, 1999, the subscribed paid-up capital is represented by 19,691,010,193 common shares (19,691,010,193 - 1998) and 37,054,842,993 preferred shares (37,054,813,723 - 1998), totaling R\$ 1,316,881,000 (R\$ 1,316,880,000 - 1998). Preferred shares are non-voting and cannot be redeemed, but entitle their holders to a share in profits 10% above those received by holders of common shares.

- b) **Treasury shares** – during the year, the Company sold the balance of treasury shares (233,100,000 preferred shares) amounting to R\$ 6,152,000, and the respective gain was recorded in “capital reserve – gain on sale of treasury shares”.
- c) **Interest on capital** – the Company calculated interest on capital in accordance with the limits established by Law No. 9,249/95. For tax purposes, the respective amount was accounted for as financial expense. For reporting purposes, that amount was stated as dividends, thus not affecting income. Interest on capital (R\$ 97,938,000) was credited to shareholders in place of statutory dividends (30%), as follows:

	<u>1999</u>	<u>1998</u>
Net income	352,751	190,293
Realization of unrealized profit reserve on equity in subsidiaries	-	33
Recognition of legal reserve	(17,637)	(9,515)
Recognition of unrealized profit reserve on equity in subsidiaries	(28,667)	-
Adjusted net income	<u>306,447</u>	<u>180,811</u>
Interest on capital	97,938	59,352
% interest paid or credited	32%	33%

Realization of unrealized profit reserve on equity in subsidiaries is based on investments sold and dividends received.

The remaining net income was used to recognize the statutory reserve for investments and working capital, as established in the bylaws.

## NOTE 13 – STATUTORY INTEREST

The interest of directors is limited to 10% of the corporate net income after income tax and to the amount of their fees.

## NOTE 14 - GERDAU - SOCIEDADE DE PREVIDÊNCIA PRIVADA

This entity is sponsored by the Gerdau Group companies and its objective is to grant employees of the sponsoring companies supplementary benefits to those provided by Social Security. The actuarial cost method is capitalization plan - unit credit, and contributions are calculated on a

monthly percentage basis on payroll. The last actuarial revaluation was made on December 31, 1999. There is no insufficiency of assets and the sponsor/participant contribution is as follows: basic plan - 100% borne by the sponsor; supplementary plan - 40% by the sponsor and 60% by the participants. During the year, the Company spent R\$ 4,053,000 (R\$ 2,575,000 - 1998), and in the consolidated financial statements the amount is R\$ 4,206,000 (R\$ 3,322,000 - 1998).

#### NOTE 15 - RESERVE FOR CONTINGENCIES

The Company is currently challenging in court certain tax issues and, for this reason, a reserve for contingencies was recognized to cover losses considered as probable by our legal counselors, as follows:

	<b>Company</b>		<b>Consolidated</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Eletróbrás loans	76,355	54,521	76,355	54,521
Tax	62,659	40,900	72,453	52,519
	<u>139,014</u>	<u>95,421</u>	<u>148,808</u>	<u>107,040</u>

#### NOTE 16 – GROSS SALES REVENUE

Per market:

	<b>Company</b>		<b>Consolidated</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Domestic market	2,558,922	1,807,358	2,707,408	2,185,229
Foreign market	201,078	95,027	307,047	95,027
Companies located abroad	-	-	1,034,064	470,921
	<u>2,760,000</u>	<u>1,902,385</u>	<u>4,048,519</u>	<u>2,751,177</u>

Per market segment:

	<b>Company</b>		<b>Consolidated</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Civil construction	1,150,920	947,768	1,735,780	1,370,637
Industry	909,972	694,751	1,595,635	1,004,730
Other	699,108	259,866	717,104	375,810
	<u>2,760,000</u>	<u>1,902,385</u>	<u>4,048,519</u>	<u>2,751,177</u>

Per country:

	<b>Consolidated</b>	
	<b>1999</b>	<b>1998</b>
Brazil	3,014,455	2,280,256
Canada	477,743	310,671
United States	291,902	-
Uruguay	55,112	40,690
Chile	98,221	82,689
Argentina	111,086	36,871
	<u>4,048,519</u>	<u>2,751,177</u>

#### NOTE 17 - EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

The accompanying financial statements are presented on the basis of accounting practices emanating from corporate law in Brazil. Certain accounting practices applied by the Company and

its subsidiaries that conform with those accounting practices in Brazil may not conform with generally accepted accounting principles in other countries.

\* \* \* \* \*

**INVESTMENTS IN SUBSIDIARIES AND RELATED PARTIES**  
( In thousands of Brazilian reais)

(Translation of the original+A27 in Portuguese)

	<b>Gerdau Internacional Empreendimentos Ltda.</b>	<b>Itaguaí Com.Imp.e Exportação Ltda.</b>	<b>Gerdau Participações Ltda.</b>	<b>Armafer Serviços de Construção Ltda.</b>	<b>Other</b>		
Capital stock	335.795	235.000	253.000	6.446	-		
Shareholders' equity	844.672	247.544	260.881	3.910	-		
Net income	259.174	(16.298)	(1.043)	339	-		
Equity in subsidiaries	273.477	(33.081)	(5.997)	1.849	2.212		
% share in capital stock	75,03%	99,99%	99,99%	100,00%	-		
Quotas owned	251.959.297	234.999.599	252.999.000	3.280.786	-		
Accounts receivable	-	-	-	37	-		
Sales	-	-	-	1.709	-	<b>Total</b>	
Purchases	-	-	-	800	-	<b>1999</b>	<b>1998</b>
Investment value	<u>633.788</u>	<u>247.544</u>	<u>260.881</u>	<u>3.910</u>	<u>14.200</u>	<u>1.160.323</u>	<u>571.304</u>
Deposit for capital increase	34.410	6.010	35.164	15.000	9.355	99.939	218.928
Other investments						13.004	12.984
Total						1.273.266	803.216
<b>ASSOCIATED COMPANIES</b>				<b>COMPANY</b>		<b>CONSOL.</b>	
				<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Metalúrgica Gerdau S.A.				(79.281)	(120.140)	(79.281)	(248.368)
Central de Ferropronto S.A.				2.209	-	2.209	-
Fundação Gerdau				5.748	-	5.739	-
Haras Joter Ltda. and other				19.362	-	19.315	-
				<u>(51.962)</u>	<u>(120.140)</u>	<u>(52.018)</u>	<u>(248.368)</u>

Loan agreements with associated companies are restated by the weighted average loan rate.

Purchase and sale of raw materials and products are conducted under the same conditions and terms as transactions with unrelated parties.